

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
BOND FINANCING PROGRAM**

Meeting Date: July 28, 2010

***Request for Final Resolution and
Request for Tax-Exempt Bond Allocation Approval***

Prepared by: *Doreen Smith*

Applicant: American Water Capital Corp.	Amount Requested: \$35,000,000
Project	Application No.: 00835
Location: Monterey and Sacramento Counties	Final Resolution No.: 503
	Prior Actions: IR 10-06 approved 4-28-10

Summary. American Water Capital Corp. (the “Applicant”) requests approval of a Final Resolution and Allocation Resolution for an amount not to exceed \$35,000,000 to finance water facility improvement projects to be owned and operated by the Applicant and/or its Affiliates, including without limitation California-American Water Company, a California corporation (collectively the “Company”) within the Company’s service area in Sacramento and Monterey Counties.

Borrower. American Water Capital Corp. was incorporated in Delaware on May 11, 2000. American Water Works Company, Inc., publicly traded on the New York Stock Exchange as AWK, holds all of the common stock of American Water Capital Corp. as well as California-American Water Company.

Legal Questionnaire. The Staff has reviewed the Company’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raises questions concerning the financial viability or legal integrity of this applicant.

TEFRA. The TEFRA hearing was held on May 20, 2010. There were no comments received in support of or in opposition to this Project.

SBAF Contribution. The Company is a large business and will contribute up to \$231,000 to the CPCFA Small Business Assistance Fund (SBAF).

Prior Financings. None.

Project Description. The Company plans several projects located at sites throughout the state of California, as follows:

Monterey County

- The Seaside Basin Aquifer Storage and Recovery (ASR) Project includes two ASR facilities and various conveyance components (pipelines, tanks and booster stations) that are part of the long-term source of water supply solution for the Monterey Peninsula. The ASR facilities will inject freshwater into the aquifer during certain times of the year, which will help prevent the amount of seawater intrusion. This effort will improve and restore the aquifer to sustainable water quality levels while ensuring its availability to

help meet summer pumping needs. The conveyance facilities will allow for the transfer of water within the Monterey system for two reasons. The first reason is the facilities will help transfer excess winter flows from the Carmel River to the Seaside Basin for ASR injection purposes as described previously. The second reason is the facilities will help transfer groundwater stored and extracted in the aquifer within the greater Monterey system. This transfer of the groundwater will help meet customer demands during the dry summer months.

- The Seaside Mains Replacement Project is a small main replacement program for an existing water distribution system to update older, small diameter, thin-walled steel mains that have begun to experience a high frequency of leaks and breaks.

Sacramento County

- The Meter Retrofit/Conversion Program is a major multi-year effort to install meters for those customers who currently receive water services through a flat rate, unmetered service.
- The Well Rehabilitation Program and the Water Treatment Improvement Program are two long-term projects to rehabilitate and improve, on an ongoing systematic basis, over 100 existing wells located across nine service areas in the Sacramento District. Under the two programs, the Company will undertake above ground and below ground inspections, cleaning, rehabilitation, and equipment replacements on an annual basis. The Company must rehabilitate its groundwater wells on a regular basis or risk the permanent loss of this valuable water supply. Over time, the production capabilities of groundwater wells will decline for a number of reasons, including loss of pump and motor efficiency, damage to the well casings, or damage and encrustation of the well screens. Regularly scheduled well rehabilitations can prolong the original production capacities of the wells. Implementation of the program will reduce emergency repairs and lower the principal operating cost for groundwater through optimization of well and pump efficiency. The work will ensure these wells are in adequate condition and that the well stations have up-to-date treatment equipment and facilities to reliably deliver water to customers.

The anticipated Project and issuance costs are listed below:

Seaside Basin ASR	\$8,500,000
Seaside Mains Replacement	6,300,000
Meter Retrofit/Conversion	16,300,000
Well Rehabilitation	1,200,000
Water Treatment Improvements	1,900,000
Bond Issuance Expenses & Interest During Construction	800,000
Total:	<u>\$35,000,000</u>

Note: The Project costs reported in the Applicant’s application and shown here in staff’s report are estimated costs. At the time this financing closes, the estimated Project costs will be finalized and stated in the Tax Certificate. Variations from the costs shown in the application and in this report may occur prior to the closing due to increased costs of certain components of the Project from original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation or for other reasons. However, the Company confirms, through submission of a signed application and will confirm through covenants and representations in various bond documents, that all assets purchased with bond proceeds will qualify for tax exempt

financing, that they will be used to complete the Project as described, and that the average life tests required by federal law and described in the Tax Certificate will continue to be met. Tax-exempt financing may be only one source out of multiple sources of financing for a given project.

Pollution Control and/or Environmental Benefits. The Company represents the Project will meet water conservation objectives and regulatory compliance requirements.

In 2005, the California Public Utilities Commission adopted a Water Action Plan for the state that sets policy goals and objectives in regulating investor-owned water utilities. An objective of the plan is to strengthen water conservation programs. The elimination of flat rate and non-metered water service is essential to meeting this objective by providing customers a financial incentive to conserve water. The Company began its Meter Retrofit Program in 2002. Once completed, the metering program will provide specific information regarding customers' actual water usage allowing the Company to monitor the effectiveness of the operation's practices, conservation measures and water infrastructure currently in place.

The primary benefit of improving water use efficiency is the lowering of demand and the ability to cost-effectively stretch existing water supplies. Conservation can result in saving considerable capital and operating costs for utilities and consumers. With the increased concern over climate change, energy saving resulting from conservation takes on particular importance. Consumers save energy when appliances use hot water more efficiently. Water utilities save energy through chemical use in water treatment. Water conservation may also benefit the environment by reducing urban runoff that carries pollutants and by allowing water to be reserved for environmental purposes.

Permitting and Environmental Approvals. These projects are directly tied to the normal operation of the water systems, and accordingly, are generally considered to be routine capital improvements. As such, these projects will and do receive typical building use permits or encroachment permits from the respective local, municipal or county agencies prior to moving forward with construction. At this time, several of the projects have the necessary permits (i.e., Meter Retrofit/Conversion project), while other projects are either having permits prepared or they are in the process of being reviewed by the appropriate agencies.

Financing Details. The Company anticipates issuance of negotiated tax-exempt, fixed rate bonds with a term not to exceed 35 years. The Company anticipates that the bonds will be rated Baa2 by Moody's and/or BBB+ by Standard & Poor's for American Water Capital Corp. The bonds will be issued in minimum denominations of \$250,000 or any integral multiple of \$5,000 above \$250,000 while rated below A- by Standard & Poor's or Fitch or below A3 by Moody's in accordance with Authority policy or as provided in the Indenture. The target date for financing is August 2010.

Financing Team.

Underwriter: Goldman, Sachs & Co. and SL Hare Capital, Inc.
Bond Counsel: Greenberg Traurig, LLP
Issuer's Counsel: Office of the Attorney General

Staff Recommendation. Staff recommends approval of Final Resolution No. 503 and Volume Cap Allocation Resolution No. 09-136-02 for an amount not to exceed \$35,000,000 for American Water Capital Corp.

FINAL BOND RESOLUTION OF THE
CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
RELATING TO THE ISSUANCE OF BONDS TO
FINANCE WATER FACILITY IMPROVEMENT PROJECTS FOR
AMERICAN WATER CAPITAL CORP. AND/OR ITS AFFILIATES

July 28, 2010

WHEREAS, the California Pollution Control Financing Authority (the “Authority”) has heretofore approved the application of American Water Capital Corp. (the “Borrower”) for financial assistance to finance the acquisition and construction of certain water facility improvement projects which will be owned and/or operated by California-American Water Company, a California corporation and an affiliate of the Borrower, or by its affiliates, successors or assigns (the “Company”), within the Company’s service area in Sacramento and Monterey Counties (the “Project”);

WHEREAS, the Borrower has requested the Authority to issue its revenue bonds in the aggregate principal amount not to exceed \$35,000,000 to finance the Project; and

WHEREAS, the proceeds of such revenue bonds will be loaned to the Borrower under a loan agreement with the Authority; and

WHEREAS, the Borrower has provided documentation to the Authority demonstrating that the Project has complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is not a project under that division; and

WHEREAS, final approval of the terms of such revenue bonds and certain documents relating to such revenue bonds is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Pollution Control Financing Authority, as follows:

Section 1. The Project constitutes a “project” and the Borrower is a “participating party” within the meaning of the California Pollution Control Financing Authority Act (the “Act”).

Section 2. Pursuant to the Act, revenue obligations of the Authority designated as the “California Pollution Control Financing Authority Water Facilities Revenue Bonds (American Water Capital Corp. Project) Series 2010” (the “Bonds”), or such alternate designation as may be approved by the Executive Director of the Authority, in an aggregate principal amount not to exceed \$35,000,000, are hereby authorized to be issued. The Bonds may be issued at one time, or from time to time, in one or more series separately or differently identified, and may be issued in a tax-exempt mode, all in accordance with the Indenture (as hereinafter defined) as finally executed. The proceeds of the Bonds shall be used to finance the Project.

Section 3. The Treasurer of the State of California (the “Treasurer”) is hereby authorized to sell the Bonds, at one time or from time to time on or before December 31, 2010, by negotiated sale, in a tax-exempt mode, at such price and at such interest rate or rates as he may determine, such determination to be as set forth in the Purchase Contract (as hereinafter defined).

Section 4. The following documents:

(i) a loan agreement relating to the Bonds (the “Loan Agreement”), between the Authority and the Borrower;

(ii) an indenture of trust relating to the Bonds (the “Indenture”), between the Authority and the trustee (the “Trustee”) named in the Term Sheet attached hereto as Exhibit A and incorporated herein (the “Term Sheet”);

(iii) a bond purchase agreement relating to the Bonds (the “Purchase Contract”), among the Authority, the Treasurer and the underwriter or underwriters named in the Term Sheet (the “Underwriters”), and approved by the Borrower; and

(iv) the preliminary limited offering statement relating to the Bonds (the “Preliminary Offering Statement”)

are hereby approved in substantially the forms on file with the Authority prior to this meeting, with such insertions, deletions or changes therein in substantial conformance with the Term Sheet as the officer(s) of the Authority executing and/or delivering the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof in the case of the Loan Agreement, the Indenture and the Purchase Contract and by the delivery thereof in the case of the Preliminary Offering Statement.

Section 5. The Authority understands and agrees that pursuant to the terms of the Loan Agreement, the obligations of the Borrower may, under some circumstances, be carried out or assumed by a successor or assignee entity, or by an Affiliate of the Borrower, including without limitation the Company. For purposes of this Resolution, an “Affiliate” of the Borrower means any person or entity which meets the definition of “Participating Party” in the Act and controls, is controlled by, or is under common control with, the Borrower, as shown by the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through majority equity ownership, contract or otherwise.

Section 6. The dates, maturity dates (not to exceed 35 years from date of issuance), interest rate or rates, interest payment dates, denominations, forms, registration privileges, place or places of payment, terms of redemption and other terms of the Bonds shall be as provided in the Indenture, as finally executed.

Section 7. The Underwriters are hereby authorized to distribute the Preliminary Offering Statement to persons who may be interested in the purchase of the Bonds. The Underwriters are hereby directed to deliver (in a manner that complies with Securities and Exchange Commission rule 15c2-12(b)(3), the “Rule”) a copy of the final Limited Offering Statement that constitutes a “final official statement” within the meaning of the Rule (as finally executed by the Borrower, the “Offering Statement”) to all actual purchasers of the Bonds.

Section 8. The Bonds, when executed by the Chairman of the Authority, shall be delivered to the Trustee under the Indenture for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate the Bonds by executing the Trustee’s certificate of authentication appearing thereon. The Trustee is hereby requested and directed to deliver the Bonds, when duly executed and authenticated and upon payment of the purchase price thereof, to The Depository Trust Company, New York, New York, on behalf of the Underwriters in

accordance with written instructions to be executed on behalf of the Authority, which instructions are hereby approved.

Section 9. The Authority hereby dedicates and confirms its allocation to the Bonds issued in a tax-exempt mode (the “Tax-Exempt Bonds”) of a portion of its private activity bond limit, as previously received, carried forward or to be received from the California Debt Limit Allocation Committee, in an amount up to the applicable principal amount of Tax-Exempt Bonds issued and delivered to finance certain costs of the Project and to pay certain costs of issuance of the Tax-Exempt Bonds, so as to satisfy the requirements of Section 146(e) of the Internal Revenue Code of 1986, with respect to the Tax-Exempt Bonds. Without limiting the foregoing, the Executive Director is delegated the power to deliver on behalf of the Authority such instrument(s) as may be contemplated or permitted by the Indenture to lower the minimum authorized denominations for the Bonds and/or to eliminate any restrictions on transfer of the Bonds, each as contemplated or permitted by the Indenture.

Section 10. Each officer of the Authority, acting alone, is hereby authorized and directed to do any and all ministerial acts that they may deem necessary or advisable in order to consummate the issuance, sale or delivery of the Bonds, and otherwise to effectuate the purposes of this Resolution and the Indenture, the Loan Agreement, the Purchase Contract and the Offering Statement. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including without limitation, any certifications, including, a tax certificate.

Section 11. The provisions of the resolution of the Authority entitled “Resolution of the California Pollution Control Financing Authority Delegating Certain Powers and Authorizing Certain Actions Related to Bond Financings” adopted by the Authority on May 26, 2010, apply to the documents and actions approved in this resolution.

Section 12. This resolution shall take effect immediately upon its passage. The adoption by the Authority of this final resolution for the Borrower shall not be referred to in any application before any government agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to construct or operate the Project.

EXHIBIT A

TERM SHEET

Name of Issue:	California Pollution Control Financing Authority Water Facilities Revenue Bonds (American Water Capital Corp. Project) Series 2010
Maximum Amount of Issue:	\$35,000,000 (tax-exempt)
Issuer:	California Pollution Control Financing Authority Sacramento, CA
Borrower:	American Water Capital Corp.
Trustee:	The Bank of New York Mellon
Underwriter:	Goldman, Sachs & Co. SL Hare Capital, Inc.
Bond Counsel:	Greenberg Traurig, LLP Santa Monica, California
Maximum Bond Term:	Not to exceed 35 years
Type of Sale:	Negotiated sale
Description of Minimum Denominations:	\$250,000 or any integral multiple of \$5,000 above \$250,000 while rated below A- by Standard & Poor's or Fitch or below A3 by Moody's in accordance with current Authority policy (or as provided in the Indenture)
Financing Structure:	Fixed rate to maturity
Not to Exceed Interest Rate:	8%
Letter of Credit:	Not Applicable
Other Credit Enhancement:	Not Applicable
Anticipated Bond Rating:	Baa2 (Moody's) and/or BBB+ (Standard & Poor's)
Type of Financing:	Water furnishing facility revenue bonds

Project:

Acquisition and construction of the following water facility improvement projects, but only to the extent they will prevent the pollution of drinking water or improve the quality of water, which will be owned and/or operated by California-American Water Company, a California corporation and an affiliate of the Borrower, or by its affiliates, successors or assigns (the “Company”), within the Company’s service area in Sacramento and Monterey Counties:

(1) Seaside Basin Aquifer Storage and Recovery (ASR) Project: This project includes ASR and conveyance facilities (pipelines, tanks and booster stations) that will protect and improve the overall water quality of the Seaside Basin aquifer. These facilities are part of the long term source of supply solution for the Monterey Peninsula in Monterey County;

(2) Seaside Mains Replacement Project: Small main replacement program to replace older, small diameter, thin-walled steel mains that have begun to experience a high frequency of leaks and breaks in Monterey County;

(3) Meter Retrofit/Conversion Program: Major multi-year effort to install meters for customers in Sacramento County who currently receive water services through a flat rate, unmetered service; and

(4) Well Rehabilitation and Water Treatment Improvement Programs: Long-term projects to rehabilitate and improve, on a systematic basis, over 100 existing wells located across nine service areas of the Sacramento District in Sacramento County.

Prepared by:

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THE CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

RESOLUTION NO. 09-136-02

**A RESOLUTION DEDICATING FOR USE OF A PORTION OF THE 2009 STATE
CEILING ON QUALIFIED PRIVATE ACTIVITY BONDS FOR AN
EXEMPT FACILITY PROJECT**

WHEREAS, the California Pollution Control Financing Authority (“CPCFA”) has received an application (“Application”) from American Water Capital Corp. (“Project Sponsor”) for approval of the issuance of revenue bonds; and

WHEREAS, on July 28, 2010, CPCFA approved Final Resolution No. 503 (“Final Resolution”) authorizing the issuance of up to \$35,000,000 of its water facility revenue bonds (American Water Capital Corp. Project) Series 2010 (“Bonds”); and

WHEREAS, in seeking CPCFA approval of the Final Resolution, the Project Sponsor represented certain facts and information concerning the project to CPCFA which were relied upon by CPCFA in approving the Final Resolution; and

WHEREAS, the California Debt Limit Allocation Committee (“CDLAC”) has previously transferred to CPCFA a portion of the 2009 State Ceiling on Qualified Private Activity Bonds pursuant to Section 146 of the Internal Revenue Code of 1986, as amended, for use by CPCFA to issue bonds or other obligations in a manner consistent with CDLAC’s policies and procedures. Accordingly, capitalized terms not otherwise defined shall have the meanings ascribed to them in the “Procedures of the California Debt Limit Allocation Committee Implementing the Allocation of State Ceiling on Private Activity Bonds” (“CDLAC Procedures”); and

WHEREAS, it is appropriate for CPCFA to confirm the use of a portion of the 2009 State Ceiling on Qualified Private Activity Bonds allocated to CPCFA (“CPCFA Allocation”) to the issuance of the Bonds as set forth in the Final Resolution;

NOW, THEREFORE, CPCFA resolves as follows:

Section 1. CPCFA Allocation in the amount of \$35,000,000 is hereby dedicated to the issuance of the Bonds. The dedicated CPCFA Allocation may be used only by the Project Sponsor and only for the issuance of Bonds for the Project, as specifically described in Exhibit A, and consistent with the terms of the Final Resolution. All of the terms and conditions of Exhibit A, and the Final Resolution are incorporated herein as though set forth in full (this resolution, the Final Resolution and Exhibit A, collectively “Resolution”).

Section 2. The terms and conditions of this Resolution shall be incorporated in appropriate documents relating to the Bonds, and the Project Sponsor and all its respective successors and assignees, will be bound by such terms and conditions.

Section 3. Any modification to the Project made prior to the issuance of the Bonds must be reported to the Executive Director and shall require reconsideration by the CPCFA before the Allocation may be used for the Project.

Section 4. The CPCFA Allocation dedicated by this Resolution shall automatically revert to CPCFA unless the Bonds for the Project have been issued by CPCFA by the close of business on **October 26, 2010**. In a case of extreme hardship, the Executive Director may extend this date by up to five (5) business days.

Section 5. Within twenty-four (24) hours of issuing the Bonds, CPCFA shall notify CDLAC via the email or the fax number as provided in Section 5140 of the CDLAC Regulations that the Bonds have been issued. This notice shall identify the Project Sponsor, the project or program, the date and amount of the Bonds issued.

Section 6. Within fifteen (15) calendar days of the Bond closing, CPCFA or its counsel shall formally transmit to CDLAC information regarding the issuance of the Bonds by submitting the appropriate completed Report of Action Taken in a form prescribed by and made available by CDLAC.

Section 7. Any differences between the amount of Bonds issued and the amount of the CPCFA Allocation dedicated in Section 1 of this Resolution shall automatically revert to CPCFA. If at any time prior to the expiration date set forth in Section 4 hereof the Project Sponsor determines that part or all of the CPCFA Allocation dedicated in Section 1 of this Resolution will not be required by the Project by that date, the Project Sponsor shall promptly give notice to CPCFA.

Section 8. In consideration of the CPCFA Allocation dedicated in Section 1 of this resolution, the Project Sponsor shall comply with all of the terms and conditions contained in this Resolution and ensure that these terms and conditions are included in the documents related to the Bonds. Further, the Project Sponsor expressly agrees that the terms and conditions of this Resolution may be enforced by CDLAC or CPCFA through an action for specific performance or any other available remedy, provided however, that CDLAC and CPCFA agree not to take such action or enforce any such remedy that would be materially adverse to the interests of Bondholders. In addition, CPCFA shall ensure that the Bond documents, as appropriate, expressly provide that CDLAC is a third party beneficiary of the terms and conditions set forth in this Resolution.

Section 9. The Project Sponsor or its successor-in-interest shall provide certifications of compliance with the terms and conditions set forth in this Resolution when reasonably requested by CDLAC or CPCFA.

Section 10. This Resolution shall take effect immediately upon its adoption.

RESOLUTION NO. 09-136-02
(AN EXEMPT FACILITY PROJECT)
EXHIBIT A

1. Project Sponsor: American Water Capital Corp.
2. Application #: 00835
3. Project User: California-American Water Company
4. Project Name: California-American Water Company
5. Location: Counties of Monterey and Sacramento
6. Credit Enhancement or Private Placement Purchaser: None
7. The Credit Enhancement Provider/Private Placement Purchaser at the time of issuance will be the same as represented in the application. N/A
8. Amount of Allocation: \$35,000,000