

\$18,570,000
CERTIFICATES OF PARTICIPATION
(2016 Financing Project)
Evidencing the Direct, Undivided Fractional Interests of the
Owners Thereof in Installment Payments to be Made by the
MID-PENINSULA WATER DISTRICT
(San Mateo County, California)
As the Purchase Price for Certain Property Pursuant to an
Installment Sale Agreement with the
Public Property Financing Corporation of California

CERTIFICATE AS TO ARBITRAGE
(and Tax Compliance Procedures)

I, the undersigned General Manager of the Mid-Peninsula Water District, San Mateo County, California (the "District"), being one of the officers of the District duly charged (by resolution of the Board of Directors of the District), with others, with the responsibility for the delivery by the District of the Installment Sale Agreement, dated as of December 1, 2016 (the "Agreement"), by and between Public Property Financing Corporation of California (the "Corporation"), as seller, and the District, as purchaser, which Agreement is being delivered this date, hereby certify as follows:

(1) Purpose of Financing. The Agreement is being delivered by the District in order to provide funds to finance the construction of certain improvements (the "Project") to the District's municipal water system (the "Enterprise"), more particularly described in the Certificate Regarding Use of Proceeds found elsewhere in this transcript.

(2) Structure of Financing. Pursuant to the Agreement, the Corporation agrees to sell the Project to the District in consideration of the payment by the District to the Corporation or its assignee of installment payments (the "Installment Payments") having an interest component and a total principal component of \$18,570,000, which amount is not in excess of the value of the Project. Pursuant to the Agreement, the Corporation has appointed the District as its agent for the purpose of construction of the Project. Pursuant to the Assignment Agreement, dated as of December 1, 2016, by and between the Corporation and The Bank of New York Mellon Trust Company, N.A., as assignee and trustee (the "Trustee"), the Corporation has assigned its rights to receive Installment Payments to the Trustee. Pursuant to a Trust Agreement, dated as of the date of the Agreement, among the District, the Corporation and the Trustee (the "Trust Agreement"), the Trustee has agreed to execute and deliver certificates of participation (the "Certificates") representing direct, undivided and fractional interests of the owners thereof in the Installment Payments. Amounts received from the sale of the Certificates will be deposited by the Trustee in the respective funds and in the respective amounts set forth herein.

(3) Statement of Expectations. On the basis of the facts and estimates in existence on the date hereof, I reasonably expect the following with respect to the amount and use of gross proceeds of the Certificates:

(a) *Amount Received from Sale of Certificates; No Aggregated Issues.* The Certificates were sold to Citigroup Global Markets Inc., as underwriter (the "Underwriter"), at their face amount (\$18,570,000.00), plus an original issue premium of \$938,447.30, less an

Underwriter's discount of \$114,426.48, for a total amount of \$19,394,020.82. There is no accrued interest. Of said amount, \$19,143,020.82 will be deposited in the Project Fund established under the Trust Agreement, and the remaining \$251,000.00 will be deposited in the Delivery Costs Fund established under the Trust Agreement. Both of such Funds are held by the Trustee. No tax-exempt debt has been sold within fifteen (15) days before or after the date the Certificates were sold that will be paid from substantially the same source of funds as the Installment Payments (excluding guarantees from unrelated parties).

(b) *Delivery Costs Fund.* Amounts deposited in the Delivery Costs Fund will be used for payment of legal fees, printing costs and other costs of execution and delivery of the Agreement and the Certificates and will be fully expended promptly upon receipt of invoices. Amounts deposited in the Delivery Costs Fund, if invested, will be invested without yield restrictions. Interest earnings and gains resulting from said investment will be retained in the Delivery Costs Fund and used for the purposes thereof. Amounts, if any, remaining in the Delivery Costs Fund on the earlier of March 21, 2017, or payment of costs of execution and delivery in full will be deposited in the Installment Payment Fund and used for payment of Installment Payments and payments with respect to the Certificates when and as due.

(c) *Use of Project Fund; Reimbursement.* The proceeds of the Certificates deposited in the Project Fund will be used for the payment of costs of acquisition and construction of the Project. No portion of the proceeds of the Certificates will be used for reimbursement of expenditures paid by the District prior to the date hereof except for (i) expenditures paid for costs of execution and delivery of the Certificates, (ii) preliminary capital expenditures incurred before commencement of acquisition or construction of the Project that do not exceed twenty percent (20%) of the issue price of the Certificates (see subparagraph (t) below), and (iii) capital expenditures that (A) were paid no earlier than sixty (60) days before the date of the adoption by the District of a declaration of intent to reimburse such expenditures from the proceeds of obligations, and (B) are reimbursed no later than eighteen (18) months after the later of the date the expenditure was paid or the date the Project is placed in service (but no later than three (3) years after the expenditure is paid). Proceeds (if any) used for reimbursement of expenditures will be deposited in the general funds of the District and will not be used to replace funds of the District to be used to refund debt of the District, to create a sinking or pledged fund for such debt or the Installment Payments or otherwise to create replacement proceeds for such debt or for the Installment Payments.

(d) *Completion of Project; Investment of Acquisition and Construction Fund; Capital Expenditures.* The District will, within six months of the date hereof, enter into a contract for construction of a portion of the Project, which contract will constitute a substantial binding obligation of the District to a third party and will be in excess of five percent (5%) of the "Net Sale Proceeds" of the Certificates (namely, an amount of proceeds of the Certificates equal to the issue price of the Certificates, as referenced in subparagraph (t) below, less accrued interest). The District will proceed with due diligence to complete the Project and to spend the proceeds of the Certificates. Completion is expected by December 21, 2019. All expenditures from the Project Fund will be capital expenditures. Not less than eighty-five percent (85%) of the Net Sale Proceeds will be spent within three (3) years of the date hereof. Amounts deposited in the Project Fund will be invested without yield restrictions for the period from the date hereof to the date that is three (3) years after the date hereof unless earlier expended (the "3-year Temporary Period"). Interest earnings and gains resulting from investment of the Project Fund will be retained in that Fund and used for the payment of costs of the Project. Proceeds of the Certificates and interest earnings and gains on investment thereof, if any, remaining in

the Project Fund following the 3-year Temporary Period will be invested at a yield not in excess of the yield of the Installment Payments (see subparagraph (t) below) or yield reduction payments will be made to the federal government with respect to such investment after the end of the 3-year Temporary Period. Amounts, if any, remaining in the Project Fund upon completion of the Project will be deposited in the Installment Payment Fund and used for payment of Installment Payments and payments with respect to the Certificates when and as due.

(f) *Installment Payment Fund.* Net revenues derived from the operation of the Enterprise will be transferred as Installment Payments to the Trustee, will be deposited in the Installment Payment Fund and will be used by the Trustee to make semiannual payments due with respect to the Certificates. The Installment Payment Fund has been established primarily to achieve a proper matching of revenues (consisting primarily of Net Revenues, as referenced in subparagraph (l) below and certain interest earnings) and debt service (that is, Installment Payments and payments with respect to the Certificates) due during each year that the Agreement is outstanding. Amounts deposited in the Installment Payment Fund will be spent within thirteen (13) months of the date of deposit, and said Fund will be depleted at least once a year except for a reasonable carryover amount not in excess of the greater of earnings on said Fund during the preceding bond year for the Agreement (see subparagraph (q) below) or one-twelfth (1/12th) of Installment Payments during the preceding bond year for the Agreement. Amounts in the Installment Payment Fund will be invested without yield restrictions. Interest earnings and gains resulting from investment of the Installment Payment Fund will, prior to the date of completion of the Project, be deposited in the Project Fund and used to pay costs of the Project, and thereafter, will be retained in that Fund and used for the payment of Installment Payments and payments with respect to the Certificates when and as due.

(g) *Pledge of Net Revenues; Revenue Fund.* The District has pledged certain net revenues of the Enterprise (the "Net Revenues") to the payment of Installment Payments and payment with respect to the Parity Obligations. Upon receipt, the Net Revenues will be deposited in the general funds of the Enterprise held by the District. Amounts in said general funds will be used for costs of maintenance, operation, repair and improvement of the Enterprise and other lawful purposes of the District. While on deposit in the general funds of the Enterprise, there is no assurance that the Net Revenues will be available to pay Installment Payments or payment with respect to the Certificates if the District or the Enterprise encounters financial difficulties. Net Revenues and other amounts in the general funds of the Enterprise, if invested, will be invested without yield restrictions.

(h) *No Other Pledged Amounts or Investment-Type Property.* Except as described herein, no amounts have been pledged to, or are reasonably expected to be used directly or indirectly to pay, Installment Payments and payments with respect to the Certificates, nor are there any amounts that have been reserved or otherwise set aside such that there is a reasonable assurance that such amounts will be available to pay Installment Payments and payments with respect to the Certificates. In addition, the District has not entered into, and does not reasonably expect to enter into, a hedge contract primarily for the purpose of reducing the District's risk of interest rate changes with respect to the Certificates.

(i) *No Negative Pledges.* There are no amounts held under any agreement requiring the maintenance of amounts at a particular level for the direct or indirect benefit of the owners of the Certificates or any guarantor of the Installment Payments, excluding for this purpose amounts in which the District may grant rights that are

superior to the rights of the owners of the Certificates or any guarantor of the Installment Payments and amounts that do not exceed reasonable needs for which they are maintained and as to which the required level is tested less often than every six (6) months and that may be spent without any substantial restriction other than a requirement to replenish the amount by the next testing date.

(j) *No Replacement Proceeds.* There are no amounts that have a sufficiently direct nexus to the Installment Payments or to the Project to conclude that the amounts would have been used for the Project or for Installment Payments if the proceeds of the Certificates were not being used for those purposes. The term of the Agreement is not longer than reasonably necessary for the Project in that the weighted average maturity of the Certificates does not exceed one hundred twenty percent (120%) of the average reasonably expected economic life of the Project.

(k) *No Improper Financial Advantage.* The transaction contemplated herein does not represent an exploitation of the difference between tax-exempt and taxable interest rates to obtain a material financial advantage and does not overburden the tax-exempt bond market in that the execution and delivery of the Agreement and the Certificates is not occurring sooner than necessary, nor is the Agreement in a principal amount greater than necessary or to be outstanding longer than necessary, to accomplish the governmental purposes of the Agreement.

(l) *Bond Year for the Agreement.* The District hereby selects each period from December 2 through December 1 of the following calendar year as the bond years for the Agreement, except that the first bond year will commence on the date hereof and the last bond year will end on the date of payment of the Installment Payments in full.

(m) *Rebate Requirement.* The District has covenanted in the Agreement to comply with requirements for rebate of excess investment earnings to the federal government to the extent applicable and acknowledges that the first payment of excess investment earnings, if any, is required to be rebated to the federal government no later than sixty (60) days after the end of the fifth (5th) bond year for the Agreement. The Agreement is not a private activity bond within the meaning of section 141(a) of the Internal Revenue Code of 1986 (the "Code"), the average maturity of the Certificates is greater than five (5) years and none of the interest rates applicable to the Installment Payments and payments with respect to the Certificates vary during the term of the Agreement. As a consequence of the foregoing, investment earnings on the Installment Payment Fund will be excluded for the purposes of computation of the amount required to be rebated to the federal government as referenced in this subparagraph without regard to the total amount of said earnings.

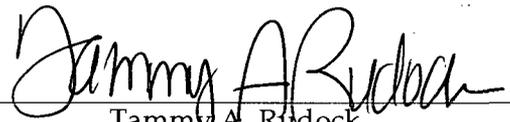
(n) *Yield of the Installment Payments.* The yield of the Installment Payments is 3.498417% determined on the basis of regularly scheduled Installment Payments, on the principal amount of \$18,570,000, plus the original issue premium of \$938,447.30, for a total of \$19,508,447.30, representing the issue price of the Certificates. The Underwriter has represented that (i) based upon reasonable expectations and actual facts which existed on the date the Underwriter purchased the Certificates from the District, the initial offering price of each maturity of the Certificates to the public (excluding bondhouses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which a substantial amount of each maturity of the Certificates was to be sold to the public on the date hereof is set forth on Exhibit A attached hereto and by this reference incorporated herein; (ii) the Certificates of each maturity were actually offered to the general public in a bona fide public offering for the prices set forth in Exhibit A.

(o) *No Excess Proceeds.* Excess proceeds, if any, of the Certificates will not exceed one percent (1%) of the net proceeds of the Certificates, less issuance costs of the Certificates so allocable.

(p) *No Hedge Bonds.* The Agreement is not a "hedge bond" because at least eighty-five percent (85%) of the Net Sale Proceeds will be used to carry out the governmental purposes of the Agreement within three (3) years of the date hereof, and not more than fifty percent (50%), if any, of the proceeds allocable to the Project, if any, are invested in investments having a substantially guaranteed yield for four (4) or more years.

On the basis of the foregoing, it is not expected that the proceeds of the Certificates will be used in a manner that would cause the Agreement to be an arbitrage bond within the meaning of section 148 of the Code and applicable regulations. To the best of my knowledge, information and belief, the expectations herein expressed are reasonable and there are no facts or estimates, other than those expressed herein, that would materially affect the expectations herein expressed.

IN WITNESS WHEREOF, I have hereunto set my hand this 21st day of December, 2016.



Tammy A. Rudock,
General Manager

EXHIBIT A

<u>Maturity Date (December 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>
2017	\$ 315,000	4.00%	1.00%	102.812
2018	345,000	4.00	1.24	105.285
2019	360,000	4.00	1.51	107.143
2020	375,000	4.00	1.70	108.738
2021	385,000	4.00	1.92	109.765
2022	405,000	4.00	2.05	110.859
2023	420,000	4.00	2.20	111.532
2024	435,000	4.00	2.35	111.892
2025	455,000	4.00	2.50	111.954
2026	470,000	4.00	2.63	111.918
2027	490,000	4.00	2.75	100.809c
2028	510,000	4.00	2.87	109.714c
2029	530,000	4.00	3.00	108.541c
2030	550,000	4.00	3.11	107.561c
2031	575,000	4.00	3.23	106.503c
2036	3,230,000	4.00	3.54	103.826c
2041	3,930,000	4.00	3.68	102.643c
2046	4,790,000	4.00	3.73	102.224c

c Priced to the December 1, 2026, par call date.