

AGENDA

**JOINT MEETING OF THE
CHINO BASIN REGIONAL FINANCING AUTHORITY (CBRFA)
COMMISSIONERS
AND THE
INLAND EMPIRE UTILITIES AGENCY (IEUA)
BOARD OF DIRECTORS**

**WEDNESDAY, NOVEMBER 16, 2016
10:00 A.M.**

**INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS
6075 KIMBALL AVENUE, BUILDING A
CHINO, CALIFORNIA 91708**

**CALL TO ORDER
OF THE JOINT MEETING OF THE CHINO BASIN REGIONAL FINANCING
AUTHORITY AND THE INLAND EMPIRE UTILITIES AGENCY**

FLAG SALUTE

PUBLIC COMMENT

Members of the public may address the Board on any item that is within the jurisdiction of the Board; however, no action may be taken on any item not appearing on the agenda unless the action is otherwise authorized by Subdivision (b) of Section 54954.2 of the Government Code. Those persons wishing to address the Board on any matter, whether or not it appears on the agenda, are requested to complete and submit to the Board Secretary a "Request to Speak" form which are available on the table in the Board Room. Comments will be limited to five minutes per speaker. Thank you.

ADDITIONS TO THE AGENDA

In accordance with Section 54954.2 of the Government Code (Brown Act), additions to the agenda require two-thirds vote of the legislative body, or, if less than two-thirds of the members are present, a unanimous vote of those members present, that there is a need to take immediate action and that the need for action came to the attention of the local agency subsequent to the agenda being posted.

- 1. MANDATORY PRESENTATION – DISCLOSURE RESPONSIBILITIES UNDER
THE FEDERAL SECURITIES LAWS – Mr. Doug Brown, Stradling, Attorneys
at Law**

2. **ACTION ITEMS**

A. **MINUTES**

It is recommended that the Board approve the minutes from September 21, 2016, Chino Basin Regional Financing Authority meeting.

B. **ADOPTION OF RESOLUTIONS AUTHORIZING THE ISSUANCE OF 2017A REFUNDING REVENUE BONDS AND APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION THEREWITH AND CERTAIN OTHER MATTERS**

It is recommended that:

1. The Commissioners of the Chino Basin Regional Financing Authority adopt Resolution No. 2016-8 authorizing the issuance of the Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2017A (Inland Empire Utilities Agency) (2017A Bonds) in the principal amount not-to-exceed \$125,000,000 and approve the execution and delivery of certain documents in connection therewith and certain other matters; and
2. The Board of Directors of the Inland Empire Utilities Agency adopt Resolution No. 2016-11-3 authorizing the issuance of the Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2017A (Inland Empire Utilities Agency) (2017A Bonds) in the principal amount not-to-exceed \$125,000,000 and approve the execution and delivery of certain documents in connection therewith and certain other matters.

C. **SELECTION OF UNDERWRITER**

It is recommended that the Chino Basin Regional Financing Authority (CBRFA) Commissioners and Inland Empire Utilities Agency (Agency) Board of Directors approve the selection of Citigroup Global Markets, Inc. (Citi) as sole managing underwriter for the advance refunding of the Chino Basin Regional Financing Authority Revenue Bonds, Series 2008A Revenue Bonds (Inland Empire Utilities Agency).

3. **ADJOURN**

*A Municipal Water District

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary (909) 993-1736, 48 hours prior to the scheduled meeting so that the Agency can make reasonable arrangements.

Proofed by: 

Declaration of Posting

I, April Woodruff, Board Secretary of the Inland Empire Utilities Agency*, A Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, November 10, 2016.


April Woodruff

Joint Meeting of the CBRFA and IEUA

PRESENTATION

Presentation to Inland Empire Utilities Agency

Disclosure Responsibilities Under the Federal Securities Laws

**Presented by:
Doug Brown**

Why Is Disclosure Necessary?

- **The Agency issues securities in the public capital markets**
- **Investors in municipal securities have rights under federal securities laws**
- **All “material” information must be disclosed**

The Securities Act Of 1933

- **1933 Act has two substantive rules:**
 - Registration requirement
 - Antifraud rule
- **Municipal securities are exempt from the registration requirement, but are subject to antifraud rule**
- **Section 17(a)(2) prohibits any person from, directly or indirectly, obtaining money or property by means of any untrue statement of a material fact or by a misleading omission.**
- **Negligent conduct can trigger liability under Section 17(a)(2)**

Securities Exchange Act Of 1934

Rule 10b-5

- **1934 Act creates ongoing disclosure requirements for public companies**
- **Regulates brokers and dealers**
- **Also contains antifraud provisions**
- **1975 amendments to 1934 Act made it clear that antifraud provisions apply to government issuers**

Rule 10b5

“It shall be unlawful for any person . . .

- a) To employ any device, scheme or artifice to defraud,**
- b) To make any untrue statement of a material fact or to omit to state a *material* fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading”**

The “Materiality” Standard

- “[w]hether or not there is a substantial likelihood that a reasonable investor or prospective investor would consider the information important in deciding whether or not to invest.”
- Materiality is determined in context of all the facts and circumstances, but usually on a retroactive basis
- Guidance comes primarily from court decisions and SEC enforcement cases. In a recent voluntary “self-reporting” program, SEC staff consistently refused to provide advance guidance on what constitutes a “material” misstatement of facts

Levels Of Culpability

- **Negligence (Rule 17(a)(2))**
- **Recklessness (Rule 17(a)(2) or Rule 10b-5)**
- **Intent to defraud (“scienter”) (Rule 17(a)(2) or Rule 10b-5)**

What Should Be Disclosed?

- **Unlike corporate securities, there is no “line item” set of rules for what goes into an Official Statement (“OS”)**
- **Starting in 1975, leaders in municipal market created a set of Guidelines for O.S. content**
- **Other groups have suggested disclosure for particular market segments**
- **Look at practices in the industry; recent developments (e.g. New Jersey, Pension, Continuing Disclosure Compliance)**
- **In the end, the Agency must use its own good judgment**

When Do Disclosure Rules Apply?

- **New offerings**
- **Annual Report under Rule 15c2-12**
- **Any other circumstance where an Issuer is “speaking to the market”**
 - **At this time, securities law does not impose a requirement to update or correct any statement previously made, if there is no other reason to be making a statement to the market**

Content of Annual Reports

- **Audited Financial Reports**
- **Information (i.e. tables) identified in Continuing Disclosure Undertaking**
- **Additional voluntary information**
- **Consider Rule 10b5 implications – is there more you should be saying?**
- **Has anything happened since the date of the audited financial reports that has materially impacted your financial condition?**

Investor Communications

- **No securities law obligation to communicate with individual investors**
- **Tension between market (and SEC) desire for transparency, and potential issuer liability**
- **No corollary to Regulation FD (requiring public companies to disseminate specified information which it provides to any investor)**
- **Establish a single point of contact**

Speeches/Presentations

- **May be “speaking to the market”**
- **Depends on subject matter and audience**

Agency Disclosure

- **Official Statement is offering document to investors**
- **Must contain all material information for the particular bond sale**
- **Underwriters, financial advisers and lawyers can help develop the Official Statement but the Agency is ultimately responsible for content**

Disclosure Principles

- **Broad description of Agency's financial and economic condition**
- **Description of budget process, major revenue sources and expenditure programs**
- **Information on recent and current budgets – “structural” deficit?**
- **Information on debt – types and amounts**
- **Information on derivatives**
- **Litigation**

Disclosure Principles

- **Description of enterprise**
- **Description of capital improvement program**
- **Historical and projected revenues, expenses and debt service coverage**
- **Rate covenant and additional bonds test**
- **Regulatory issues**
- **Information on debt – types and amounts**
- **Information on derivatives**
- **Litigation**

Disclosure Principles – (cont.)

- **Provide main points but do not overwhelm readers with detail**
- **Highlight important developments “up front”**
- **Determine appropriate level of importance for any particular event or budgetary item**
- **Bringing all these factors together into final product is ongoing process of give and take**

Timing Considerations For Bond Sale

- **Progression of an offering**
 - POS/sale/final OS/closing
- **Supplements are possible**
 - Very rare and disruptive after sale
- **Be mindful of public actions or releases likely to occur**
 - State budget, Agency budget, mid-year reports
 - Permit issuance (for revenue issuers)

Process

- **Input from involved staff;**
- **Empower staff at all levels;**
- **Agency coordinates;**
Counsel helps pull information together and maintains document
- **Drafts reviewed by working group**
- **“Due diligence” meeting before distribution of Preliminary Official Statement**

Current Hot Topics

- **Water supply and Impact of Drought**
- **Status of fund balance and reserves**
- **Rate coverage calculation**
- **Expected increases in retirement related payments; unfunded liabilities (pension and OPEB)**
- **Continuing Disclosure Compliance**

Disclosure Considerations

- Tomorrow's "hot topic" may be different than today's
- Disclosure must evolve to reflect changing circumstances
- Read the disclosure with "fresh eyes"
- If you think something may be a concern, raise the issue with colleagues and the working group
- There are no "stupid questions"
- Political sensitivity and confidentiality considerations are not exceptions to disclosure

Current SEC Initiatives

- **Enforcement Division Unit created in 2010 to focus on Municipal Bonds and Pension Funds – 25 attorneys around the country – most are former prosecutors.**
- **Dodd-Frank Act has given SEC new power to obtain fines in administrative (“cease and desist”) actions**
- **All this reflects long-standing agenda to move municipal market closer to corporate market standards, particularly for ongoing disclosure**
- **Following slides show how active the SEC has been in recent years. A “settled” case means the charged party or parties agreed, without admitting or denying liability, to entry of an order to “cease and desist” from future violations of securities laws.**

Topics of Recent SEC Enforcement Actions

- **Inadequate Pension Disclosures**

- City of San Diego (2006)
- State of New Jersey (2010)
- State of Illinois (2013)
- State of Kansas (2014)
 - ✓ In these cases, SEC focused on failure to disclose funding shortages and the potential impact pension funding pressures would have on future budgetary flexibility, as well as misstatements on remedial plans.
 - ✓ SEC also highlighted lack of training and internal procedures which resulted in disclosure lapses.

Recent Enforcement Actions (cont.)

- **Misleading or Incomplete Financial Disclosures**
 - City of Miami II – interfund transfers to mask budget gaps allegedly not disclosed; City and budget director are contesting SEC charges in court (2013)
 - Victorville, CA – alleged inflated valuation of property in taxing district, other conflicts of interest; issuer and individuals are contesting charges in court (2013)
 - City of Allen Park, MI – failure to disclose budget gap; settled (2014)

Recent Enforcement Actions (cont.)

- Town of Ramapo, NY – officials over many years allegedly hid financial strain and deficits caused by baseball stadium project as well as declining sales and property tax revenues; two officials charged with “controlling person” liability and also charged in a separate criminal case; they and two other officials charged by SEC with “aiding and abetting” violations; defendants contesting in court (2016)
- Westlands Water District SEC alleged that District undertook extraordinary accounting transaction to meet debt service coverage. SEC also alleged that District did not disclose a prior period accounting adjustment which would have adversely affected debt service coverage. No allegation that the accounting was improper. District, General Manager and Chief Financial Officer all entered into settlements in which they neither admitted nor denied allegations but paid fines of \$125,000, \$50,000 and \$20,000, respectively.

Recent Enforcement Actions (cont.)

- **Failed Economic Development Projects**
 - Greater Wenatchee Regional Events Center, WA – did not disclose prior, less favorable projections; project failed to generate expected revenues; settled (2013)
 - City of Allen Park, MI – failure to disclose collapse of movie studio project which was expected to generate revenue to cover budget gaps; settled (2014)
 - City of Harvey, IL – nondisclosure of failed hotel project; also fraud by City Controller; settled (2014)
 - Rhode Island Economic Development Corp. – alleged failure to disclose funding shortfall for startup software company; two officials settled; issuer and underwriter contesting (2016)
 - Also see Ramapo, NY, above – baseball stadium

Recent Enforcement Actions (cont.)

- **Failures of Continuing Disclosure**

- City of Harrisburg, PA – misleading statements and omissions about City's budget problems in public statements by officials because City had not made required annual financial filings; settled (2013)

Increasingly Aggressive Actions by SEC in Recent Years

- **Filings against States: N.J., Illinois, Kansas**
- **Levying fines against issuers: Wenatchee, Westlands**
- **Increasingly charging issuer officials along with the issuer: Miami, Allen Park, Harvey, Wenatchee, Victorville, Westlands, RIEDC, Ramapo**
- **Levying fines against individual defendants: San Diego, Allen Park, Harvey, Westlands, RIEDC**
- **Officials barred from future involvement in municipal finance: Allen Park, Harvey; sought in Ramapo**

Increasingly Aggressive Actions by SEC in Recent Years (cont.)

- **Official who did not participate in bond deal charged as “controlling person” because he directed actions of others: Allen Park; Ramapo**
- **Individuals charged with “aiding and abetting” securities law violations: RIEDC, Ramapo**
- **Criminal charges against issuer officials: Ramapo**
- **Charging securities law violations in a situation which did not involve a bond offering: Harrisburg**
- **Most settlements require implementation of remedial actions and training; in some cases issuer required to hire outside disclosure counsel for a period of years (Harvey, sought in Ramapo)**

Focus on Continuing Disclosure

- **MCDC Initiative**

- Announced in March 2014 by SEC and designed to encourage issuers and underwriters to self report certain violations of federal securities laws for situations like West Clark; reporting deadlines in late 2014.
- Focus on whether an offering document was materially accurate with respect to compliance with continuing disclosure undertakings
- SEC offered standardized, favorable settlement terms for underwriters and issuers who self-reported; no fines for issuers
- SEC completed settlements with 72 underwriters in three waves and settlement offers for self-reporting issuers have begun
- After SEC warnings in 2010 and 2012, underwriters had increased their examination of CDU compliance, but results of MCDC seemed to show there was still widespread noncompliance

Consequences of Bad Disclosure

- **SEC Investigation – fees for lawyers and consultants**
- **Adverse publicity**
- **Personal Fines**
- **May have to impose new procedures and oversight to settle SEC actions**
- **Rating Downgrades (triggers increased credit/liquidity provider fees)**

Summary

- **Full and transparent disclosure is essential**
- **Investors must be provided all material information when making their investment decision**
- **Officials participating in the disclosure process must be in a position to know material information (i.e., “the right people must be in the room”)**
- **Vigorous disclosure program requires buy-in and encouragement from top levels**
- **Empower everyone in the organization**
- **When in doubt, disclose**
- **The Agency must be vigilant in training involved officials and maintaining rigorous disclosure practices**

**ACTION ITEM
2A**

**MINUTES
OF THE
COMMISSION MEETING OF
THE CHINO BASIN REGIONAL FINANCING AUTHORITY
SEPTEMBER 21, 2016**

COMMISSIONERS PRESENT:

Terry Catlin, President
Jasmin A. Hall, Vice President
Steven J. Elie, Secretary
Michael Camacho
Paul Hofer

STAFF PRESENT:

P. Joseph Grindstaff, General Manager
Chris Berch, Executive Manager of Engineering/AGM
Martha Davis, Executive Manager of Policy Development/AGM
Randy Lee, Executive Manager of Operations/AGM
Christina Valencia, Chief Financial Officer/AGM
Blanca Arambula, Deputy Manager of Human Resources
Kathryn Besser, Manager of External Affairs
Sharmeen Bhojani, Manager of Human Resources
Javier Chagoyen-Lazaro, Manager of Finance and Accounting
Lucia Diaz, Facilities Program Supervisor
Warren Green, Manager of Contracts and Facility Services
Jason Gu, Grants Officer
Sally Lee, Acting Executive Assistant
Sylvie Lee, Manager of Planning and Environmental Resources
Liza Munoz, Senior Engineer
Jeff Noelte, Manager of Technical Services
Kanes Pantayatiwong, Manager of Business Information Services
John Scherck, Acting Deputy Manager of Engineering
Peter Soelter, Senior Internal Auditor LT
Shaun Stone, Manager of Engineering
Teresa Velarde, Manager of Internal Audit
April Woodruff, Board Secretary/Office Manager

OTHERS PRESENT:

Jean Cihigoyenetche, JC Law Firm
Marty Cihigoyenetche, JC Law Firm
Vivian Castro, CBWCD
Greg Tross, JC Law Firm

A commission meeting of the Chino Basin Regional Financing Authority was held at the office of the Inland Empire Utilities Agency, *A Municipal Water District, 6075 Kimball Avenue Chino, California on the above date.

President Catlin called the meeting to order at 10:03 a.m., and he led the pledge of allegiance. A quorum was present.

President Catlin stated that members of the public may address the Commission. There was no persons desiring to do so.

President Catlin asked if there were any additions/deletions to the agenda. There were no additions/deletions to the agenda.

1. ACTION ITEM

A. MINUTES

Upon motion by Commissioner Hall, seconded by Commissioner Elie, and unanimously carried:

M2016-9-1
MOVED, to approve the minutes of the May 18, 2016 and July 20, 2016, minutes of the Commission meetings of the Chino Basin Regional Financing Authority.

B. ADOPTION OF RESOLUTION NO. 2016-7, APPROVING AND ADOPTING THE IEUA-POMONA-MVWD RW INTERTIE PROJECT CEQA AS CEQA-RESPONSIBLE AGENCY

Grants Officer Jason Gu reported that in December 2015, the Agency submitted the IEUA-Pomona-MVWD Intertie grant and SRF loan application on behalf of the Chino Basin Regional Financing Authority (CBRFA). He stated that since CBRFA is the applicant for the project, the SWRCB requires the CBRFA to adopt the California Environmental Quality Act (CEQA) documents as a CEQA-Responsible Agency for grant application purposes. IEUA Board of Directors has approved the CEQA documents as CEQA-Lead Agency, in July 2016. IEUA-Pomona-MVWD project has an estimated project cost of \$52 million, the application is seeking a \$15 million Prop 1 grant funding and a \$37 million SRF loan.

Mr. Gu said the project is the result of a collaborative study by IEUA, Pomona, and MVWD. He stated that the Integrated Water Resources Plan (IRP) identified potential recycled and groundwater supplies from the City of Pomona. The excess water supplies from the City of Pomona's wastewater treatment plan and the Spadra Basin Well 19 could be used by IEUA, and for the mitigation of the land subsidence problems in the Pomona and Montclair area. He said that the project will construct a booster pump station, water conveyance pipeline, and an advanced water treatment plant. The excess water will be recharged to the Montclair Basin for future beneficial use.

Mr. Gu reported that the Initial Environmental Study and public review were completed in June 2016. He said that the Mitigated Negative Declaration (MND) compliance approach will be used during construction to address the environmental impacts via the Mitigation Monitoring and Reporting Program, which includes Traffic Control, Air Quality, Hazards and Hazardous Materials, Biological Resources, Hydrology and Water Quality, Utilities, Service Systems and Energy, Cultural Resources, Land Use and Land Use Planning, Mandatory Findings of Significance, Geology, Soils, and Seismicity and Noise Control.

Mr. Gu stated that staff recommends the Board of Commissioners approve the adoption of Resolution No. 2016-7, approving the Initial Study, Mitigated Negative Declaration (MND) and the Mitigation Monitoring and Reporting Program (MMRP) of the IEUA-Pomona-MVWD Intertie Project, as a CEQA-Responsible Agency.

Upon motion by Commissioner Elie, seconded by Commissioner Camacho, and unanimously carried:

M2016-7-3
MOVED, to:

1. Adopt Resolution No. 2016-7, approving and adopting the Initial Study, Mitigated Negative Declaration (MND) and the Mitigation Monitoring and Reporting Program (MMRP) of the IEUA-Pomona-MVWD Intertie Project as a CEQA-Responsible Agency; and

Continued...

M2016-7-3, continued.

2. Authorize IEUA's General Manager, or his designee, to file the Notice of Determination (NOD) with the San Bernardino County Clerk of the Board and Los Angeles County Clerk.

With no further business, President Catlin adjourned the meeting at 10:07 a.m.

Steven J. Elie, CBRFA Secretary


APPROVED: NOVEMBER 16, 2016


**ACTION ITEM
2B**


**JOINT MEETING OF THE
CHINO BASIN REGIONAL FINANCING AUTHORITY
AND INLAND EMPIRE UTILITIES AGENCY***

Date: November 16, 2016

To: The Honorable IEUA Board of Directors
The Honorable Commissioners of the Chino Basin Regional Financing Authority

From:  P. Joseph Grindstaff
General Manager

Submitted by:  Christina Valencia
Chief Executive Officer/AGM

 Javier Chagoyen-Lazaro
Manager of Finance and Accounting

Subject: Adoption of Resolutions Authorizing the Issuance of 2017A Refunding Revenue Bonds and Approving the Execution and Delivery of Certain Documents in Connection Therewith and Certain Other Matters

RECOMMENDATION

1. It is recommended that the Commissioners of the Chino Basin Regional Financing Authority adopt Resolution No. 2016-8 authorizing the issuance of the Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2017A (Inland Empire Utilities Agency) (2017A Bonds) in the principal amount not-to-exceed \$125,000,000 and approve the execution and delivery of certain documents in connection therewith and certain other matters.
2. It is recommended that the and the Board of Directors of the Inland Empire Utilities Agency adopt Resolution No. 2016-11-3 authorizing the issuance of the Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2017A (Inland Empire Utilities Agency) (2017A Bonds) in the principal amount not-to-exceed \$125,000,000 and approve the execution and delivery of certain documents in connection therewith and certain other matters.

BACKGROUND

In January 2008, the Authority issued \$125,000,000 in Chino Regional Financing Authority Revenue Bonds, Series 2008A (Inland Empire Utilities Agency) at a fixed annual interest rate of 5% and a final maturity date of November 1, 2038. The 2008A Bonds were issued to refinance \$50,160,000 in outstanding commercial paper notes and to issue new bonds to finance certain wastewater and recycled water capital projects as contained in the Agency’s Ten Year Capital Improvement Plan (TYCIP). The Agency’s bond counsel, Mr. Doug Brown from Stradling Yocca Carlson & Rauth, has been preparing the financing documents necessary to allow for the refinancing of up to a par amount of \$125 million.

Substantially final drafts of the financing documents have been prepared. Approval of Resolution Nos. 2016-8 by the Commissioners and 2016-11-3 by the Board will approve these documents in substantial form, authorize execution of the documents by the indicated officers, and authorize the President, Vice President, Treasurer, or Secretary to execute a Purchase Agreement with the bond underwriter, subject to certain parameters. These parameters include a limit on the amount of the bonds of \$125,000,000 and a limit on the underwriter’s discount to a maximum of 0.35% of the principal amount of bonds.

ISSUES/ANALYSIS

Included in the Agency’s financial plan, was the early repayment of the 2008A Bonds over a five year period (\$25 million per year) beginning in November 2017 through 2021. Under the current amortization schedule, debt service payments for the 2008A Bonds are limited to interest only of \$6,250,000 per year through 2022. Principal payments for the 2008A Bonds were aligned to begin in 2023 following the maturity of the outstanding senior bonds (1994 Revenues Bonds later refunded with the 2010A Bonds, and the 2005A Bonds). By deferring the payment of principal until 2023, debt service costs were maintained, relieving pressure on rates and charges. The 2008A Bonds are callable for the first time in November 2017.

However, with municipal interest rates still near the lowest on record, it has been determined that potential present value (PV) savings for refunding the 2008A Bonds may exceed \$20 million, or over 15% percent of the outstanding principal, depending on the refinancing structure and market conditions at the sale of the new bonds. In evaluating the opportunities to refund and/or defease the 2008A Bonds, staff considered four financing alternatives (Scenarios 1 – 4).

Scenario	Name	Description
1	Baseline	Maintain current amortization schedule.
2	5 Year Redemption	Early redemption over 5 years, \$25M per year beginning 2017.
3	Partial Refunding/ Cash Defeasance	Advance refunding of \$75M, and cash defeasance of \$50M.
4	Full Refunding	Advance refunding of \$125M.

Staff evaluated each scenario on how best it met the following key objectives:

- Ensure operational and financial stability
- Reduce debt service costs
- Prudent use of available cash reserves
- Ensure debt capacity to support future capital requirements

All of the key objectives were best achieved by Scenario 3: Partial Refunding/Cash Defeasance. Under Scenario 3;

- Available cash reserves invested to reducing a significant portion of long term debt
- Refinancing of 5% debt at a lower rate reducing debt service costs over the life of the bonds
- Lower debt service costs will relieve upward pressure on future rates and fees
- Debt coverage ratio (DCR) is maintained above 2.4x over the next 20 years

Upon approval of the underwriter by the Commission and the Board, staff will work with the financing team in further evaluating the various scenarios to ensure the Agency benefits from the most optimal financing structure. In addition to the sole managing underwriter, the 2017A financing team is comprised of the Agency's Public Financial Management (PFM) will serve as Financial Advisor, Stradling Yocca Carlson & Rauth will serve as Bond Counsel; and U.S. Bank National Association (US Bank) will serve as Trustee and Escrow Agent.

Legal Documents

In order to issue the 2017A Bonds to refund the 2008A Revenue Bonds, the Agency and the Authority will need to enter into certain financing documents. All documents have been reviewed by the Financial Advisor, Bond Counsel, and the Agency's Legal Counsel, J C Law Firm.

These documents are described below:

- Preliminary Official Statement. The Preliminary Official Statement is the disclosure document sent to potential investors. The Preliminary Official Statement describes IEUA, the Authority and the terms of the bonds. The bond underwriter uses the Preliminary Official Statement as a marketing document. IEUA, as the party making the installment payments from which the 2017A Bonds are payable, will be subject to federal securities law anti-fraud rules.
- Continuing Disclosure Certificate. The Continuing Disclosure Certificate is executed by IEUA. Under federal securities law, IEUA, as the party making the installment payments from which the 2017A Bonds are payable, is required to provide an annual report to 2017A Bond owners, which includes, among other things, the audited financial statements of IEUA. IEUA is also required to report certain events which are significant to 2017A Bond owners, as provided in the Continuing Disclosure Certificate.

- **Installment Purchase Agreement.** The Installment Purchase Agreement is entered into by and between IEUA and the Authority. Pursuant to the Installment Purchase Agreement, IEUA agrees to pay to the Authority installment payments equal to the principal of and interest on the 2017A Bonds. The Installment Purchase Agreement includes a pledge of Revenues on a parity with the 2008B and 2010A Bonds. The Installment Purchase Agreement also includes a covenant of the Agency not to issue any additional Bonds or execute any additional contracts senior to the Installment Purchase Agreement, and provides conditions for issuing additional Bonds or executing additional contracts on a parity with the Installment Purchase Agreement and provides for the setting of rates and charges sufficient to pay the 2017 Bonds.
- **Purchase Agreement.** The Purchase Agreement is by and between the Agency and the bond underwriter. Pursuant to the Purchase Agreement, the Agency agrees to sell the bonds to the bond underwriter and the bond underwriter agrees to purchase the bonds, subject to usual closing conditions.
- **Indenture of Trust.** The Indenture of Trust is by and between the Authority and U.S. Bank National Association, the bond trustee. The Indenture of Trust includes (i) an instruction to the Trustee to issue the bonds, (ii) an assignment by the Authority of the right to receive the installment payments of the Agency pursuant to the Installment Purchase Agreement, and (iii) provides instructions to the trustee on how to handle the proceeds of the bonds.
- **Escrow Agreement.** The 2008 Escrow Agreement is entered into by and between the Authority and U.S. Bank National Association, the escrow agent and bond trustee for the 2017A Bonds. The 2008 Escrow Agreement includes instructions to the escrow agent to invest the portion of 2017A Bond proceeds to be used to defease the outstanding 2008A bonds.

The 2017A Bonds will be sold to the underwriter, subject to by the final terms as agreed to by the General Manager, with concurrence of the Chief Financial Officer, within the guidelines established within the Resolutions (2016-11-3 and 2016-8), and the respective Purchase Agreement. It is anticipated that the bonds will price during the week of January 9, 2017 and settlement date will occur in mid- January.

PRIOR BOARD ACTION

On November 21, 2007 the Board adopted Resolution No. 2007-11-6, authorizing the issuance of a not-to-exceed amount of \$125,000,000 in Revenue bonds, Series 2008A (Inland Empire Utilities Agency), approving the execution of certain documents and certain other matters.

On November 21, 2007, the Commission adopted Resolution No. 2007-1, authorizing the issuance of a not-to exceed amount of \$125,000,000 in Revenue bonds, Series 2008A (Inland Empire Utilities Agency) approving the execution of certain documents and certain other matters.

IMPACT ON BUDGET

Potential present value (PV) savings for refunding the 2008A Bonds may exceed \$20 million, or over 15% percent of the outstanding principal. The exact reduction in debt service costs will be determined at the time of to the bond issuance and will be reported in the Regional Wastewater Capital Improvement (RC), Regional Wastewater Operations & Maintenance (RO), Non-Reclaimable Wastewater (NRW) and Recycled Water (WC) funds.

Attachments:

Resolution No. 2016-11-3

Resolution No. 2016-8

Substantive final drafts of:

Preliminary Official Statement

Continuing Disclosure Certificate

https://www.dropbox.com/s/fzdmcb8mpe0tr75/16309%20DOCSOC-%231785124-v3-Contining_Disclosure_Certificate_-_2017_IEUA.DOCX?dl=0

Installment Purchase Agreement

<https://www.dropbox.com/s/nwzs4clowk624ei/16309%202017Installment%20Purchase%20Agreement.docx?dl=0>

Purchase Agreement

https://www.dropbox.com/s/ps93ew7v1nc0get/16309%20Purchase%20Agreement_v4.docx?dl=0

Indenture of Trust

https://www.dropbox.com/s/2csuogd32dz3i7y/16309%20DOCSOC-%231785110-v3-Indenture_of_Trust_-_2017_IEUA.DOCX?dl=0

Escrow Agreement

https://www.dropbox.com/s/viu2fedm2qhnhy3/16309%20DOCSOC-%231785121-v3-Escrow_Agreement_-_2017_IEUA.DOCX?dl=0

RESOLUTION NO. 2016-8

RESOLUTION OF THE CHINO BASIN REGIONAL FINANCING AUTHORITY AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$125,000,000 REFUNDING REVENUE BONDS, SERIES 2017A (INLAND EMPIRE UTILITIES AGENCY), APPROVING THE EXECUTION OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH

WHEREAS, the Chino Basin Regional Financing Authority (the "Authority"), a joint exercise of powers authority duly organized and existing under and pursuant to the Constitution and laws of the State of California, has been requested to assist Inland Empire Utilities Agency (the "Agency") to undertake the refinancing of certain improvements to the Agency's wastewater system financed from the proceeds of the Chino Basin Regional Financing Authority Revenue Bonds, Series 2008A (Inland Empire Utilities Agency) (the "2008A Bonds"); and;

WHEREAS, the Commission has determined to authorize the refinancing of the 2008A Bonds and to approve certain documents in connection therewith;

NOW THEREFORE, the Commission of the Chino Basin Regional Financing Authority hereby finds, determines, declares and resolves as follows:

1. The issuance of the Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2017A (Inland Empire Utilities Agency) (the "2017A Bonds") in the principal amount not to exceed \$125,000,000 in order to (i) refinance all or a portion of the 2008A Bonds, (ii) fund a debt service reserve, if necessary or desirable, and (iii) pay the cost of issuance for the 2017A Bonds, is hereby approved.
2. The Installment Purchase Agreement in substantially the form on file with the Authority is hereby approved. The President, Vice President or Treasurer or the designee thereof are hereby authorized and directed to execute and deliver the Installment Purchase Agreement with such changes, insertions and omissions as may be recommended by General Counsel or Stradling Yocca Carlson & Rauth, A Professional Corporation ("Bond Counsel") and approved by the person executing the same, said execution being conclusive evidence of such approval
3. The Indenture of Trust in substantially the form on file with the Authority is hereby approved. The President, Vice-President or Treasurer or the designee thereof are hereby authorized and directed to execute and deliver the Indenture of Trust with such changes, insertions and omissions as may be recommended by General Counsel or Bond Counsel and approved by the officers executing the same, said execution being conclusive evidence of such approval.
4. An Escrow Agreement in substantially the form on file with the Authority are hereby approved. The President, Vice-President or Treasurer or the designee thereof are hereby authorized and directed to execute and deliver the Escrow Agreement with such changes, insertions and omissions as may be approved by the person executing the same, said execution being conclusive evidence of such approval.

5. The Purchase Contract with the underwriter named therein, in substantially the form on file with the Authority is hereby approved. The President, Vice-President or Treasurer or the designee thereof are hereby authorized and directed to execute and deliver the Purchase Agreement with such changes, insertions and omissions as may be recommended by General Counsel or Bond Counsel and approved by the person executing the same, said execution being conclusive evidence of such approval; provided, however, that in no event shall the principal amount of the Bonds exceed \$125,000,000, nor shall the underwriter's discount exceed 0.35% of the principal amount of the Bonds.

6. The preparation and distribution of the Preliminary Official Statement, in substantially the form on file with the Authority, is hereby approved. The President, Vice President or Treasurer, or the designee thereof, is hereby authorized to approve such changes, insertions and omissions as may be recommended by General Counsel or Bond Counsel and is authorized and directed to sign a certificate pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 with respect to the Preliminary Official Statement; provided, however, such certificate shall exclude information with respect to the Agency contained therein. The President, Vice President or Treasurer, or the designee thereof, is further authorized and directed to update the information for inclusion in the final Official Statement. The underwriter named in the Purchase Contract is hereby authorized to distribute copies of said Preliminary Official Statement to persons who may be interested in the initial purchase of the Bonds and is directed to deliver copies of any final Official Statement to all actual initial purchasers of the Bonds.

7. The Commission hereby authorizes the General Manager of the Agency to select a municipal bond insurer to insure payments of interest and principal on all or a portion of the Bonds so long as the General Manager determines that obtaining the municipal bond insurance policy provided thereby will result in a lower interest rate or yield to maturity on such Bonds. Stradling Yocca Carlson & Rauth, a Professional Corporation ("Bond Counsel") is hereby directed to make all changes to the Installment Purchase Agreement, the Indenture of Trust, the Purchase Contract, the Escrow Agreement and the Continuing Disclosure Certificate as are necessary to reflect the selection of a municipal bond insurer and the reasonable comments thereof.

8. In the event that it is determined that creation of a reserve fund is necessary or desirable with respect to the issuance of the 2017A Bonds, the Commission hereby authorizes the General Manager of the Agency or the designee thereof to select a municipal bond insurer to provide a reserve fund surety bond to be deposited into the reserve fund for the Bonds, so long as the General Manager of the Agency determines that obtaining the reserve fund surety will be cost effective to the District. The General Manager of the Agency or the designee thereof is hereby authorized to execute and deliver any customary agreement with the municipal bond insurer providing the reserve fund surety bond. Bond Counsel is hereby directed to make all changes to the Installment Purchase Agreement, the Indenture of Trust, the Purchase Contract, the Escrow Agreement and the Continuing Disclosure Certificate as are necessary to reflect the selection of a municipal bond insurer issuing the reserve fund surety bond and the reasonable comments thereof.

9. The President, Vice-President, Treasurer or Secretary or the designee thereof and any other proper officer of the Authority, acting singly, be and each of them hereby is authorized and directed to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated by the Indenture of Trust, the Installment Purchase Agreement, the Purchase Contract, the Escrow Agreement, the Preliminary Official Statement, the final Official Statement and this resolution.

10. U.S. Bank National Association is hereby appointed to act as trustee under the Indenture.

11. Unless otherwise defined herein, all terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture unless the context otherwise clearly requires.

12. This resolution shall take effect immediately.

ADOPTED this 16th day of November, 2016.

President of the Chino Basin Regional
Financing Authority and the
Board of Commissioners thereof

ATTEST:

Secretary of the Chino Basin Regional
Financing Authority and the
Board of Commissioners thereof

(SEAL)

STATE OF CALIFORNIA)
) ss
COUNTY OF SAN BERNARDINO)

I, _____, Secretary of the Chino Basin Regional Financing Authority, DO HEREBY CERTIFY that the foregoing Resolution being No. 2016-8, was adopted at a regular Commission Meeting on November 16, 2016, of said Authority by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Secretary

RESOLUTION NO. 2016-11-3

RESOLUTION OF THE INLAND EMPIRE UTILITIES AGENCY* AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$125,000,000 REFUNDING REVENUE BONDS, SERIES 2017A (INLAND EMPIRE UTILITIES AGENCY) AND APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION THEREWITH AND CERTAIN OTHER MATTERS

WHEREAS, the Inland Empire Utilities Agency* (the "Agency"), a municipal water district duly organized and existing under and pursuant to the Constitution and laws of the State of California, proposes to undertake the refinancing of certain improvements to the Agency's wastewater system financed from the proceeds of the Chino Basin Regional Financing Authority Revenue Bonds, Series 2008A (Inland Empire Utilities Agency) (the "2008A Bonds") and;

WHEREAS, this Board has determined that it is in the best interest of the Agency to cause the Chino Basin Regional Financing Authority to issue revenue bonds (the "Bonds") to refinance such Project; and

WHEREAS, this Board has determined to authorize the refinancing of the 2008A Bonds and to approve certain documents in connection therewith;

NOW THEREFORE, the Board of Directors (the "Board") of the Inland Empire Utilities Agency* hereby finds, determines, declares and resolves as follows:

1. The issuance of the Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2017A (Inland Empire Utilities Agency) (the "2017A Bonds") in the principal amount not to exceed \$125,000,000 in order to (i) refinance all or a portion of the 2008A Bonds, (ii) fund a debt service reserve, if necessary or desirable, and (iii) pay the cost of issuance for the 2017A Bonds, is hereby approved.

2. The Installment Purchase Agreement in substantially the form on file with the Agency is hereby approved. The President, the Vice President, the General Manager or the designee thereof is hereby authorized and directed to execute and deliver the Installment Purchase Agreement with such changes, insertions and omissions as may be recommended by General Counsel or Stradling Yocca Carlson & Rauth, A Professional Corporation ("Bond Counsel") and approved by the person executing the same, said execution being conclusive evidence of such approval.

3. The Purchase Contract with the underwriter named therein, in substantially the form on file with the Agency is hereby approved. The General Manager or the designee thereof is hereby authorized and directed to execute and deliver the Purchase Contract with such changes, insertions and omissions as may be recommended by General Counsel and Bond Counsel approved by the person executing the same, said execution being conclusive evidence of such approval; provided, however,

* A municipal water district.

that in no event shall the principal amount of the Bonds exceed \$125,000,000, nor shall the underwriter's discount exceed 0.35% of the principal amount of the Bonds.

4. The Continuing Disclosure Certificate in substantially the form on file with the Agency is hereby approved. The President, the Vice President, the General Manager or the designee thereof is hereby authorized and directed to execute and deliver the Continuing Disclosure Certificate with such changes, insertions and omissions as may be recommended by General Counsel or Bond Counsel and approved by the person executing the same, said execution being conclusive evidence of such approval.

5. The preparation and distribution of the Agency information in the Preliminary Official Statement, in substantially the form on file with the Agency, is hereby approved. The General Manager or the designee thereof is hereby authorized to approve such changes, insertions and omissions as may be recommended by General Counsel or Bond Counsel and is authorized and directed to sign a certificate pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 with respect to the Agency information in the Preliminary Official Statement. The General Manager is further authorized and directed to update the Agency information for inclusion in the final Official Statement. The underwriter named in the Purchase Contract is hereby authorized to distribute copies of said Preliminary Official Statement to persons who may be interested in the initial purchase of the Bonds and is directed to deliver copies of any final Official Statement to all actual initial purchasers of the Bonds.

6. The Board hereby authorizes the General Manager or the designee thereof to select a municipal bond insurer to insure payments of interest and principal on all or a portion of the Bonds so long as the General Manager or the designee thereof determines that obtaining the municipal bond insurance policy provided thereby will result in a lower interest rate or yield to maturity on such Bonds. Stradling Yocca Carlson & Rauth, a Professional Corporation ("Bond Counsel") is hereby directed to make all changes to the Installment Purchase Agreement, the Purchase Contract, the Continuing Disclosure Certificate, the Preliminary Official Statement and the final Official Statement as are necessary to reflect the selection of a municipal bond insurer and the reasonable comments thereof.

7. In the event that it is determined that creation of a reserve fund is necessary or desirable with respect to the 2017A Bonds, the Board hereby authorizes the General Manager or the designee thereof to select a municipal bond insurer to provide a reserve fund surety bond to be deposited into the reserve fund for the Bonds, so long as the General Manager or the designee thereof determines that obtaining the reserve fund surety will be cost effective to the District. The General Manager or the designee thereof is hereby authorized to execute and deliver any customary agreement with the municipal bond insurer providing the reserve fund surety bond. Bond Counsel is hereby directed to make all changes to the Installment Purchase Agreement, the Purchase Contract, the Continuing Disclosure Certificate, the Preliminary Official Statement and the final Official Statement as are necessary to reflect the selection of a municipal bond insurer issuing the reserve fund surety bond and the reasonable comments thereof.

8. The updated Policy for Disclosure Procedures in substantially the form on file with the Agency is hereby approved.

9. The President, the Vice President, the General Manager, the Chief Financial Officer/Assistant General Manager or the designee thereof and any other proper officer of the Agency, acting singly, be and each of them hereby is authorized and directed to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or

proper for carrying out the transactions contemplated by the Installment Purchase Agreement, Purchase Contract, Continuing Disclosure Certificate, the Preliminary Official Statement, the final Official Statement, and this resolution.

10. Unless otherwise defined herein, all terms used herein and not otherwise defined shall have the meanings given such terms in the Installment Purchase Agreement unless the context otherwise clearly requires.

11. This Resolution shall take effect immediately.

ADOPTED this 16th day of November, 2016.

President of the Inland Empire Utilities Agency* and
the Board of Directors thereof

ATTEST:

Secretary of the Inland Empire Utilities
Agency* and the Board of Directors thereof

(SEAL)

* A Municipal Water District

STATE OF CALIFORNIA)
) ss.
COUNTY OF SAN BERNARDINO)

I, _____, Secretary of the Inland Empire Utilities Agency*, DO
HEREBY CERTIFY that the foregoing Resolution being No. 2016-11-3, was adopted at a regular
Board Meeting on November 16, 2016, of said Agency by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Secretary

* A Municipal Water District



Inland Empire Utilities Agency

A MUNICIPAL WATER DISTRICT

2008A Revenue Bond Refunding



November 16, 2016
Board of Directors



Why Refinance Now?

- Interest rates remain very low:
 - Return on investment ~1%
 - Opportunity to replace 5% coupon debt with lower rate debt.
- Use of available cash reserves to pay down high interest debt.
- Significant present value savings over the life of the bonds.
- Reducing debt service costs will:
 - Decrease pressure on rates/fees in the future, and
 - improve long term debt coverage ratio.
- Reducing outstanding debt will leave room for future borrowings needed to support TYCIP.
- On going review of opportunities to lower debt service cost is consistent with the IEUA Business Goal of Fiscal Responsibility.

New Debt Needed for TYCIP

Total Debt Outstanding
As of June 30, 2016
\$311 Million



Bonds SRF Loans/Notes

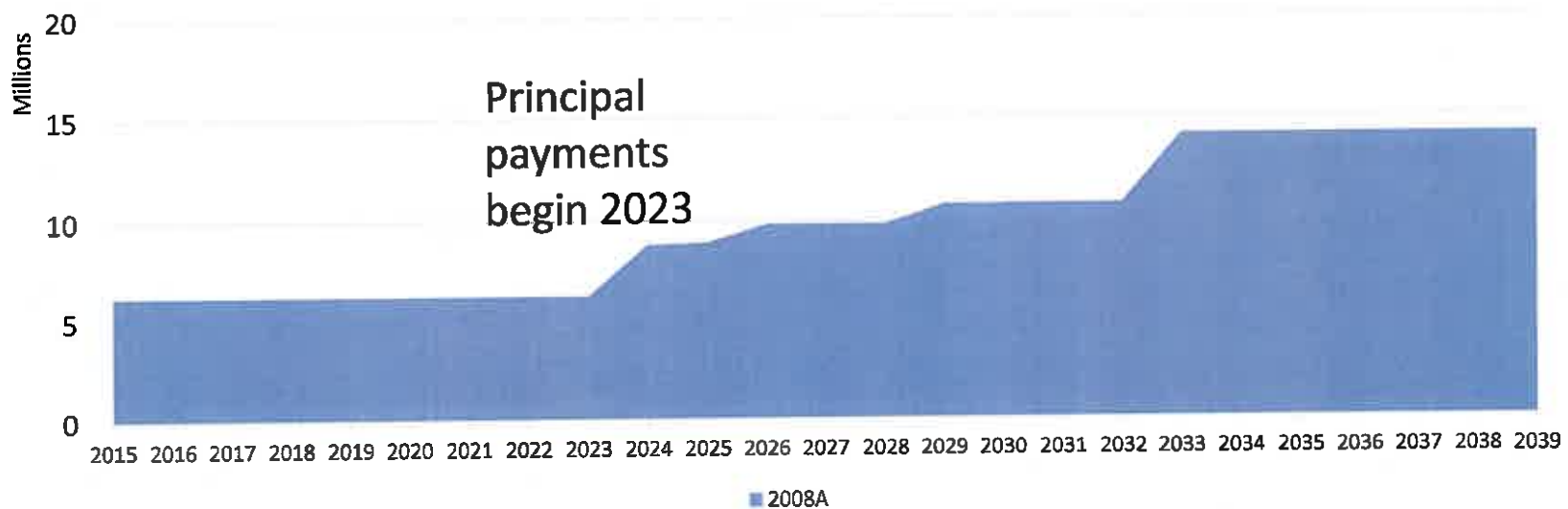
- ~\$310M new debt needed over the next ten years;
 - TYCIP \$685M, and
 - 20YCIP \$935M
- ~\$492M total outstanding debt estimated as of June 30, 2026 (net of \$129M debt service payments)

2008A Bonds - \$125M par

Issued to finance capital projects in the Regional Wastewater, Recycled Water and Non-Reclaimable Wastewater programs.

- 5% fixed interest rate
- \$6.250M/year interest only payable through 2022
- Callable for the first time November 1, 2017

2008A Bonds Current Debt Amortization Schedule



Financing Option Objectives

- Ensure short term and long term operational and financial stability
- Reduce debt service costs
- Prudent use of available cash reserves
- Ensure debt capacity to support future capital requirements

Scenario	Name	Description
1	Baseline	Maintain current amortization schedule.
2	5 Year Redemption	Early redemption over 5 years, \$25M per year beginning 2017.
3	Partial Refunding/ Cash Defeasance	Advance refunding of \$75M, and cash defeasance of \$50M.
4	Full Refunding	Advance refunding of \$125M.

Scenario 3: Partial Refunding/Cash Defeasance



- ❖ **Ensure operational and financial stability**
 - Between \$15 - \$20 million estimated present value savings
- ❖ **Reduce debt service costs**
 - Eliminates high principal payments starting in 2023 thru 2038
 - Relieves upward pressure on future rates and fees
- ❖ **Prudent use of available cash reserves**
 - \$55 million available in CCRA funds
 - Minimal interest earnings due to historically low rates
- ❖ **Ensure debt capacity to support future capital requirements**
 - Estimated 16% reduction of in total principal outstanding debt
 - DCR maintained above 2.4X over the next 20 years

Current Financing Schedule



Week of	Activity
11/28/16	Rating Agency Meetings
12/5/16	Redemption Notice to Trustee, Review of final documents
12/12/16	Receive Credit Ratings
12/19/16	Board approval of final documents, Redemption Notice to Bondholders
1/2/17	Post Preliminary Official Statement (POS), Market Bonds
1/9/17	Pre-pricing (1/11), Pricing (1/12)
1/23/17	Bond Closing

Recommendation

Commissioners to approve resolution No. 2016-8 authorizing the Issuance of a Not-to-Exceed Amount of \$125,000,000 in Revenue Bonds, Series 2017A and Approve the Execution and Delivery of Certain Documents in Connection Therewith and Certain Other Matters

Board to approve resolution No. 2016-11-3 authorizing the Issuance of a Not-to-Exceed Amount of \$125,000,000 in Revenue Bonds, Series 2017A and Approve the Execution and Delivery of Certain Documents in Connection Therewith and Certain Other Matters

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2017

NEW ISSUE – BOOK ENTRY ONLY

\$[]*

**CHINO BASIN REGIONAL FINANCING AUTHORITY
REFUNDING REVENUE BONDS, SERIES 2017A
(INLAND EMPIRE UTILITIES AGENCY)**

Dated: Date of Delivery

Due: November 1, as shown below

The Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2017A (Inland Empire Utilities Agency) are being issued by the Authority pursuant to an Indenture of Trust, dated as January 1, 2017, by and between the Authority and U.S. Bank National Association, as trustee, and will be payable from the sources described herein. The Bonds are being issued (i) to refund [all] [a portion of] the outstanding Chino Basin Regional Financing Authority Revenue Bonds, Series 2008A (Inland Empire Utilities Agency), and (ii) to pay the costs of issuing the Bonds.

Interest due on the Bonds is payable semi-annually on May 1 and November 1 of each year, commencing May 1, 2017. The Bonds are being issued in fully registered book-entry form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers will not receive certificates representing their interest in the Bonds. Individual purchases will be in principal amounts of \$5,000 and integral multiples thereof. Payments of principal of and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds.

The Bonds are subject to optional redemption prior to maturity as set forth herein.

The Bonds are limited obligations of the Authority. The Bonds are payable solely from Authority Revenues and from certain other amounts on deposit in funds and accounts under the Indenture. Authority Revenues consist primarily of 2017A Installment Payments received by the Authority from the Agency pursuant to an Installment Purchase Agreement, dated as of January 1, 2017 by and between the Agency and the Authority. The obligation of the Agency to make 2017A Installment Payments is a special obligation of the Agency payable solely from Net Revenues of the Agency System on a parity with the obligation of the Agency to make \$86,698,614 aggregate principal amount of Installment Payments pursuant to the 2008A Installment Purchase Agreements, the 2008B Installment Purchase Agreement, and the 2010A Installment Purchase Agreement. The Agency may incur additional obligations payable from Net Revenues on a parity with the 2017A Installment Payments, subject to the terms and conditions set forth herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY PUBLIC AGENCY THEREOF OR ANY MEMBER OF THE AUTHORITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF, OR INTEREST ON, THE BONDS. THE AUTHORITY HAS NO TAXING POWERS. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF CALIFORNIA OR ANY PUBLIC AGENCY THEREOF (OTHER THAN THE AUTHORITY) OR ANY MEMBER OF THE AUTHORITY IN CONTRAVENTION OF ANY STATE OF CALIFORNIA CONSTITUTIONAL OR STATUTORY PROVISION.

**MATURITY SCHEDULE
(See inside front cover)**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal minimum tax imposed on individuals and corporations.

*In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax.
See the caption "TAX MATTERS" with respect to tax consequences relating to the Bonds.*

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A COMPLETE SUMMARY OF THE BONDS. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. Capitalized terms used on the cover of this Official Statement shall have the meanings ascribed thereto herein.

*The Bonds are offered when, as and if issued and received by the Underwriter, subject to approval of the valid, legal and binding nature of the Bonds by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. The Underwriter is being represented by its counsel [_____]. Certain legal matters will be passed upon for the Authority and for the Agency by JC Law Firm, Chino Hills, California, and for the Trustee by Dorsey & Whitney LLP, Costa Mesa, California.
It is anticipated that the Bonds will be available through the facilities of DTC on or about _____, 2017.*

Dated: _____, 2017

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell, or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

MATURITY SCHEDULE

Maturities, Amounts, Interest Rates and Prices

<i>Maturity (November 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>
	\$	%	%	

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

This Official Statement is not to be construed as a contract with the purchasers or owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with a nationally recognized municipal securities depository.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as 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.

The information set forth herein has been obtained from sources which are believed to be reliable. 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, create any implication that there has been no change in the affairs of the Authority or any other parties described herein since the date hereof. All summaries of the Indenture or the 2017A Installment Purchase Agreement or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Authority for further information in connection therewith.

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

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

While the Agency maintains an internet website for various purposes, none of the information on its website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds of the Authority or bonds or obligations of the Agency.

CHINO BASIN REGIONAL FINANCING AUTHORITY

6075 Kimball Avenue, Building A
Chino, California 91710
(909) 993-1600

AUTHORITY COMMISSION MEMBERS

Terry Catlin, President
Michael Camacho, Vice-President
Steven J. Elie, Secretary/Treasurer
Jasmin A. Hall
Paul Hofer

OFFICERS OF THE AUTHORITY

Terry Catlin, President
Jasmin Hall, Vice-President
Steven J. Elie, Secretary
Christina Valencia, Treasurer

MANAGEMENT OF THE AGENCY

P. Joseph Grindstaff, General Manager
Chris Berch, Executive Manager of Engineering/Assistant General Manager
Martha Davis, Executive Manager of Policy Development/Assistant General Manager
Randy Lee, Executive Manager of Operations/Assistant General Manager
Christina Valencia, Chief Financial Officer/Assistant General Manager

AUTHORITY AND AGENCY GENERAL COUNSEL

JC Law Firm
Chino Hills, California

BOND COUNSEL

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

TRUSTEE

U.S. Bank National Association
Los Angeles, California

MUNICIPAL ADVISOR

Public Financial Management, Inc.
Los Angeles, California

VERIFICATION AGENT

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**CHINO BASIN REGIONAL FINANCING AUTHORITY
REFUNDING REVENUE BONDS, SERIES 2017A
(INLAND EMPIRE UTILITIES AGENCY)**

INTRODUCTION

General

This Official Statement, including the cover page and all appendices hereto, provides certain information concerning the issuance of the Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2017A (Inland Empire Utilities Agency) (the “Bonds”). Descriptions and summaries of various documents hereinafter set forth 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 herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in Appendix B hereto entitled “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Definitions.”

The Bonds are being issued pursuant to the provisions of an Indenture of Trust (the “Indenture”), to be entered into as of January 1, 2017, by and between the Chino Basin Regional Financing Authority (the “Authority”) and U.S. Bank National Association, as trustee (the “Trustee”), and pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended, constituting Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “Bond Law”).

Neither the faith and credit nor the taxing power of the State of California or any public agency thereof or any member of the Authority is pledged to the payment of the principal amount or redemption price of, or interest on, the Bonds. The Authority has no taxing powers. The Bonds do not constitute a debt, liability or obligation of the State of California or any public agency thereof (other than the Authority) or any member of the Authority in contravention of any State of California constitutional or statutory provision.

Purpose of The Bonds

The Bonds are being issued (i) to refund [all] [a portion of] the outstanding Chino Basin Regional Financing Authority Revenue Bonds, Series 2008A (Inland Empire Utilities Agency), and (ii) to pay the costs of issuing the Bonds. See the caption “THE REFUNDING PLAN.”

Security for the Bonds

The Bonds are limited obligations of the Authority. The Bonds are payable solely from Authority Revenues and from certain other amounts on deposit in funds and accounts under the Indenture. Authority Revenues consist primarily of payments received from the Agency pursuant to an Installment Purchase Agreement, dated as of January 1, 2017, by and between the Inland Empire Utilities Agency (the “Agency”) and the Authority (the “2017A Installment Purchase Agreement”). See the caption “SECURITY FOR THE BONDS.”

The Bonds do not constitute a charge against the general credit of the Authority. The Bonds are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts except payments under the 2017A Installment Purchase Agreement

* Preliminary, subject to change.

and other moneys pledged by the Authority under the Indenture. Neither the faith and credit nor the taxing power of the State of California or any public agency thereof or any member of the Authority is pledged to the payment of the principal amount or redemption price of, or interest on, the Bonds. The Authority has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State of California, or any public agency thereof (other than the Authority) or any member of the Authority in contravention of any State of California constitutional or statutory provision.

Pursuant to the 2017A Installment Purchase Agreement, the Agency is obligated to pay installment payments as the purchase price for certain wastewater capital improvements being refinanced from the proceeds of the Bonds (the “2017A Installment Payments”). The obligation of Agency to make the 2017A Installment Payments is a special obligation of the Agency payable solely from Net Revenues, and does not constitute a debt of the Agency or of the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Pursuant to the 2017A Installment Purchase Agreement, the Agency has pledged the Revenues of the Agency (as more fully described under the caption “SECURITY FOR THE BONDS-2017A Installment Payments Limited Obligations Payable from Net Revenues” below) to secure the prompt payment of the 2017A Installment Payments. The Agency is obligated to make 2017A Installment Payments from Net Revenues, being Agency Revenues remaining after payment of Operation and Maintenance Costs as described under the caption “SECURITY FOR THE BONDS-2017A Installment Payments Limited Obligations Payable from Net Revenues” below.

The obligation of the Agency to make the 2017A Installment Payments from Net Revenues is on a parity with the obligation of the Agency to make \$86,698,614 aggregate principal amount of payments under the Installment Purchase Agreement, dated as of March 1, 2008, by and between the Agency and the Authority (the “2008B Installment Purchase Agreement”) and under the Installment Purchase Agreement dated as of March 1, 2010, by and between the Agency and the Authority (the “2010 Installment Purchase Agreement”). See the caption “THE AGENCY — Financial Information — Description of Indebtedness — Parity Obligations.”

The Agency

The Agency, formerly known as the Chino Basin Municipal Water District until 1998, was established by a majority vote in a special election on June 6, 1950, for an original population of approximately 80,000 people. In 1951, the Agency annexed to the Metropolitan Water District of Southern California. Today the Agency services an area of 242 square miles with a population of approximately 870,000. The Agency is governed by a Board of Directors (the “Board”). The original mission of the Agency was to distribute water imported from the Colorado River. During the mid-1960s, the Agency began domestic sewage and industrial waste collection. The Agency’s regional water and wastewater services are essentially wholesale services provided to the cities of Chino, Chino Hills, Fontana, Montclair, Ontario and Upland, and to the Cucamonga Valley Water District, formerly known as the Cucamonga County Water District (collectively, the “Contracting Agencies”). The Agency also provides recycled water to the Contracting Agencies. For more information on the Agency, see the caption “THE AGENCY.”

The Authority

The Authority is a joint exercise of powers agency organized under the provisions of State law governing the joint exercise of powers, being Chapter 5, Division 7, Title 1 of the Government Code

of the State (the "Act") and a Joint Exercise of Powers Agreement, dated as of May 1, 1993 (the "Joint Powers Agreement") between the Agency and the Cucamonga Valley Water District ("CVWD"), formerly known as Cucamonga County Water District, to provide for the financing of public capital improvements for the members of the Authority and other local agencies through the acquisition by the Authority of such public capital improvements, the purchase by the Authority of indebtedness of the members of the Authority and other local agencies pursuant to bond purchase agreements, and the lending or providing of funds by the Authority to the members of the Authority and other local agencies, and any other transaction authorized by law. Under the Act, the Authority has the power to issue bonds to pay the costs of public capital improvements. See the caption "THE AUTHORITY."

Tax Matters

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. See the caption "TAX MATTERS" herein with respect to other tax consequences with respect to the Bonds.

Professionals Involved in this Issue

The Bonds are offered when, as and if issued, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the Underwriter by its counsel [_____], for the Authority and the Agency by JC Law Firm, Chino Hills, California, and for the Trustee by Dorsey & Whitney LLP, Costa Mesa, California.

THE REFUNDING PLAN

General

A portion of the proceeds of the Bonds will be used to refund [all] [a portion of] the Authority's \$125,000,000 outstanding aggregate principal amount of 2008A Bonds. Under an Escrow Agreement (Series 2008A), dated as of January 1, 2017, (the "2008A Refunding Escrow Agreement") by and between the Authority and U.S. Bank National Association, as escrow agent (the "Escrow Agent"), the Agency will deliver a portion of the proceeds of the Bonds to the Trustee for deposit in the escrow fund established under the 2008A Refunding Escrow Agreement (the "2008A Refunding Escrow Fund"). The Escrow Agent will invest all amounts deposited in the 2008A Refunding Escrow Fund in the Federal Securities as set forth in the 2008A Refunding Escrow Agreement. From the maturing principal of the Federal Securities and related investment income and other moneys on deposit in the 2008A Refunding Escrow Fund, the Escrow Agent will pay the scheduled principal of and interest on the 2008A Bonds on and prior to November 1, 2017 (the "Redemption Date") and will pay on the Redemption Date the principal of and interest on the 2008A Bonds maturing on and after November 1, 2018, without premium (the "Redemption Price"). Neither the funds deposited in the 2008A

Refunding Escrow Fund nor the interest on the invested funds will be available for the payment of debt service on the Bonds.

Verification

[_____], the “Verification Agent” will verify the mathematical accuracy of the information provided to them as of the date of the closing on the Bonds relating to the adequacy of the amounts deposited in the 2008A Refunding Escrow Fund under the 2008A Refunding Escrow Agreement to pay the scheduled principal of and interest on the 2008A Bonds when due on and prior to the Redemption Price and to pay the Redemption Price on the Redemption Date with respect to the 2008A Bonds maturing on and after November 1, 2018 on the Redemption Date.

THE BONDS

General Provisions

The following is a summary of certain provisions of the Bonds. Reference is made to the Indenture for the complete provisions thereof, and the discussion herein is qualified in its entirety by such reference. See Appendix B — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

The Bonds will be dated the date of delivery and will be payable in the years and amounts and will bear interest at the respective rates set forth on the inside cover page hereof, which interest will be payable semi-annually on each May 1 and November 1 (each, an “Interest Payment Date”) commencing May 1, 2017. The Bonds will be delivered in the form of fully registered Bonds and, when authenticated and delivered, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See “— Book-Entry System” below and Appendix E — “INFORMATION CONCERNING DEPOSITORY TRUST COMPANY.” Interest will be calculated on the basis of a 360-day year consisting of twelve 30 day months.

Book-Entry System

The information in this section concerning DTC and DTC’s book-entry system has been obtained from DTC, and the Authority, the Agency, the Underwriter and the Trustee take no responsibility for the accuracy thereof. See Appendix E — “INFORMATION CONCERNING DEPOSITORY TRUST COMPANY” for a further description of DTC and its book-entry system. Capitalized terms used under this caption and not otherwise defined shall have the respective meanings given to such terms in Appendix E.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Bond will be issued for each year in which the Bonds mature in a denomination equal to the aggregate principal amount of the Bonds maturing in that year, and will be deposited with DTC. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the owners or holders of the Bonds or owners of the Bonds shall mean Cede & Co. and shall not mean the actual purchasers of the Bonds (the “Beneficial Owners”).

The Authority, the Agency and the Trustee cannot and do not give any assurances that DTC Direct Participants or DTC Indirect Participants will distribute to the Beneficial Owners (i) payments of interest on and principal of the Bonds, (ii) Bonds representing an ownership interest in or other confirmation of ownership interests in the Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will service and act in the manner described in the Official Statement.

Provisions Upon Termination of Book-Entry Only System

In the event the book-entry system is terminated, Bonds will be printed and delivered. Thereafter, any Bond may, in accordance with its terms, be transferred, upon the Registration Books by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Corporate Trust Office of the Trustee, accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. Whenever any Bond or Bonds will be surrendered for transfer, the Trustee will authenticate and deliver a new Bond or Bonds of authorized denomination or denominations of the same maturity and series for a like aggregate principal amount and interest rate. The Trustee may require the payment by any person whose name appears on the registration books maintained by the Trustee (the "Registration Books") as the owner thereof (the "Owner") requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Bonds may be exchanged upon surrender thereof at the Principal Corporate Trust Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity and interest rate. The Trustee may require the payment by any Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee will not be required to register the exchange or transfer of any Bond within 15 days preceding selection of Bonds for redemption or of any Bond, in fact, selected for redemption.

The principal of each of the Bonds at maturity will be paid upon presentation and surrender thereof at the principal corporate trust office of the Trustee in Los Angeles, California (the "Principal Corporate Trust Office"). The principal of (other than at maturity), premium, if any, and interest on each Bond will be payable on each Interest Payment Date to the Owner as of the close of business on the first day of the calendar month in which an Interest Payment Date occurs (the "Record Date"), such interest to be paid by check of the Trustee, sent by first-class mail to the Owner at such Owner's address as it appears on the Registration Books. Interest payable on any Interest Payment Date to the Owner in the aggregate principal amount of \$1,000,000 or more may upon written request by such Owner received by the Trustee at least two Business Days prior to the preceding Record Date, be paid by wire transfer in immediately available funds to a designated account in any bank in the United States. Such written request will remain in effect until revoked or revised in writing by such Owner delivered to the Trustee. The principal of, premium, if any, and interest on each of the Bonds will be payable in any currency of the United States of America which on the respective dates for payment thereof is legal tender for the payment of public and private debts.

Interest on the Bonds is payable from the Interest Payment Date next preceding their date of execution, unless (i) such date is after a Record Date and on or before the following Interest Payment Date, in which case interest will be payable from such Interest Payment Date, or (ii) such date is on or before the first Record Date, in which case interest will be payable from the date of delivery; provided, however, that if, as shown by the records of the Trustee, interest borne by the Bonds is in default,

Bonds authenticated in exchange for Bonds surrendered for transfer or exchange will bear interest from the last date to which interest has been paid in full or duly provided for on the Bonds, or, if no interest has been paid or duly provided for on the Bonds, from the date of delivery. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Redemption

Optional Redemption. The Bonds maturing on or after November 1, 20__ are subject to optional redemption prior to their respective stated maturities, as a whole or in part on any date on or after November 1, 20__ in the order of maturity as directed by the Agency in a written request to the Trustee by lot within each maturity, in integral multiples of \$5,000 from amounts prepaid by the Agency pursuant to the Installment Purchase Agreement at a Redemption Price equal to the principal amount of the Bonds to be redeemed, plus accrued interest represented thereby to the date fixed for prepayment, without premium.

Selection of Bonds for Redemption. If any Bond is in a denomination larger than a minimum Authorized Denomination, a portion of such Bonds (the minimum Authorized Denomination or any integral multiple thereof) may be redeemed pursuant to the Indenture, in which case the Trustee shall, without charge to the Owner, authenticate and issue a replacement Bond or Bonds for the unredeemed portion thereof. In the case of a partial redemption of Bonds, the Trustee shall select the Bonds to be redeemed by lot at such times as directed by the Agency in writing at least thirty (30) days prior to the redemption date and if such selection is more than sixty (60) days before a redemption date, shall appropriately identify the Bonds so called for redemption by stamping them at the time any Bonds so selected for redemption is presented to the Trustee for stamping or for transfer or exchange, or by such other method of identification as is deemed adequate by the Trustee, and any Bond or Bonds issued in exchange for, or to replace, any Bond so called for prior redemption shall likewise be stamped or otherwise identified. The Trustee shall not select the Bonds for mandatory redemption pursuant to the Indenture more than sixty (60) days prior to the redemption date.

Notice of Redemption. The Agency shall notify the Trustee at least forty-five (45) days prior to the redemption date for Bonds pursuant to the Indenture. Notice of redemption shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first-class mail, (ii) to the Securities Depository by facsimile and by first-class mail, and (iii) to the Information Services by first-class mail. Notice of redemption shall be given in the form and in accordance with the terms of the Indenture.

DEBT SERVICE SCHEDULE

Set forth below is a schedule of Series 2017A Installment Payments and payments on Parity Debt for each annual period ending on June 30 of the years indicated.

<i>Annual Period Ending (June 30)</i>	<i>Series 2017A Installment Payments</i>			<i>Parity Debt⁽¹⁾⁽²⁾</i>	<i>Total</i>
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>		
2017	\$	\$	\$	\$ 7,804,450	\$
2018				7,965,050	
2019				8,294,625	
2020				8,848,270	
2021				8,750,957	
2022				8,822,398	
2023				3,622,514	
2024				3,622,573	
2025				3,620,267	
2026				3,621,614	
2027				3,622,005	
2028				3,622,844	
2029				3,621,896	
2030				3,619,487	
2031				3,621,350	
2032				3,618,314	
2033				-	
2034				-	
2035				-	
2036				-	
2037				-	
2038				-	
TOTAL	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 86,698,614</u>	<u>\$</u>

⁽¹⁾ Includes aggregate payments on the 2008B and 2010A Installment Purchase Payments. See the caption "THE AGENCY—Description of Indebtedness."

⁽²⁾ 2008B Installment Purchase Payments projected at 1.5% per annum for Fiscal Year 2017, 2.0% per annum for Fiscal Year 2018, 3.0% per annum for Fiscal Years 2019 and 2020, and 4.0% per annum for Fiscal Years 2021-2032. See the caption "THE AGENCY — Projected Operating Results."

SECURITY FOR THE BONDS

General

Pursuant to the Indenture, the Authority, for good and valuable consideration, unconditionally has granted, transferred and assigned to the Trustee without recourse all its rights to receive the Authority Revenues (as defined in the succeeding sentence) and to enforce the 2017A Installment Purchase Agreement, upon an event of default thereunder for the benefit of the Owners of the Bonds, for the purpose of securing: (a) the payment of all sums due and owing to the Owners of the Bonds under the terms of the Indenture; and (b) the observance, performance and discharge of each agreement, condition, covenant and term of the Agency contained in the 2017A Installment Purchase Agreement. Under the Indenture, Authority Revenues consist of amounts received by the Authority pursuant to or with respect to the 2017A Installment Purchase Agreement, and all interests or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture.

The Bonds do not constitute a charge against the general credit of the Authority. The Bonds are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts except payments under the 2017A Installment Purchase Agreement, and other moneys pledged by the Authority under the Indenture. Neither the faith and credit nor the taxing power of the State of California, the County of San Bernardino or any public agency thereof or any member of the Authority is pledged to the payment of the principal amount or redemption price of, or interest on, the Bonds. The Authority has no taxing powers. The Bonds do not constitute a debt, liability or obligation of the State of California, the County of San Bernardino or any public agency thereof (other than the Authority) or any member of the Authority within the meaning of any State of California constitutional or statutory provision.

2017A Installment Payments Limited Obligations Payable from Net Revenues

The obligation of the Agency to make the 2017A Installment Payments pursuant to the 2017A Installment Purchase Agreement is a special obligation of the Agency payable solely from Net Revenues of the Agency. The obligation of the Agency to make the Installment Payments is a special obligation of the Agency payable solely from the Net Revenues, and does not constitute a debt of the Agency or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction. Notwithstanding anything contained in the Agreement, the Agency shall not be required to advance any moneys derived from any source of income other than the Net Revenues and the other funds provided in the Agreement for the payment of Installment Payments due hereunder or for the performance of any agreements or covenants required to be performed by it contained herein except as expressly provided herein.

The term "Net Revenues" means, for any fiscal year, the Revenues of the Agency for such fiscal year less the Operation and Maintenance Costs for such fiscal year.

Under the 2017A Installment Purchase Agreement Revenues of the Agency mean all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Agency System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the Agency from the sale, furnishing and supplying of sewer services, composting services or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Agency System, including the Agency's share of the County of San Bernardino's 1% ad valorem property tax (to the extent allocated to the Revenue Fund), as determined in accordance with Generally Accepted Accounting Principles plus (2) the earnings on and income derived from the investment of the amounts described in (1) above, including the Agency's share of the County of San Bernardino's 1% ad valorem property tax (to the extent allocated to the Revenue Fund), and the general unrestricted funds of the Agency, but excluding in all cases revenues derived from (1) ownership or operation of the Water System and the Separate Facilities, customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the Agency, and excluding any proceeds of taxes restricted by law to be used by the Agency to pay bonds hereafter issued.

Operation and Maintenance Costs mean (1) costs spent or incurred for maintenance and operation of the Agency System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Agency System in good repair and working order, and including administrative costs of the Agency that are charged directly or apportioned to the Agency System, including but not limited to salaries and wages of employees, payments to the Public

Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the Agency or charges required to be paid by it to comply with the terms of the Installment Purchase Agreement or any other Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, and (2) all payments under Operation and Maintenance Obligation but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, including amortization of water rights, unrealized losses in investments, write offs of the value of any impaired assets or other bookkeeping entries of a similar nature.

Revenues — The Regional Sewage Service Contract. In 1972, for the purpose of establishing the Sewer System, the Agency entered into the Chino Basin Regional Sewage Service Contract (the “Regional Contract”) with the Contracting Agencies. The Regional Contract currently expires on January 2, 2023. Under the terms of the Regional Contract, the Agency is charged with the ownership and operation of the Sewer System for the collection, treatment and disposal of sewage delivered by the Contracting Agencies. The Agency is further obligated to construct certain new regional interceptors and expand regional treatment facilities within a reasonable time frame to be prepared to receive all domestic sewage delivered by the Contracting Agencies. The Agency also assumed the responsibility for operating and maintaining these and future facilities in a manner to assure compliance with State and federally mandated discharge requirements. The responsibility for collection and delivery of sewage to the regional interceptor facilities remains with the Contracting Agencies. The Regional Contract also established a Regional Policy Committee to advise the Agency of the needs and views of the Contracting Agencies concerning the Sewer System. According to the Regional Contract, each Contracting Agency appoints a member from its respective governing body to the Regional Policy Committee.

Allocation of Revenues. Under the 2017A Installment Purchase Agreement, all Revenues will be received by the Agency in trust and deposited when and as received in a special fund designated as the “Revenue Fund,” which fund includes the accounts described in the definition thereof and which fund the Agency agrees and covenants to maintain and to hold separate and apart from other funds so long as any Contracts or Bonds remain unpaid. Moneys in the Revenue Fund will be held and applied by the Agency as provided in the 2017A Installment Purchase Agreement.

The Agency will, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable.

All remaining moneys in the Revenue Fund will be set aside by the Agency at the following times for the transfer to the following respective special funds in the order of priority described below; and all moneys in each of such funds will be held in trust and will be applied, used and withdrawn only for the purposes set forth in the 2017A Installment Purchase Agreement.

Not later than each Installment Payment Date, the Agency will, from the moneys in the Revenue Fund, transfer to the Trustee the 2017A Installment Payments due and payable on that Installment Payment Date. The Agency will also, from the moneys in the Revenue Fund, transfer to the applicable (i) trustee for deposit in the respective payment fund, or (ii) payee, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

On or before each Installment Payment Date the Agency will, from the remaining moneys in the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts other than the 2017A Installment Purchase Agreement, that sum, if any, necessary to restore such reserve funds and/or accounts to an amount equal to the required balance.

Moneys on deposit in the Revenue Fund on each Installment Payment Date not necessary to make any of the payments required above may be expended by the Agency at any time for any purpose permitted by law, subject to compliance with the 2017A Installment Purchase Agreement.

Rate Covenant

The Agency has covenanted in the 2017A Installment Purchase Agreement, that, to the fullest extent permitted by law, the Agency will fix and prescribe, at the commencement of each Fiscal Year, rates and charges with respect to the Agency System which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to one hundred fifteen percent (115%) of Debt Service (as such term is defined in Appendix B hereto) for such Fiscal Year. The Agency may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges are reasonably expected to be sufficient to meet the requirements set forth above.

For avoidance of doubt, so long as the Agency has complied with its obligations described in the prior paragraph, the failure of Net Revenues to meet the threshold set forth in such paragraph at the end of a Fiscal Year shall not constitute a default or an Event of Default so long as the Agency has complied with its obligations set forth in the prior paragraph at the commencement of the succeeding Fiscal Year.

Additional Agency Indebtedness

Under the 2017A Installment Purchase Agreement, the Agency may at any time execute any Contract or issue any Bonds, as the case may be, in accordance herewith; provided:

(1) The Net Revenues for the most recent audited Fiscal Year preceding the date of adoption by the Board of Directors of the Agency of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the Agency and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the Agency, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such Fiscal Year; and

(2) The Net Revenues for the most recent audited Fiscal Year preceding the date of the execution of such Contract or the date of adoption by the Board of Directors of the Agency of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year to increases or decreases in rates and charges with respect to the Agency System approved and in effect as of the date of calculation, as evidenced by a calculation prepared by the Agency, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such Fiscal Year plus the Debt Service which would have accrued on any Contracts executed or Bonds

issued since the end of such Fiscal Year assuming such Contracts had been executed or Bonds had been issued at the beginning of such Fiscal Year plus the Debt Service which would have accrued had such Contract been executed or Bonds been issued at the beginning of such Fiscal Year; and

(3) The estimated Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Parity Project, as evidenced by a certificate of the General Manager of the Agency on file with the Agency, including (after giving effect to the completion of all such uncompleted Parity Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received with respect to the Agency System and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of the General Manager on file with the Agency, shall produce a sum equal to at least one hundred twenty-five percent (125%) of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Parity Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Parity Projects.

The requirements set forth in (1), (2), and (3) above notwithstanding, Bonds or Contracts may be issued or incurred to refund outstanding Bonds or Contracts if, after giving effect to the application of the proceeds thereof, total Debt Service will not be increased in any Fiscal Year in which Bonds or Contracts (outstanding on the date of issuance or incurrence of such refunding Bonds or Contracts, but excluding such refunding Bonds or Contracts) not being refunded are outstanding.

Nothing in the 2017A Installment Purchase Agreement precludes the Agency from issuing any bonds or entering into contracts the payments from Net Revenues under which are subordinate to any Bonds or Contracts of the Agency.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth a summary of the estimated sources and uses of funds associated with the issuance and sale of the Bonds.

Sources ⁽¹⁾ :	
Principal Amount of the Bonds	\$
Plus/Less Original Issue Premium/Discount	
Transfer from the Agency ⁽²⁾	
Total Sources	\$ _____
Uses ⁽¹⁾ :	
Transfer to 2008A Trustee for Deposit into the 2008A Escrow Fund	\$
Costs of Issuance ⁽³⁾	
Total Uses	\$ _____

⁽¹⁾ Amounts rounded to the nearest \$1.

⁽²⁾ Includes amounts transferred from funds created with respect to the 2005 Bonds.

⁽³⁾ Estimate includes legal and financing costs, printing costs, fees of rating agency, initial fees of Trustee, Municipal Advisor

fees, Verification Agent fees, the Underwriter's discount and Bond Counsel fees.

THE AGENCY

The information set forth below has been provided by the Agency. The Authority makes no representations or warranties as to the accuracy or completeness of any of the information set forth below. Capitalized terms not otherwise defined herein will have the respective meanings ascribed to them elsewhere in the 2017A Installment Purchase Agreement. See Appendix C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — SUMMARY OF CERTAIN PROVISIONS OF THE 2017A INSTALLMENT PURCHASE AGREEMENT" for the definitions of such terms.

Organization, Purpose and Powers

The Inland Empire Utilities Agency*, formerly known as the Chino Basin Municipal Water District, was established by a majority vote in a special election on June 6, 1950, for an original population of approximately 80,000 people. In 1951, the Agency annexed to the Metropolitan Water District of Southern California ("MWD"). The original boundaries of the Agency encompassed 92 square miles. Three subsequent annexations added land to the Agency, and the current Agency boundaries encompass 242 square miles with a current population of approximately 870,000. The boundaries of the Agency encompass the urban west end of San Bernardino County, immediately east of the Los Angeles County line and includes the cities of Ontario, Upland, Montclair, Chino, Chino Hills, Fontana and Rancho Cucamonga. The Agency boundaries extend from the Los Angeles County line to a point near the eastern boundary of the City of Fontana and from the base of the San Gabriel Mountains, south to the Riverside County and west to the Orange County line.

When formed in 1950, the Agency only operated a water system which delivered over 50,000,000 gallons per day of imported water from the Colorado River as a member of the Metropolitan Water District of Southern California. During the mid-1960s, the Agency began a domestic sewage collection system (the "Wastewater System"). In 1969, the Agency started construction of a non-reclaimable wastewater system (the "NRW System") to curtail groundwater pollution from existing industry and to provide for new industrial development within the Agency's service area. In 1990, the Agency began the design and construction of a facility (the "1990 Co-Composter Facility") to co-compost the municipal sludge for the Agency's treatment plants together with dairy manure from the agricultural preserve, which is located in the southeastern section of the City of Chino. The Agency began producing recycled water in the early 1970's as a low-cost alternative to potable water.

In an effort to more accurately identify both the current and future functions of the entity, the Board of Directors of the Chino Basin Municipal Water District approved and made effective on July 1, 1998, the name change from the Chino Basin Municipal Water District to the Inland Empire Utilities Agency.

In 2002, the Agency and the County Sanitation Districts of Los Angeles County (the "CSDLAC") formed the Inland Empire Regional Composting Authority (the "IERCA"), a joint powers authority, to construct a regional composting facility in Rancho Cucamonga. The fully enclosed composting facility opened for operations in 2007 replacing the composter facility which had been in operation since 1990. Also in 2002, the Agency expanded the scope of operations of the Agency by financing the design and construction, along with the Chino Basin Watermaster, of facilities to

* A Municipal Water District.

replenish the Chino Groundwater Basin by recharging potable water, storm water and recycled water through regional conveyance systems and infrastructure.

Further development of the regional recycled water system and related services have been the focus of the Agency over the past decade. In 2016, the final phase of a regional recycled water distribution backbone system was completed. Recycled water is produced at four regional water recycling plants (RWRPs): RP-1, RP-4, Carbon Canyon Water Recycling Plant, and RP-5. Recycled water sales were approximately 32,619 acre-feet (“AF”) in Fiscal Year 2016, for both direct use and groundwater recharge deliveries. In addition, the Agency has three facilities which handle biosolids produced at the water recycling plants: RP-1 Solids Handling Facility, RP-2 Solids Handling Facility, and the IERCA composting facility. The Agency also has a solids handling facility at RP-5, which is leased to a private enterprise, that produces biogas and energy from food and dairy waste.

On August 17, 2016, the Inland Empire Utilities Agency Board of Directors submitted a plan for service to the Local Area Formation Commission for San Bernardino County (“LAFCO”), asking LAFCO to determine if the Chino Basin Water Conservation District should consolidate with the Agency. A final decision is expected in early 2017. While there is no assurance that the LAFCO Commission will approve the consolidation, if approved the Agency does not expect such consolidation to have any material adverse effect on the Agency’s operations or finances.

Board of Directors, Management and Employee Relations

Board of Directors. The current members of the Board of Directors of the Agency (the “Board of Directors”) and brief biographies of each are set forth below.

Terry Catlin, President
Michael Camacho, Vice President
Steven J. Elie, Secretary/Treasurer
Jasmin A. Hall, Director
Paul Hofer, Director

President Terry Catlin, representing Division 1, the City of Upland, the City of Montclair, the unincorporated area of San Antonio Heights, and portions of Ontario and Rancho Cucamonga was elected to the Board of Directors in November 1996, and currently serves as the Board President. Prior to this, he served as the Secretary/Treasurer from 1997 to 1999 and Vice President from 1999 to 2004. Mr. Catlin currently serves as the Chair of the Agency’s Audit Committee and as an alternate Committee member of the Finance, Legal, & Administration Committee. Mr. Catlin is the Agency representative to the Regional Sewerage Program Policy Committee and the Santa Ana Watershed Project Authority Commission. Mr. Catlin has been a resident of the City of Upland since 1996, and earned a B.A. degree in Chemistry from Claremont McKenna College and a M.S. degree in Biochemistry from the University of Southern California.

Vice President Michael Camacho, representing Division 5, the City of Rancho Cucamonga, a small portion of the City of Fontana and a portion of the unincorporated territories in the City of Fontana’s sphere of influence. Mr. Camacho was elected to the Board of Directors in November 2009, and currently serves as the Board Vice President. Mr. Camacho also serves as a Committee member on the Agency’s Public, Legislative Affairs & Water Resources Committee and the Engineering, Operations and Biosolids Management Committee. Mr. Camacho is the Agency’s representative to the Metropolitan Water District of Southern California and the Agency’s alternate representative to the Southern California Water Committee and to the Regional Sewerage Policy Committee. He also

served on the Chino Basin Watermaster CDA Expansion Committee, Legal Review Committee, and is the former Vice Chairman of the Chino Basin Watermaster Board.

Secretary/Treasurer Steven J. Elie, representing Division 3, the City of Chino and the City of Chino Hills, was elected to the Board of Directors in November 2010, and serves as the Board Secretary/Treasurer. Mr. Elie serves as Chair of the Agency's Public, Legislative Affairs & Water Resources Committee and is a Committee member of the Agency's Finance, Legal, & Administration Committee. Mr. Elie has been the Agency's representative to the Chino Basin Watermaster since January 2011 and serves as the Chair of the Chino Watermaster Board. He is the Agency's representative to the Southern California Water Committee, the Association of Special Districts and is the Agency's alternate Director to the Inland Empire Regional Composting Authority. Mr. Elie is an attorney who regularly represents public entities and public utility regulated entities in complex, multiparty litigation and administrative matters, including soil and groundwater contamination.

Director Jasmin A. Hall, representing Division 4, the City of Fontana and portions of the Cities of Rialto and Bloomington, was appointed to the Board of Directors in November 2013, and elected in 2014. Ms. Hall serves on the Agency's Audit Committee, and is an alternate Committee member on the Public, Legislative Affairs and Water Resources Committee and the Engineering, Operations and Biosolids Management Committee. Ms. Hall serves as an alternate representative to the Santa Ana Watershed Project Authority Commission, Chino Basin Desalter Authority, and Association of California Water Agencies. Ms. Hall is also the Agency's representative to California Association of Sanitation Agencies (CASA) and serves as the Vice Chair of the Inland Empire Regional Composting Authority and CASA Utility Leadership Committee. She has over thirteen years of experience working on Inland Empire utility issues. Ms. Hall has extensive experience in community leadership by serving on the Fontana Planning Commission and serving as Chairwoman for the Fontana Parks and Recreation Commission. Ms. Hall holds an M.B.A. degree with a specialization in Human Resource Management, a B.S. degree in Business Management and a Project Management Certification.

Director Paul Hofer, representing Division 2, the City of Ontario, the unincorporated Agricultural Preserve, and a portion of the unincorporated territories in the city of Fontana's sphere of influence. Mr. Hofer was appointed to the Agency's Board of Directors in August 2016. Mr. Hofer has been a resident of Ontario since 1947. He serves as a member on the Agency's Finance, Legal & Administration Committee, and as an alternate Committee member of the Audit Committee. Mr. Hofer continues to serve on the Chino Basin Watermaster Board of Directors as a representative for Agriculture since January 1998. He also serves as a Director to the Inland Empire Regional Composting Authority. Mr. Hofer is a farmer who resides and works at the Hofer Ranch, the family homestead since 1882.

Management. The Agency's management is composed of the following officers:

P. Joseph Grindstaff, General Manager
Christina Valencia, Chief Financial Officer/Assistant General Manager
Randy Lee, Executive Manager of Operations/Assistant General Manager
Chris Berch, Executive Manager of Engineering/Assistant General Manager
Martha Davis, Executive Manager of Policy Development/Assistant General Manager

P. Joseph Grindstaff is currently the General Manager of the Agency. Prior to his apportionment, Mr. Grindstaff served as the Executive Officer for the Delta Stewardship Council from 2010 to 2012, where he organized the Delta Stewardship Council and helped establish the Delta Conservancy. From 2005 to 2010, Mr. Grindstaff served as Director of the California Bay-Delta

Authority and also served as Deputy Secretary for Water Policy for the Natural Resources Agency from 2006 to 2010. As Deputy Secretary for Water Policy, Mr. Grindstaff took part in the historic 2009 legislative reform package, coordinated water policy, supported Delta Vision, helped CALFED transition to the new paradigm of co-equal goals and oversaw many resource management activities for the State. Mr. Grindstaff has served in various management positions including Chief Deputy Director at Department of Water Resources, General Manager for the Santa Ana Watershed Project Authority, and General Manager of Monte Vista Water District, as well as a range of other key positions.

Christina Valencia is the Chief Financial Officer/Assistant General Manager at the Agency. Ms. Valencia joined the Agency in 1999, and in 2007 she was promoted to Manager of Financial Planning before being named CFO in October 2010. Ms. Valencia began her career at KDC Pipe & Steel, Inc., where she worked for 18 years and rose to the position of Controller. Ms. Valencia holds a Bachelor's Degree in Business Administration with a concentration in Accounting from the University of Texas at El Paso. Ms. Valencia also earned a Master's Degree in Public Administration from the California State University at Northridge. Ms. Valencia has over 25 years of experience in both the private and public sector and oversees the, Finance and Accounting, Human Resources, Contracts Administration and Facilities Services and Business Information Service departments of the Agency.

Randy Lee is the Executive Manager of Operations/Assistant General Manager at the Agency. Mr. Lee joined the Agency in 2000, and during his tenure has worked in Construction Management, Engineering, Operations, and Technical Services/Environment Compliance departments. Mr. Lee left the Agency for a couple of years, holding the position of Assistant Director of Recycling Operations for the Irvine Ranch Water District. In 2015, Mr. Lee returned to the Agency and was promoted to his current position in May 2016. Mr. Lee holds a Bachelor of Science in Environmental Engineering and a Master of Science in Chemical Engineering from the University of California, Riverside, and is a Professional Engineer-Civil. In addition, Mr. Lee has a Grade V Wastewater Certificate.

Chris Berch is the Executive Manager of Engineering/Assistant General Manager at the Agency. Since joining the Agency in 1997, Mr. Berch has worked in various capacities in the Operations, Technical Services, Engineering and Construction Management, and Planning and Environmental Resources departments. Mr. Berch was promoted to his current position in 2014, and is a Professional Engineer – Civil and a board-certified Environmental Engineer. Mr. Berch holds a Bachelor of Science Degree in Environmental Engineering from the University of California, Riverside. Mr. Berch also earned a Master's Degree in Public Administration from the California State University at San Bernardino. In addition, Mr. Berch has a Grade V Wastewater Certificate.

Martha Davis is Executive Manager of Policy Development/Assistant General Manager at the Agency. Previously, Ms. Davis served as the Executive Director for Californians and the Land (1998-2000) and for the Mono Lake Committee (1984-1996). Ms. Davis graduated from Stanford University *cum laude* with a degree in human biology and received her master's degree from the Yale School of Forestry and Environmental Studies. Since 1998, Ms. Davis has served as the Co-Chair of the CalFed Watershed Subcommittee and is a member of the CALFED Bay Delta Public Advisory Committee. In addition, Ms. Davis serves as a member of the California Bulletin 160 Advisory Committee. Ms. Davis is currently a board member for the Mono Lake Committee, the WateReuse Foundation, Earth Island Institute and The Sierra Fund, and serves on the advisory committees for the Sierra Nevada Alliance and the Water Resources Institute.

Employee Relations. As of June 2016, the Agency had 290 authorized full time positions, of which 266 were filled. The Fiscal Year 2016 budget was adopted by the Agency's Board of Directors on June 17, 2015. The Agency currently has five recognized bargaining units, representing a total of 195 employees. The Agency's remaining 87 employees are unrepresented. The Agency and its bargaining units regularly work together to resolve problems of mutual interest. The existing contract between the Agency and the five bargaining units expires on June 30, 2018. The Agency has never experienced a work stoppage or strike.

Defined Benefit Pension Plan. The Agency is a member of the California Public Employees' Retirement System ("PERS"), an agent multiple-employer retirement system, which provides a contributory defined benefit plan for all regular employees of the Agency. These benefit provisions and all other requirements are established by California law. On behalf of its employees, the Agency currently pays a portion of the employees' required Employer Paid Member Contribution ("EPMC") varying from 8% to 7%, depending on the benefit tier. Employees began funding a portion of the EPMC in 2012. Pursuant to the 5 year contracts negotiated with the bargaining units and the Agency's Cost Containment Plan, all employees (including unrepresented) will be paying 100% of the EPMC by July 1, 2017. Employees that fall under the new Public Employee Pension Reform Act currently fund their full share of employee contributions.

The Agency, as employer, is required to contribute the remaining amounts necessary to fund PERS, using the actuarial basis specified by California law. For the year ended June 30, 2016, the Agency's total contribution to PERS was \$5,181,330. The Agency's contribution to PERS, all made in accordance with actuarially determined requirements, was 18.018% of annual covered payroll for the Fiscal Year ended June 30, 2016. By July 31, 2016, the Agency had contributed an additional \$9 million towards its unfunded accrued liability account per the Agency's 2015 Strategic Plan and key objective to achieve full funding status. The Agency also participates in the Social Security Program pursuant to the Federal Insurance Contribution Act.

For more information with respect to the Agency's Plan, see Note 5 to the Agency's audited financial statements attached hereto as Appendix A.

Other Post Employment Benefits. The Agency also provides post-employment health benefits to retired employees through PERS. The Agency's fixed fee contributions to PERS for post-employment health benefits are financed on a pay-as-you-go basis for retired employees and eligible dependents, based on the hiring date of such employee, age of retirement and length of employment with the Agency. Such Agency contributions are reduced when a retiree becomes eligible for Medicare. In the Fiscal Year ended June 30, 2015, the Agency paid approximately \$461,893 for post-employment health benefits for 105 retirees.

In May 2014, the Agency established an irrevocable trust account with the California Employer's Retiree Benefit Trust ("CERBT"). As of June 30, 2016, the Agency has contributed approximately \$9,000,000 (approximately 60%) toward the accrued liability as reported in its financial statements for the Fiscal Year ended June 30, 2016 (see Note 1(d) to the Agency's audited financial statements attached hereto as Appendix A). While requiring the Agency to disclose the unfunded actuarial accrued liability and the ARC in its financial statements, GASB 45 does not require the Agency to fund the ARC.

For more information with respect to the Agency's Other Post-Employment Benefits, see Note 1(d) to the Agency's audited financial statements attached hereto as Appendix A.

Public Liability. The Agency maintains a self-insurance program for losses up to \$500,000 in connection with all of its general liability and public official errors liability, and up to \$25,000 for automobile liability claims. Interest earnings on such self-insurance reserve fund balance have been sufficient to maintain the reserve fund and to pay any minor claims made. As of June 30, 2016, the self-insurance fund balance was \$4,323,272. The Agency has purchased an excess policy providing coverage up to \$10,000,000 on an annual aggregate basis for general and public official errors losses in excess of \$500,000. Effective July 1, 2016, the self-insurance reserve for general liability insurance was approximately \$1,000,000.

The Agency is a self-insured public entity and maintains a self-insurance program for risks associated with workers' compensation, accounting for and financing workers' compensation losses up to \$350,000 in a risk retention reserve fund. As of June 30, 2016, the risk retention reserve fund balance was \$1,499,000. The Agency has purchased a \$25,000,000 excess policy to cover workers' compensation losses in excess of \$1,000,000. The Agency has never had a single workers' compensation loss in excess of \$350,000 and has never had aggregate workers' compensation losses in any single Fiscal Year in excess of \$300,000.

Fire and Extended Coverage Insurance. The Agency maintains a self-insurance program for property damage claims up to \$25,000. Any property damage claims are paid out of existing annual appropriations. The Agency maintains replacement insurance coverage up to \$50,000,000 for its buildings and equipment, covering all perils except earthquakes and floods for property damage claims in excess of \$25,000. Contractors are required to provide insurance coverage which names the Agency as an additional insured during their participation in all capital and large maintenance projects.

Additionally, the Agency maintains a standard public official bond for the actions of the Chief Financial Officer/Assistant General Manager, the General Manager and the Secretary/Treasurer of the Board and a standard blanket honesty policy for each employee.

For more information with respect to the Agency insurance coverage see Note 6 to the Agency's audited financial statements attached hereto as Appendix A.

Regional Wastewater System

General. The Agency provides wastewater treatment services to the cities of Chino, Chino Hills, Fontana, Montclair, Ontario and Upland, and to the Cucamonga Valley Water District (which serves the City of Rancho Cucamonga) collectively, the "Contracting Agencies". In 1972, for the purpose of establishing a Regional Wastewater System, the Agency entered into the Regional Sewage Service Contract (the "Regional Contract") with the Contracting Agencies. Under the terms of the Regional Contract, the Agency is charged with the ownership and operation of the Wastewater System for the collection, treatment and disposal of sewage delivered by the Contracting Agencies. As the operator of the Regional Wastewater system, the Agency assumed the responsibility of meeting the region's annual obligation to deliver treated wastewater to the Santa Ana River as mandated by the Orange County Water District vs. City of Chino (Superior Court Case #117628). The Agency is further obligated to construct certain new regional interceptors and expand regional treatment facilities within a reasonable time frame to be prepared to receive all domestic waste delivered by the Contracting Agencies. See the caption "THE BONDS."

Regional Sewage Service Contract. In July 1972, the Agency and the Contracting Agencies entered into the Regional Contract. Since that time, the Regional Contract has been amended several times. Since inception of the Regional Wastewater Program, the products and services provided by

the Agency have significantly expanded, including production of high-quality renewable products such as recycled water, compost, and energy. During this period, new policies and procedures have been implemented to accommodate the changing regulations and environment, as well as improved effectiveness and efficiencies of the Regional Wastewater Program.

A recently completed review by the Agency's Internal Audit department of the Contracting Agencies application of some of the Regional Contract requirements identified some inconsistencies in the application of certain provisions. Discussions currently underway between the Agency and the Contracting Agencies are focused on updating, clarifying, and streamlining these provisions, as well as extending the Contract beyond the 2023 expiration date. There can be no assurance however that the Regional Contract will be extended or, if extended, what terms or conditions will be included in such extension. In the event the Regional Contract is not extended, the Agency's Board of Directors has full discretion and authority to adopt an ordinance to support its Regional Wastewater Program without any significant change to the services provided under the Regional Contract.

Regional Wastewater System Facilities. The Regional Wastewater System includes four regional water recycling plants ("RWRPs") which produce recycled water that meet Title 22 standards for indirect reuse and groundwater recharge. All of the RWRPs have primary, secondary, and tertiary treatment and recycled water pumping facilities that are interconnected in a regional network. Agency staff uses influent bypass and diversion facilities, such as the San Bernardino Lift Station and the Montclair Diversion Structure to route flows between regional plants in order to optimize capacity utilization, maximize recycled water deliveries, and minimize overall pumping and treatment costs. The Agency's aggregate designed treatment capacity is 85 million gallons per day ("MGD"), including 90 miles of regional sewage interceptors.

In addition, the Agency has three facilities where the biosolids from the RWRPs are handled: Regional Plant No. 1 Solids Handling Facility, Regional Plant No. 2 Solids Handling Facility, and the Inland Empire Regional Composting Authority (IERCA). The Agency also has the RP-5 Solids Handling Facility, which is leased to a private enterprise that produces biogas and energy from food waste.

In July 2015, the Agency updated its Wastewater Facilities Master Plan ("WWFMP"), originally prepared in 2002 and previously updated in 2007. The planning period of the updated WWFMP was for year 2035 and the ultimate year 2060. Capital projects were developed based on the expansion needs for each of the RWRPs for the next 20 years. The WWFMP will be evaluated every ten years, or as major changes are identified.

Regional Water Recycling Plant No. 1. Regional Water Recycling Plant No. 1 (RP-1) was originally commissioned in 1948 and originally owned jointly by the cities of Ontario and Upland. Upon completion of the negotiations that led to the Regional Contract in 1972, assets were purchased by, and the operation of the facility was passed to, the Agency. Over the years, RP-1 has undergone several expansions to increase the design wastewater treatment capacity as the population and economic activity within its service area (the cities of Montclair, Upland, Ontario, Rancho Cucamonga and Fontana) have increased. The permitted design wastewater treatment capacity is approximately 44 million gallons per day ("MGD"); however, the actual capacity is approximately 28 MGD. The 2015 WWFMP identified expansion of the RP-1 Solids Treatment and Liquid Treatment capacity was needed to meet the increase in influent flows projected by 2035. Currently in progress is the implementation of a mixed liquor return pump system, which will increase liquid treatment capacity to 32 MGD until the next major plant expansion, which is planned to take place in 10 to 15 years.

Regional Water Recycling Plant No. 2. Regional Water Recycling Plant No. 2 (“RP-2”) was acquired in the same manner as RP-1 from the City of Chino in 1972 and has been in operation since 1960. When Regional Water Recycling Plant No. 5 (“RP-5”) came online in March, 2004, the RP-2 liquid stream portion of the treatment facilities ceased operations and was taken offline. However, the Agency continues to process solids from RP-5 and Carbon Canyon Water Recycling Facility (“CCWRF”) at RP-2. Relocation of the RP-2 solids handling processes to the RP-5 facility is planned over the next seven years. RP-2 is located on land leased from the U. S. Army Corps of Engineers (the “Corps”) and is within the flood zone behind Prado Dam. The Corps and Orange County Flood Control District have plans to raise the maximum operational water level behind Prado Dam to allow greater water storage and conservation. Since RP-2 does not have physical flood protections, the relocation of all remaining operations will be transferred to RP-5 is planned to be completed by 2023. The RP-2 lease expires in 2035. A fund has been established by the Agency to support the future decommissioning of the RP-2 site in which approximately \$5,000,000 is currently on deposit.

Regional Plant No. 3. Regional Plant No. 3 (“RP-3”) was acquired in the same manner as RP-1 from the City of Fontana. Following acquisition in 1972, minor modifications were made to extend its useful life until a new regional interceptor could be constructed which would transport flows directly to RP-1 for treatment. Subsequent to the completion of the regional interceptor, the treatment facilities ceased operations and were taken offline in 1988. Plans to develop a new wastewater treatment plant at the 63.3 acre RP-3 site were abandoned by agreement with the City of Fontana. A substantial portion of the RP-3 site is being used as a groundwater recharge site for the Chino Basin. A total of 4,508 acre foot was recharged into RP-3 in Fiscal Year 2016, primarily as a result of the Wineville recycled water pipeline extension which was completed in December 2015.

Carbon Canyon Water Recycling Facility. Located in the City of Chino, the Carbon Canyon Water Recycling Facility (“CCWRF”) has been in operation since 1992. The CCWRF works in tandem with RP 2 and RP-5 to serve the areas of Chino, Chino Hills, Montclair, and Upland and provides recycled water to local industries, parks, golf courses, freeway landscape, and city greenbelt areas. It was designed to treat an annual average flow of 11.4 MGD and currently treats approximately 7.1 MGD. There are no major expansion projects planned for CCWRF over the next 30 years.

Regional Water Recycling Plant No. 4. Located in the City of Rancho Cucamonga, Regional Water Recycling Plant No. 4 (RP-4) has been in operation since September 1997. In 2009, RP-4 was expanded from 7 MGD to 14 MGD. This treatment plant serves the fast developing areas of the northeastern section of the City of Rancho Cucamonga and the northwestern section of the City of Fontana, currently treating approximately 10 MGD. Part of the original construction included an eight-mile outfall line that connects RP-4 to RP-1, allowing recycled water to be distributed from either facility. The 2015 WWFMP identified expansion of the RP-4 treatment capacity within the next 25 years.

Regional Water Recycling Plant No. 5. Regional Water Recycling Plant No. 5 (“RP-5”) is located on 89.8 acres of land in the City of Chino. The Agency completed construction of RP-5 and began operation in March, 2004. The Agency constructed RP-5 to replace the liquid treatment processes of the aging RP-2 facility located below the new “take-line” behind the Prado Dam which is subject to a potential flood threat. RP-5 is situated above the new “take-line” behind the Prado Dam and is not subject to a potential flood threat. RP-5 is a state-of-the-art treatment plant, and is designed to handle 16.3 MGD of RP-5 processes sewage flow from the cities of Chino, Chino Hills, and Ontario, and is currently treating approximately 9.9 MGD. Based on Contracting Agencies’, projections, approximately 60% of future growth within the Agency is projected to occur in the cities of Ontario and Fontana increasing projected flows to RP-5 to between 15.4 and 16.1 MGD by 2025. To

accommodate the increased flows, the Agency has initiated the preliminary design report for the expansion of RP-5, which will include a membrane bioreactor treatment system to provide improved water quality for the region. The Agency’s Board of Directors has approved certain components of the expansion of RP-5, including components which are projected to increase flows from 15 MGD to 45 MGD. Expansion of the RP-5 facility is planned over the next 6 years.

Regional Interceptors. The Regional Contract defines sewers which function solely as sewers that convey wastewater from more than one Contracting Agency as “regional interceptors.” These regional interceptors receive sewage from the most downstream point of a Contracting Agency’s community collection system and transport it to the Agency’s treatment plants for processing. The regional interceptors are designed, constructed and maintained by the Agency. As new development occurs, the regional interceptor network is expanded and modified to stay ahead of demand. To date, there are nearly 60 miles of regional interceptor pipelines identified in the Wastewater System.

Wastewater Facility Usage. The following tables present actual and projected wastewater flows for the Fiscal Years ended June 30, 2012 through June 30, 2016.

Actual Wastewater Flow For Fiscal Years 2012-2016

<i>Fiscal Year (Ending June 30)</i>	<i>(Northern Service Area)</i>	<i>(Southern Service Area)</i>	<i>Total (MGD)</i>
	<i>RP-1 and RP-4 (MGD)</i>	<i>RP-2, RP-5 and CCWRF (MGD)</i>	
2012	37.0	15.5	52.5
2013	37.4	15.4	52.8
2014	37.0	15.2	52.2
2015 ⁽¹⁾	35.5	15.2	50.7
2016 ⁽¹⁾	31.5	16.9	48.4

⁽¹⁾ Lower wastewater flows resulting from indoor water conservation measures in response to the current drought in California account for the lower MGD flows in Fiscal Years 2015 and 2016. Lower flows have resulted in higher concentration of total solid strength.

Source: The Agency.

The Agency projects increases in wastewater flows over the current and next four Fiscal Years as a result of a growth from new development in the service areas as set forth below.

Projected Wastewater Flow For Fiscal Years 2017-2021

<i>Fiscal Year (Ending June 30)</i>	<i>(Northern Service Area)</i>	<i>(Southern Service Area)</i>	<i>Total (MGD)</i>
	<i>RP-1 and RP-4 (MGD)</i>	<i>RP-2, RP-5 and CCWRF (MGD)</i>	
2017	31.8	17.5	49.3
2018	32.1	18.1	50.2
2019	32.4	18.7	51.2
2020	32.8	19.4	52.1
2021	33.1	20.0	53.1

Source: The Agency.

The following table presents Fiscal Year 2016 wastewater production within the Agency's service area.

**Wastewater Production
Fiscal Year Ending June 30, 2016**

<i>User</i>	<i>Total EDUs⁽¹⁾</i>	<i>Wastewater (MGD)</i>
City of Ontario	58,872	10.6
CVWD	67,952	12.2
City of Fontana	51,017	9.2
City of Upland	26,091	4.7
City of Chino	28,815	5.2
City of Chino Hills	24,315	4.4
City of Montclair	<u>11,738</u>	<u>2.1</u>
Total	<u>268,800</u>	<u>48.4</u>

⁽¹⁾ Equivalent Dwelling Units – one EDU represents the sewage flow from a single family residential household.
Source: The Agency.

**Agency Wastewater Facilities
Design Capacity and Average Flow
as of June 30, 2016**

<i>Facility</i>	<i>Design Capacity (MGD)</i>	<i>Average Flow (MGD)</i>	<i>Average Flow as Percentage of Design Capacity</i>
RP-1	44.0	23.5	53.4%
RP-5	16.3	10.0	61.3%
RP-4	14.0	8.0	57.1%
CCWRF	<u>12.0</u>	<u>6.9</u>	<u>57.5%</u>
Total	86.3	48.4	57.3%

Source: The Agency.

Wastewater System Rates and Charges - Sewer Charges. Sewer rates for both the Wastewater System and the Non Reclaimable Wastewater (NRW) System are established by the Board of Directors ("Board"). The budget, including such sewer rates, is adopted by the Board of Directors no later than June. Beginning Fiscal Year 2016, the Agency transitioned to a biennial budget with the adoption of a two year budget for Fiscal Years 2016 and 2017. Included in the adopted budget were the multi-year sewer service rates adopted by the Board in March 2015 for Fiscal Years 2016 – 2020 to ensure full cost of service is achieved and maintained. Subsequent to Board actions, the Contracting Agencies each set rate structures reflecting any necessary changes.

The following table presents a summary of the Wastewater System sewer service rates charged to the Contracting Agencies for the Fiscal Years ending June 30, 2012 to June 30, 2016.

Historical Wastewater System Sewer Service Rates

<i>Fiscal Year (Ending June 30)</i>	<i>Sewer Rates per EDU/mo.*</i>
2016	\$15.89
2015	14.39
2014	13.39
2013	12.39
2012	11.14

* Equivalent Dwelling Unit per month.
Source: The Agency.

Wastewater System sewer service charge rates for Fiscal Year 2016 through 2020 were adopted by the Board of the Agency in March 2015. These rates take effect on July 1st of the respective Fiscal Year (with the exception of 2016 which was effective October 1, 2015) pursuant to the notice, public hearing and protest procedures of Proposition 218, see the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES.”

The Wastewater System sewer service rate charged to the Contracting Agencies for the Fiscal Years ended June 30, 2017 to June 30, 2020, as adopted by the Agency’s Board of Directors and projected by the Agency for Fiscal Year 2021, is as follows:

Adopted and Projected Wastewater System Sewer Service Rates⁽¹⁾

<i>Fiscal Year</i>	<i>Sewer Rates per EDU/mo.*</i>
2017	\$17.14
2018	18.39
2019	19.59
2020	20.00
2021	20.40

(1) Wastewater System sewer service rates for Fiscal Years 2017 through 2020 were adopted by the Agency’s Board of Directors in March 2015. Wastewater System sewer service rate for Fiscal Year 2021 is projected by the Agency.

(2) Equivalent Dwelling Unit per month.
Source: The Agency.

Wastewater System Revenues. The following table presents summary of the Wastewater System sewer service revenues for Fiscal Years 2012 through 2016.

Wastewater System Sewer Service Revenues

<i>Fiscal Year (Ending June 30)</i>	<i>Wastewater System Sewer Service Revenues</i>
2016	\$49,648,586
2015	46,696,753
2014	42,669,716
2013	39,386,881
2012	35,144,460

Source: The Agency and Comprehensive Annual Financial Report (“CAFR”) of the Agency for Fiscal Years 2012 through 2016 (excluding trucked waste fees)

The following table presents a summary of projected Wastewater System sewer service revenues for Fiscal Years 2017 through 2021 based on the adopted and projected sewer service rates over the same period.

Projected Wastewater System Sewer Service Revenues

<i>Fiscal Year (Ending June 30)</i>	<i>Wastewater System Sewer Revenues</i>
2017	\$56,247,715
2018	60,558,896
2019	64,671,813
2020	66,190,396
2021	67,716,167

Source: The Agency.

Standby Charges. Pursuant to the Regional Contract and Section 71631 of the State Water Code, the Agency may, by ordinance, annually fix availability or standby charges in the Agency, or any portion of the Agency, whether such sewage services are actually used or not. The standby assessment or availability charge shall not exceed ten dollars per acre per year for each acre of land on which the charge is levied or ten dollars per year for parcels of less than an acre. To date, the Agency has not imposed any such charges. However, if and to the extent the Agency’s standby assessment or availability charges are determined to be for a property related service within the meaning of Article XIII D of the State Constitution, increases in such standby assessment or availability charges may be subject to the provisions thereof. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Article XIID.”

Wastewater Capital Connection Fees. Under the Regional Contract, the Contracting Agencies collect fees for each new equivalent dwelling unit (“EDU”) connected to a Contracting Agency’s community collection system and consequently to the Regional Wastewater System (“Wastewater Capital Connection Fees”). The fee for such Wastewater Capital Connection Fees has been revised periodically and is currently \$5,415 per EDU. In 2015 Carollo Engineers was contracted to conduct a study of the Agency’s wastewater, water, and recycled water rates. Water connection fees were adopted by the Board in May of 2015 for Fiscal Years 2016 through 2020. On January 1, 2017 the Wastewater Capital Connection Fee increases to \$6,009 per EDU. Such increased rate is effective until June 30, 2017.

Under the Regional Contract, the Agency is required to maintain a regional capital reserve fund (the “RCIF”) with a maximum excess reserve balance of \$1,000,000. On a quarterly basis, Agency staff projects capital funding requirements of the Agency for the following six months. The Agency “calls” for Wastewater Capital Connection Fees from the Contracting Agencies when the Agency projects a need for additional funds. Wastewater Capital Connection Fee payments are calculated based on the percentage of each individual Contracting Agency’s reimbursement account balance relative to the total balance of all Contracting Agency-held funds. That percentage is then utilized to calculate each Contracting Agency’s contribution to the Agency’s “call” for funds from the Wastewater Capital Connection Fees.

The Agency recognizes Wastewater Capital Connection Fees as revenues when collected by the Contracting Agencies rather than when the Agency calls for the Contracting Agencies to transfer the Wastewater Capital Connection Fees to the Agency.

The following table presents a summary of the Wastewater Capital Connection Fees when recognized by the Agency in Fiscal Years 2012 through 2016.

Historic Wastewater Capital Connection Fee Revenue

<i>Fiscal Year (Ending June 30)</i>	<i>Wastewater System Sewer Revenues</i>
2016	\$24,910,235
2015	15,073,882
2014	9,788,634
2013	14,614,387
2012	7,686,126

Source: The Agency.

The following table presents a summary of projected Wastewater Capital Connection Fees for Fiscal Years 2017 through 2021 based on the adopted fees and projected growth.

Projected Wastewater Capital Connection Fee Revenue

<i>Fiscal Year (Ending June 30)</i>	<i>Wastewater System Sewer Revenues</i>
2017	\$17,136,000
2018	18,927,000
2019	19,872,000
2020	18,778,500
2021	20,657,700

Source: The Agency.

Agency collection of Wastewater Capital Connection Fees is dependent on development activity within the Agency. If development activity varies from the activity currently projected by the Agency, Wastewater Capital Connection fees may not be collected as set forth above. Such variation could be material and adverse. To minimize the fiscal impact of a slowdown in development, the Agency's forecasts are based on what the Agency believes are conservative growth projections.

The following table presents a summary of historic Wastewater Capital Connection Fee rates for Fiscal Years 2012 through 2016. Wastewater Capital Connection Fees imposed by the Board of the Agency in May 2015 for Fiscal Year 2016 was effective January 1.

Historic Wastewater Capital Connection Fees

<i>Fiscal Year</i>	<i>Effective Date</i>	<i>Connection Fee per EDU*</i>
2016	January 1, 2016	\$5,415
	July 1, 2015	5,107
2015	July 1, 2014	5,107
	July 1, 2013	5,007
2013	July 1, 2012	4,909
2012	July 1, 2011	4,766

* Equivalent Dwelling Unit
Source: The Agency.

The following table presents a summary of the adopted rates for Fiscal Years 2017 through 2020, rates for year 2021 are projected. Wastewater Capital Connection Fees imposed by the Board of the Agency in May 2015, for Fiscal Year 2017 is effective January 1, 2017 and July 1 of each Fiscal Year thereafter.

Projected Wastewater Capital Connection Fees

<i>Fiscal Year</i>	<i>Effective Date</i>	<i>Connection Fee per EDU*</i>
2017	July 1, 2016	\$5,415
	January 1, 2017	6,009
2018	July 1, 2017	6,309
	July 1, 2018	6,624
2020	July 1, 2019	6,955
2021	July 1, 2020	7,651

* Equivalent Dwelling Unit
Source: The Agency.

Ad Valorem Property Taxes. Prior to the passage of Proposition 13, the Agency established an annual tax levy for the support of Agency activities. Pursuant to Proposition 13, the County Auditor became responsible for the fixed establishment of a county-wide tax rate allocation. Such allocation was determined by averaging the tax levy of each taxing agency for the three Fiscal Years prior to the passage of Proposition 13. The County Auditor then determined the allocation of the county-wide 1% property tax levy between all of the County’s taxing agencies on a pro rata basis. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Article XIII.A.”

The Agency had two tax levies in place when Proposition 13 was implemented: A General allocation and an allocation to Improvement District “C.” The revenue to Improvement District “C” is applied to the funding of Regional Wastewater System capital requirements. The General allocation is applied to fund general Agency activities.

From time to time legislation has been considered as part of the State budget to shift property tax revenues from special districts to school districts or other governmental entities. While legislation enacted in connection with the 1992-93 State budget shifted many special districts’ shares of the countywide one percent ad valorem tax, the share of the countywide one percent ad valorem tax allowable to multi-county special districts, such as the Agency, was exempted.

On November 2, 2004, State voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not, among other things: (i) shift property taxes from local governments to schools or community colleges; or (ii) change how Property Tax Revenues are shared among local governments without two-thirds approval of both houses of the State Legislature.

In Fiscal Year 2010, the State shifted to schools and community colleges a limited amount of local government property tax revenues after certain conditions were met, including: (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State; and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. No additional shifts may occur until the State repays the 2009-10 shift. The Agency participated in the State of California Proposition 1A Receivables Program to securitize its receivable from the State, and as a result received the funds shifted, without interest, in two installment payments in 2010. The Agency received its first installment payment of \$1,070,028 in January 2010 and the second installment of equal amount in May 2010. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

On November 2, 2010, the voters of the State approved Proposition 22, known as "The Local Taxpayer, Public Safety, and Transportation Protection Act" ("Proposition 22"). Proposition 22, among other things, broadens the restrictions established by Proposition 1A. While Proposition 1A permits the State to appropriate or borrow local property tax revenues on a temporary basis during times of severe financial hardship, Proposition 22 amends Article XIII of the State Constitution to prohibit the State from appropriating or borrowing local property tax revenues under any circumstances. The State can no longer borrow local property tax revenues on a temporary basis even during times of severe financial hardship. Proposition 22 also prohibits the State from appropriating or borrowing proceeds derived from any tax levied by a local government solely for the local government's purposes. Furthermore, Proposition 22 restricts the State's ability to redirect redevelopment agency property tax revenues to school districts and other local governments and limits uses of certain other funds. Proposition 22 is intended to stabilize local government revenue sources by restricting the State government's control over local revenues.

There can be no assurance that the property tax revenues the Agency currently expects to receive will not be further reduced pursuant to State legislation enacted in the future. If the formula is changed in the future it could have a material adverse effect on the receipt of property tax revenues by the Agency, including property tax revenues received pursuant to Section 97.23 of the Revenue and Taxation Code of the State of California for the payment of the outstanding 2010A Bonds.

The table below sets forth the assessed value of property within the Agency and the amount of property tax revenue received by the Agency and allocated to the Revenue Fund in each of the last five fiscal years.

**Agency Historical Assessed Values and Property Tax Revenue
For Fiscal Years 2012 to 2016**

<i>Fiscal Year</i>	<i>Assessed Value</i>	<i>Property Tax Revenue</i>	<i>Property Tax Allocation to Water Fund</i>	<i>Net Property Tax Revenue</i>
2016	\$62,396,625,000	\$45,631,113	\$4,295,184	\$41,335,929
2015	59,886,639,000	40,946,003	1,500,000	39,446,003
2014	55,989,042,000	38,486,730	0	38,486,730
2013	54,144,254,000	48,086,946	0	48,086,946
2012	53,653,776,000	32,694,517	0	32,694,517

Source: County of San Bernardino – Auditor and Comprehensive Annual Financial Report of the Agency for fiscal years 2012 through 2016.

Fiscal Year 2013 includes approximately \$10.2 million of unobligated incremental taxes returned by the successor agencies to the County Tax/Assessor. An additional \$2,700,000 of such return of unobligated incremental taxes was received in Fiscal Year 2016 and included in the \$4,295,188 transferred to the Water Resources Fund. These unobligated funds were re-distributed by the County Tax/Assessor to eligible taxing agencies pursuant to the dissolution of redevelopment agencies which took effect on February 1, 2012 and represent a non-recurring source of funds to the Agency.

The allocation of Property Tax Revenues between the Revenue Fund and the Water Resources Fund is determined by the Agency Board of Directors on an annual basis. While there can be no assurance that the Board of Directors will allocate Property Tax Revenues to the Revenue Fund in accordance with recent practice, the Agency has entered into a rate covenant as further described under the caption “SECURITY FOR THE BONDS-Rate Covenant”.

The table below sets forth the assessed value of property within the Agency and the amount of property tax revenue projected to be received by the Agency in each of the next five fiscal years.

**Agency Projected Assessed Values and Property Tax Revenue
For Fiscal Years 2017 to 2021**

<i>Fiscal Year</i>	<i>Assessed Value</i>	<i>Property Tax Revenue</i>	<i>Property Tax Allocation to Water Fund</i>	<i>Net Property Tax Revenue</i>
2017	\$65,717,035,000	\$44,704,800	\$1,955,800	\$42,749,000
2018	67,688,546,000	46,046,000	2,425,200	43,620,800
2019	69,042,318,000	47,427,400	2,908,700	44,518,700
2020	70,423,165,000	48,375,900	3,240,700	45,135,200
2021	71,831,628,000	49,343,400	3,579,300	45,764,100

Source: The Agency.

The Fiscal Year 2016 property tax receipts included \$2.7 million one-time payment related to the dissolution of Redevelopment Agencies (“RDA”) and due diligence reporting from the City of Ontario. The San Bernardino Assessment roll for Fiscal Year 2017 increased by 5.3% compared to Fiscal Year 2016. The Agency projected a 3% growth in assessed value in 2018 and a growth factor

of 2% percent thereafter. Property tax revenue projection were based on projected receipts in 2016 with a growth factor of 3% for 2017 through 2019, and more conservative growth factor of 2% thereafter.

Non-Reclaimable Wastewater System

General. The Non-Reclaimable Wastewater System (the “NRW System”) provides a collection system which includes pipelines and pump station to export the high-salinity industrial wastewater generated within the Agency’s service area for treatment and eventual discharge to the Pacific Ocean. The NRW System is physically separated from the Agency’s Regional Wastewater System, ensuring further compliance with the California Regional Water Quality Control Board and state regulations related to environmental criteria, and improving the quality of recycled water for local use. Maximizing the use of the NRW System helps ensure that the Agency complies with the final effluent total dissolved solids (“TDS”) limits which are required under the National Pollutant Discharge Elimination System (“NPDES”) permits.

The NRW System operated by the Agency is comprised of two independent collection systems, the north and south systems which serve different patrons.

The south NRW System serves approximately 15 industries, truckers and the Chino Basin Desalter Authority and conveys wastewater to the Inland Empire Brine Line (“IEBL”) which then carries it to the Orange County Sanitation Districts facility in the City of Fountain Valley for treatment and ocean discharge. The IEBL, which is owned by the Santa Ana Watershed Project Authority (“SAWPA”), is an independent collections system that serves the southern portion of the Agency’s service area. The highest and best use of the brine line is the removal of salts from the watershed to keep them from degrading water quality within the watershed, thereby allowing better use of groundwater resources and expanding the ability to reclaim water. The long-term goal of achieving salt balance within the region depends on the ability to remove salts from the watershed via the brine line.

The north NRW System serves approximately 42 industries and municipalities. The north NRW System also collects wastewater from the Agency’s Regional Recycling Plant No. 1 (“RP-1”) belt press filtrate and centrate. The north NRW System conveys the non-reclaimable wastewater to the Sanitation Districts of Los Angeles County (“SDLAC”) treatment facility in Carson, where it is treated and discharged to the ocean.

The SDLAC and the Agency previously entered into various agreements dating back to 1966 under which the SDLAC agreed to accept a portion of the Agency’s industrial wastewater flows from the NRW System. The 50-year agreement between the SDLAC and Agency, which was set to expire on May 1, 2018, was replaced by the new NRW System Wastewater Disposal Agreement that took effect on July 1, 2014 (the “New SDLAC Agreement”). The New SDLAC Agreement has an initial term of 30 years with up to four additional five year extensions for a total of up to 50 years. Annual management meetings to review and discuss any modifications due to financial, operational or environmental changes will ensure the New SDLAC Agreement remains relevant. Another key benefit of the New SDLAC Agreement is the option to purchase or lease discharge rights, which makes the New SDLAC Agreement more attractive for both new customers and existing customers looking to expand. Under the prior agreements, customers were required to purchase capacity.

Non-Reclaimable Wastewater System Rates and Charges. The following tables present summaries of NRW System service rates and charges relating to the Agency's north and south NRW System for the Fiscal Years 2012 through 2016.

Historical NRW System Sewer Service Rates

<i>Fiscal Year</i>	<i>North NRW System Monthly Volumetric Rate per MG</i>	<i>South NRW System Monthly Volumetric Rate* per MG</i>
2016	\$ 948.00	\$817.00
2015	835.80*	777.00
2014	1,437.49	736.00
2013	1,465.26	794.00
2012	1,486.46	830.00

* The new NRW System Wastewater Disposal Agreement between the Agency and SDLAC on rates effective July 1, 2014.
Source: The Agency.

<i>Fiscal Year</i>	<i>North NRW System Monthly Capacity Charge Rate per Capacity Unit</i>	<i>South NRW System Monthly Capacity Charge Rate* per Capacity Unit</i>
2016	none	\$351.17
2015	none*	334.43
2014	\$319.00	318.49
2013	123.27	277.17
2012	192.91	244.04

* The new NRW System Wastewater Disposal Agreement between the Agency and SDLAC on service rates effective July 1, 2014. The Agreement allows Agency to allocate a baseline capacity at no cost to existing industries based on their average use.

Source: The Agency.

<i>Fiscal Year</i>	<i>North NRW System Excessive Strength Charges Rate per 1000 lbs</i>		<i>South NRW System Excessive Strength Charges Rate per 1000 lbs</i>	
2016	*TSS ⁽¹⁾	\$433.00	TSS ⁽¹⁾	\$420
	*COD ⁽²⁾	\$210.00	BOD ⁽³⁾	\$301
2015	*TSS ⁽¹⁾	\$418.22	TSS ⁽¹⁾	\$411
	*COD ⁽²⁾	\$147.84	BOD ⁽³⁾	\$295
2014	TSS ⁽¹⁾	\$294.21	TSS ⁽¹⁾	\$395
	COD ⁽²⁾	\$110.81	BOD ⁽³⁾	\$266
2013	TSS ⁽¹⁾	\$268.60	TSS ⁽¹⁾	\$376
	COD ⁽²⁾	\$101.16	BOD ⁽³⁾	\$253
2012	TSS ⁽¹⁾	\$268.60	TSS ⁽¹⁾	\$335
	COD ⁽²⁾	\$101.16	BOD ⁽³⁾	\$225

⁽¹⁾ Total Suspended Solids.

⁽²⁾ Chemical Oxygen Demand.

⁽³⁾ Biochemical Oxygen Demand.

* The new NRW System Wastewater Disposal Agreement between the Agency and SDLAC effective July 1, 2014. The New SDLAC Agreement eliminated the threshold for strength charges which will be pass through to industries.

Source: The Agency.

NRW System Revenues. The following table presents a summary of NRW System service revenues for Fiscal Years 2012 through 2016. Such revenues have been derived from the Agency financial statements, but exclude certain non-cash items and include certain other adjustments.

Historical NRW System Sewer Service Revenues

<i>Fiscal Year</i>	<i>NRW System Sewer Service Revenues</i>
2016	\$11,854,847
2015	11,242,300
2014	8,199,986
2013	7,909,829
2012	6,249,994

Source: The Agency.

The increase in Fiscal Year 2015 service revenues compared to Fiscal Year 2014 was due to the elimination of strength thresholds under the New SDLAC Agreement which resulted in higher strength charges.

The following table presents a summary of projected NRW System sewer service revenues for Fiscal Years 2017 through 2021. The slight drop in revenues from Fiscal Year 2016 to Fiscal Year 2017 is due to decrease in strength charges.

<i>Fiscal Year</i>	<i>NRW System Sewer Service Revenues</i>
2017	\$11,161,500
2018	11,435,909
2019	11,728,327
2020	11,830,755
2021	12,142,193

Source: The Agency.

Recycled Water System

General. In 2005, the Agency Board approved a Regional Recycled Water Expansion Program. Construction of Phases I through V was completed between June 2005 and June 2008. Construction for Phase VI was started in 2008 and completed in June 2015, and the Central/Wineville area projects began in September 2015 and were complete in August 2016. These projects, collectively known as the Regional Recycled Water Distribution System (“RRWDS”), are the backbone of the recycled water regional distribution system. The Agency’s recycled water production is directly related to influent wastewater flow which currently averages approximately 50 million gallons per day (MGD).

Expansion and improvements of the RRWDS increases the water supply that can be used to meet the water demands of the current 870,000 residents in the Agency’s service area. The Agency will continue to develop, expand, and provide flexibility to the program to allow the region to utilize all available recycled water supplies.

Recycled water volumetric rates support the costs associated with the operations and maintenance of the Agency's water recycling facilities, non-reimbursable operating costs for groundwater recharge basins, including the Agency's pro-rata share for basins recharged with recycled water, and debt service costs related to the financing of existing facilities and infrastructure.

The Agency also receives a rebate from Metropolitan Water District of Southern California (MWD) under its Local Projects Program ("LPP"). Recycled water deliveries in excess of 3,500 AF and up to a maximum of 13,500 AF per year, excluding groundwater recharge deliveries, are eligible for the LPP rebate of \$154 per AF, for an annual amount of up to \$2,079,000. The LPP rebate is set to expire in June 2017.

Recycled Water System Rates. The following table presents a summary of the Recycled Water System Rates for Fiscal Years 2012 to 2016.

<i>Fiscal Year</i>	Historic Recycled Water System Direct Delivery Recycled Water Rates per AF*	Groundwater Recharge Rates per AF
2016 ⁽¹⁾	\$350	\$410
2015	290	335
2014	215	255
2013	155	195
2012	115	145

* Acre-feet.

(1) 2016 rates effective October 1, 2015. Rates for future Fiscal Years are effective July 1 of the respective year.

Source: The Agency.

The following table shows the rates for Fiscal Years 2017-2020, which were adopted by the Board of Directors in May 2015 and rates for Fiscal Year 2021 which are projected by the Agency.

<i>Fiscal Year</i>	Projected Recycled Water System Direct Deliveries Recycled Water Rates per AF*	Groundwater Recharge Rates per AF
2017	\$410	\$470
2018	470	530
2019	480	540
2020	490	550
2021	500	560

* Acre-feet

(1) 2016 rates effective October 1, 2015. Rates for future Fiscal Years are effective July 1 of the respective year.

Source: The Agency.

Recycled Water System Revenues. The following table presents a summary of the Recycled Water System revenues for Fiscal Years 2012 to 2016.

Historic Recycled Water System Revenues

<i>Fiscal Year</i>	<i>AF ⁽¹⁾</i>	<i>Recycled Water Sales</i>	<i>MWD Rebate</i>	<i>Total Recycled Water Revenues</i>
2016	32,619	\$11,389,182	\$ 2,079,000	\$ 13,468,182
2015	33,053	9,968,164	2,079,000	12,047,164
2014	37,989	8,751,500	2,079,000	10,830,500
2013	32,319	5,872,605	2,079,000	7,951,605
2012	28,988	3,930,469	2,079,000	6,009,469

* Deliveries in acre-feet for both recycled water direct and groundwater recharge.
Source: The Agency.

The following table presents a summary of projected Recycled Water System revenues for Fiscal Years 2017 to 2021.

Projected Recycled Water System Revenues

<i>Fiscal Year</i>	<i>AF *</i>	<i>Recycled Water Sales</i>	<i>MWD Rebate⁽¹⁾</i>	<i>Total Recycled Water Revenues</i>
2017	34,800	\$14,822,000	\$2,079,000	\$16,901,000
2018	37,000	17,950,000	-	17,950,000
2019	39,000	19,292,000	-	19,292,000
2020	42,000	21,158,000	-	21,158,000
2021	44,000	22,590,000	-	22,590,000

* Deliveries in acre-feet for both recycled water direct and groundwater recharge.

⁽¹⁾ LPP rebate expires June 2017.

Source: The Agency.

Water Connection Fees. On January 1, 2016, a new water connection fee was implemented by the Agency with revenues intended to support capital improvement and expansion of the Agency’s regional water system, which is comprised of potable water, recycled water, and groundwater recharge facilities. The new water connection fee is per meter equivalent unit (“MEU”) per residential unit (based on 5/8” and 3/4” meter sizes). Projects within the Administrative Services, Water Resources, and Recharge Water Funds supporting the Agency’s regional water system receive a portion of annual water connection fees based on project activity during the fiscal year.

The following table presents a summary of projected Water Connection Fee Revenue for Fiscal Years 2016 through 2021 based on the adopted fees and projected growth. Transfers out represent

amounts allocated to the Water Resources Fund for project support.

Projected Water Connection Fee Revenue

<i>Fiscal Year (Ending June 30)</i>	<i>Water System Revenues</i>	<i>Transfer Out</i>	<i>Net Water Connection Fee Revenue</i>
2016	\$ 997,010	\$ 294,955	\$ 702,055
2017	2,932,020	68,517	2,863,503
2018	4,168,710	62,640	4,106,070
2019	4,378,920	98,280	4,280,640
2020	4,137,588	119,880	4,017,708
2021	4,216,050	38,772	4,177,170

Source: The Agency.

The Water Connection Fees were adopted by the Board of the Agency in May 2015, effective January 1 for Fiscal Years 2016 and 2017, and July 1 of each Fiscal Year thereafter. The following table presents a summary of the adopted rates for Fiscal Years 2016 through 2020 and projected rate for Fiscal Year 2021.

Projected Water Connection Fees

<i>Fiscal Year</i>	<i>Effective Date</i>	<i>Connection Fee per MEU*</i>
2016	January 1, 2016	\$ 693
2017	July 1, 2016	693
	January 1, 2017	1,455
2018	July 1, 2017	1,527
2019	July 1, 2018	1,604
2020	July 1, 2019	1,684
2021	July 1, 2020	1,735

* Meter Equivalent Unit
Source: The Agency.

Composting

General. In 2002, the Agency and the Sanitation District of Los Angeles County (“SDLAC”) formed the IERCA, a Joint Powers Authority, to construct a fully enclosed state of the art Inland Empire Regional Composting Facility (“IERCF”) in the City of Rancho Cucamonga. The purpose of this facility is to further treat the biosolids generated from the Agency’s four wastewater treatment plants and SDLAC as well as other providers as approved. The purchase of the property and existing warehouse was made by the Agency in December 2001. The Agency transferred title to the warehouse to IERCA in July 2002. Construction was completed and the facility was commissioned in March 2007.

The IERCF began operations in 2007 and reached full capacity in 2008 processing over 200,000 tons of recycled wood wastes and biosolids per year. The Agency typically sends all of the biosolids it produces representing approximately 60,000 wet tons and 40% of the IERCF’s biosolids capacity. The IERCF has sufficient capacity to accept and process all of the Agency’s biosolids

anticipated to be produced over the next several years. The Agency is responsible for the day-to-day operations of the IERCF.

The IERCF composts the recycled organics to produce over 230,000 cubic yards of high quality compost per year. The compost is used as a soil amendment on landscapes and farms and sold under the brand name SoilPro. Since startup, the IERCF has processed over 1 million wet tons of biosolids and produced nearly 2 million cubic yards of compost. The compost is used to create healthy soils which require less water and fertilizers to support landscapes and agriculture. The practice is consistent with the Agency's goals to conserve and protect water resources.

Financial Information

Audited Financial Statements. A copy of the most recent financial statements of the Agency audited by Lance, Soll, & Lunghard, LLP, Brea, California (the "Auditor") are included as Appendix A hereto (the "Financial Statements"). The Financial Statements include a statement that the Auditor conducted an audit of the Financial Statements in accordance with auditing standards generally accepted in the United States of America and government auditing standards issued by the Comptroller General of the United States. The Auditor opines that the basic Financial Statements present fairly, in all material aspects, the financial position of the Agency as of June 30, 2016 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and State regulations governing Special Districts. The Financial Statements include certain notes to the financial statements which may not be fully described below under the subheading "Significant Accounting Policies" or in the footnotes to the Tables. Such notes constitute an integral part of the audited financial statements. The Auditor's consent to inclusion of the Financial Statements in the Official Statement was not requested and no procedures were performed.

Significant Accounting Policies. Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations restrictions or limitations. For financial reporting purposes, the Agency has two major funds: (i) recycled water, and (ii) regional wastewater. Revenues accounted from recycled water and regional wastewater programs are pledged to the repayment of the 2008B Installment Purchase Agreements.

The Financial Statements were prepared on the accrual basis of accounting. Revenues are accrued when earned and expenses are recorded when liability is incurred.

The Agency accounts for moneys received and expenses paid in accordance with generally accepted accounting principles ("GAAP") applicable to governmental agencies such as the Agency. In certain cases GAAP requires or permits moneys collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses paid or incurred in one Fiscal Year to be recognized in a subsequent Fiscal Year. See "APPENDIX A — AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016." Except as otherwise expressly noted herein, all financial information derived from the Agency's audited financial statement reflect the application of GAAP.

See the Financial Statements attached hereto as Appendix A for a discussion of other accounting practices of the Agency.

Description of Indebtedness

Senior Obligations. The Agency does not have any outstanding Bonds or Contracts payable from Net Revenues prior to the 2017A Installment Payments.

Parity Obligations. The Agency has two installment purchase agreements payable from Net Revenues on a parity with the 2017A Installment Purchase Agreement as described below.

The obligation of the Agency to make 2008B Installment Payments under the 2008B Installment Purchase Agreement secures in part the issuance of the Chino Basin Regional Financing Authority Variable Rate Demand Revenue Refunding Bonds, Series 2008B (Inland Empire Utilities Agency) in the original aggregate principal amount of \$55,675,000 (the "2008B Bonds"). The 2008B Installment Payments are payable in annual principal installments through 2022, have a current outstanding principal amount of \$42,195,000. As set forth in the 2008B Installment Purchase Agreements, 2008B Installment Payments are payable from the Net Revenues of the Agency.

The payment of principal and interest due with respect to the 2008B Bonds is supported by an irrevocable direct-pay letter of credit (the "Credit Facility") issued by Sumitomo Mitsui Banking Corporation pursuant to and subject to the terms of a Reimbursement Agreement, dated as of January 1, 2016, by and among the Authority, the Agency and SMBC. The Credit Facility will expire on January 15, 2021 unless terminated sooner or extended.

The obligation of the Agency to make 2010A Installment Payments under the 2010A Installment Purchase Agreement secures in part the issuance of the Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2010A (Inland Empire Utilities Agency) in the original aggregate principal amount of \$45,570,000 (the "2010A Bonds"). The 2010A Installment Payments are payable in annual principal installments through 2022, have a current outstanding principal amount of \$27,005,000 and have an average annual payment of approximately \$5,200,000. As set forth in the 2010A Installment Purchase Agreements, 2010A Installment Payments are payable from the Net Revenues of the Agency.

Subordinate Obligations

The Agency has been an active participant of the State Water Resources Control Board (SWRCB) Clean Water State Revolving Fund (CWSRF) Program since 2003. Currently, the Agency has nineteen CWSRF loans with an aggregate outstanding balance of approximately \$117,000,000.

Repayment of the principal of each State Revolving Financing loan is amortized over a 20 to 30 year period at fixed interest rates ranging from 1.0% to 2.60% with payments commencing one year after the completion of the related capital construction projects.

Annual installment payments of principal and interest expense for outstanding State Revolving Financing loans are estimated to be \$5,200,000.

Although the security provisions of the SRF loans vary from loan-to-loan, the payment of amounts due thereunder are payable from Net Revenues subordinate to the payment of the 2017A Installment Payments, the 2008B Installment Payments and the 2010A Installment Payments. Future state loans are also expected to be payable from Net Revenues on a parity to the 2017A Installment Payments, the 2008B Installment Payments, and the 2010A Installment Payments.

Additionally, in Fiscal Year 1998, the Agency acquired from the SAWPA 1.5 MGD Santa Ana River Interceptor pipeline capacity and agreed to pay for such capacity over 20 years (the "SAWPA Inland Empire Brine Line (IEBL) Capacity Purchase Loan"). Repayment of the SAWPA Sari Capacity Purchase Loan is subordinate to the payment of the 2017A Installment Payments, the 2008B Installment Payments and the 2010A Installment Payments. Final payment is due in June 2017.

In Fiscal Year 2006, the Agency entered into a reimbursement agreement with the City of Fontana for the construction of the San Bernardino Regional Lift Station and Force Main to convey wastewater to the Agency's regional water recycling facility. The City of Fontana received a 20-year loan payable from the State Water Resources Control Board for \$9,577,747, less \$1,596,323 in deferred interest charges for a net loan amount of \$7,981,424. The project was completed on June 30, 2010, title and ownership of the regional lift station and force main was transferred to the Agency from the City of Fontana. The Agency's obligation to make payments under this reimbursement agreement is subordinate to the Agency's obligation to make payments under the 2017A Installment Purchase Agreement.

Historic Operating Results

The following table is a summary of historic operating results of the Agency for the Wastewater System, NRW System, and Recycled Water (sometimes collectively referred to herein as the "Agency System") for the past five Fiscal Years. These results have been derived from the Agency financial statements, but exclude the water resource program, certain non-cash items and include certain other adjustments. The Auditor has neither performed any post-audit review of the financial condition of the Agency nor reviewed or audited the Official Statement.

The presentation of historic operating results below reflects the financial covenants set forth in the 2017A Installment Purchase Agreement, not with respect to any other obligations currently or previously outstanding.

**AGENCY SYSTEM
Historic Operating Results
Fiscal Years Ended June 30**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues ⁽¹⁾					
Wastewater System Service Charges ⁽²⁾	\$ 49,648,586	\$ 46,696,753	\$ 42,669,716	\$ 39,386,881	\$ 35,144,460
Wastewater Capital Connection Fees ⁽³⁾	24,910,235	15,073,882	9,788,634	14,614,387	7,686,126
Property Tax ⁽⁴⁾	41,335,929	39,446,003	38,486,730	48,086,946	32,694,517
NRW System Service Charges ⁽⁵⁾	11,854,847	11,242,300	8,199,986	7,909,829	6,249,994
Interest	624,871	395,668	510,114	755,578	882,525
Recycled Water Sales ⁽⁶⁾	13,468,182	12,047,164	10,830,500	7,951,605	6,009,468
Water Connection Fees ⁽⁷⁾	702,055	0	0	0	0
Desalter/Composter Services ⁽⁸⁾	4,772,780	4,655,432	4,231,808	4,640,059	3,776,581
Other ⁽⁹⁾	2,234,360	2,407,761	2,066,760	2,582,940	3,378,489
Total Revenues	\$149,551,845	\$131,964,963	\$116,784,248	\$125,928,225	\$95,822,160
Operation and Maintenance Costs					
Wastewater Treatment ⁽¹⁰⁾	\$21,104,320	\$19,001,130	\$20,505,666	\$18,910,308	\$17,377,464
Administration and General ⁽¹¹⁾	22,200,022	28,562,209	30,658,425	22,997,395	21,398,258
Wastewater Disposal ⁽¹⁰⁾	11,148,524	7,996,871	7,705,551	8,612,642	11,316,321
Wastewater Collection	7,510,150	8,088,875	5,622,638	4,656,679	5,629,431
Desalter/Composter O&M	4,772,780	4,655,377	4,231,808	4,640,059	3,776,581
Operations and Maintenance	4,788,211	3,262,561	3,764,958	3,195,541	2,986,686
Other ⁽¹²⁾	3,932,655	1,486,047	457,439	2,081,843	1,722,151
Total Operation and Maintenance Costs	\$75,456,662	\$73,053,070	\$72,946,485	\$65,094,467	\$64,206,892
Net Revenues	\$74,095,138	\$58,911,893	\$43,837,763	\$60,833,758	\$31,615,268
Parity Obligation Debt Service					
2010A Installment Payments ⁽¹³⁾	\$5,291,450	\$5,292,500	\$5,295,150	\$5,286,650	\$5,256,343
2008A Installment Payments	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000
2008B Installment Payments	1,904,849	1,811,533	1,750,447	1,737,000	1,624,171
2005A Installment ⁽¹⁴⁾	0	1,873,854	2,135,933	2,213,213	2,205,825
Total Parity Obligation Debt Service	\$13,446,299	\$15,227,887	\$15,431,530	\$15,486,863	\$15,336,339
Parity Obligation Debt Service Coverage	5.51	3.87	2.84	3.93	2.06
Net Revenues Available to Pay Subordinate Obligations	\$60,648,884	\$43,684,006	\$28,406,233	\$45,346,896	\$16,278,929
Subordinate Obligations					
State Revolving Fund Loans	\$6,642,011	\$4,720,863	\$4,709,347	\$4,660,665	\$2,673,187
SAWPA Sari Capacity Purchase	267,188	267,188	267,188	267,188	267,188
City of Fontana Agreement	562,402	562,402	562,402	562,401	482,578
Total Subordinate Obligations	\$7,471,601	\$5,550,453	\$5,538,937	\$5,490,254	\$3,422,953
Remaining Net Revenue	\$53,177,283	\$38,133,553	\$22,867,296	\$39,856,642	\$12,855,976

⁽¹⁾ Revenues do not include grants in support of capital projects obtained by the Agency in the aggregate principal amount of approximately \$4,700,000 in Fiscal Year 2012, \$2,800,000 in Fiscal Year 2013, \$2,400,000 in Fiscal Year 2014, \$5,900,000 in Fiscal Year 2015, and \$4,800,000 in Fiscal Year 2016.

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- (2) Wastewater System Service Charge per EDU is \$11.14 for Fiscal Year 2012, \$12.39 for Fiscal Year 2013, \$13.39 for Fiscal Year 2014, and \$14.39 for Fiscal Year 2015. In March 2015, the Agency Board of Directors adopted Fiscal Years 2016 – 2017 biennial operating budget. The wastewater system service charge per EDU for Fiscal Year 2016 is \$14.39 from July 1 through September 30, 2015, and \$15.89 from October 1, 2015 through June 30, 2016.
- (3) Wastewater Capital Connection Fees are collected and held by the Contracting Agencies until the Agency requisitions such payments. Effective June 30, 2004, the Agency began recognizing Wastewater Capital Connection Fees held by the Contracting Agencies as revenue when the funds are collected by each Contracting Agency, as opposed to recording such funds as revenue when the Agency calls for the funds.
- (4) Agency share of the County's 1% ad valorem property tax. Tax receipts at the end of the fiscal year were \$41,335,929 (net of the allocation to the Water Resources Fund). General ad-valorem property taxes received from the San Bernardino County Tax Assessor (County) were \$27,400,000 and "pass through" incremental tax receipts (formerly RDA taxes) were \$12,000,000. Actual property tax growth for Fiscal Year 2016 was 4.7% compared to Fiscal Year 2015.
- (5) NRW System Service charges increased starting in Fiscal Year 2015 primarily due to the execution of a the New SDLAC Agreement (30 year term with up to four additional five year extensions). Under the New SDLAC Agreement, thresholds for strength were eliminated resulting in higher strength and imbalance charges. The Agency's NRW rates are pass through to NRW customers for both the Northern and Southern systems.
- (6) Recycled Water sales from Fiscal Years 2011-2015 include approximately \$2,079,000 from MWD Local Projects Program (LPP) rebate which is set to expire in June 2017.
- (7) New water connection fee was implemented in January 2016 with revenues intended to support capital improvement and expansion of the Agency's regional water system, which is comprised of potable water, recycled water, and groundwater recharge facilities.
- (8) Desalter/Composter services revenues include contract cost reimbursement from the following joint powers authorities: Inland Empire Regional Composting Authority (IERCA), and Chino Basin Desalter Authority (CDA). The Agency is responsible for the day to day operation of the IERCA composter and CDA Desalter 1.
- (9) Other revenues includes contract cost reimbursement from groundwater operations partially funded by Chino Basin Watermaster, (c) MWD rebates for public retrofit and lateral recycled water projects, (d) capital construction reimbursements, (e) lease revenue, (f) minor revenues from certain pass-through charges, (g) USBR grant revenues for the Chino Basin Groundwater Supply Wells and Raw Water Pipeline project (\$3,000,000 for Fiscal Year 2016).
- (10) The increases in wastewater treatment and wastewater disposal expenses in Fiscal Year 2016 is primarily due the reclassification of labor costs from administration general expense to maintenance (\$5,100,000), operations (\$5,200,000) and laboratory (\$1,500,000).
- (11) Payment of \$3.5 million against the Agency's Other Post-Employment Benefits ("OPEB") accounted for the significant increases in administrative and general expenses in 2014. In May 2014, the Agency established an irrevocable trust account with California Employer's Retiree Benefit ("CERBT"), and a second payment of \$3.5 million was made in July 2014. The decrease in administrative and general expenses in Fiscal Year 2016 was due to the reclassification of administrative labor costs to operations as noted in footnote 10. The decrease offset non-capital project costs, including the RP-1 Fuel Cell and the Chino Basin Groundwater Supply Wells and Raw Water Pipeline.
- (12) Other expense includes retirement of assets in Fiscal Year 2016 and the reclassified of certain capital projects to Operation and Maintenance expenses in Fiscal Years 2012-2015. At the completion of a project, and prior to capitalization, costs are analyzed to ensure only capital expenditures are appropriately capitalized.
- (13) In Fiscal Year 2011 the 2010A Bonds were issued to refinance \$55,040,000 of Chino Basin Regional Financing Authority Revenue Bonds, Series 1994.
- (14) The 2005A Installment Payments under the 2005 Installment Purchase Agreement which secured in part the issuance of the Chino Basin Regional Financing Authority Revenue Bonds, Series 2005A (Inland Empire Utilities Agency) 2005A Bonds which were scheduled to mature in November 2022 were redeemed in November 2014.

Source: The Agency.

Projected Operating Results

The Agency's estimated projected operating results for the current and next four fiscal years for the Agency System are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the Agency's estimate of the projected financial results based upon the Agency's judgment of the most probable occurrence of certain important future events. The assumptions set forth in the footnotes to the chart below are material in the development of financial projections for the Agency, 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. See the caption "FORWARD LOOKING STATEMENTS."

AGENCY SYSTEM
Projected Operating Results
Fiscal Years Ended June 30

	2017	2018	2019	2020	2021
Revenues⁽¹⁾:					
Wastewater System Service Charges ⁽²⁾	\$56,247,715	\$60,558,896	\$64,671,813	\$66,190,396	\$67,716,167
Wastewater Connection Fees ⁽³⁾	17,136,000	18,927,000	19,872,000	18,778,500	20,657,700
Property Tax ⁽⁴⁾	42,749,000	43,620,800	44,518,700	45,135,200	45,764,100
NRW System Service Charges	11,161,500	11,435,909	11,728,327	11,830,755	12,142,193
Interest ⁽⁵⁾	601,708	868,630	1,134,226	1,382,948	1,584,643
Recycled Water Sales ⁽⁶⁾	16,901,000	17,950,000	19,292,000	21,158,000	22,590,000
Water Connection Fees ⁽⁷⁾	2,863,503	4,106,070	4,280,640	4,017,708	4,177,170
Desalter/Composter Services	5,913,343	6,005,497	6,164,522	6,323,828	6,442,487
Other ⁽⁸⁾	3,746,685	3,155,640	191,280	212,880	1,031,880
Total Revenues	\$157,320,454	\$166,628,442	\$171,853,508	\$175,030,215	\$182,106,340
Operation and Maintenance Costs:					
Wastewater Treatment	23,086,861	23,347,649	24,045,744	24,656,455	25,387,604
Administration and General ⁽⁹⁾	50,706,017	49,825,029	41,309,395	40,939,408	42,786,459
Wastewater Disposal	9,716,404	9,826,159	10,119,962	10,376,988	10,684,701
Wastewater Collection	9,828,191	9,939,209	10,236,392	10,496,375	10,807,628
Desalter/Composter Services	5,913,343	6,005,497	6,164,522	6,323,828	6,442,487
Operations and maintenance	3,964,095	4,008,874	4,128,739	4,233,600	4,359,141
Total Operation and Maintenance Costs:	\$103,214,911	\$102,952,417	\$96,004,754	\$97,026,654	\$100,468,020
Net Revenues	\$54,105,543	\$63,676,025	\$75,848,754	\$78,003,561	\$81,638,320
Parity Obligation Debt Service					
2017A Installment Payments ⁽¹⁰⁾	\$0	\$5,041,178	\$5,041,178	\$5,041,178	\$5,041,178
2010A Installment Payments	5,290,450	5,185,050	5,114,625	5,227,000	5,127,625
2008A Installment Purchase Payments ⁽¹¹⁾	6,250,000	0	0	0	0
2008B installment Purchase Payments ⁽¹²⁾	2,514,000	2,780,000	3,180,000	3,200,000	3,539,000
Total Parity Obligation Debt Service	\$14,054,450	\$13,006,228	\$13,335,803	\$13,468,178	\$13,707,803
Parity Obligation Debt Service Coverage ⁽¹³⁾	3.85	4.90	5.69	5.79	5.96
Subordinate Obligations					
State Revolving Fund Loan	\$6,561,760	\$8,054,988	\$8,054,988	\$9,607,170	\$10,110,895
Fontana Loan	562,394	562,394	562,394	562,394	562,394
SAWPA Sari Capacity Purchase	267,186	267,187	-	-	-
Total Subordinate Obligations	\$7,391,340	\$8,884,569	\$8,617,382	\$10,169,564	\$10,673,289
Remaining Net Revenue	\$32,659,753	\$41,785,228	\$53,895,569	\$54,365,819	\$57,257,228

(1) Revenues do not include grants received for capital projects, SRF loan proceeds, or any revenues for the Water Resource Fund.

(2) The wastewater system service charge per EDU for Fiscal Year 2017 is \$17.14, \$18.39 for Fiscal Year 2018, \$19.59 for Fiscal Year 2019, \$20.00 for Fiscal Year 2020, and \$20.40 for Fiscal Year 2021. In March 2015, the Agency's Board adopted rates for Fiscal Years 2016-2020.

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- (3) Wastewater Capital Connection Fees support the acquisition, construction, improvement, and expansion of the Agency's regional wastewater system. Fees are collected and held by the Contracting agencies until the Agency requests such payments. The Agency recognizes wastewater connection fees as revenue when they are collected by the member agencies. In May 2015, the Agency's Board adopted wastewater connection fees for Fiscal Years 2015-2020: \$5,415/EDU effective 1/1/2016; \$6,009/EDU effective 1/1/2017; \$6,309/EDU effective 7/1/2017; \$6,624/EDU effective 7/1/2018; \$6,955/EDU effective 7/1/2019; \$7,651/EDU effective 1/1/2020.
- (4) Includes the Agency's share of the County's 1% ad valorem property tax and "pass-through" incremental taxes (formerly RDA taxes), and net of property tax allocation to the Water Resource Fund. A 3% increase in total property tax receipts is projected for Fiscal Years 2017-2019, and an average of 2% increase thereafter.
- (5) Interest income is based on a projected average rate of return of 0.75%.
- (6) Recycled water sales projected to increase from 34,800 AF in Fiscal Year 2017 to 44,000 AF in Fiscal Year 2021, for both direct and groundwater recharge deliveries. Completion of recycled water facilities in the Cities of Chino and Ontario, primarily servicing industrial users and groundwater recharge basins, account for the projected increase in recycled water deliveries. Revenues are based on the adopted budget recycled water rates. In May 2015, the Agency's Board adopted rates for Fiscal Years 2016-2020; \$410 per AF in Fiscal Year 2017, \$470 per AF in Fiscal Year 2018, and an annual incremental increase of \$10 per AF thereafter for direct deliveries. For groundwater recharge deliveries, a surcharge rate of \$60 per AF is added to the direct delivery rate to support a portion of groundwater recharge basin maintenance operations and maintenance costs not covered by Chino Basin Watermaster, including the Agency's pro rata share of operating costs for recharge basins recharged with recycled water. Recycled water sales also include the MWD's LPP rebate of \$154 per AF for recycled water deliveries in excess of 3,500 AF and up to 17,000 AF per year, excluding groundwater recharge deliveries. The MWD LPP rebate is set to expire in June 2017.
- (7) A new Water Connection fee was implemented in January 2016 with revenues intended to support capital improvement and expansion of the Agency's regional water system, which is comprised of potable water, recycled water, and groundwater recharge facilities.
- (8) Other revenues include: (a) operations and maintenance costs for the groundwater recharge basins partially funded by Chino Basin Watermaster, (b) MWD rebates for public retrofit and lateral recycled water projects, (c) reimbursement of miscellaneous capital construction, (d) lease revenue, and (e) USBR grant revenues for the Chino Basin Groundwater Supply Wells and Raw Water Pipeline project (\$3,000,000 projected in Fiscal 2017 and \$3,000,000 in Fiscal Year 2018).
- (9) Included in Administration and General are employment costs and annual payments of \$4,500,000 towards the Agency's unfunded pension liability. Also included are non-capital project costs which account for the significant increases in Fiscal Year 2017 through Fiscal Year 2018. Approximately \$12,000,000 for the Chino Basin Groundwater Supply Wells and Raw Water Pipeline (partially funded by \$6,000,000 of USBR grants included in Other Revenues), and Agency Wide Aeration Panel Replacement projects.
- (10) Estimated debt service costs for the proposed refinancing of the Bonds (\$75 million par, 3% coupon rate, 20 year term).
- (11) Proposed refunding of the 2008A Bonds in 2017.
- (12) 2008B Series Variable Rate Revenue Demand bond average interest rate of 1.50% in Fiscal Year 2017, 2% Fiscal Year 2018, 3% Fiscal Years 2019-2020, and 4% thereafter.
- (13) Debt service coverage increase starting in Fiscal Year 2018 due to the proposed refinancing of the 2008A Bonds.

Source: The Agency.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Proposition 218

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

Article XIII D

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

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

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

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the California Supreme Court, it was generally believed that Article XIID did not apply to charges for water services that are “primarily based on the amount consumed” (i.e., metered water rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The Supreme Court stated in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) (the “*Bighorn Case*”), however, that fees for ongoing water service through an existing connection were property-related fees and charges. As a wholesale water agency, the Agency and Agency General Counsel do not believe Agency rates are subject to the substantive and procedural requirements of Article XIID.

Article XIIC

Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIID referred to above are applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the Supreme Court held in the Bighorn case that the provisions of Article XIIC included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. The Agency and Agency General Counsel do not believe that Article XIIC grants to the voters within the Agency the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the Agency. However, there can be no assurance of the availability of particular remedies adequate to protect the Bond Owners. Remedies available to Bond Owners in the event of a default by the Agency are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

Article XIII A

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the amount of any ad valorem tax on real property to one percent of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property that has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Article XIII A limits the ability of the Agency to collect ad valorem property taxes which are pledged to the payment of the Series 2017A Installment Payments.

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by each California county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon the location of reappraised property and the value of property within each taxing agency. Any such allocation made to a local agency continues as part of its allocation in future years.

Article XIII B

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on November 6, 1979 thereby adding Article XIII B to the State Constitution ("Article XIII B"). Under Article XIII B state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain moneys that are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit." Article XIII B does not affect the appropriations of moneys that are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The Agency is of the opinion that its Wastewater System and NRW System service charges for such services in the Agency's service area do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. The Agency has covenanted in the Series 2017A Installment Purchase Agreement that it will prescribe Agency System rates and charges sufficient to provide for payment of Series 2017A Installment Payments in each year. See the caption "SECURITY FOR THE BONDS — Rate Covenant."

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting Agency revenues or the Agency's ability to expend revenues.

Bankruptcy

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the Bonds and the Series 2017A Installment Purchase Agreement are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix D), will be similarly qualified.

THE AUTHORITY

The Authority is a joint exercise of powers agency organized under the provisions of the Act and a Joint Exercise of Powers Agreement, dated as of May 1, 1993 (the "Joint Powers Agreement") between the Agency and the CVWD to provide for the financing of public capital improvements for the members of the Authority and other local agencies through the acquisition by the Authority of such public capital improvements, the purchase by the Authority of indebtedness of the members of the Authority and other local agencies pursuant to bond purchase agreements, and the lending or providing of funds by the Authority to the members of the Authority and other local agencies, and any other transaction authorized by law. Under the Act, the Authority has the power to issue bonds to pay the costs of public capital improvements.

APPROVAL OF LEGAL PROCEEDINGS

The valid, legal and binding nature of the Bonds is subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, acting as Bond Counsel, and certain other conditions. The form of such legal opinion is attached hereto as Appendix C, and such legal opinion will be attached to each Bond. The Underwriter is being represented by its counsel, [_____]. Certain legal matters will be passed on for the Authority and the Agency by JC Law Firm, Chino Hills, California, and for the Trustee by Dorsey & Whitney LLP, Costa Mesa, California.

Bond Counsel expresses no opinion to the Owners of the Bonds as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Bonds and expressly disclaims any duty to do so.

The fees being paid to Bond Counsel, counsel to the Underwriter and the Underwriter are contingent upon the issuance of the Bonds.

Payment of the fees of Bond Counsel is contingent on the issuance of the Bonds. Bond Counsel represents the Authority and the Agency in connection with the issuance of the Bonds. Bond Counsel represents the Underwriter from time-to-time on matters unrelated to the Authority, the Agency or the Bonds. Bond Counsel does not represent the Underwriter or any other party in connection with the issuance of the Bonds.

LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority affecting the existence of the Authority or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the issuance of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity of the Bonds, the Indenture, or any action of the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the Authority or its authority with respect to the Bonds or any action of the Authority contemplated by any of said documents, nor to the knowledge of the Authority, is there any basis therefor.

CONTINUING DISCLOSURE

The Agency has covenanted in a Continuing Disclosure Certificate for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Agency by not later than 270 days following the end of the Agency's Fiscal Year (currently its Fiscal Year ends on the last day of June) (the "Annual Report"), commencing with the report for Fiscal Year ending June 30, 2016, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the Agency with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in Appendix D — "FORM OF CONTINUING DISCLOSURE CERTIFICATE" hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934.

In early January 2014, Agency staff codified its disclosure policies and procedures in a document entitled "Inland Empire Utilities Agency Disclosure Procedures" (the "Disclosure Policies and Procedures"). On May 21, 2014 the Agency's Board of Directors formally adopted the Disclosure Policies and Procedures.

In 2014, the Agency was informed that the underwriter of the 2010A Bonds self-reported the Agency under the Municipalities Continuing Disclosure Cooperation Initiative of the U.S. Securities Exchange Commission (the "MCDC Initiative") solely because the Agency filed its continuing disclosure annual report for Fiscal Year 2005 94 days later the due date under a continuing disclosure undertaking executed by the Agency in connection with Authority bonds issued in 1999. The Agency then determined to self-report under the MCDC Initiative on December 1, 2014, even though the Agency did not believe that such late filing or certain other failures (which included certain discrepancies in information provided in annual reports and certain significant event filings) to comply

with its prior continuing disclosure obligations rendered the Agency's prior disclosures materially misleading.

The Agency's Board of Director's adopted an update to the Disclosures Policies and Procedures on November 16, 2016 entitled "Inland Empire Utilities Agency Policy for Disclosure Procedures" (the "Policy for Disclosure Procedures"). A copy of the updated Policy for Disclosure Procedures has been provided to the Underwriter and is available from the Chief Financial Officer of the Agency at 6075 Kimball Avenue, Chino, California 91708, Telephone: (909) 993-1673.

The Agency believes that it has not failed to comply with the terms of its existing continuing disclosure agreements in the last five years in any material respect.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

Bond Counsel's opinion as to the exclusion from gross income of interest on the Bonds is based upon certain representations of fact and certifications made by the Agency and others and is subject to the condition that the Agency complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Agency has covenanted to comply with all such requirements.

The Bonds that have a yield that is higher than their respective stated interest rates, as shown on the inside cover page, are being sold with original issue discount (the "Discount Bonds"). The excess of the stated redemption price at maturity of a Discount Bond over the issue price of such Discount Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Discount Bond Owner before receipt of cash attributable to such income. The amount of original issue discount deemed received by the Discount Bond Owner will increase the Discount Bond Owner's basis in the respective Discount Bond. For federal tax purposes, original issue discount is treated as interest on a Discount Bond.

The amount by which a Bond Owner's original basis for determining gain or loss on sale or exchange of the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received with respect to the Bonds), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the

Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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 Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar municipal obligations). 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 Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Bonds or their market value.

It is possible that subsequent to the issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the Bonds. Before purchasing any of the Bonds, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the Bonds.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes provided that the Agency continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest on the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

A complete copy of the proposed opinion of Bond Counsel is set forth in Appendix C—**"FORM OF BOND COUNSEL OPINION."**

RATINGS

The Authority expects that Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") will assign the Bonds the rating of "___" (_____) and that Moody's Investors Service ("Moody's") will assign the Bonds the rating of "___" (______). Such ratings reflect only the views of S&P and Moody's, respectively, and an explanation of the significance of such ratings may be obtained from S&P and Moody's. The Authority makes no representation as to the appropriateness of the ratings. Further, there is no assurance that the rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely, if, in the sole

judgment of such S&P or Moody's, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on trading value and the market price of the Bonds. The Authority undertakes no responsibility either to bring to the attention of the owners of the Bonds any downward revisions or withdrawal of any ratings obtained or to oppose any such revision or withdrawal.

The Agency has covenanted in a Continuing Disclosure Certificate to file on EMMA, notices of any rating changes on the Bonds. See the caption "CONTINUING DISCLOSURE" above and Appendix D—"FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. Notwithstanding such covenant, information relating to rating changes on the Bonds may be publicly available from the rating agencies prior to such information being provided to the Agency and prior to the date the Agency is obligated to file a notice of rating change on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA"). Purchasers of the Bonds are directed to the ratings agencies and their respective websites and official media outlets for the most current ratings changes with respect to the Bonds after the initial issuance of the Bonds.

In providing a rating on the Bonds, certain rating agencies may have performed independent calculations of coverage ratios using their own internal formulas and methodology which may not reflect the provisions of the Indenture. The Agency makes no representations as to any such calculations, and such calculations should not be construed as a representation by the Agency as to past or future compliance with any financial covenants, the availability of particular revenues for the payment of Debt Service or for any other purpose.

MUNICIPAL ADVISOR

The Agency has retained Public Financial Management, Inc., Los Angeles, California, as municipal advisor (the "Municipal Advisor") in connection with the issuance of the Bonds. The Municipal Advisor 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 fees being paid to the Municipal Advisor are contingent upon the issuance of the Bonds.

The Municipal Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

UNDERWRITING

The Bonds will be purchased by [_____], the underwriter (the "Underwriter"), under a Purchase Agreement, dated _____, 2017, pursuant to which the Underwriter has agreed to purchase all of the Bonds for an aggregate purchase price of \$[_____] which represents the par amount of the Bonds plus/less net original issue premium/discount of \$[_____] less an Underwriter's discount of \$[_____]. The Purchase Agreement provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such a purchase being subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions.

In connection with the offering of the Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of such Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing

Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions “SECURITY FOR THE BONDS,” and “THE AGENCY.”

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AUTHORITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Authority.

CHINO BASIN REGIONAL FINANCING AUTHORITY

By: _____
President

APPENDIX A

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

APPENDIX B

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Installment Purchase Agreement and the Indenture which are not described elsewhere in the Official Statement. This summary does not purport to be comprehensive and reference should be made to the Installment Purchase Agreement and the Indenture for a full and complete statement of their provisions. All capitalized terms not defined in the body of the Official Statement have the meanings set forth in the Installment Purchase Agreement and the Indenture.

APPENDIX C

FORM OF BOND COUNSEL OPINION

Upon issuance of Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinions with respect to the Bonds in substantially the following forms:

[DATE OF CLOSING]

Chino Basin Regional Financing Authority
6075 Kimball Avenue, Building A
Chino, California 91710

Re: § _____ *Chino Basin Regional Financing Authority*
 Refunding Revenue Bonds, Series 2017A (Inland Empire Utilities Agency)

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Chino Basin Regional Financing Authority (the "Authority"), a public entity of the State of California, of \$ _____ aggregate principal amount of Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2017A (Inland Empire Utilities Agency) (the "Bonds") under and pursuant to the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as amended (the "Act") and the provisions relating to refunding of bonded indebtedness of local agencies found in Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the "Refunding Act"), and under and pursuant to an Indenture of Trust (the "Indenture"), dated as of January 1, 2017, by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

Our services as Bond Counsel were limited to a review of the legal proceedings required for the authorization and issuance of the Bonds. We have reviewed originals or copies identified to our satisfaction as being true copies of (i) the Indenture; and (ii) certain other records of the Authority. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of Authority officers furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after the examination described above and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth above, we are of the opinion that:

1. The Authority has lawful authority under the Act and the Refunding Act to enter into the Indenture and the Authority has duly authorized, executed and delivered the Indenture and, assuming due authorization, execution and delivery by the respective other parties thereto, the Indenture is a legal, valid and binding obligation of the Authority enforceable in accordance with its terms. The Indenture creates a valid pledge of the Revenues (as defined in the Indenture), subject to the provisions thereof permitting the application thereof for the purposes and on the terms and conditions set forth therein.

2. The Authority has lawful authority to issue the Bonds and the Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of California, including the Act, the Refunding Act and the Indenture. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms. The Bonds are special obligations of the Authority payable solely from Revenues and amounts on deposit in certain funds and accounts held under the Indenture. The Bonds are not an obligation of the State of California, any public agency thereof (other than the Authority) or any member of the Authority; and neither the faith and credit nor the taxing powers of the State of California or any public agency thereof or any member of the Authority is pledged for the payment of the Bonds.

3. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

5. Interest on the Bonds is exempt from State of California personal income tax.

6. The excess of the stated redemption price at maturity over the issue price of a Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues to the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax; however, it should be noted that, with respect to corporations, original issue discount on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

7. The amount by which a Bond owner's original basis for determining gain or loss on sale or exchange of the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinions expressed herein as to the exclusion from gross income for federal income tax purposes of interest on the Bonds is subject to the condition that the Authority and the Inland Empire Utilities Agency (the "Agency") comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority and the Agency each have covenanted to comply with all such requirements.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume to responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur. The Indenture and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds. Our engagement as Bond Counsel terminates upon the issuance of the Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

APPENDIX D

Upon the issuance of the Bonds, the Agency proposes to enter into a Continuing Disclosure Certificate in substantially the following form:

FORM OF CONTINUING DISCLOSURE CERTIFICATE

[TO BE INSERTED BY BOND COUNSEL]

APPENDIX E

INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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 is rated AA+ by Standard & Poor's. 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.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership

interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be prepaid.

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

Redemption proceeds, distributions, and dividend payments with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, 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 the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its participant, to the Tender Agent, and shall effect delivery of such securities by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants or DTC's records and followed by book-entry credit of tendered Bonds to the Tender Agent's DTC account.

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

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

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


ACTION ITEM
2C


**JOINT MEETING OF THE
CHINO BASIN REGIONAL FINANCING AUTHORITY
AND INLAND EMPIRE UTILITIES AGENCY***


Date: November 16, 2016

To: The Honorable IEUA Board of Directors
The Chino Basin Regional Financing Authority Commissioners

Through: IEUA Finance, Legal, and Administration Committee (11/09/16)

From:  P. Joseph Grindstaff
General Manager

Submitted by:  Christina Valencia
Chief Financial Officer/ Assistant General Manager

 Javier Chagoyen-Lazaro
Manager of Finance and Accounting

Subject: Selection of Underwriter

RECOMMENDATION

It is recommended that the Chino Basin Regional Financing Authority (CBRFA) Commissioners and the Inland Empire Utilities Agency (Agency) Board of Directors approve the selection of Citigroup Global Markets, Inc. (Citi) as sole managing underwriter for the advance refunding of the Chino Basin Regional Financing Authority Revenue Bonds, Series 2008A Revenue Bonds (Inland Empire Utilities Agency).

BACKGROUND

In preparation for the upcoming refunding of the 2008A Revenue Bonds, expected to occur in January of 2017, a Request for Proposals (RFP) was issued for underwriting services. A total of six firms responded to the RFP; Citi, J.P. Morgan, Morgan Stanley, Piper Jaffray, Stifel and US Bank. Among other things, the RFP responses addressed a number of criteria, including qualifications of the firm and assigned personnel, knowledge of the Agency and water and wastewater industry, cost and financing approach. In addition, the RFP asked firms to provide a recommended financing structure for the refinancing of the 2008A Bonds, including the Agency's consideration to cash defease a portion of the bonds. PFM, the Agency's financial advisor, assisted staff with the evaluation of the proposals. Both PFM and the Agency's finance team ranked Citi, J.P. Morgan and Morgan Stanley as the top three proposers.

All three firms have outstanding experience and significant resources, as summarized in Attachment A. However after further discussion and evaluation, staff, with the support of PFM, recommends Citi as the sole underwriter. Selection of Citi is primarily due to the firm's

knowledge of the Agency and the region (having underwritten various Agency bond issues over the years), Citi's demonstrated understanding of the financing alternatives, competitive fee proposal, and its strong understanding of the credit agency review and evaluation process. In August 2015, S&P upgraded the Agency's long term credit rating from AA- to AA. Moody's has not reviewed the Agency's credit rating since 2010. As part of this refunding, a key Agency objective is to seek an upgrade of Moody's credit rating (currently at Aa2). As with prior bond transactions, Citi's in depth knowledge of the Agency and the Inland Empire region, particularly the Agency's service area, will help the Agency to more effectively highlight the Agency's fundamental strengths and the fiscal policies the Board of Directors have implemented (e.g., the adoption of multi-year rates that fully support the cost of service and funding of long term employee retirement liabilities with the objective to achieve full funding status).

Assuming the cash defeasance of \$50 million and a refunding of \$75 million, present value savings from the advance refunding are estimated to be between \$10 and \$15 million. Actual savings will be dependent on the interest rates when the refunding bonds are issued next year.

PRIOR BOARD ACTION

On September 19, 2007, the IEUA Board selected Citigroup as senior managing underwriter and Morgan Stanley as co-senior managing underwriter; and Siebert Brandford Shank as co-manager to provide small firm representation for the issuance of the 2008A Revenue Bonds.

On March 1, 2000, the IEUA Board selected Citigroup (formally Solomon Smith Barney) as its underwriter.

IMPACT ON BUDGET

The cost of issuance associated with the refunding transaction (including underwriter discount, bond and disclosure counsel, financial advisor, printing, trustee, etc.) will be funded from bond proceeds.

	<u>Citi</u>	<u>J.P. Morgan</u>	<u>Morgan Stanley</u>
Staffing			
Lead Banker	Jonathan Ash	Will Frymann	Tom Wynne and Esther Berg
Backup Bankers	Cameron Parks, David Houston, Karen Kim, Jordan Miles, George Leung, Ron Blake (underwriting)	Alex Burnett, Shawn Dralle, Juan Fernandez, Joshua Kim, Lauren D'Amico, Spencer Barton (underwriting)	John Sheldon, Rich Weiss, Dane Brown, Safdar Mirza, Greg Baugher, Dennis Farrell, Brian Wynne, Luke Hale and Glen Balanoff (underwriting)
Relevant Experience	Has worked with IEUA as investment banker and remarketing agent; leading UW for CA utilities	Rigorous internal procedures and best practices; historically placed 3rd in par volume for competitive sales; exclusive partnership with Charles Schwab; #1 firm ranked firm in CA Water Utility debt issuance	Have updated IEUA of this refunding; regional experience; experience with water financings; support IEUA in secondary market; leading capital position and underwriting capability
Firm Experience			
Ranking by # of Transactions (National)	6th (47)	(37)	(39)
Ranking by Par of Transactions (National)	2nd (\$4.48 billion)	1st (\$5.19 billion)	7th (\$1.50 billion)
Ranking by # of Transactions (CA)	2nd (10)	(7)	(4)
Ranking by Par of Transactions (CA)	4th (\$543 million)	1st (\$1.08 billion)	7th (\$255 million)
Recommendations			
Recommended Structure for 2008A Bonds	Structuring debt to relieve pressure on rates and charges as well as help IEUA accommodate additional bonds or state loans; alternatively, structure for level savings	Level savings structure; consider executing a current refunding/forward transaction to preserve future advance refunding; consider structuring a slight increase in the rate covenant (1.2x or 1.25x) and consider including a DSRF if a Moody's upgrade is important	Level savings structure with a 10-year par call and no DSRF
Recommendation if Partial Cash Defeasance	IEUA should apply any cash contribution to defease the bonds that have the longest maturity dates. Citi believes this methodology will enhance both the efficiency and economics of the proposed plan of finance	Defeasance longest maturity dates	Defeasance the 2038 term bond with \$65M cash
Scale and Call Options Considerations	Recommend a 5 year call if IEUA is confident it will execute the call. Citi estimates a 5-year call to have an approx. -35 bps spread to the "AAA" MMD curve	Do not recommend a 5 year call since it generates lower savings, investors pay on avg 8% more for the 10-yr call, significant cost risk if call option is not used	Some 3%-4% coupons suggested since they can be attractive to retail investors and reduce the overall cost of the financing. IEUA should only get a shorter call date if it's highly confident it will call the bonds. Morgan Stanley will also evaluate step coupon bonds
Marketing Strategy	Tailor marketing strategy based on size of transaction. Smaller deal would be more focused on retail and SMA buyers. Recommend Roadshow and investor calls on a larger transaction (no partial defeasance) otherwise may use roadshow and calls on an as-needed basis	Target investors with CA utility debt that matures in 2016 and 2017, no separate retail order period but do pursue retail investors.	Structure and marketing strategy tailored to attract investors. Target affluent retail investors and SMAs. Recommend investor roadshow and, if IEUA has availability, investor calls. No need for retail order period, but do give priority to retail investors during order period
Schedule Considerations	Pricing on January 17-18 and closing in early February	Pricing in January 2017 and close 2 weeks after	Pricing during week of January 9th
Other/Additional Considerations	Have provided IEUA with opportunity updates of refunding the 2008A; able to commit capital	IEUA may consider waiting until August to current refund given that the defeasance will likely be mid-2017. Designate bonds as green bonds	Maintains one of the largest and most liquid capital positions in Wall Street. Local expertise with the Inland Empire
Compensation and Fees			
Average Takedown	\$1.518 per bond	\$1.50 per bond	\$1.50 per bond
Expenses	\$33,025	\$26,593	\$33,216
Total fees based on \$75M refunding	\$163,175	\$124,085	\$136,630
Fees Change if Underwrite 20% or more?	No	No	No