

*In the opinion of Nossaman, Guthner, Knox & Elliott, LLP, Irvine, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest on the 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. In addition, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond constitutes original issue discount, and the amount of original issue discount that accrues to the owner of the Bond is excluded from 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. See "TAX EXEMPTION" herein with respect to tax consequences with respect to the Bonds.*

**\$11,475,000**

**City of Redwood City Public Financing Authority  
Lease Revenue Bonds  
Series 2003**

**Dated: Date of Delivery****Due: July 15, as shown below**

The \$11,475,000 City of Redwood City Public Financing Authority Lease Revenue Bonds, Series 2003 (the "Bonds") are being issued by the City of Redwood City Public Financing Authority (the "Authority") to provide funds to (i) refund the Authority's remaining outstanding 1991 Local Agency Revenue Bonds, Series A (the "1991 Bonds"), (ii) finance the acquisition and construction of certain infrastructure improvements, (iii) establish a reserve fund, and (iv) pay certain costs incurred in connection with execution and delivery of the Bonds. Interest represented by the Bonds is payable semiannually on each January 15 and July 15, commencing July 15, 2004.

The Bonds are special obligations of the Authority, payable from and secured by Revenues (as defined herein) of the Authority consisting primarily of payments to be made by the City of Redwood City (the "City"), for the right to the use of certain real property and improvements thereon (the "Leased Property") pursuant to a Subordinate Lease Agreement dated November 1, 2003 (the "Lease Agreement"), by and between the City, as lessee, and the Authority as lessor.

The City has covenanted in the Lease Agreement to make the Lease Payments for the Leased Property as provided for therein, to include all such Lease Payments in each of its budgets and to make the necessary annual appropriations for all such Lease Payments.

The Bonds will be initially delivered only in book-entry form, registered to Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository of the Bonds. Interest and principal represented by the Bonds are payable by BNY Western Trust Company, Los Angeles, California, as Trustee, to DTC, which remits such payments to its Participants for subsequent distribution to the beneficial owners of the Bonds. See "APPENDIX E – DTC and the Book-Entry System" and "THE BONDS – General."

**The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS – Redemption."**

Payment of the principal of and interest with respect to the Bonds when due will be insured by a Financial Guaranty Insurance policy to be issued by Ambac Assurance Corporation simultaneously with delivery of the Bonds.

**Ambac**

**The obligation of the City to make the Lease Payments does not constitute a debt of the City or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation.**

This cover page contains information for reference only. Investors must read the entire Official Statement to obtain information essential in making an informed investment decision. See "RISK FACTORS" for a discussion of factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.

Maturity (July 15)	Principal Amount	Interest Rate	Yield	CUSIP 757885 <sup>(1)</sup>	Maturity (July 15)	Principal Amount	Interest Rate	Yield	CUSIP 757885 <sup>(1)</sup>
2004	\$670,000	2.500%	1.100%	AP3	2011	\$340,000	3.200%	3.300%	AW8
2005	715,000	2.500	1.300	AQ1	2012	750,000	3.500	3.550	AX6
2006	735,000	2.500	1.650	AR9	2013	775,000	3.750	3.750	AY4
2007	750,000	2.500	2.000	AS7	2014	805,000	3.800	3.900	AZ1
2008	770,000	2.500	2.250	AT5	2015	835,000	4.000	4.000	BA5
2009	795,000	2.625	2.650	AU2	2016	870,000	4.000	4.150	BB3
2010	820,000	3.000	3.000	AV0	2017	345,000	4.100	4.250	BC1

\$1,500,000 4.375% Special Term Bond Due July 15, 2018; Yield: 4.5%; CUSIP 757885 BD9

<sup>(1)</sup> CUSIP Copyright 2003, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc.

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their legality by Nossaman, Guthner, Knox & Elliott, LLP, Irvine, California, Bond Counsel. Jones Hall, A Professional Law Corporation, San Francisco, California is serving as Disclosure Counsel to the City. In addition, certain legal matters will be passed upon for the City and the Authority by the City Attorney of the City. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York on or about December 18, 2003.

**Stone & Youngberg LLC**

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the sale of the Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the City or the Authority, in any press release and in any oral statement made with the approval of an authorized officer of the City or the Authority, the words or phrases “will likely result,” “are expected to”, “will continue”, “is anticipated”, “estimate”, “project,” “forecast”, “expect”, “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

**Limit of Offering.** No dealer, broker, salesperson or other person has been authorized by the City, the Authority or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the Bonds, nor may 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 of the Bonds.

**Involvement of Underwriter.** 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.

**Official Statement Speaks Only as of its Date.** The information and expressions of opinions in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the City or the Authority since the date hereof.

**Document Summaries.** All summaries of the Indenture, the Lease (as such terms are defined in this Official Statement) or other documents referred to in this Official Statement, are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

**No Registration or Qualification.** THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

**CITY OF REDWOOD CITY PUBLIC FINANCING AUTHORITY**

**CITY OF REDWOOD CITY  
Mayor and City Council/Governing Body of the Authority**

Jeff Ira, *Mayor*  
Barbara Pierce, *Vice Mayor*  
Ian Bain, *Councilmember*  
Rosanne Foust, *Councilmember*  
Jim Hartnett, *Councilmember*  
Diane Howard, *Councilmember*  
Ira Ruskin, *Councilmember*

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San Francisco, California

**TRUSTEE**

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Los Angeles, California

**FINANCIAL ADVISOR**

William Euphrat Municipal Finance, Inc.  
San Francisco, California

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## OFFICIAL STATEMENT

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**\$11,475,000**  
**CITY OF REDWOOD CITY PUBLIC FINANCING AUTHORITY**  
**Lease Revenue Bonds**  
**Series 2003**

This Official Statement (which includes the cover page and Appendices hereto) (the “**Official Statement**”) provides certain information concerning the execution, sale and delivery of the City of Redwood City Public Financing Authority Lease Revenue Bonds, Series 2003 (the “**Bonds**”).

### INTRODUCTION

*This Introduction contains a brief summary of certain information contained in this Official Statement. It is not intended to be complete and is qualified by the more detailed information contained elsewhere in this Official Statement. Definitions of certain terms used in this Official Statement are set forth in “APPENDIX A – Summary of Principal Legal Documents.”*

**Issuance of Bonds.** The Bonds will be issued pursuant to an Indenture of Trust, dated as of November 1, 2003 (the “**Indenture**”), by and between BNY Western Trust Company, as trustee (the “**Trustee**”), and the City of Redwood City Public Financing Authority (the “**Authority**”). The Bonds are being issued in denominations of \$5,000 or any integral multiple thereof. Interest will accrue on the Bonds at the applicable interest rate (as set forth on the cover hereof) from their date of delivery (the “**Closing Date**”) until the respective date of maturity or prior redemption, with interest becoming payable on each January 15 and July 15, commencing July 15, 2004. The Bonds are subject to redemption as described herein. See “THE BONDS – Redemption.”

**Use of Proceeds.** The net proceeds of the sale of the Bonds will be used to provide funds to (i) refund the Authority’s remaining outstanding 1991 Local Agency Revenue Bonds, Series A (the “**1991 Bonds**”), (ii) finance the acquisition and construction of certain infrastructure improvements, (iii) establish a reserve fund for the Bonds, and (iv) pay certain costs incurred in connection with execution and delivery of the Bonds. See “THE FINANCING PLAN” and “THE PROJECTS.”

**Security for the Bonds.** The Bonds are special limited obligations of the Authority, payable solely from and secured by Revenues (as defined herein) of the Authority, consisting primarily of payments (the “**Lease Payments**”) received by the Authority from the City of Redwood City (the “**City**”) for the right to the use of certain real property and improvements thereon (the “**Leased Property**”) pursuant to a Subordinate Lease Agreement dated November 1, 2003 (the “**Lease Agreement**”), by and between the City, as lessee, and the Authority as

lessor. Timely payments of the Lease Payments are calculated to be sufficient to pay the principal of, premium, if any, and interest on the Bonds when due.

**Lease Payments.** In the Lease Agreement, the City covenants to take such action as may be necessary to include all Lease Payments and all estimated Additional Payments due thereunder in each of its final approved budgets of the City, and to make the necessary appropriations for all such Lease Payments and Additional Payments coming due and payable during the period covered by each such budget. The City also has an obligation to make lease payments for the right to the use of the Leased Property under a lease agreement entered into in connection with bonds issued in 1998. See "THE FINANCING PLAN."

THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA (THE "STATE") OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

**Bond Insurance.** Concurrently with execution and delivery of the Bonds, Ambac Assurance Corporation ("Ambac Assurance" or the "Bond Insurer") will issue its Financial Guaranty Insurance Policy (the "Policy") for the Bonds. The Policy unconditionally guarantees the payment of that portion of the principal of and interest with respect to the Bonds which has become due for payment, but which is unpaid. See "SECURITY FOR THE BONDS – Payments Pursuant to Financial Guaranty Insurance Policy" and "APPENDIX F – Specimen Financial Guaranty Insurance Policy."

**Risk Factors.** Investment in the Bonds have certain risks arising from circumstances which could have an adverse impact on the ability of the City to pay the Lease Payments. See "RISK FACTORS" herein.

**Miscellaneous.** There follows in this Official Statement, which includes the cover page and Appendices hereto, a brief description of the Bonds, the City, the Indenture, the Lease Agreement and other documents, risk factors and certain other information relevant to the issuance of the Bonds. All references herein to the Indenture, Lease Agreement and other documents, agreements and statutes referred to herein, and the description of the Bonds included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document or statute. A summary of certain provisions of the Indenture and Lease Agreement is included in APPENDIX A. The most recently completed audited financial statement of the City is included in APPENDIX B and certain unaudited data is included under the caption "CITY FINANCES." The information set forth herein and in the Appendices hereto has been furnished by the City and includes information which has been obtained from other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Indenture or the Lease Agreement shall have the meanings set forth therein, some of which are summarized in "APPENDIX A – Summary of Principal Legal Documents."

The information and expressions of opinion herein speak only as of the date of this Official Statement and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

*All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from tax and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.*

## THE FINANCING PLAN

The net proceeds of the sale of the Bonds will be used to (i) provide funds to refund the Authority's 1991 Local Agency Revenue Bonds, Series A (the "**1991 Bonds**"), issued in the original principal amount of \$26,715,000, and currently outstanding in the aggregate amount of \$6,725,000, (ii) finance the acquisition and construction of certain infrastructure improvements (the "**Projects**"), (iii) fund a reserve fund for the Bonds, and (iv) pay certain costs incurred in connection with the issuance of the Bonds.

In July 1998, the Authority issued its 1998 Lease Refunding Bonds (Capital Facilities Project) (the "**1998 Bonds**") to refund, on July 15, 2001, \$10,995,000 of the principal amount of the 1991 Bonds, which constituted some, but not all, of the then outstanding 1991 Bonds. The 1998 Bonds are secured by lease payments made by the City under a Sub-Lease Agreement dated March 1, 1998, which is a sublease under a lease agreement entered into in 1991 in connection with the issuance of the 1991 Bonds. In connection with the issuance of the Bonds, the City and the Authority are entering into the Subordinate Lease Agreement, which constitutes a sublease under the 1998 Sub-Lease Agreement. See "RISK FACTORS – Priority of Lease Agreement Upon Destruction of Leased Property or Eminent Domain."

**Refunding of Remaining 1991 Bonds.** Proceeds of the Bonds used to redeem all of the outstanding 1991 Bonds, together with certain funds held in the funds and accounts related to the 1991 Bonds and made available through the defeasance of the outstanding 1991 Bonds, will be deposited in an Escrow Fund to be established pursuant to an Escrow Deposit and Trust Agreement, dated as of December 1, 2003 (the "**Escrow Agreement**"), by and among the City and U. S. Bank National Association, as escrow bank (the "**Escrow Bank**"). The moneys in the Escrow Fund will be applied by the Escrow Bank to the prepayment of the 1991 Bonds approximately 30 days after the date of issuance of the Bonds. Any amounts remaining in the Escrow Fund following the full redemption of the 1991 Bonds shall be transferred by the Escrow Bank to the City. The deposit with the Escrow Bank will result in the defeasance of the 1991 Bonds pursuant to the provisions of the 1991 Indenture, as of the date of the deposit.

**The moneys held by the Escrow Bank are pledged to the payment of the 1991 Bonds. Amounts deposited with the Escrow Bank are not available for the payment of principal of and interest on the Bonds.**

**The Projects.** Net proceeds of the Bonds not used for refunding of the 1991 Bonds are expected to be used for City capital improvements and to make a loan to the City's redevelopment agency for the purpose of assisting in the financing of programs, projects and activities relating to the Project Area No 2, which includes the downtown area of the City.

## ESTIMATED SOURCES AND USES OF FUNDS

The Trustee will receive the proceeds from the sale of the Bonds, upon delivery of the Bonds to the purchasers thereof, and will use such proceeds, exclusive of accrued interest, as set forth in the following table.

Sources:	
Par Amount of Bonds	\$11,475,000.00
Plus: Net Original Issue Premium	<u>4,573.30</u>
<i>Total Sources:</i>	11,479,573.30
Uses:	
Deposit to Escrow Fund	\$ 5,674,822.97
Deposit to Project Fund	4,390,000.00
Deposit to Reserve Fund	1,077,052.50
Deposit to Costs of Issuance Fund (1)	<u>337,697.83</u>
<i>Total Uses:</i>	11,479,573.30

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(1) Includes legal, financial advisory, rating agency and printing costs, underwriter's discount, bond insurance premium and other miscellaneous costs of issuance.

## THE LEASED PROPERTY

Under the Lease, the City leases the Leased Property from the Authority. The Leased Property consists of the following real properties, which may be substituted or removed by the City upon satisfaction of certain conditions set forth in the Lease. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Substitution or Removal of Leased Property" below.

***The Leased Property.*** The property to be subleased by the Authority and then sub-leased back to the City under the terms of the Lease Agreement consists of the following properties located within the City:

<u>Property</u>	<u>Lot Size (Acres)</u>	<u>Description</u>
Main Library	2.83	45,028 square foot main library completed in 1998 and the adjacent parking lots
Fire Station No. 1	.76	23,457 square foot main fire station with fire administration offices completed in 1987
Red Morton Park	19.67	City park (includes community center located in the park)

## THE BONDS

### General

The Bonds are special obligations of the Authority, payable from and secured by Revenues (as defined herein) of the Authority, which consist primarily of the Lease Payments to be made by the City to the Authority for the right to the use of the Leased Property pursuant to the Lease Agreement.

Interest represented by the Bonds will accrue at the applicable interest rate from the Dated Date until its date of maturity or prior redemption, with interest becoming payable on each January 15 and July 15 (each, an “**Interest Payment Date**”), commencing July 15, 2004. The Bonds will bear interest (calculated on the basis of a 360-day year consisting of twelve 30-day months) from the Interest Payment Date next preceding the date of authentication thereof, unless such date of authentication is on or after the fifteenth day of the calendar month prior to an Interest Payment Date, in which case they shall bear interest from such Interest Payment Date, or unless such date of authentication is on or before July 15, 2004, in which case they shall bear interest from the Closing Date.

### Registration, Transfers and Exchanges

The Bonds will be issued as fully registered Bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”), and will be available to actual purchasers of the Bonds (the “**Beneficial Owners**”) in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined herein). Beneficial Owners will not be entitled to receive physical delivery of the Bonds. In the event that the book-entry-only system is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Indenture. See “APPENDIX E – DTC and the Book-Entry System” below.

### Redemption

**Optional Redemption of Serial Bonds.** The Bonds maturing on or before July 15, 2013, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after July 15, 2014 (excluding the Bonds maturing on July 15, 2018 which are callable on any date, as described below) are subject to optional redemption on any date on or after July 15, 2013, in whole or in part, from prepayments of the Lease Payments made at the option of the City pursuant to the Lease Agreement, at a redemption price equal to the principal amount thereof to be redeemed, without premium, together with accrued interest to the redemption date.

**Optional Redemption of Term Bonds of 2018.** The Bonds maturing on July 15, 2018, are subject to optional redemption on any date, in whole or in part, from prepayments of the Lease Payments made at the option of the City pursuant to the Lease Agreement, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest to the redemption, without premium.

**Special Redemption in the Event of Destruction or Condemnation.** The Bonds are subject to redemption, in whole or in part on any date, from the Net Proceeds of insurance or condemnation with respect to the Leased Property, which Net Proceeds are deposited in the Payment Fund and credited towards the prepayment of the Lease Payments made by the City pursuant to the Lease Agreement, at a redemption price equal to the principal amount of the

Bonds to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

**Mandatory Sinking Fund Redemption.** The Bonds maturing on July 15, 2018 are subject to mandatory redemption by lot, from sinking fund payments set forth in the following table on July 15, 2017, and on July 15, 2018, upon payment of a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption, as set forth in the following table; provided, however, that if some but not all of the Bonds have been redeemed pursuant to optional or special redemption, the total amount of sinking fund payments to be made subsequent to each redemption shall be reduced by an amount equal to the principal amount of the Bonds so redeemed by reducing each such future sinking fund payment by an amount which equals the integral multiple of \$5,000 nearest to the amount obtained by multiplying the principal amount of the Bonds so redeemed by the ratio of such future sinking fund payments to the total of all future sinking fund payments.

Redemption Date <u>(July 15)</u>	Principal <u>Amount</u>
2017	\$560,000
2018 (maturity)	940,000

**Purchase in Lieu of Redemption.** In lieu, or partially in lieu, of such call and redemption, moneys of the Authority may be used to purchase Outstanding Bonds. Purchases of Outstanding Bonds may be made by the Authority prior to the selection of Bonds for redemption by the Trustee, at public or private sale as and when and at such prices as the Authority may in its discretion determine but only at prices (including brokerage or other expenses) of not more than par plus applicable accrued interest and redemption premiums, and any accrued interest payable upon the purchase of Bonds may be paid from the amount in the Payment Fund for payment of interest on the following Interest Payment Date.

**Selection of Bonds to be Redeemed.** In the event that part, but not all, of the Bonds are to be redeemed (except for mandatory sinking fund redemption), the Bonds to be redeemed shall be selected by the Trustee pro rata among maturities (as nearly as practicable) and by lot within a maturity; provided, however, that, as shall be set forth in a Certificate of the Authority, the Bonds may be redeemed by any maturity or maturities selected by the City to correspond with Lease Payments prepaid by the City, and by lot within a maturity. For the purpose of the selection described in this Section, all Bonds registered in the name of the same Owner shall be aggregated and treated as a single Bond held by such Owner. Notwithstanding any of the foregoing, in any such partial redemption the Trustee shall call the Bonds in integral multiples of \$5,000.

**Notice of Redemption.** In the event any of the Bonds are called for redemption the Trustee shall give notice, in the name of the Authority, of the redemption, as the case may be, of such Bonds, which notice shall specify the Bonds to be redeemed, the redemption date, the redemption price and the place or places where amounts due upon such redemption will be payable (which shall be the Principal Office of the Trustee), and, in case of redemption, where less than all of the Bonds are to be redeemed, the numbers of the Bonds, and the portions of the Bonds so to be redeemed, and state that on the redemption date, the Bonds to be redeemed shall cease to bear interest. Such notice may set forth any additional information relating to such redemption. Such notice shall be given by Mail at least 30 days prior to the date fixed for redemption to the Owners of the Bonds to be redeemed; provided, however, that failure to give such notice by Mail to any Owner, or any defect therein, shall not affect the validity of any proceedings for the redemption of any other of the Bonds.

In the event of a redemption for which the Trustee does not have monies available to redeem the entire amount scheduled for redemption, the Trustee shall redeem Bonds of the applicable maturity or maturities by lot up to a principal amount equal to the available monies.

***Transfer and Exchange of Bonds.*** *The following provisions regarding the exchange and transfer of the Bonds apply only during any period in which the Bonds are not subject to DTC's book-entry system. While the Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See "Book-Entry Only System."*

Each Bond shall be transferable only upon a register of the names of each Owner (the "Bond Register"), which shall be kept for that purpose at the corporate trust office of the Trustee (the "Trust Office"), by the Owner thereof in person or by his or her attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or his or her duly authorized attorney. Upon the transfer of any such Bond, the Trustee shall provide in the name of the transferee, a new Bond or Bonds, of the same aggregate principal amount, interest rate and maturity as the surrendered Bonds (unless there has occurred a partial redemption of such Bond pursuant to the Indenture, in which case the principal amount of the new Bond shall be equal to the unredeemed principal amount of the Bond submitted for transfer).

The Trustee shall deem and treat the person in whose name any Outstanding Bond shall be registered upon the Bond Register as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes, and all such payments so made to any such Owner or upon his or her order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary. The Authority agrees to indemnify and save the Trustee harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence under the Indenture, in so treating such Owner.

In all cases in which the privilege of exchanging or transferring Bonds is exercised, the Trustee shall execute and deliver Bonds in accordance with the provisions of the Indenture. All Bonds surrendered in any such exchanges or transfers shall forthwith be canceled by the Trustee. For every such exchange or transfer of Bonds, whether temporary or definitive, the Authority and the Trustee may make a charge sufficient to reimburse any of them for any tax, fee or other governmental charge, other than one imposed by the Authority, required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. The cost of preparing each new Bond and any other expenses of the Authority or the Trustee incurred in connection therewith (except any applicable tax, fee or other governmental charge other than one imposed by the Authority) shall be paid by the Authority. The Trustee shall not be obliged to effect any exchange or transfer of any Bond during the period after the mailing of notice calling such Bond or a portion thereof for redemption, nor during the fifteen (15) days preceding the giving of such notice of redemption.

## LEASE PAYMENT SCHEDULE

Following is the annual schedule of Lease Payments due with respect to the Bonds and the 1998 Bonds (assuming no optional redemption of the Bonds). Lease Payments are due on the first day of the month prior to each Interest Payment Date

Year Ending June 30	2003 Principal Component	2003 Interest Component	2003 Annual Total	1998 Lease Payment	1998/2003 Annual Total
2004	-	-	-	\$ 194,729	\$ 194,729
2005	\$670,000	\$401,437.85	\$1,071,437.85	1,216,713	2,288,150
2006	715,000	355,533.76	1,070,533.76	1,215,268	2,285,801
2007	735,000	337,408.76	1,072,408.76	1,216,558	2,288,966
2008	750,000	318,846.26	1,068,846.26	1,210,538	2,279,384
2009	770,000	299,846.26	1,069,846.26	1,207,389	2,277,235
2010	795,000	279,786.88	1,074,786.88	1,204,250	2,279,037
2011	820,000	257,052.50	1,077,052.50	1,205,875	2,282,928
2012	340,000	239,312.50	579,312.50	1,711,750	2,291,063
2013	750,000	220,747.50	970,747.50		970,748
2014	775,000	193,091.25	968,091.25		968,091
2015	805,000	163,265.00	968,265.00		968,265
2016	835,000	131,270.00	966,270.00		966,270
2017	870,000	97,170.00	967,170.00		967,170
2018	905,000	60,447.50	965,447.50		965,448
2019	940,000	20,562.50	960,562.50		960,563

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### Revenues

The Bonds are special limited obligations of the Authority, payable solely from and secured by Revenues (as defined herein) of the Authority consisting primarily of Lease Payments received by the Authority from the City. The Lease Payments are due under the Lease Agreement on the payment date or prepayment date of such Bond, and the interest component of all Lease Payments (based on the stated interest rate with respect to such Bond)

Under the Indenture, “**Revenues**” are defined as (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreement, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments and any late charges), prepayments of Lease Payments, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund, but excluding any Additional Payments, and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture.

*The obligation of the Authority to pay principal of and interest on the Bonds and the other amounts due under the Indenture is a special obligation of the Authority payable solely from the moneys legally available therefor under the Indenture, and does not constitute a debt of the Authority or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.*

The Authority, pursuant to the Indenture, transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Lease Agreement (except for the right to receive any Additional Payments to the extent payable to the Authority and certain rights to indemnification set forth therein). The City will pay Lease Payments directly to the Trustee, as assignee of the Authority. The Lease Payments will be deposited into the Lease Payment Account and the Redemption Account within the Payment Fund created under the Indenture. The Trustee shall transfer the money contained in the Lease Payment Account and the Redemption Account to pay in full principal of and interest on the Bonds on each Interest Payment Date.

All moneys in the Lease Payment Account shall be used and withdrawn by the Trustee solely for the purpose of paying principal of and interest on the Bonds on each Interest Payment Date or mandatory redemption dates, as applicable.

### Lease Payments

For the right to the use and occupancy of the Leased Property, the Lease Agreement equires the City to make Lease Payments. Scheduled Lease Payments relating to the Bonds are due on the first day of the month prior to each Interest Payment Date. Annual Lease Payments are set forth above under the heading “LEASE PAYMENT SCHEDULE.” The City is also obligated for lease payments under the 1998 Lease through 2011. See “LEASE PAYMENT SCHEDULE” above. The Lease Agreement provides that the amount of Lease Payments will be subject to abatement during any period in which by reason of damage or destruction there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof. See “Abatement” below.

THE OBLIGATION OF THE CITY TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OR OF ANY POLITICAL

SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

**Additional Payments.** The City is obligated under the Lease Agreement to pay when due, during the term of the Lease Agreement, in addition to the Lease Payments, (i) all costs and expenses incurred by the Authority to comply with the provisions of the Indenture, including without limitation, all Costs of Issuance (as defined in the Indenture) (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), (ii) indemnification, compensation and expenses due to the Trustee and the Bond Insurer, and (iii) and all reasonable costs and expenses of attorneys, auditors, engineers and accountant (the “**Additional Payments**”). Such costs and expenses shall be payable as additional amounts of rental in consideration of the right of the City to the use and occupancy of the Leased Property. *Amounts payable to holders of the Bonds are not derived from Additional Payments.*

### **Covenant to Appropriate Funds for Lease Payments**

In the Lease Agreement, the City covenants to take such action as may be necessary to include all Lease Payments due under the Lease Agreement in each of its budgets during the term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments, except to the extent such Lease Payments are payable from amounts on deposit in the Lease Payment Fund.

### **Action on Default**

Should the City default under the Lease Agreement, the Trustee, as assignee of the Authority under the Lease Agreement, may exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything in the Lease Agreement or in the Indenture to the contrary, there is no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. The Authority and the Trustee (as assignee of the Authority) may terminate the Lease and re-lease all or any portion of the Leased Property. See “RISK FACTORS - Limited Recourse on Default” herein.

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Authority) contained in the Lease Agreement and the Indenture, see “APPENDIX A – Summary of Principal Legal Documents” herein.

### **Reserve Fund**

A Reserve Fund (the “**Reserve Fund**”) is established pursuant to the Indenture and will be held by the Trustee in trust for the benefit of the Owners of the Bonds and shall initially be funded, and shall continuously be funded, in an amount equal to the Reserve Requirement.

The “**Reserve Requirement**” is defined as the lesser of (i) 10% of the original principal amount of the Bonds, (ii) an amount equal to maximum annual Debt Service payable by the Authority between the date of such calculation and the final maturity of the Bonds, or (iii) 125% of average annual Debt Service payable under the Indenture.

If, two Business Days prior to any Interest Payment Date, the money in the Payment Fund does not equal the amount required to be paid to the Bond Owners on such date, the

Trustee shall transfer from the Reserve Fund to the Payment Fund the amount of such insufficiency to make delinquent Lease Payments on behalf of the City.

In lieu of making the Reserve Fund deposits, or in replacement of moneys then on deposit in the Reserve Fund, the Authority may, with the prior written consent of the Bond Insurer, deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in the highest rating categories of Moody's and S&P, in an amount, together with moneys, or surety bonds or insurance policies (as described below) on deposit in the Reserve Fund, equal to the Reserve Requirement. Such letter of credit shall have an original term of no less than three years or, if less, the final maturity of the Bonds and such letter of credit shall provide by its terms that it may be drawn upon as provided in the Indenture. See "APPENDIX A - Summary of Principal Legal Documents."

## **Insurance**

*The Lease Agreement constitutes a sublease of interests of the City and the Authority under a lease entered into in 1998 in connection with the 1998 Bonds. U.S. Bank National Association, as trustee under the 1998 Bonds, will continue to have a first priority lien on the Leased Property with regard to obligations created in connection with the 1998 Bonds. Accordingly, the Trustee will have a subordinate interest in the Net Proceeds of insurance or condemnation with respect to the Leased Property. See "THE FINANCING PLAN."*

The City agrees in the Lease Agreement that for the term of the Lease Agreement it will maintain insurance with respect to the Leased Property against the risks and in the amounts described in the following paragraphs.

**Comprehensive General Liability Insurance.** Under the Lease Agreement, the City is required to maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard comprehensive commercial general insurance policy or policies in protection of the Authority, City, Trustee and their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$5,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$100,000 (subject to a deductible clause of not to exceed \$25,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$5,000,000 per occurrence covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City or through a joint powers authority created for such purpose. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the proceeds of such insurance shall have been paid.

**Fire and Extended Coverage Insurance.** Under the Lease Agreement, the City is required to procure and maintain, or cause to be procured and maintained, insurance against loss or damage to any structures constituting any part of the Leased Property by flood, earthquake, fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to one hundred percent (100%) of the replacement cost of the Leased Property or Outstanding Bonds and 1998 Bonds, whichever is less. However, with respect to earthquake insurance, such insurance shall

be carried only if available from reputable insurers at a reasonable cost as determined by the Finance Director of the City. Other fire and extended coverage insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss.

Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage carried by the City and may be maintained in whole or in part in the form of self-insurance by the City or through participation by the City in a joint powers authority for such purpose.

**Rental Interruption Insurance.** The City shall procure, and maintain through the remainder of the term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any structures constituting any part of the Leased Property during the remainder of the term of the Lease Agreement as a result of any of the hazards covered in the insurance required by the Lease Agreement and which causes abatement of the Lease Payments, in an amount at least equal to the maximum amount of Lease Payments due in any succeeding two successive Rental Periods. In the Lease Agreement, the City assigns to the Authority all right of the City to collect and receive Net Proceeds under any of said policies, which right has been assigned by the Authority to the Trustee pursuant to the Indenture. The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund and shall be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

The City is permitted to self-insure for rental interruption or use and occupancy insurance required above, so long as certain conditions are met, as specified by the Lease Agreement. See "APPENDIX A – Summary of Principal Legal Documents."

**Title Insurance.** The City shall cause to be delivered on the Closing Date a CLTA title insurance policy with respect to the Leased Property, in a principal amount at least equal to the principal amount of the Bonds, insuring the City's leasehold interest in the Leased Property naming the Authority and the Trustee as beneficiaries.

**Form of Insurance Policies.** Each policy of insurance shall provide that all proceeds thereunder shall be payable to the Trustee and applied as provided in the Lease Agreement. All policies of insurance required by the Lease Agreement and any statements of self-insurance shall be in form satisfactory to the Bond Insurer and the Authority. The City shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement. All such policies shall provide that the Trustee shall be given thirty days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby.

The Trustee shall not be responsible for the sufficiency of any insurance required by the Lease Agreement and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee. The City shall cause to be delivered to the Trustee and the Bond Insurer annually, within 30 days of the end of the Fiscal Year, a certificate stating that the insurance policies required by the Lease Agreement are in full force and effect.

**Net Proceeds of Eminent Domain Proceedings.** If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Leased Property is taken permanently, or if the Leased Property or any part thereof is taken temporarily, under the power of eminent domain, (i) the Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (ii) there shall be a partial abatement of Lease Payments as a result of the application of

the Net Proceeds of any eminent domain award to the redemption of the Lease Payments under the Lease Agreement, in an amount to be agreed upon by the City and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Property. The City covenants to contest any eminent domain award which is insufficient to either: (i) redeem the Bonds and the 1998 Bonds in whole, if all of the Leased Property is condemned; or (ii) redeem a pro rata share of Bonds and 1998 Bonds, in the event that less than all of the Leased Property is condemned. See RISK FACTORS - Priority of Lease Agreement Upon Destruction of Leased Property or Eminent Domain” below. See also “Abatement” below.

### **Substitution of Leased Property**

The City may, at its option at any time and from time to time during the term of the Lease Agreement, substitute other land ("**Substitute Sites**") and substitute facilities, which facilities may not be equipment ("**Substitute Facilities**") for all or any portion of the Leased Property, provided that the City satisfies certain requirements, including that the City file with the Authority, the Trustee and the Bond Insurer a new appraisal prepared by an MAI appraiser setting forth the appraised value of the Substitute Sites and the Substitute Facilities, which appraised value, together with the appraised value of all other facilities and sites subject to the Subordinate Lease Agreement, shall be no less than the cumulative Outstanding principal amount of the Bonds, and any Additional Bonds. See "APPENDIX A - Summary of Legal Documents – Substitution for the Leased Property"

### **Abatement**

The Lease Agreement provides that the amount of Lease Payments will be subject to abatement during any period in which by reason of damage or destruction (other than by eminent domain which is hereinbefore provided for) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof. The amount of such abatement shall be agreed upon by the City and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property not damaged or destroyed. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate this Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments to the extent that the proceeds of an eminent domain or insurance award, including self-insurance, are available to pay Lease Payments or to the extent that moneys are available in the Lease Payment Fund or the Reserve Fund.

### **Additional Bonds**

The Lease Agreement provides that in addition to the Bonds, the Authority may by Supplemental Indenture, establish one or more other issues of bonds ("**Additional Bonds**") ranking on a parity with the Bonds and secured by Revenues on a parity with the Bonds, upon compliance by the Authority with the provisions of the Indenture, which include the following:

(a) The Lease Agreement shall have been amended, if necessary, to (i) increase or adjust the Lease Payments due and payable on each Lease Payment Date to an amount sufficient to pay the principal, premium (if any) and interest payable with respect to all Outstanding Bonds, including all Additional Bonds as and when, if any, the same mature or become due and payable (except to the extent such principal, premium and interest may be payable out of moneys then in the Reserve Fund or otherwise on deposit with the Trustee in accordance with the Indenture), (ii) if appropriate, amend the definition of Leased Property to

include as part of the Leased Property all or any portion of additions, betterments, extensions, improvements or replacements, or such other real or personal property (whether or not located upon the Leased Property as such Leased Property is constituted as of the date of the Indenture), to be financed, acquired or constructed or otherwise made subject to the Lease Agreement, by the preparation, execution and delivery of such Additional Bonds, and (iii) make such other revisions to the Lease Agreement as are necessitated by the execution and delivery of such Additional Bonds (provided, however, that such other revisions shall not prejudice the rights of the Owners of Outstanding Bonds as granted them under the terms of the Indenture); and

(b) Upon the execution and delivery of such Additional Bonds, the amount on deposit in the Reserve Fund shall be at least equal to the Reserve Requirement, or in a reserve fund established under such Supplemental Indenture taking into account the execution of the Additional Bonds; and

### **FINANCIAL GUARANTY INSURANCE POLICY**

The following information has been furnished by Ambac Assurance for use in this Official Statement. Such information has not been independently confirmed or verified by the City. No representation is made herein by the City as to the accuracy or adequacy of such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to Appendix F for a specimen of the Financial Guaranty Insurance Policy.

#### **Payment Pursuant to Financial Guaranty Insurance Policy**

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Paying Agent. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a bondholder by or on behalf of the City has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final,

nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

- (1) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
- (2) payment of any redemption, prepayment or acceleration premium.
- (3) nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bonds, appurtenant coupon, if any, or right to payment of principal or interest on such Bonds and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

### **Ambac Assurance Corporation**

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$6,993,000,000 (unaudited) and statutory capital of \$4,195,000,000 (unaudited) as of September 30, 2003. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds. No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Policy due to nonappropriation of funds by the Lessee.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

- 1) The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
- 2) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
- 3) The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
- 4) The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
- 5) The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
- 6) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;
- 7) The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;
- 8) The Company's Current Report on Form 8-dated April 17, 2003 and filed on April 21, 2003;

- 9) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003;
- 10) The Company's Current Report on Form 8-K dated July 17, 2003 and filed on July 18, 2003;
- 11) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2003 and filed on August 14, 2003;
- 12) The Company's Current Report on Form 8-K dated October 16, 2003 and filed on October 17, 2003; and
- 13) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2003 and filed on November 14, 2003

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

## **RISK FACTORS**

*The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating purchase of the Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Bonds. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.*

### **General Considerations – Security for the Bonds**

The obligation of the City to make the Lease Payments does not constitute a debt of the City or the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City or the State is obligated to levy or pledge any form of taxation or for which the City or the State has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay the Lease Payments from any source of legally available funds. The City has covenanted in the Lease Agreement that it will take such action as may be necessary to include all rental payments due under the Lease Agreement in its annual budgets and to make necessary annual appropriations for all such rental payments. The City is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Lease Payments.

The City has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Lease Payments and other payments due under the Lease Agreement.

The City's ability to collect, budget and appropriate various revenues is subject to current and future State laws and constitutional provisions, and it is possible that the interpretation and application of these provisions could result in an inability of the City to pay the Lease Payments when due. See "RISK FACTORS – State Budget Deficit" below and

## **“CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” herein.**

### **Limited Recourse on Default; No Acceleration**

If the City defaults on its obligation to make Lease Payments, there is no available remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement. The City will only be liable for Lease Payments on an annual basis, and the Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year’s rental payments.

### **Limitation on Remedies; Bankruptcy**

The rights of the Owners of the Bonds are subject to the limitations on legal remedies against cities and counties in the State, including State constitutional limits on expenditures and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest, by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws affecting the enforcement of creditors’ rights, by equitable principles, by the exercise of judicial powers in appropriate cases and by the exercise by the federal and State governments of their sovereign powers. The opinions of counsel, including Bond Counsel, delivered in connection with the Bonds will be so qualified. Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs the bankruptcy proceedings for public agencies such as the City, there are no involuntary petitions in bankruptcy. Bankruptcy proceedings, if initiated, or the exercise of powers by the federal or state government, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy proceedings or otherwise and consequently may entail risk or delay, limitation or modification of their rights.

### **Priority of Lease Agreement Upon Destruction of Leased Property or Eminent Domain**

As discussed under the heading “THE FINANCING PLAN,” the Lease Agreement constitutes a sublease of interests of the City and the Authority under a lease entered into in 1998 in connection with the 1998 Bonds. U.S. Bank National Association, as Trustee under the 1998 Bonds, will continue to have a first priority lien on the Leased Property with regard to obligations created in connection with the 1998 Bonds. Accordingly, the Trustee will have a subordinate interest in the Net Proceeds of insurance or condemnation with respect to the Leased Property. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Insurance.”

### **Abatement**

The City’s obligation to pay Lease Payments will be subject to abatement during any period in which by reason of damage or destruction there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction.

### **State Budget Deficit**

The State of California is currently experiencing severe financial and budgetary stress, which resulted in an approximate \$38 billion State General Fund deficit for fiscal year 2003-04 at the time the State budget was being prepared. On August 2, 2003, then-Governor Davis signed the 2003-04 State Budget into law. The State Budget includes significant cutbacks affecting local agencies, including the City and has had an impact on the City’s budget and financial planning for the future. A State General Fund budget deficit is expected to arise in one

or more future years and the potential impact of future budget legislation could be material to the City.

### **Loss of Tax Exemption**

As discussed under the heading “TAX MATTERS,” the interest represented by the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Bonds as a result of acts or omissions of the City in violation of its covenants in the Indenture and the Lease Agreement. Should such an event of taxability occur, the Bonds would not be subject to a special prepayment and would remain Outstanding until maturity or until prepaid under the prepayment provisions contained in the Indenture.

### **Seismic Considerations**

The City, like much of California, is subject to seismic activity that could result in interference with its right to use and possession of the Leased Property. There is no evidence that a ground surface rupture will occur in the event of an earthquake, but there is significant potential for destructive ground-shaking during the occurrence of a major seismic event. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such an event. In the event of a severe earthquake, there may be significant damage to property and infrastructure in the City and to the Leased Property. In addition, the value of land in the City as well as the Leased Property could be diminished in the aftermath of such an earthquake, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of property taxes.

### **No Liability of Authority to the Owners**

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners of the Bonds with respect to the payment when due of the Lease Payments by the City, or with respect to the performance by the City of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS**

### **Article XIII A of the California Constitution**

In 1978, California voters approved Proposition 13, adding Article XIII A to the California Constitution. Article XIII A was subsequently amended in 1986, as discussed below. Article XIII A limits the amount of any *ad valorem* tax on real property to 1% 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 on bonded indebtedness for the acquisition or improvement of real property which 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” or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed 2% 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.

***Pending Litigation Regarding 2% Limitation.*** In a Minute Order issued on November 2, 2001 in *County of Orange v. Orange County Assessment Appeals Board No. 3*, case no. 00CC03385, the Orange County Superior Court held that where a home’s taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the two percent inflation adjustment provision of Article XIII A, when the assessor tried to “recapture” the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties, including the County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values.

On December 27, 2001 the Orange County Superior Court issued an order declaring the practice of “recapturing” to be unconstitutional. That order only applies to one property in Seal Beach. A second issue of “class action” was requested to be reviewed by the court and on December 12, 2002, the Superior Court certified class action status for this case, which could have the effect of extending this ruling to other similar cases. A third issue addressed by the court is related to notification to the taxpayers by the Tax Collector. On January 20, 2003, the Superior Court granted the motion for the Tax Collector to give some type of notice to taxpayers. The court put on hold this order pending final appellate review and a ruling on the “recapture” issue. The court entered a Final Judgment on April 18, 2003 and the case is now released from the local court. In 2002 two local courts (Los Angeles and San Diego) ruled differently on the “recapture” issue. Therefore, the issues of uniformity and equal protection for each taxpayer statewide must be addressed. When local courts differ, the subject matter is often subject to a uniformity review. Orange County, the Orange County Tax Collector and the Orange County Assessor have appealed the Superior Court ruling to State appellate courts. This appeal process can take 1-2 years to complete.

### **Article XIII B of the California Constitution**

At the statewide special election on November 6, 1979, the voters approved an initiative entitled “Limitation on Government Appropriations” which added Article XIII B to the California Constitution. Under Article XIII B, state and local government entities have an annual “appropriations limit” which limits the ability to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues and certain state subventions together called “proceeds of taxes” and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriation of monies which are excluded from the definition of “appropriations limit” including debt service on indebtedness existing or authorized as of September 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 the consumer price index, population and services provided by these entities. Among other provisions of Article XIII B, if those 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.

### **Proposition 62**

Proposition 62 was a statutory initiative adding Sections 53720 to 53730, inclusive, to the California Government Code. It confirmed the distinction between a general tax and special tax, established by the State Supreme Court in 1982 in *City and County of San Francisco v. Farrell*, by defining a general tax as one imposed for general governmental purposes and a

special tax as one imposed for specific purposes. Proposition 62 further provided that no local government or City may impose (i) a general tax without prior approval of the electorate by majority vote or (ii) a special tax without such prior approval by two-thirds vote. It further provided that if any such tax is imposed without such prior approval, the amount thereof must be withheld from the levying entity's allocation of annual property taxes for each year that the tax is collected. By its terms, Proposition 62 applies only to general and special taxes imposed on or after August 1, 1985. In September 1995, the California Supreme Court invalidated a one-half cent sales tax imposed in 1986 by 54.0% of Santa Clara County's voters to fund local transportation projects (*Santa Clara County Local Transportation Authority v. Guardino*). The Court determined that the tax was a "special tax", one whose proceeds are dedicated to a special purpose (in this case, transportation). Consequently, the California Constitution required a two-thirds voter approval. The Court relied in part upon the provisions of Proposition 62, even though the California Appellate Courts had previously ruled Proposition 62 unconstitutional in most respects. The City believes that loss of amounts equal to the general fund revenues derived from general taxes imposed on or after August 1, 1985, either retroactively and/or prospectively, would not adversely affect the City's ability to pay the Lease Payments.

### **Proposition 218**

In 1996, California voters approved Proposition 218, which added Articles XIIC and XIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIIA of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to the California Constitution, and (iii) assessments, fees and charges for property related services as provided in Proposition 218. Proposition 218 further adds voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings.

Proposition 218 also provides that the constitutional initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local taxes, assessments, fees and charges. This provision with respect to the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218. However, on July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code 5854, which states:

Section 3 of Article XIIC of the California Constitution, as adopted at the November 5, 1996 general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual

rights protection by Section 10 of Article I of the United States Constitution.

As a result, although no court has yet considered the relationship between Section 5854 and Article XIII C, it is likely that Proposition 218 has not conferred on the voters the power to repeal or reduce taxes, assessments, fees or charges if such reduction would interfere with the City's payment of Lease Payments.

### **Unitary Property**

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 fiscal year, will be allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

### **Future Initiatives**

Article XIII A, Article XIII B, Proposition 62 and Proposition 218 were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues.

## **THE AUTHORITY**

The Authority was formed on June 10, 1991 pursuant to the Act for the purpose of implementing the construction, acquisition, maintenance and improvement of public facilities and infrastructure within the City. Among the powers expressly granted to the Authority is the power to acquire property and to borrow money to provide funds for the construction, acquisition, maintenance or improvement of public facilities and infrastructure and to issue in its name revenue bonds to evidence the indebtedness created by such borrowing. The City Council of the City acts as the governing body of the Authority, and the Mayor acts as its Chairperson.

## **THE CITY**

### **General**

The City is located in the San Francisco Bay Area 25 miles south of San Francisco in San Mateo County. The county seat was established in 1856 in the location that came to be known as, and was incorporated in 1867 as, the City of Redwood City. The City combines residential, industrial, and commercial elements in a largely urban environment. Its waterfront provides a yacht harbor and the only deep-water port in the South Bay. A wide variety of housing types are available.

The City, as the county seat of the County, contains offices for many of the County's 4,000 employees. The City's economy is well diversified, with a strong industrial and commercial base. The City is traversed by U.S. 101 and a major railroad. The Port of Redwood City handles bulk cargo.

The County is one of nine counties comprising the economic geographic unit known as the San Francisco Bay Area. Long regarded as a "bedroom" area for employed persons commuting to San Francisco, the County now houses many large employers who provide increasing job opportunities for County residents. The local economy is well-balanced and diversified. San Francisco International Airport is located in the County, generating the construction of many hotels and motels in the area east of U.S. 101 in recent years.

### **Municipal Government**

The City Council consists of seven members, elected by the voters of the City to staggered terms of four years each.

The City Council is the only body elected directly by the residents of Redwood City. As the legislative branch of the government, it makes final decisions on all major city matters. The Council adopts ordinances and resolutions necessary for efficient governmental operations, approves the budget, and acts as a board of appeals. It appoints the City Manager, City Attorney, and City Clerk and also most members of the City's boards, committees and commissions.

The current members of the City Council are as follows:

<u>Name and Office</u>	<u>Current Term Expires</u>
Jeff Ira, <i>Mayor</i>	November 2005
Barbara Pierce, <i>Vice Mayor</i>	November 2007
Ian Bain, <i>Councilmember</i>	November 2007
Rosanne Foust, <i>Councilmember</i>	November 2007
Jim Hartnett, <i>Councilmember</i>	November 2005
Diane Howard, <i>Councilmember</i>	November 2005
Ira Ruskin, <i>Councilmember</i>	November 2007

The City Manager is appointed by the City Council. Brief resumes of the City Manager, the Director of Finance and the Financial Services Manager are shown below.

**Edward P. Everett, City Manager.** Mr. Everett has been City Manager of Redwood City since 1992. Prior to that, he was the City Manager of the City of Belmont for 8 years. He has over 30 years experience in city and county government. His educational background includes a Bachelor's degree in Economics from the University of California at Davis and a Master's in Urban Affairs from Princeton University.

**Brian J. Ponty, Director of Finance and Financial Planning.** Mr. Ponty has served as the Director of Finance and Financial Planning for the City since 1993. From 1985 to 1993, Mr. Ponty was the City's Assistant Finance Director. As Finance Director, Mr. Ponty leads a 31-member finance department consisting of three divisions, revenue services, information technology, and financial support operations for the City, with over \$100 million in annual revenues. Mr. Ponty has taught finance and accounting classes at Golden Gate University.

**Alison Freeman, Financial Services Manager.** Ms. Freeman has served as Financial Services Manager for the City since 2000. From 1991 to 2000 she was the Assistant Finance Director for the City of South San Francisco. Prior to that, Ms. Freeman served in various positions with other governmental agencies in California. Ms. Freeman holds a Bachelor of Science degree in Accounting from California State University, San Diego.

## Population

Population figures for the City, the County and the State of California for the last five years are shown in the following table.

### CITY OF REDWOOD CITY Population Estimates

<u>Year</u>	<u>City of Redwood City</u>	<u>County of San Mateo</u>	<u>State of California</u>
1999	76,700	724,400	33,766,000
2000	78,000	730,000	34,336,000
2001	75,800	712,400	34,385,000
2002	76,100	714,400	35,000,000
2003	76,000	717,000	35,591,000

*Source: State Department of Finance estimates (as of January 1)*

## Housing

The 2000 census reported 28,921 housing units within the City. The median value of owner-occupied non-condominium houses in April 1999 was \$490,718 compared with \$672,768 in the County. The median value of a condominium in the City was \$407,000.

## Income and Social Characteristics

Residents of the City generally realize above-average incomes and have above-average educational backgrounds. Professionals are attracted to the City because it is within convenient distance to major Bay Area work centers.

Effective buying income ("EBI") is designated by Sales and Marketing Management Magazine as personal income less personal tax and non-tax payments. Personal income is the aggregate of wages and salaries, other labor income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, personal interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local, non-tax payments (such as fines, fees, penalties), and personal contributions for social insurance. Effective buying income is a bulk measure of market potential. It indicates the general ability to buy and is essential in comparing, selecting and grouping markets on that basis. The following table demonstrates the growth in annual estimated EBI for the City, County, the State of California and the United States. Median household effective in the City in 2002 was \$57,487, as reported in Sales and Marketing Management 2002 Survey of Buying Power.

**CITY OF REDWOOD CITY AND SAN MATEO COUNTY**  
**Median Effective Buying Income**  
**As of January 1, 1998 through 2002**

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
1998	City of Redwood City	\$ 1,710,563	\$49,312
	County of San Mateo	16,207,690	50,511
	California	524,439,600	36,483
	United States	4,399,998,410	34,618
1999	City of Redwood City	\$ 1,874,993	\$52,769
	County of San Mateo	18,721,334	56,433
	California	590,376,663	39,492
	United States	4,877,786,658	37,233
2000	City of Redwood City	\$ 2,133,693	\$62,903
	County of San Mateo	20,511,353	65,565
	California	652,190,282	44,464
	United States	5,230,824,904	39,129
2001	City of Redwood City	\$ 2,152,934	\$62,335
	County of San Mateo	21,193,515	64,766
	California	650,521,407	43,532
	United States	5,303,481,498	38,365
2002	City of Redwood City	\$ 2,068,115	\$57,487
	County of San Mateo	20,903,988	60,071
	California	647,879,427	42,484
	United States	5,340,682,818	38,035

*Source: Sales & Marketing Management Survey of Buying Power.*

## Employment

The County is included in the San Francisco Metropolitan Statistical Area (MSA). The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 1998 through 2002. These figures are multi-county statistics and may not necessarily accurately reflect employment trends in the City.

**SAN FRANCISCO COUNTY METROPOLITAN STATISTICAL AREA  
(Including Marin, San Francisco and San Mateo Counties)  
Civilian Labor Force, Employment and Unemployment  
(Annual Averages)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Civilian Labor Force <sup>(1)</sup>	944,800	954,400	978,200	972,700	939,600
Employment	916,800	931,200	957,200	934,800	884,100
Unemployment	28,000	23,200	21,000	37,900	55,500
Unemployment Rate	3.0%	2.4%	2.1%	3.9%	5.9%
<u>Wage and Salary Employment:</u> <sup>(2)</sup>					
Agriculture	3,600	3,600	3,700	3,500	3,400
Natural Resources, Mining and Construction	40,000	43,200	45,800	47,600	45,500
Construction	39,600	42,900	45,900	47,600	45,500
Manufacturing	64,900	63,100	61,400	56,100	50,100
Wholesale Trade	34,400	33,000	32,100	31,100	29,400
Retail Trade	94,400	97,600	101,000	100,800	97,000
Transportation, Warehousing and Utilities	59,300	57,100	57,800	54,800	48,700
Information	40,700	48,500	63,300	60,000	49,500
Finance and Insurance	71,900	73,200	73,400	78,800	74,600
Real Estate and Rental and Leasing	24,200	23,800	23,800	23,200	22,300
Professional and Business Services	211,600	223,700	241,900	219,200	190,000
Educational and Health Services	98,200	99,400	95,300	96,000	97,600
Leisure and Hospitality	109,300	111,700	114,800	115,700	112,000
Other Services	40,700	40,300	40,300	40,300	39,200
Federal Government	24,400	24,300	25,400	22,300	22,200
State Government	23,400	23,600	27,200	29,000	29,800
Local Government	74,900	77,600	78,600	79,000	80,700
Total, All Industries	1,015,900	1,043,600	1,085,800	1,057,400	992,000

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

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

Source: State of California Employment Development Department.

## Largest Employers

High-tech computer and internet companies account for the largest job sector in the City area. Government is the next leading source of employment. The following table lists the major employers within the City as of January 2002.

### CITY OF REDWOOD CITY Major Employers As of January 2002

<u>Employer Name</u>	<u>Number of Employees</u>
Oracle Corporation	7,400
San Mateo County	2,200
Kaiser Permanente	1,800
Electronic Arts	1,200
Redwood City School District	1,050
Sequoia Hospital	1,100
Open Wave Systems	900
Informatica Corporation	1,000
Broad Vision	759
City of Redwood City	607
Tyco Electronics	400
Canada College	380
The 3Do Company	325
Ampex Corporation	300
Cosine Communications	300
Perclose	300
PDI/Dreamworks	300
ABD Insurance	280
Resound	250
Provident Credit Union	250

Source: Redwood City Chamber of Commerce.

**Construction Activity**

Building activity for the calendar years 1998 through 2002 in the City is shown in the following table.

**CITY OF REDWOOD CITY  
Building Permit Valuation  
(Valuation in Thousands of Dollars)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>Permit Valuation</u>					
New Single-family	\$43,301.6	\$12,871.0	\$ 1,677.0	\$ 3,319.0	\$ 2,506.3
New Multi-family	40,706.5	584.0	35,486.0	2,325.0	1,399.4
Res. Alterations/Additions	<u>12,154.9</u>	<u>23,670.8</u>	<u>18,784.2</u>	<u>19,827.0</u>	<u>20,719.8</u>
Total Residential	96,163.0	37,125.8	55,947.2	25,471.0	24,625.6
New Commercial	64,035.0	39,705.0	164,660.0	130,716.0	3,985.0
New Industrial	0.0	2,751.0	2,074.0	700.0	350.0
New Other	2,502.6	1,859.5	1,568.8	4,166.0	751.5
Com. Alterations/Additions	<u>55,605.7</u>	<u>58,355.6</u>	<u>74,530.3</u>	<u>68,654.0</u>	<u>42,871.0</u>
Total Nonresidential	122,143.3	102,674.1	242,833.1	204,236.0	47,957.6
<u>New Dwelling Units</u>					
Single Family	201	59	13	18	11
Multiple Family	<u>371</u>	<u>6</u>	<u>220</u>	<u>24</u>	<u>8</u>
TOTAL	572	65	233	42	19

Source: Construction Industry Research Board, Building Permit Summary.

**Utilities**

Natural gas, electric power and telephone service are provided by Pacific Gas & Electric Company and SBC, respectively. The City supplied water to 22,952 water customers in fiscal year 2001-02, and provides sewer services with 184 miles of sanitary sewers and 102 miles of storm sewers.

**Education**

Public education instruction in the elementary grades is provided by the Redwood City Elementary School District, which operates 17 elementary and intermediate schools, serving approximately 8,700 students in the City. Sequoia Union High School District, in addition to administrative offices, operates a high school, a continuation school and an adult school, serving approximately 1,500 students within the City limits.

Post-secondary public education is available at three community college campuses operated by the San Mateo County Community College District. Aggregate enrollment in the College of San Mateo in the City of San Mateo, Canada College in the City, and Skyline College in the City of San Bruno was approximately 28,900 in 2002.

Within less than an hour's drive of the City are San Francisco State University, University of San Francisco, Stanford University, the University of Santa Clara, Hayward State University, University of California at Berkeley and San Jose State University.

## **Public Safety**

The Redwood City Police Department has 97 law enforcement officers, 11 community service officers and 12 communication dispatchers. The Redwood City Fire Department has 65 firefighters and officers serving from five fire stations.

## **CITY FINANCES**

### **Budgetary Process and Administration**

The fiscal year of the City begins on the first day of July of each year and ends on the thirtieth day of June the following year. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds and capital project funds. Budgets for the general, special revenue, debt service and capital projects funds (except the General Improvement District 1-64 construction fund) are adopted on a basis consistent with generally accepted accounting principles, except for capital outlay in special revenue and capital projects funds which is budgeted on a project length basis. Budget requests are submitted by departmental managers to the City Manager for review. The City Manager and the Finance Director meet with department heads to review the requests and establish program objectives for the coming year. The City Manager then prepares his recommendations to the City Council and the Finance Director submits the financing plan to fund the recommended budget.

Each year the City adopts a resolution specifying the dates by which it must receive a proposed budget and adopt a final budget. The City Council usually receives the proposed budget by the first week of June and thereafter schedules one or two public study sessions to review the recommendations and obtain public comments. The Finance Director usually submits the City Council approved budget for final public hearing and adoption in mid-July.

From the effective date of the budget, the several amounts adopted as expenditures become appropriated to the several departments offices and agencies for the objects and purposes named. All appropriations lapse at the end of the fiscal year to the extent that they have not been expended or lawfully encumbered. At any public meeting after the adoption of the budget, the City Council may amend or supplement the budget by ordinance adopted with a majority vote of the members of the Council.

Each fiscal year the City Council employs an independent certified public accounting firm which examines the accounting records, internal controls and the financial statements. As soon as practicable after the end of each fiscal year, these financial statements and the independent accountant's report are submitted by the accounting firm to the City Council.

At the request of the department head through the City Manager, the City Council may, by resolution, transfer appropriations between subprograms and funds, but shall not change total appropriations. Any increase or decrease to the total appropriations provided for in the budget must be carried through by ordinance passed by the City Council. The City Manager may authorize the transfer of funds between object categories within a subprogram of a department.

For further information concerning the City's budgetary procedures, see the City's audited financial statements attached hereto as Appendix B.

A final budget for fiscal year 2003-04 was adopted in August 2003. Set forth in the following table is a summary of the adopted budget for fiscal year 2003-04. Actual results for fiscal year 2003-04 could vary significantly from the adopted budget for such year.

**CITY OF REDWOOD CITY  
General Fund Budget Summary  
Dollars in thousands**

	2003-04 <u>Adopted Budget</u>
Beginning Balance	14,364,932
Estimated Revenues	62,291,303
Transfer In/Out	<u>(5,532,074)</u>
Total Available	71,124,161
Total Expenditure	<u>(60,493,161)</u>
Ending Balance	10,631,000

*Source: City of Redwood City.*

**Summary Financial Information**

**GASB Statement No. 34.** The Governmental Accounting Standards Board (“GASB”) published its Statement No. 34 “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments” (“GASB 34”) on June 30, 1999. GASB 34 established a new framework or “financial reporting model” for state and local governments by requiring them to issue annual basic financial statements preceded and followed by required supplementary information. This required information replaces the general purpose financial statements previously required and provides for financial statements prepared using an economic measurement focus and accrual basis of accounting. The basic financial statements consist of (i) government-wide financial statements displaying information about the reporting government as a whole, (ii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting, which report information about major funds individually and nonmajor funds in the aggregate, and (iii) notes to the financial statements. The basic financial statements are followed by the required supplementary information and preceded by a management's discussion and analysis of the financial activities.

The requirements of Statement No. 34 are effective in three phases based on the governmental entity's total annual revenues for the fiscal year ending after June 30, 1999. The City implemented Statement No. 34 for the fiscal year 2001-02 audited financial statement.

Set forth below is a balance sheet for the City’s General Fund as of June 30 of the years 1999 through 2002 (audited), together with unaudited figures for 2003. Also set forth below is a table summarizing the City’s statement of revenues and expenditures for the fiscal years ended June 30, 1999 through 2002 (audited) and 2003 (unaudited). These results were compiled based on the City’s audited financial statements for the years ended June 30, 1998 through 2002, and the City’s records for 2003. The City’s audited financial statements for the year ended June 30, 2002 are included as Appendix B attached hereto and should be read in their entirety.

**CITY OF REDWOOD CITY**  
**General Fund Balance Sheet**  
**June 30, 1999 through 2002 (audited); 2003 (unaudited)**

	Audited <u>1999</u>	Audited <u>2000</u>	Audited <u>2001</u>	Audited <u>2002</u>	Unaudited <u>2003</u>
<b>ASSETS</b>					
Cash and investments	\$32,674,661	\$40,459,841	\$50,618,119	\$43,932,812	\$39,226,106
Receivables, net:					
Taxes and assessments- current	2,077,976	1,868,898	5,006,560	3,874,715	3,868,722
Accounts	873,509	988,697	1,345,667	1,430,625	1,545,033
Loans					3,185,175
Accrued interest	574,212	988,934	1,389,191	1,213,966	842,762
Due from other government agencies	495,593	500,235	863,177	1,520,708	1,395,519
Inventory of supplies at cost	378,883	398,488	398,690	408,800	348,135
Advances to other funds	1,196,170	408,746	250,700	90,700	375,167
Prepaid expenditures	<u>4,280</u>	<u>34,808</u>	<u>32,664</u>	<u>21,000</u>	<u>-</u>
<b>Total Assets</b>	<b><u>\$38,275,284</u></b>	<b><u>\$45,648,647</u></b>	<b><u>\$59,904,768</u></b>	<b><u>\$52,493,326</u></b>	<b><u>\$50,786,619</u></b>
<b>LIABILITIES</b>					
Accounts payable	\$ 1,213,701	\$ 1,229,139	\$1,708,022	\$1,730,133	\$2,034,290
Accrued payroll	1,443,836	1,673,647	1,797,048	2,522,375	2,646,480
Deposits payable	3,408,539	4,090,314	4,689,528	5,012,513	4,268,034
Deferred revenue	941,700	902,820	520,463	1,018,177	770,210
Accrued sick leave, vacation current	<u>1,704,808</u>	<u>1,950,426</u>	<u>2,038,062</u>	<u>1,148,444</u>	<u>1,688,857</u>
<b>Total Liabilities</b>	<b>8,712,584</b>	<b>9,846,346</b>	<b>10,753,123</b>	<b>11,431,642</b>	<b>11,407,871</b>
<b>FUND BALANCE</b>					
Reserved for encumbrances	299,639	296,028	812,688	1,334,455	550,698
Reserved for loans	--	--	--	--	3,185,175
Reserved for inventory	378,883	398,88	398,690	408,800	348,135
Reserved for prepaid expenses	4,280	34,808	32,664	21,000	--
Reserved for advances to other funds	1,196,170	408,746	250,700	90,700	375,167
General reserve	250,000	250,00	250,000	250,000	250,000
Unreserved:					
Designated for subsequent years expenditures	10,841,300	18,392,969	27,008,135	17,682,811	16,916,930
Designated for capital projects	11,263,235	11,466,275	11,958,075	11,857,688	11,013,405
Designated for childcare facility	--		3,200,000	3,200,000	--
Designated for street projects	2,484,956	1,848,967	2,680,768	3,810,728	3,710,493
Designated for library bequest	--	--	--	--	45,399
Designated for Sandpiper Park	2,844,237	2,706,020	2,559,925	2,405,502	2,242,277
Designated for realized/unrealized investment gains	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>741,069</u>
<b>Total Fund Balance</b>	<b><u>29,562,700</u></b>	<b><u>35,154,549</u></b>	<b><u>49,151,645</u></b>	<b><u>41,061,684</u></b>	<b><u>39,378,748</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$38,275,284</u></b>	<b><u>\$45,648,647</u></b>	<b><u>\$59,904,768</u></b>	<b><u>\$52,493,326</u></b>	<b><u>\$50,786,619</u></b>

Source: City of Redwood City Audited Financial Statements for the years ending June 30, 1999 through 2002; City of Redwood City for 2003.

**CITY OF REDWOOD CITY**  
**Statement of Revenues and Expenditures**  
**and Changes in Fund Balance**  
**General Fund**  
**Fiscal Years Ended June 30**

	Audited <u>2000</u>	Audited <u>2001</u>	Audited <u>2002</u>	Unaudited <u>2003</u>	Budget <u>2004</u>
Revenues:					
Property taxes/special assessments	\$13,946,925	\$15,403,664	\$18,673,524	\$18,975,013	\$18,618,602
Sales and other taxes	28,937,652	33,431,463	26,133,966	26,421,521	25,862,767
Licenses and permits	1,658,795	2,545,236	1,107,393	870,522	1,115,500
Fines, forfeitures and penalties	236,320	299,612	430,926	575,393	622,000
Use of money and property	2,354,470	2,833,534	2,873,869	2,292,735	2,151,675
Net increase in fair value of investments	(123,413)	735,731	56,734	121,804	
Intergovernmental	7,113,472	8,470,805	8,344,315	8,342,435	7,529,503
Charges for current services	5,341,490	5,863,272	5,672,757	6,055,323	5,600,839
Other	<u>1,276,835</u>	<u>939,937</u>	<u>601,723</u>	<u>914,467</u>	<u>790,417</u>
<b>Total Revenues</b>	<b><u>60,742,546</u></b>	<b><u>70,523,254</u></b>	<b><u>63,895,207</u></b>	<b><u>64,569,213</u></b>	<b><u>62,291,303</u></b>
Expenditures:					
Current Operations:					
Community development	4,283,030	5,007,510	5,150,813	7,436,499	7,530,540
Human services	905,058	1,033,662	1,200,528	1,258,218	1,209,022
Public safety	24,626,807	26,501,884	27,435,466	30,995,501	32,320,687
Transportation	--	175,577	180,064	182,418	188,577
Environmental support/protection	--	234,247	242,857	233,898	209,791
Leisure/cultural/information services	12,876,565	14,191,073	15,522,376	16,972,656	16,637,651
Policy develop. and implementation	3,521,166	3,875,339	4,127,784	2,391,402	2,396,893
Bond issuance costs	--	--	--	--	--
Capital Outlay	<u>--</u>	<u>--</u>	<u>243,391</u>	<u>--</u>	<u>--</u>
<b>Total Expenditures</b>	<b>46,212,626</b>	<b>51,019,292</b>	<b>54,103,279</b>	<b>59,470,592</b>	<b>60,493,161</b>
Excess of Revenues over (under) Expenditures	14,529,920	19,503,962	9,791,928	5,098,621	1,798,142
Other Financing Sources (Uses):					
Transfers in	745,678	740,061	881,324	1,000,015	1,610,606
Transfers out	(9,059,371)	(10,619,480)	(19,757,235)	(7,781,572)	(7,142,680)
Sale of property	23,374	2,270	--	--	--
Proceeds of bonds	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Total Other Financing Sources (Uses)</b>	<b>(8,290,319)</b>	<b>(9,877,149)</b>	<b>(18,875,911)</b>	<b>(6,781,557)</b>	<b>(5,532,074)</b>
Excess of revenues and other financing sources over (under) expenditures and other uses	6,239,601	9,626,813	(9,083,983)	(1,682,936)	(3,733,932)
Fund Balances at beginning of year	29,562,700	35,802,301	49,151,645	41,061,684	39,378,748
Adjustment	<u>--</u>	<u>3,722,531</u>	<u>994,022</u>	<u>--</u>	<u>--</u>
<b>Fund balances at end of year</b>	<b><u>\$35,802,301</u></b>	<b><u>\$49,151,645</u></b>	<b><u>\$41,061,684</u></b>	<b><u>\$39,378,748</u></b>	<b><u>\$35,644,816</u></b>

Source: City of Redwood City Audited Financial Statements for the years ending June 30, 1999 through 2002; City of Redwood City for 2003.

## Sales and Use Taxes

Sales and use taxes represent the largest source of tax revenue to the City.

A sales tax is imposed on retail sales or consumption of personal property. The tax rate is established by the State Legislature. Effective January 1, 2002, the aggregate tax rate in the State became 7.25%. An additional 1% is collected in San Mateo County for transportation purposes. The State collects and administers the tax, and makes distributions on taxes collected within the City as follows:

### CITY OF REDWOOD CITY Sales Tax Rates

State General Fund.....	6.00%
Local Rate.....	1.25
San Mateo County Transportation Authority.....	0.50
San Mateo County Transportation Transit District.....	<u>0.50</u>
Total.....	8.25%

The State's actual administrative costs with respect to the portion of sales taxes allocable to the City are deducted before distribution and are determined on a quarterly basis. Sales Tax revenue collected by the State is directly deposited monthly to the City's General Fund.

The following table shows sales tax revenues to the City since 1995. Sales taxes have increased 38% over the nine year period since 1995, peaking in 2001 at approximately \$20.8 million and subsequently declining approximately 25% to \$15 million in 2003. The City subscribes to several proprietary data sources to track sales and other tax data in order to assist it with budgeting and expenditure control. Based on these data sources, the City attributes the decline in sales taxes in general to a cyclical downturn in the local San Francisco Bay Area economy, and in particular to the loss of business to business sales tax revenue to the City. Over the two year period from 2001 to 2003 as measured by second quarter year over year results, the City's business to business component of sales taxes declined from approximately \$6.4 million in 2001 (approximately 35% of sales tax revenue) to approximately \$3 million in 2003 (approximately 21% of sales tax revenue). The City attributes this decline to lower business spending in response to nation-wide and local economic conditions, the going out of business of several business to business sales tax generators, a shift to the electronic delivery of business software in order to avoid sales taxes, and the relocation outside of the City's jurisdiction of several business to business sales tax generators. Although the City does expect sales tax revenues to recover gradually as economic conditions improve, the City does not expect its business to business component of its sales tax revenue to recover to its former level of concentration as a component of overall sales taxes.

**CITY OF REDWOOD CITY  
Annual Sales Tax Revenues**

<u>Fiscal Year</u>	<u>Sales Taxes</u>	<u>% Change</u>
1995	10,930,000	
1996	11,685,000	6.91%
1997	12,872,000	10.16
1998	13,531,000	5.12
1999	15,333,000	13.32
2000	18,254,000	19.05
2001	20,843,000	14.18
2002	14,938,000	-28.33
2003	15,090,000	1.02

Source: City of Redwood City

Total taxable transactions for the City, as reported State Board of Equalization, during calendar year 2002 amounted to \$1,409,584,000, a 14.3% decrease over the total taxable transactions of \$1,611,644,000 that were reported for calendar year 2001. A summary of historic taxable sales within the City for the past six years for which data is available is shown in the following table. No 2003 figures are currently available from the State.

**CITY OF REDWOOD CITY  
Taxable Retail Sales  
Number of Permits and Valuation of Taxable Transactions  
(Dollars in Thousands)**

	<u>Retail Stores</u>		<u>Total All Outlets</u>	
	<u>Number of Permits</u>	<u>Taxable Transactions</u>	<u>Number of Permits</u>	<u>Taxable Transactions</u>
1997	654	\$ 829,614	2,272	\$1,243,687
1998	688	873,262	2,248	1,395,600
1999	752	1,022,765	2,296	1,572,666
2000	794	1,205,497	2,278	1,931,727
2001	800	1,057,252	2,182	1,611,644
2002	866	972,615	2,203	1,409,584

Source: State Board of Equalization.

**Property Taxes**

Property taxes are levied for each fiscal year on taxable real and personal property as of the preceding January 1. For assessment and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed public utilities property and real property the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien dates and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Certain counties in the State of California, including San Mateo, offer a statutory program entitled Alternate Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"). Under the Teeter Plan local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the county. The County has elected not to apply the Teeter Plan to unsecured taxes; therefor the City's receipt of unsecured property taxes is subject to delinquencies.

**Assessed Valuation Information.** Set forth below is a listing of the City's assessed valuations, net of homeowners' and other exemptions, for fiscal years 1998-99 through 2002-03.

**CITY OF REDWOOD CITY**  
**Assessed Value of All Taxable Property**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>	<u>% Change</u>
1998-99	\$6,308,161,651	\$ 8,047,528	\$ 658,409,568	\$ 6,974,618,747	--
1999-00	7,041,944,164	7,011,450	632,577,219	7,681,532,833	10.1%
2000-01	7,685,646,240	6,974,964	887,013,508	8,579,634,712	11.7
2001-02	8,832,221,653	7,017,276	1,198,589,253	10,037,828,182	17.0
2002-03	9,643,114,042	10,629,094	1,107,339,517	10,761,082,653	7.2

*Source: California Municipal Statistics, Inc.*

**Largest Property Taxpayers.** The largest local secured property taxpayers in the City, as shown on the 2002-03 secured tax roll, are listed in the table below.

**CITY OF REDWOOD CITY  
Principal Secured Taxpayers  
Fiscal Year 2002-03**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2002-03 Assessed Valuation</u>	<u>% of Total (1)</u>
Pacific Shores Development LLC	Office Building	\$ 475,668,159	4.93%
Oracle Corporation/Centrum Associates	Office Building	384,346,234	3.99
Spieker Properties	Office Building	174,654,600	1.81
Martin Campus LLC	Office Building	144,158,193	1.49
Perry Public Inv. Co.	Office Building	121,773,903	1.26
EOP-Seaport Centre LLC	Industrial	118,421,294	1.23
Metropolitan Life Insurance Co.	Office Building	110,836,861	1.15
Flatirons Funding LP	Office Building	100,920,069	1.05
Irvine Apartment Community LP	Apartments	93,712,317	0.97
Woodside Technology Center LLC	Office Building	75,345,766	0.78
UBS Lease Finance LLC	Office Building	71,698,358	0.74
Security Capital Pacific Trust	Apartments	65,672,239	0.68
Selco Service Corporation	Office Building	64,490,520	0.67
Miotel Corporation, Lessee	Hotel	60,423,114	0.63
Peninsula Marina LLC	Office Building/Marina	56,195,401	0.58
Shorebreeze Associates LLC	Office Building	50,783,424	0.53
Seaport Plaza Associates LLC	Office Building	46,412,244	0.48
ERI Dolphin Inc.	Office Building	44,891,609	0.47
Abbot Laboratories	Industrial	44,195,020	0.46
Regency Centers LP	Shopping Center	<u>40,815,081</u>	<u>0.42</u>
		<u>\$2,345,414,406</u>	<u>24.32%</u>

(1) 2002-03 Local Secured Assessed Valuation: \$9,643,104,042  
Source: California Municipal Statistics.

**Investment Policies and Procedures**

The City Finance Director manages the City's investment portfolio. The City's deposits and investments are invested pursuant to the investment policy (the "Investment Policy") established by the City Treasurer, pursuant to Government Code Section 53646. The objectives of the Investment Policy are, in order of priority, safety of principal, liquidity, and return on investment. The Investment Policy delegates investment authority to the City Treasurer (Director of Finance) pursuant to section 34 of the Charter of Redwood City and section 2.33.1 of the Redwood City code of ordinances.

The Investment Policy states that an average amount of six months cash flow is to be maintained in immediately available investments. The Treasurer and Deputy Treasurer is required to certify each month that enough liquid resources are available to meet the next six months cash flow requirements.

Investments permitted by the City's Investment Policy (and State of California Government Code Sections 53600 et seq. include the following:

- Certificates of Deposit;
- Bankers Acceptances;
- U.S. Treasury securities;
- U.S. Agency and Government Sponsored Instrumentality Securities;
- Commercial Paper;
- Negotiable Certificates of Deposits;
- State of California Local Agency Investment Funds;
- Passbook Savings Accounts;
- County of San Mateo Investment Pool
- Money Market Certificates;
- Money Market Funds; and
- Corporate Notes.

The Investment Policy sets forth guidelines to be followed for investing in the above-named instruments. In addition, the Investment Policy establishes an investment committee consisting of the Finance Director and staff members of the Finance Department, who will meet regularly to review the City investment portfolio daily cash reports and anticipated cash requirements in selecting investment instruments for idle City funds. Pursuant to State law, the City Council will receive a detailed monthly listing of all investments in the City portfolio, as further specified in the Investment Policy.

For additional information concerning the City investments, see "APPENDIX B - AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2002."

### **Outstanding General Fund Obligations**

The City currently has no outstanding general obligation bonds. The following series of revenue bonds are currently outstanding.

***Public Financing Authority Revenue Bonds***, issued in August 1991 in the aggregate principal amount of \$26,715,000, by the Redwood City Public Financing Authority, a Joint Powers Authority consisting of the City and the Redevelopment Agency. The 1991 Bonds were issued to prepay certain lease obligations of the City and to provide funds for the construction of a new police facility. The 1991 Revenue Bonds are currently outstanding in the amount of \$6,725,000. The 1991 Bonds are being defeased with Bond proceeds.

***1998 City Hall Lease Revenue Variable Rate Demand Certificates of Participation***, issued in October 1998 in the aggregate principal amount of \$11,700,000, to provide permanent funding for the new City Hall project that was completed in 1997. The 1998 Certificates of Participation are currently outstanding in the amount of \$10,895,000.

***1998 Lease Revenue Refunding Bonds***, issued in July 1998 in the aggregate principal amount of \$10,995,000, to refund a portion of the 1991 Revenue Bonds. The 1998 Lease Revenue Bonds are currently outstanding in the aggregate amount of \$8,400,000.

## Overlapping Debt Statement

Set forth below is a direct and overlapping debt report (the “**Debt Report**”) prepared by California Municipal Statistics, Inc. and dated September 1, 2003. This Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

### CITY OF REDWOOD CITY Direct and Overlapping Debt September 1, 2003

2002-03 Assessed Valuation:	\$10,761,082,653
Redevelopment Incremental Valuation:	<u>838,809,547</u>
Adjusted Assessed Valuation:	\$ 9,922,273,106

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 9/1/03</u>
San Mateo Community College District	11.429%	\$ 10,805,047
Sequoia Union High School District	28.814	37,344,385
Belmont School District	52.591	5,861,267
Redwood City School District	61.388	38,536,417
San Carlos School District	2.436	502,912
Redwood City General Improvement District No. 1-64	100.	5,625,000
Redwood City Community Facilities District 2000-1	100.	20,020,000
Redwood City Redwood Shores Community Facilities District No. 99-1	100.	4,940,000
City of Redwood City 1915 Act Bonds	100.	<u>6,555,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$130,190,028

<u>DIRECT AND OVERLAPPING GENERAL OBLIGATION DEBT:</u>		
San Mateo County General Fund Obligations	11.429%	\$30,584,430
San Mateo County Board of Education Certificates of Participation	11.429	566,878
Belmont School District Certificates of Participation	52.571	2,983,404
San Carlos School District Certificates of Participation	2.436	15,590
Midpeninsula Regional Park District General Fund Obligations	9.558	10,068,415
City of Redwood City General Fund Lease Obligations	100.	26,020,000 (1)
San Mateo County Mosquito Abatement District Certificates of Participation	15.658	<u>298,285</u>
TOTAL DIRECT AND OVERLAPPING GENERAL OBLIGATION DEBT		\$70,537,002

COMBINED TOTAL DEBT \$200,727,030 (2)

(1) Excludes refunding certificates of participation to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

#### Ratios to 2002-03 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 1.21%

#### Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$26,020,000)	0.26%
Combined Total Debt	2.02%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03: \$0

Source: California Municipal Statistics, Inc.

## Employee Relations and Collective Bargaining

City employees are represented by three employee associations. The three employee associations are shown below. Pursuant to the City’s Employee Relations Ordinance and the Meyers-Millias-Brown-Act, the City and the employee associations negotiate wages, hours and conditions of employment.

<u>Employee Group</u>	<u>Employees</u>	<u>Contract Expires</u>
Redwood City Police Officers Association	73	August 31, 2005
Redwood City Police Sergeants Association	16	August 31, 2006
International Association of Firefighters	53	December 31, 2005
Service Employees International Union	272	January 31, 2004
City Management Employee Association	96	September 30, 2005

## **Pension Plans**

The City contracts with the California Public Employees' Retirement System ("CalPERS") for retirement benefits. CalPERS is organized and operates pursuant to the laws of the state of California and is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within California. Copies of CalPERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, CA 95814.

All permanent employees who work more than 20 hours a week are included in the pension plan. Employees are vested upon completion of five years of service. Upon reaching age 50 with five years of service, employees are eligible to retire. The amount of an employee's retirement benefit depends on the employee's age and years of credited service on the date of retirement. The CalPERS program also provides for death and disability retirement benefits.

Actuarially required contributions for fiscal years 2002, 2001 and 2000 were \$622,594, \$603,723, and \$1,162,110, respectively. The City made these contributions as required. The recent poor economy of California and reduced rate of return on investments has impacted CalPERS plans by causing employer contribution rates to increase. CalPERS notifies the City annually of the amount of its share of contributions to CalPERS based on actuarial valuations of CalPERS assets. In response to changing market conditions, CalPERS has modified its actuarial valuations of certain assets its investment portfolio. As a result of these revised actuarial valuations, the City's share of contributions to CalPERS for its employees is expected to increase substantially, from a required contribution in fiscal year 2002-03 of approximately \$919,000 to an estimated contribution in fiscal year 2003-04 of approximately \$3.5 million. The City expects this general fund expense to further increase to approximately \$7.3 million in fiscal year 2004-05 and to approximately \$8.6 million in fiscal year 2005-06. Continued increases in the City's pension obligations in future years, if not off-set by revenue increases or cost reductions, could have an adverse effect on the City's ability to make Lease Payments due under the Lease Agreement.

## **Risk Management**

In July 1990, the City joined the Bay Cities Joint Powers Insurance Authority ("BCJPIA") to meet its general liability insurance needs. BCJPIA is a general liability insurance pool consisting of 17 San Francisco Bay Area public agencies. The pool provides \$1,000,000 of coverage in excess of the City's \$250,000 self-insurance retention, claims administration, and loss control support to member agencies. BCJPIA belongs to the California Affiliated Risk Management Authority, which is an excess liability pool founded by BCJPIA and two other local government insurance pools. California Affiliated Risk Management Authority provides coverage from \$1,000,001 to \$16,000,000, and enters into a reinsurance agreement for the coverage from \$3,000,001 to \$16,000,000.

## CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by no later than 9 months following the end of the City's fiscal year (which date would be April 1 based upon the City's current fiscal year end of June 30), commencing April 1, 2004 with the report for the 2002-03 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The City will file, or cause to be filed, the Annual Report with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State information depository, if any. The City will file, or cause to be filed, the notices of material events with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below in "APPENDIX D - Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The City has never failed to comply, in all material respects, with an undertaking pursuant to said Rule.

## TAX MATTERS

In the opinion of Nossaman, Guthner, Knox & Elliott, LLP, Bond Counsel ("**Bond Counsel**"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the 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, the interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, the 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. In addition, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to a Bond constitutes original issue discount, and the amount of original issue discount that accrues to a 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. A complete copy of the proposed opinion of Bond Counsel is set forth in "APPENDIX D -Form of Opinion of Bond Counsel."

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

Although Bond Counsel has rendered an opinion that the interest on the Bonds (and original issue discount) is excluded from gross income for federal income tax purposes provided

that the City continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to 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.

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 exclusion from gross income of the interest on the Bonds (and original issue discount) for federal income tax purposes if any such action is taken or omitted based upon the advice of counsel other than Nossaman, Guthner, Knox & Elliott, LLP.

### **CERTAIN LEGAL MATTERS**

The legal opinion of Nossaman, Guthner, Knox & Elliott, LLP, Irvine, California, Bond Counsel, substantially in the form of Appendix C hereto, will be made available to purchasers at the time of original delivery of the Bonds, and a copy thereof will accompany each Bond. Jones Hall, A Professional Law Corporation, San Francisco, California is acting as Disclosure Counsel to the City. Certain legal matters will be passed upon for the Authority and the City by City Attorney.

*Payment of the fees and expenses of Bond Counsel and Disclosure Counsel is contingent upon the execution and delivery of the Bonds.*

### **LITIGATION**

There is no litigation pending or, to the City's knowledge, threatened in any way to restrain or enjoin the execution or delivery of the Bonds, the Lease Agreement or the Indenture, to contest the validity of the Bonds, the Lease Agreement or the Indenture, or any proceeding of the City with respect thereto. In the opinion of the City and its counsel, there are no lawsuits or claims pending against the City which will materially affect the City's finances so as to impair its ability to pay Lease Payments when due.

### **UNDERWRITING**

The 2003 Bonds will be sold to Stone & Youngberg LLC, as Underwriter (the "Underwriter") under a contract of purchase among the Authority, the City and the Underwriter, pursuant to which the Underwriter will agree to purchase all of the Bonds for an aggregate purchase price equal to \$11,405,559.55 (being the aggregate principal amount thereof less an underwriter's discount of \$74,013.75 and plus an original issue premium of \$4,573.30). The Underwriter is committed to purchase all of the Bonds if any are purchased.

The Bonds are offered for sale at the initial prices stated on the cover page of this Official Statement, which may be changed from time to time by the Underwriter. The Bonds may be offered and sold to certain dealers at prices lower than the public offering prices.

## **RATING**

Standard & Poor's Ratings Services ("S&P") will assign its municipal bond rating of "AAA" to the Bonds with the understanding that upon delivery of such Bonds a financial guaranty insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by the Bond Insurer. See "BOND INSURANCE" above. Additionally, an underlying rating of "AA-" has been assigned to the Bonds by S&P. The ratings issued reflect only the view of such rating agency, and any explanation of the significance of such ratings should be obtained from such rating agency. There is no assurance that such ratings will be retained for any given period of time or that a ratings will not be revised downward or withdrawn entirely by such rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating obtained may have an adverse effect on the market price of the Bonds.

## **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 the statements 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.

During the initial offering period for the Bonds, copies of the Lease Agreement, the Indenture and the Escrow Agreement may be obtained, upon written request, from the City. After delivery of the Bonds, copies of such documents may be obtained from the Trustee.

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

### **CITY OF REDWOOD CITY PUBLIC FINANCING AUTHORITY**

By \_\_\_\_\_ /s/ Brian J. Ponty  
Finance Director

### **CITY OF REDWOOD CITY**

By \_\_\_\_\_ /s/ Brian J. Ponty  
Director of Finance and Financial Planning

**APPENDIX A**  
**SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**  
**THE INDENTURE**

**Definitions**

“Additional Bonds” means all bonds ranking on a parity with the Bonds originally issued under the Indenture.

“Additional Payments” means the payments so designated and required to be paid by the City pursuant to the Lease Agreement.

“Alternate Project” means an alternate project designated by the City pursuant to the Lease Agreement.

“Bond Year” means the period from the Closing Date through July 15, 2004, and thereafter the twelve-month period commencing on July 16 of each year through and including July 15 of the following year.

“Business Day” means any day other than a Saturday, Sunday or legal holiday or a day on which banks are authorized to be closed for business in California or on which the Trust Office is authorized to be closed.

“Completion Date” means the date certified by a City Representative that all equipment and other property constituting the Project has been acquired, installed and accepted by the City, and that all Project Costs for such Project have been paid.

“Debt Service” means, during any period of computation, the amount obtained for such period by totaling the following amount--

(a) The principal amount of all Outstanding serial Bonds coming due and payable by their terms in such period;

(b) The minimum principal amount of all Outstanding term Bonds scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon; and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding.

“Escrow Fund” means the fund established by the Escrow Instructions.

“Escrow Instructions” means the escrow instructions from the Authority to the 1991 Trustee, dated as of November 1, 2003.

“Event of Default” means an event of default described in the Indenture.

“Federal Securities” means direct obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States), or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

“Fiscal Year” means the twelve calendar month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the Authority as its Fiscal Year in accordance with applicable law.

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures prescribed by the California State Controller or his or her successor for municipal corporations in the State of California, or failing the prescription of such procedures means generally accepted accounting principles as presented and recommended by the American Institute of Certified Public Accountants or its successor, or by the Governmental Accounting Standards Board or its successor, or by any other generally accepted authority on such principles.

“Independent Certified Public Accountant” means any firm of certified public accountants appointed by the Authority which is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

“Interest Payment Date” means July 15, 2004 and each January 15 and July 15 thereafter.

“Insurance Policy” means the municipal bond insurance policy issued by the Insurer unconditionally guaranteeing the regularly scheduled payment of principal of and interest on the Bonds when due.

“Insurer” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, or any successor thereto.

“Lease Payment Date” means not later than the first day of the month prior to each January 15 and July 15, commencing July 1, 2004.

“Lease Payments” mean the aggregate amount of all the payments required to be paid by the City pursuant to the Lease Agreement.

“Leased Property” means the real property and improvements thereon as more fully described in Exhibit B of the Lease Agreement, as may be substituted for by the City and the Authority pursuant to the Lease Agreement.

“Moody’s” means Moody’s Investors Service, Inc., its successors and assigns.

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

“1998 Bonds” means the Authority’s outstanding 1998 Lease Revenue Refunding Bonds (Capital Facilities Projects).

“1998 Indenture” means the Indenture of Trust, dated as of March 1, 1998, between the Authority and the 1998 Trustee, relating to the issuance of the 1998 Bonds.

“1998 Lease” means that Sub-Lease Agreement, dated as of March 1, 1998, between the City and the Authority and relating to the sub-lease of the Leased Property.

“1998 Trustee” means U.S. Bank National Association, as trustee for the 1998 Bonds.

“1991 Bonds” means the Authority’s 1991 Local Agency Revenue Bonds, Series A.

“1991 Indenture” means the Indenture of Trust, dated as of July 15, 1991, between the Authority and the 1991 Trustee.

“1991 Trustee” means U.S. Bank National Association, as successor trustee for the 1991 Bonds.

“Outstanding” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 8.02) all Bonds except:

- (1) Bonds canceled by the Trustee;
- (2) Bonds paid or deemed to have been paid; and
- (3) Bonds in lieu of or in substitution for which replacement Bonds shall have been executed and delivered under the Indenture.

“Owner” or “Bondowner” means the registered owner of any Outstanding Bond.

“Permitted Investments” means:

A. For all purposes, including defeasance investments in refunding escrow accounts:

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below), or
- (2) Direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America, or
- (3) Senior debt obligations of other Government Sponsored Agencies approved by Insurer.

B. For all purposes other than defeasance investments in refunding escrow accounts:

- (1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
  - Export-Import Bank
  - Rural Economic Community Development Administration (formerly the Farmers Home Administration)
  - U.S. Maritime Administration
  - Small Business Administration
  - U.S. Department of Housing & Urban Development (PHA’s)
  - Federal Housing Administration
  - Federal Financing Bank;
- (2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America.

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies approved by the Insurer;

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(4) Commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or its affiliates provides investment advisory or other management services;

(6) Pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(7) Municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P.

(8) Investment agreements approved in writing by the Insurer supported by appropriate opinions of counsel; and

(9) Other forms of investments (including repurchase agreements) approved in writing by the Insurer.

(10) The Local Agency Investment Fund of the State or any state administered pool investment fund in which the Agency is statutorily permitted or required to invest will be deemed a permitted investment.

C. The value of the above investments shall be determined as follows:

“Value,” which shall be determined as of the end of each month, means that the value of any investments shall be calculated as follows:

(1) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers.

(2) As to certificates of deposit and banker acceptances: the face amount thereof, plus accrued interest; and

(3) As to any investment not specified above: the value thereof established by prior agreement between the Agency, the Trustee and the Insurer.

To the extent that any of the requirements concerning Permitted Investments embodies a legal conclusion, the Trustee shall be entitled to conclusively rely upon a certificate from the appropriate party or an opinion from counsel to such party, in form and content satisfactory to Trustee, that such requirement has been met.

“Principal Office” means the corporate trust office of the Trustee currently located in San Francisco, California, or such other office designated by the Trustee from time to time.

“Project” means the facilities described in Exhibit C of the Lease Agreement, including any Alternate Project.

“Project Costs” means the cost of any acquisition, construction, refinancing, improvement, repair, modification or delivery of any portion of the Project and related equipment, in accordance with the purchase order or contract therefor, including the costs of site preparation necessary for the installation of the Project. Project Costs also include administrative, engineering, legal, financial and other costs incurred by the Authority or the City in connection with the acquisition, delivery and installation of the Project.

“Record Date” means the fifteenth day of the calendar month prior to an Interest Payment Date.

“Reserve Requirement” means, as of any date of calculation, the lesser of (i) 10% of the original principal amount of the Bonds, (ii) an amount equal to maximum annual Debt Service payable by the Authority between the date of such calculation and the final maturity of the Bonds, or (iii) 125% of average annual Debt Service payable under the Indenture.

“Revenues” means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreement, including, without limiting the generality of the foregoing, all of the Lease Payments (including both timely and delinquent payments and any late charges), prepayments of Lease Payments, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund, but excluding any Additional

Payments, and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw Hill Incorporated, its successors and assigns.

“Trust Office” means the office of the Trustee designated in the Indenture, and such other offices as the Trustee may designate from time to time.

### **Transfer and Exchange of Bonds**

Subject to the provisions of the Indenture, (a) each Bond shall be transferable only upon a register of the names of each Owner (the “Bond Register”), which shall be kept for that purpose at the Trust Office, by the Owner thereof in person or by his or her attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or his or her duly authorized attorney. The Trustee shall deem and treat the person in whose name any Outstanding Bond shall be registered upon the Bond Register as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes, and all such payments so made to any such Owner or upon his or her order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary.

### **Bonds Mutilated, Destroyed, Lost or Stolen**

If any Bond shall become mutilated, the Trustee, at the expense of the Owner of said Bond, shall authenticate and deliver a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and destroyed or redelivered to, or upon the order of, the Authority. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft shall be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and if an indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner, shall authenticate and deliver a new Bond of like tenor and numbered as the Trustee shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen

### **Additional Bonds**

(A) In addition to the Bonds authorized to be issued under the Indenture, the Authority, with the prior written consent of the Insurer, may, by Supplemental Indenture, establish one or more other issues of Additional Bonds secured by Revenues on a parity with the Bonds, and may issue and deliver such Additional Bonds in such principal amount as shall be determined by the Authority, but only upon compliance by the Authority with the provisions of this Section, including the following specific conditions which are hereby made conditions precedent to the issuance of such Additional Bonds:

(a) The parties to the Indenture shall have executed a Supplemental Indenture;

(b) The scheduled principal and interest payable with respect to such Additional Bonds shall be payable only on Interest Payment Dates applicable to the Bonds;

(c) The Lease Agreement shall have been amended, if necessary, to (i) increase or adjust the Lease Payments due and payable on each Lease Payment Date to an amount sufficient to pay the principal, premium (if any) and interest payable with respect to all Outstanding Bonds, including all Additional Bonds as and when, if any, the same mature or become due and payable (except to the extent such principal, premium and interest may be payable out of moneys then in the Reserve Fund or otherwise on deposit with the Trustee in accordance with the Indenture), (ii) if appropriate, amend the definition of Leased Property to include as part of the Leased Property all or any portion of additions, betterments, extensions, improvements or replacements, or such other real or personal property (whether or not located upon the Leased Property as such Leased Property is constituted as of the date of the Indenture), to be financed, acquired or constructed or otherwise made subject to the Lease Agreement, by the preparation, execution and delivery of such Additional Bonds, and (iii) make such other revisions to the Lease Agreement as are necessitated by the execution and delivery of such Additional Bonds (provided, however, that such other revisions shall not prejudice the rights of the Owners of Outstanding Bonds as granted them under the terms of the Indenture);

(d) There shall have been delivered to the Trustee a counterpart of the amendments required by subsection (c) of the Indenture;

(e) The Trustee shall have received a Certificate of the Authority that no Event of Default relating to the Authority exists (or any event which, once all notice or grace periods have passed, would constitute an Event of Default);

(f) The Trustee shall have received a certificate of the City that (i) no Event of Default relating to the City exists (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) and (ii) the Lease Payments as increased or adjusted do not exceed in any year the fair rental value of the Leased Property (as such term is defined in the amended Lease Agreement);

(g) The Trustee shall have received an opinion of Bond Counsel substantially to the effect that (i) said Supplemental Indenture and said amendments to the Lease Agreement comply in all respects with the requirements of the Indenture, (ii) said Supplemental Indenture and said amendments to the Lease Agreement have been duly authorized, executed and delivered by each of the respective parties thereto (provided that said opinion of Bond Counsel, in rendering the opinions set forth in this clause (ii), shall be entitled to rely upon one or more other opinions of counsel, including counsel to any of the respective parties to said Supplemental Indenture or said amendments to the Lease Agreement), (iii) assuming that no Event of Default has occurred and is continuing, the Indenture, as amended by said Supplemental Indenture, and the Lease Agreement, as amended by the respective amendments thereto, constitute the legal, valid and binding obligations of the respective parties thereto, enforceable against said parties in accordance with their respective terms (except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, debt adjustment or other laws affecting creditors' rights generally, and except to the extent that enforcement thereof may be limited by general principles of equity, regardless of whether enforcement is sought in a legal or equitable proceeding) and (iv) the execution of such Supplemental Indenture and said amendments to the Lease Agreement, and performance by the parties thereunder, will not result in the inclusion of the interest on any Bonds in the gross income of the Owners of the Bonds for purposes of federal income taxation;

(h) The City shall have provided the Insurer written notice of the proposed execution and delivery of such Additional Bonds and shall have received prior written consent of the Insurer with respect to such Additional Bonds; provided that any Additional Bonds being delivered to refund any outstanding Bonds shall not require the prior written consent of the Insurer if the aggregate maximum annual debt service with respect to the Bonds and the Additional Bonds during any remaining year that the Bonds will be outstanding does not exceed maximum annual debt service with respect to the Bonds prior to such refunding.

(i) There shall have been delivered to the Trustee an endorsement to or reissuance of the title insurance providing that the insured amount is at least equal to the aggregate principal amount of all of the Bonds and Additional Bonds outstanding upon the execution and delivery of such Additional Bonds;

(j) Upon the execution and delivery of such Additional Bonds, the amount on deposit in the Reserve Fund, or in a reserve fund established under such Supplemental Indenture taking into account the execution of the Additional Bonds, shall be at least equal to the Reserve Requirement; and

(k) Such other conditions shall have been satisfied, and such other instruments shall have been duly executed and delivered to the Trustee (with a copy to the Insurer), as the City or the Authority shall have reasonably requested.

### **Deposit of Lease Payments**

All Lease Payments shall be paid directly by the Authority to the Trustee on the applicable Lease Payment Date. Such payments received by the Trustee shall be held in trust by the Trustee under the terms of the Indenture and shall be deposited by it as and when received in the Payment Fund, which fund the Trustee hereby agrees to establish and maintain so long as any Bonds are Outstanding.

### **Payment Fund**

Within the Payment Fund the Trustee shall establish a Lease Payment Account and a Redemption Account. Lease Payments made by the Authority shall be deposited by the Trustee in the Lease Payment Account. Such payments shall be net of amounts already on deposit therein that are in excess of the amount required to accumulate therein. The Trustee shall transfer the money contained in the Lease Payment Account and the Redemption Account at the following respective times in the following respective accounts in the following order of priority in the manner in the Indenture after provided:

(a) Lease Payment Account. All moneys in the Lease Payment Account shall be used and withdrawn by the Trustee solely for the purpose of paying principal of and interest on the Bonds on each Interest Payment Date or mandatory redemption dates, as applicable.

(b) Redemption Account. The Trustee, on the optional redemption date, shall deposit in the Redemption Account the amount of such payment. All money in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest, premium, if any and principal on the Bonds to be optionally redeemed on their respective redemption dates.

## **The Reserve Fund; Replenishment**

The Trustee hereby agrees to establish and maintain so long as any Bonds are Outstanding the Reserve Fund. The Reserve Fund shall initially be funded, and shall continuously be funded, in an amount equal to the Reserve Requirement. The Trustee shall hold the Reserve Fund in trust and shall apply moneys in the Reserve Fund in accordance with the following provisions. If, two (2) Business Days prior to any Interest Payment Date, the money in the Payment Fund does not equal the amount required to be paid to the Bond Owners on such date, the Trustee shall transfer from the Reserve Fund to the Payment Fund the amount of such insufficiency to make delinquent Lease Payments on behalf of the City; provided, if the Reserve Fund is funded with a letter of credit, surety bond, insurance policy or other comparable credit facility as described below, the Trustee shall take such action as is necessary to either (i) make a drawing under the letter of credit or (ii) make a claim under the surety bond or insurance policy, respectively, so that the amount of such insufficiency is paid or available to the Trustee on such Interest Payment Date under the terms of such instrument. Upon receipt of any delinquent Lease Payment or portion thereof with respect to which moneys have been advanced from the Reserve Fund, such Lease Payment or portion thereof shall be deposited in the Reserve Fund to the extent of such advance.

In lieu of making the Reserve Fund deposits, or in replacement of moneys then on deposit in the Reserve Fund, the Authority may, with the prior written consent of the Insurer, deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in the highest rating categories of Moody's and S&P, in an amount, together with moneys, or surety bonds or insurance policies (as described below) on deposit in the Reserve Fund, equal to the Reserve Requirement. Such letter of credit shall have an original term of no less than three (3) years or, if less, the final maturity of the Bonds and such letter of credit shall provide by its terms that it may be drawn upon as provided in the Indenture. At least one year prior to the stated expiration of such letter of credit, the Authority shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the final maturity of the Bonds, or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements set forth below. If the Authority shall fail to deposit a replacement letter of credit, extended letter of credit or surety bond or insurance policy with the Trustee, the Authority shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Requirement will be on deposit in the Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Reserve Requirement as of the date following the expiration of the letter of credit is not on deposit in the Reserve Fund one week prior to the stated expiration date of the letter of credit, the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in the Reserve Fund.

Additionally, the Authority may, with the prior written consent of the Insurer and with an opinion of nationally recognized bond counsel that such delivery complies with the provisions of the Indenture, deliver to the Trustee a surety bond or an insurance policy securing an amount, together with moneys or letters of credit on deposit in the Reserve Fund, equal to the Reserve Requirement. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) are rated in the highest rating category of Moody's and S&P. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Bonds. In the event that such surety bond or insurance policy for any reason lapses or expires, the Authority shall immediately implement clause (i) or (iii) of the preceding paragraph or make the required deposits to the Reserve Fund.

The Trustee shall, on a pro rata basis with respect to the portion of the Reserve Fund held in cash and amounts held in the form of letters of credit, surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters of credit, surety bonds and insurance policies and the amount of the initial deposit of such cash), draw under each letter of credit, surety bond or insurance policy, in a timely manner and pursuant to the terms of such letter of credit, surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed as required in the Indenture.

### **Held in Trust**

The moneys and investments held by the Trustee are irrevocably held in trust for the benefit of the Owners, and for the purposes in the Indenture specified, and such moneys, and any income or interest earned thereon, shall be expended only as provided in the Indenture, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the Trustee or the Authority.

### **Arbitrage Covenant**

The Authority hereby covenants with the Owners of the Bonds that, notwithstanding any other provision of the Indenture, it will make no use of the proceeds of the Bonds which would cause the Bonds or the 1991 Bonds to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Internal Revenue Code of 1986, as amended.

### **Pledge of Revenues and Other Funds**

All of the Revenues are hereby irrevocably pledged to the punctual payment of Debt Service and such Revenues shall not be used for any other purpose while any of the Bonds remain outstanding, except as provided in the Indenture. This pledge shall constitute a first lien on the Revenues for the payment of the Bonds and payments in accordance with the terms of the Indenture.

### **Receipt and Deposit of Revenues**

The Authority hereby transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Lease Agreement (except for the right to receive any Additional Payments to the extent payable to the Authority and certain rights to indemnification set forth therein). The parties acknowledge that although all Bonds and Additional Bonds are secured equally and ratably by the Revenues, moneys with respect to obligations other than the Bonds may be held by the Trustee or by trustees other than the Trustee under documents and agreements other than the Indenture, and the Indenture imposes no obligations upon the Trustee with respect to such other obligations. The Authority shall make such transfers necessary to effectuate such obligations' parity claim on such Revenues contemplated hereby.

### **Liability of Authority Limited**

Notwithstanding anything contained in the Indenture, the Authority shall not be required to advance any moneys derived from any source of income other than Revenues legally available therefor and the other funds provided in the Indenture for the payment of the Lease Payments or for the performance of any agreements or covenants contained in the Indenture

required to be performed by it. The Authority may, however, but shall not be required to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the Authority for such purpose. The obligation of the Authority to pay principal of and interest on the Bonds and the other amounts due under the Indenture is a special obligation of the Authority payable solely from the moneys legally available therefor under the Indenture, and does not constitute a debt of the Authority or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

### **Project Fund**

The Trustee will establish a Project Fund for the Authority, and the Trustee shall keep such account separate and apart from all other funds and accounts held by it, and shall administer such account as provided in the Indenture. All money in the Project Fund shall be held by the Trustee in trust and shall be applied by the Trustee for the payment of Project Costs and the expenses incidental thereto (including reimbursement to the Authority for any such costs or expenses theretofore paid by it whether or not paid prior to the date of the Indenture). Upon receipt of each such requisition, the Trustee shall, so long as the Trustee does not have actual knowledge of or has not received written notice that the Authority is then in default under the Indenture, pay the amount set forth therein as directed by the terms thereof from moneys on deposit in the Project Fund, except that the Trustee shall not make any such payment if it has received a stop notice or any other notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the money to be so paid which has not been released or will not be released simultaneously with such payment, other than materialmen's or mechanics' liens accruing by mere operation of law. Upon receipt of written notice from the Authority, the Trustee shall transfer first to the Reserve Fund until the amount therein equals the Reserve Requirement, and thereafter to the Lease Payment Account all remaining moneys in the Project Fund or the amount specified by the Authority, to be credited to the payment of the Lease Payments as the same shall become due and payable. In the event the Project Fund has not been depleted by the date which is three years after the Closing Date, the City shall provide the Authority and the Trustee with an opinion of nationally recognized bond counsel to the effect that the investment of such remaining funds shall not adversely affect the tax-exempt status of the Bonds.

### **Compliance with Indenture**

The Authority will not suffer or permit any material default by it to occur under the Indenture, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Indenture required to be complied with, kept, observed and performed by it.

### **Observance of Laws and Regulations**

The Authority will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by it, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

## **Prosecution and Defense of Suits**

The Authority will promptly, upon request of the Trustee or any Owner, take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Leased Property or any part thereof, whether now existing or hereafter developing, will prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

## **Accounting Records and Statements**

The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, deposit and disbursement of the Lease Payments, and such accounting records shall be available for inspection by the Authority or any Owner or his or her agent duly authorized in writing on any Business Day upon reasonable notice at reasonable hours and under reasonable conditions prescribed by the Trustee.

## **Further Assurances**

Whenever and so often as requested to do so by the Trustee or any Owner, the Authority will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Indenture.

## **Against Encumbrances**

The Authority hereby covenants that there is no pledge of or lien on Revenues senior to the pledge and lien securing the Bonds. The Authority will not make any pledge of or place any lien on the Revenues, provided that the Authority may at any time, or from time to time, pledge or encumber the Revenues in connection with the issuance or execution of Additional Bonds.

## **Punctual Payment**

The Authority shall punctually pay or cause to be paid the principal of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

## **Extension of Payment of Bonds**

The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended.

## **Tax Covenants**

The Authority hereby covenants that it shall not make or permit any use of the proceeds of the Bonds that may cause the Bonds or the 1991 Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended. The Authority will not take or omit to take any action or make any use of the proceeds of the Bonds or of any other moneys or property which would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code.

## **Payment of Claims**

The Authority will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues or any part thereof or on any funds in the control of the Authority or the Trustee prior or superior to the lien of the Bonds or which might impair the security of the Bonds; provided the Authority shall not be obligated to make such payment so long as the Authority contracts such payment in good faith.

## **No Additional Obligations**

The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part, except as provided in the Indenture with respect to Additional Bonds.

## **Rebate of Excess Investment Earnings to United States**

The Authority shall calculate or cause to be calculated, and shall provide or cause to be provided written notice to the Trustee of, the excess investment earnings (as defined in the Code, “Excess Investment Earnings”) at such times and in such manner as may be required pursuant to the Code. The Authority shall inform the Trustee how frequently calculations are to be made, and shall ensure that a copy of all such calculations is given promptly to the Trustee. The Authority agrees to deposit with the Trustee the amount of Excess Investment Earnings so calculated. The Trustee shall deposit all amounts paid to it for such purpose by the Authority in the Rebate Fund. The Trustee shall pay to the United States of America from the amounts on deposit in the Rebate Fund such amounts as shall be identified pursuant to written notice filed with the Trustee by the Authority for such purpose from time to time.

## **Books and Accounts; Financial Statements; Notice to the Insurer**

The Authority shall keep proper books of record and accounts, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Lease Agreement. Said books shall, upon prior request, be subject to the inspection of the Trustee and the Insurer (each of who shall have no duty to inspect) or the Owners of not less than ten percent (10%) of the Outstanding Bonds, or their representatives authorized in writing, upon not less than two (2) Business Days’ prior notice to the Authority. The Authority shall cause its books and accounts to be audited annually by an independent certified public accountant or firm of certified public accountants, not more than two hundred and seventy (270) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the Bond Owners at the office of the Authority and at the Principal Office of the Trustee.

## **Continuing Disclosure to Owners**

Pursuant to the Lease Agreement, the City has undertaken all responsibility for compliance with continuing disclosure requirements with respect to the Bonds, and the Authority shall have no liability to the holders of the Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; provided, however, that the Trustee shall, at the written direction of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the holders of at least 25% aggregate principal amount of Outstanding Bonds, but only to the extent indemnified for its fees and expenses, including those of its attorneys, or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

## **Insurance and Condemnation Fund**

Upon the receipt of any proceeds of insurance or condemnation with respect to any portion of the Leased Property, the Trustee shall establish and maintain a separate Insurance and Condemnation Fund. Any proceeds of insurance against accident to or destruction of any structure constituting any part of the Leased Property collected by the City in the event of any such accident or destruction shall be paid to the Trustee by the City pursuant to the Lease Agreement and deposited by the Trustee promptly upon receipt thereof in the Insurance and Condemnation Fund. If the City, with the prior consent or at the direction of the Insurer, fails to determine and notify the Trustee in writing of its determination, within ninety (90) days following the date of such deposit, to replace, repair, restore, modify or improve the Leased Property, then such proceeds shall be promptly transferred by the Trustee to the Redemption Account and applied to the redemption of Bonds. All proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Redemption Account shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the City. Any balance of the proceeds remaining after such work has been completed shall be paid to the City. Notwithstanding the foregoing, if the period of replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property will exceed the period of time for which rental interruption insurance will be available for the payment of Lease Payments, such Net Proceeds shall not be applied for such purposes but shall be applied to the prepayment of Lease Payments and the redemption of Bonds, unless the City shall elect to deposit moneys to the Payment Fund to pay Lease Payments in excess of the amount of rental interruption insurance for the full period of such replacement, repair, restoration, modification or improvement.

(If all or any part of the Leased Property shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund and shall be applied and disbursed by the Trustee as follows:

(i) If the City, with the prior consent of the Insurer, has not given written notice to the Trustee, within ninety (90) days following the date on which such proceeds are deposited with the Trustee, of its determination that (x) such eminent domain proceedings have not materially affected the operation of the Leased Premises or the ability of the City to meet any of its obligations with respect to the Leased Property under the Lease Agreement, and (y) such proceeds are not needed for the repair, rehabilitation or replacement of the Leased

Property or such portion thereof, the Trustee shall transfer such proceeds to the Redemption Account to be applied towards the redemption of the Bonds;

(ii) If the City, with the prior consent of the Insurer, has given written notice to the Trustee, within ninety (90) days following the date on which such proceeds are deposited with the Trustee, of its determination that (x) such eminent domain proceedings have not materially affected the operation of the Leased Premises or the ability of the City to meet any of its obligations with respect to the Leased Premises under the Lease Agreement and (y) such proceeds are needed for repair, rehabilitation or replacement of the Leased Property or such portion thereof, the Trustee shall pay to the City, or to its order, from said proceeds such amounts as the City may expend for such repair or rehabilitation; or

(iii) If (x) less than all of the Leased Property shall have been taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the City has given written notice to the Trustee of its determination that such eminent domain proceedings have materially affected the operation of the Leased Premises or the ability of the City to meet any of its obligations with respect to the Leased Property under the Lease Agreement, or (y) all of the Leased Property shall have been taken in such eminent domain proceedings, then the Trustee shall transfer such proceeds to the Payment Fund to be applied toward the prepayment of the Lease Payments and the redemption of Bonds.

#### **Events of Default**

One or more of the following shall constitute an Event of Default under the Indenture:

(a) default shall be made in the due and punctual payment by the Authority of any payment of principal of or interest on the Bonds when and as the same shall become due and payable;

(b) default shall be made by the Authority in the performance of any of the other agreements or covenants contained in the Indenture required to be performed by it, and such default shall have continued for a period of sixty (60) days after the Authority shall have been given notice in writing of such default by the Trustee or the Insurer;

(c) the Authority shall file a petition seeking arrangement or reorganization under federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property;

(d) an event of default shall have occurred with respect to the 1998 Bonds or any Additional Bonds; or

(e) an event of default shall have occurred under the Lease Agreement.

In determining whether an Event of Default has occurred under (a) above, no effect shall be given to payments made under the Insurance Policy, the Reserve Policy or under any other

municipal bond insurance policy, financial guaranty insurance policy or Additional Qualified Reserve Fund Instrument.

The Trustee shall provide written notice to the Insurer within five (5) Business Days after its actual knowledge thereof of any Event of Default. Upon its actual knowledge thereof of any Event of Default, the Trustee shall provide the Insurer and its designated agents with access to the Bond register, and shall allow such parties to copy the register. The Insurer shall have the right to advance any payment required to be made by the Authority in order to prevent an Event of Default under the Indenture, and the Trustee shall be obligated to accept any such payment.

Upon the occurrence of an Event of Default under the Indenture, the Trustee may, with the prior written consent of the Insurer and shall, at the direction of the Insurer, declare the principal and interest with respect to all such Bonds immediately due and payable and such principal and interest shall thereupon be due and payable immediately. The Trustee shall apply amounts on deposit in the funds and accounts in accordance with the Indenture. This provision, however, is subject to the condition that, except with respect to an Event of Default under subsection (c) above, if at any time after such Outstanding principal amount of the Bonds and the accrued interest thereon shall have been so declared due and payable and before the acceleration date or the date of any judgment or decree for the payment of the money due shall have been obtained or entered, the Authority shall deposit with the Trustee a sum sufficient to pay such amount due prior to such date and the accrued interest thereon, with interest on such overdue payments at the rate on such Bonds, and the reasonable fees and expenses of the Trustee and the Insurer, including those of its attorneys, and any and all other defaults known to the Authority (other than in the payment of such principal amount of the Bonds and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee and the Insurer or provision deemed by the Trustee and the Insurer to be adequate shall have been made therefor, then and in every such case the Trustee, with the prior written consent of the Insurer, by written notice to the Authority, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

#### **Other Remedies of the Trustee**

The Trustee may, with the prior written consent of the Insurer and shall, at the direction of the Insurer (subject to the receipt of indemnity as provided in the Indenture):

(a) by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the Authority, or any board member, officer or employee thereof, and compel the Authority or any such board member, officer or employee to perform and carry out its or his or her duties under applicable law and the agreements and covenants contained in the Indenture required to be performed by it or him;

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Trustee or the Bondowners under the Indenture;

(c) intervene in judicial proceedings that affect the Bonds or the security therefor or under the Indenture; or

(d) by suit in equity upon the happening of an Event of Default require the Authority and its officers and employees to account as the trustee of an express trust.

## **Non-Waiver**

The Trustee shall not waive any default without the prior written consent of the Insurer. A waiver of any default or breach of duty or contract by the Trustee, or the Owners shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee, the Insurer or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee, the Insurer or the Owners may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Insurer. If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee, the Insurer or the Owners, the Trustee, the Insurer the Owners and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

## **Remedies Not Exclusive**

No remedy in the Indenture conferred upon or reserved to the Trustee or the Insurer is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other law.

## **No Liability by the Trustee to the Owners**

Except for the duty of the Trustee to make payments of principal, redemption premiums and interest with respect to the Bonds from moneys received from the Authority, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the principal or of interest on the Bonds, or with respect to the performance by the Authority of the other agreements and covenants required to be performed by it contained in the Indenture.

## **Limitation on Owners' Right to Bring Suit**

No Owner of any Bond shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture or the Lease Agreement, or for the appointment of a receiver or trustee or for any other remedy under the Indenture, at law or in equity, unless:

- (1) such Owner has previously given written notice to the Trustee of a continuing event of default;
- (2) the owners of not less than a majority in principal amount of the Bonds Outstanding shall have obtained the prior written consent of the Insurer and shall have made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee under the Indenture;
- (3) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and

(4) the Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

### **Application of Funds Upon Default**

All monies received by the Trustee or by any receiver shall, after payment of the reasonable costs and fees of, and the reasonable fees, expenses, liabilities and advances incurred or made by the Trustee (including fees and expenses of its attorneys and advisors), be deposited in the Lease Payment Account and all moneys so deposited during the continuance of an Event of Default (other than moneys for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default or for the payment of interest due prior to such Event of Default), together with all moneys in the funds and accounts maintained by the Trustee, shall be applied as follows:

(a) Unless the principal of all Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due on the Bonds, with interest on overdue installments, if lawful, at the rate per annum borne by the Bonds, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the persons entitled thereto without any discrimination or privilege;

Second: To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons entitled thereto without any discrimination or privilege; and

Third: To the payment to the Insurer of all amounts payable to the Insurer under the Indenture not paid pursuant to First and Second above.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on overdue interest and principal, as aforesaid, without preference or priority over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bonds over any other Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

### **Rights of Insurer in the Event of Insolvency**

Any reorganization or liquidation plan with respect to the Authority or the City must be acceptable to the Insurer. In the event of any reorganization or liquidation by the Authority or

the City, the Insurer shall have the right to vote on behalf of all Owners absent a default by the Insurer under the Insurance Policy.

### **Insurer's Right to Control Proceedings**

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as described in the Indenture, the Insurer, so long as the Insurance Policy remains in effect, shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the Bonds or the Trustee for the benefit of the Owners of the Bonds under the Indenture.

### **The Trustee**

The Authority or, with the prior written consent of the Insurer, the Owners of a majority in aggregate principal amount of all Bonds Outstanding may, by thirty (30) days prior written request, remove the Trustee initially a party hereto, and any successor thereto, and in such event, or in the event the Trustee resigns, the Authority shall appoint a successor Trustee, but any such successor shall be a bank or trust company in good standing doing business and having an office in Los Angeles or San Francisco, California, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company shall have) a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars (\$50,000,000) and subject to supervision or examination by federal or state authority. The Insurer may remove the Trustee at any time upon 30 days' written notice to the Trustee and the Authority. The Trustee may at any time resign by giving written notice to the Authority and by giving to the Bond Owners notice by mailing a notice of such resignation to their addresses appearing in the Bond Register. Upon receiving any such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing.

Whenever in the administration of its duties under the Indenture, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may, in the absence of negligence or misconduct on the part of the Trustee, be deemed to be conclusively proved and established by the certificate of an Authorized Officer of the Authority and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof (but shall not be obligated to), accept other evidence of such matter. The Trustee may in good faith buy, sell, own, hold and deal in any of the Bonds issued pursuant to the Indenture, and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee and its affiliates, either as sponsor, advisor, principal or agent, may also engage in or be interested in any financial or other transaction with the Authority, and may act as depository, trustee, or agent for any committee or body of Owners of Bonds or other obligations of the Authority as freely as if it were not Trustee under the Indenture.

The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture. Upon any default by, or misconduct of, any agent, attorney or receiver appointed by the Trustee, the Trustee shall fully pursue all remedies available to it against such attorney, agent or receiver, and the proceeds of the exercise of such remedies shall be used to reimburse the Authority for any loss it may have suffered as a result of the default or misconduct of such

agent, attorney or receiver. Before taking any remedial action under the Indenture the Trustee may require that a satisfactory indemnity bond or other indemnity satisfactory to the Trustee be furnished for the reimbursement of all reasonable expenses to which it may be put and to protect it against all liability which may be incurred in connection with the taking of such action, except liability which is adjudicated to have resulted from its negligence or misconduct; provided, however, the Trustee shall not seek such indemnity prior to making payments on the Bonds.

The Trustee, prior to the occurrence of an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform only such duties as are specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a reasonable person would exercise or use in the conduct of such person's own affairs. The Trustee shall not be deemed to have knowledge of an Event of Default (except in connection with a failure of the Authority to make Lease Payments when due) until a Responsible Officer has actual knowledge thereof, or until notified in writing of such Event of Default.

The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of a majority (or other percentage provided for in the Indenture) in aggregate principal amount of Bonds outstanding or of the Insurer relating to the exercise of any right, power or remedy available to the Trustee. The Trustee shall not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

### **Amendment or Supplement**

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may be modified or amended by the Authority at any time by the execution of a Supplemental Indenture and pursuant to (i) the written consent of the Insurer to the extent such modification or amendment affects the Bonds, or (ii) with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding. Any such Supplemental Indenture shall become effective upon receipt of the written consent of the Insurer or receipt of the consent of the requisite number of Bond Owners, as applicable. No such modification or amendment shall (1) extend the date for payment of any principal of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the Authority to pay the principal thereof, or interest thereon, or any premium payable on the redemption thereof, at the time and place and at the rate and in the currency provided therein, without the written consent of the Owner of such Bond, (2) permit the creation by the Authority of any mortgage, pledge or lien upon the Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by the Indenture), (3) reduce the percentage of

Bonds required for the affirmative vote or written consent to an amendment or modification, or (4) modify any of the rights or obligations of the Trustee without its written consent thereto.

The Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture which the Authority and the Trustee may enter into with the prior consent of the Insurer but without the consent of any Bond Owners, if the Trustee determines that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority or the City other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority or the City;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority or the City may deem necessary or desirable;

(c) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(d) to make such additions, as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds; or

(e) to authorize the issuance of Additional Bonds.

Bonds owned or held by or for the account of the Authority shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds, and shall not be entitled to consent to or take any other action. Notwithstanding any other provision of the Indenture to the contrary, so long as the payment of the principal and interest with respect to any Bonds is guaranteed by the Insurer under the Insurance Policy and the Insurer is not in default under the Insurance Policy, any amendment or supplement to the Indenture shall be subject to the prior written consent of the Insurer.

### **Defeasance**

Any Outstanding Bonds shall be paid and discharged in any one or more of the following ways:

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

(b) by irrevocably depositing with the Trustee, in trust, at or before maturity money which, together with the amounts then on deposit in the funds and accounts established pursuant to the Indenture is fully sufficient to pay all Bonds Outstanding, including all principal, interest and redemption premiums, and the obligations of the Authority to pay the Insurer all

sums of money due or to become due according to the provisions of the Indenture or under the Insurance Policy; or; or

(c) by irrevocably depositing with the Trustee, in trust, non-callable Federal Securities in such amount as an Independent Certified Public Accountant shall certify to the Trustee, will, together with the interest to accrue thereon and moneys then on deposit in the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on all Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates, and the obligations of the Authority to pay the Insurer all sums of money due or to become due according to the provisions of the Indenture or under the Insurance Policy; and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture and all other obligations of the Authority under the Indenture with respect to all Bonds Outstanding shall cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon, and thereafter Revenues shall not be payable to the Trustee. Notice of such election shall be filed with the Trustee.

In the event of a refunding as described in paragraph (c) above (i) the Authority shall cause to be delivered, on the deposit date and upon any reinvestment of the defeasance amount, a report of an independent firm of nationally recognized certified public accountants (the "Accountant") verifying the sufficiency of the escrow established to pay such Bonds in full on the maturity or redemption date (the "Verification"), (ii) the escrow instructions shall provide that no (A) substitution of a Defeasance Obligation shall not be permitted except with another Defeasance Obligation and upon delivery of a new Verification and (B) reinvestment of a Defeasance Obligation shall not be permitted except as contemplated by the original Verification or upon delivery of a new Verification, and (iii) there shall be delivered an opinion of nationally recognized bond counsel to the effect that such Bonds are no longer "Outstanding" under the Indenture. Each Verification and defeasance opinion shall be addressed to the Authority, the Insurer, the Trustee, the escrow agent, if any, and any other parties as are deemed appropriate by the Authority at the time of such refunding. In the event a forward purchase agreement will be employed in the refunding, such agreement shall be subject to the approval of the Insurer and shall be accompanied by such opinions of counsel as may be required by the Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five (5) Business Days prior to the funding of the escrow.

Notwithstanding that some Bonds may not have been surrendered for payment, all obligations of the Authority and the Trustee under the Indenture with respect to such defeased Bonds shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid to the Owners of such Bonds all sums due thereon.

### **Unclaimed Moneys**

Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or principal of the Bonds which remains unclaimed for the lesser of the period ending one day prior to the date such money would escheat to the State or two (2) years after the date when the payments evidenced and represented by such Bonds have become payable, if such money was held by the Trustee at such date, or for the lesser of the period ending one day prior to the date such money would

escheat to the State or two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and principal evidenced and represented by such Bonds have become payable, the Trustee shall pay such amounts to the Authority as its absolute property free from trust, and the Trustee and the Insurer shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Authority for interest and principal represented by such Bonds.

### **Claims Upon the Insurance Policy and Payments by and to the Insurer**

As long as the Insurance Policy shall be in full force and effect and the Insurer is in compliance with its payment obligations thereunder, the Authority and the Trustee agree to comply with the following provisions:

(a) at least one (1) day prior to all Interest Payment Dates the Trustee will determine whether there will be sufficient funds on deposit with the Trustee sufficient moneys available to pay the principal of or interest on the Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient funds, the Trustee shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest, or both. If the Trustee has not so notified the Insurer at least one (1) day prior to an Interest Payment Date, the Insurer will make payments of principal or interest due on the Bonds on or before the first (1st) day next following the date on which the Insurer shall have received notice of nonpayment from the Trustee.

(b) the Trustee shall after giving notice to the Insurer as provided in (a) above, make available to the Insurer and, at the Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for the Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Authority maintained by the Trustee, and all records relating to the funds and accounts maintained under the Indenture.

(c) the Trustee shall provide the Insurer and the Insurance Trustee with a list of registered owners of the Bonds entitled to receive principal or interest payments from the Insurer under the terms of the Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of the Bonds entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal upon the Bonds surrendered to the Insurance Trustee by the registered owners of the Bonds entitled to receive full or partial principal payments from the Insurer.

(d) the Trustee shall, at the time it provides notice to the Insurer pursuant to (a) above, notify registered owners of the Bonds entitled to receive the payment of principal or interest thereon from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or part of the interest payments next coming due upon proof of Holder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Bonds for payment thereon first to the Trustee who shall note on such Bonds the portion of the principal paid by the Trustee and then, along with an appropriate instrument of assignment in

form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) in the event that the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time the Insurer is notified pursuant to (a) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Trustee and subsequently recovered from registered owners and the dates on which such payments were made.

(f) In addition to those rights granted the Insurer under the Indenture, the Insurer shall, to the extent it makes payment of principal of or interest on Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest thereon to the registered owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books of the Authority maintained by the Trustee upon surrender of the Bonds by the registered owners thereof together with proof of the payment of principal thereof.

### **Rights of the Insurer**

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuation of an Event of Default, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted under the Indenture to the Owners, or to the Trustee for the benefit of the Owners, including but not limited to the right to approve all waivers of any Events of Default. The rights granted to the Insurer shall be deemed terminated and shall not be exercisable by the Insurer during any period during which the Insurer shall be in default under the Insurance Policy. The rights of the Insurer to direct or consent to Authority, Trustee or Bondowner actions under the Indenture shall be suspended during any period in which the Insurer is in default in its payment obligations under the Insurance Policy (except to the extent of amounts previously paid by the Insurer and due and owing to the Insurer) and shall be of no force or effect in the event the Insurance Policy is no longer in effect or the Insurer asserts that the Insurance Policy is not in effect or the Insurer shall have provided written notice that it waives such rights.

### **Consent of the Insurer**

Any provision of the Indenture expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer under the Indenture without the prior written consent of the Insurer. Notwithstanding anything in the Indenture to the contrary if the Insurer has failed to make any payments under the Insurance Policy, and such failure remains unremedied, all rights accruing to the Insurer under the

Indenture with respect to the giving of directions, instructions, approvals or consents shall cease to be in force and effect until such time as such failure to make such payments has been remedied. The Insurer's consent shall be required in addition to Bondholder consent, when required, for the following purposes: (i) execution and delivery of any supplemental Indenture; (ii) removal of the Trustee or Paying Agent and selection and appointment of any successor trustee or paying agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which required Bondholder consent.

### **Benefits of Indenture Limited to Parties**

Nothing contained in the Indenture, expressed or implied, is intended to give to any person other than the Authority, the Insurer, the Trustee and the Owners any claim, remedy or right under or pursuant hereto, and any agreement, condition, covenant or term contained in the Indenture required to be observed or performed by or on behalf of the Authority shall be for the sole and exclusive benefit of the Trustee, the Insurer and the Owners. To the extent that the Indenture confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the Indenture, the Insurer is hereby explicitly recognized as being a third-party beneficiary under the Indenture and may enforce any such right remedy or claim conferred, given or granted under the Indenture.

### **Waiver of Personal Liability**

No board member, officer or employee of the Authority shall be individually or personally liable for the payment of the interest or principal the Bonds, but nothing contained in the Indenture shall relieve any board member, officer or employee of the Authority from the performance of any official duty provided by any applicable provisions of law or hereby.

### **Investments**

Amounts on deposit in any fund or account created pursuant to the Indenture shall be invested in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such money is anticipated to be needed for disbursement under the Indenture, in accordance with such written directions as the Authority may from time to time provide to the Trustee. Amounts on deposit in the Reserve Fund shall be invested by the Trustee, in accordance with written directions from the Authority, in Permitted Investments (i) having an average aggregate weighted term to maturity not greater than five (5) years, or (ii) of any maturity, but callable at par for any purpose required by the Indenture, and, if in an investment agreement, in a form approved by the Insurer. The Trustee and any affiliates may act as sponsor, advisor, principal or agent in the acquisition or disposition of any such investment. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it.

In computing the amount in any fund or account, Permitted Investments shall be valued at market value, exclusive of accrued interest. Except as relates to the valuation of the Reserve Fund, valuation shall occur as frequently as requested by the Insurer, but not less often than immediately prior to each Interest Payment Date, and upon any draw on the Reserve Fund. Except for investment agreements and repurchase agreements, if at any time after investment therein a Permitted Investment ceases to meet the criteria set forth in the definition of Permitted Investments and such obligation, aggregated with other non-conforming investments, exceeds ten percent (10%) of invested funds, such Permitted Investment shall be sold or liquidated unless otherwise approved by the Insurer.

## **California Law**

The Indenture shall be construed and governed in accordance with the laws of the State of California.

## **Payments Due on Days that are not Business Days**

In any case where the date fixed for payment of principal or interest on the Bonds or the date fixed for redemption of Bonds shall not be a Business Day, then payment of such principal or interest or redemption price shall be made on the next succeeding Business Day, with the same force and effect as if made on such non-Business Day and no interest shall accrue on such amounts from and after such non-Business Day.

## **THE LEASE AGREEMENT**

### **Definitions**

“Leased Property” means the real property and improvements thereon as more fully described in Exhibit B, as may be substituted for by the City and the Authority.

“Net Proceeds,” when used with reference to the Bonds, means the face amount of the Bonds, plus accrued interest and premium, if any, less original issue discount and less proceeds deposited in the Reserve Fund. When used with respect to any insurance or condemnation award, “Net Proceeds” means the proceeds from such insurance or condemnation award remaining after payment of all reasonable expenses (including attorneys’ fees) incurred in the collection of such proceeds.

“Permitted Encumbrances” means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent; (ii) the Subordinate Site Lease; (iii) the Subordinate Lease Agreement; (iv) the 1998 Lease; (v) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which the City certifies in writing will not materially impair the use of the Leased Property; (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Subordinate Lease Agreement and to which the Authority, the Insurer and the City consent in writing; and (viii) any sublease permitted by the Lease Agreement.

“Private Business Use” means use directly or indirectly in a trade or business carried on by a natural person or in any activity carried on by a person other than a natural person, excluding, however, use by a governmental unit and use as a member of the general public.

“Rental Period” means each twelve-month period during the Term of the Subordinate Lease Agreement commencing on July 16 in any year and ending on the next succeeding July 15, except that the first rental period shall commence on the Closing Date.

“Site Lease” means the Subordinate Site Lease, dated as of November 1, 2003, between the Authority and the City pursuant to which the City sub-leases the Leased Property to the Authority.

## **Representations, Covenants and Warranties of the City**

The City represents, covenants and warrants to the Authority as follows:

(a) **Due Organization and Existence.** The City is a charter city and municipal corporation duly organized and existing under its charter and the Constitution and laws of the State.

(b) **Authorization.** The laws of the State authorize the City to enter into the Subordinate Lease Agreement, the Site Lease and the Indenture and to enter into the transactions contemplated by and to carry out its obligations under all of the aforesaid Agreements, and the City has duly authorized and executed all of the aforesaid Agreements.

(c) **No Violations.** Neither the execution and delivery of the Subordinate Lease Agreement, the Site Lease or the Indenture, nor the fulfillment of or compliance with the terms and conditions of the Lease Agreement or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the City is now a party or by which the City is bound or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrances whatsoever upon any of the property or assets of the City, or upon the Leased Property or the Project, except Permitted Encumbrances.

(d) **Fee Ownership of Leased Property.** The City is the fee owner of the Leased Property, or will have fee ownership upon purchase of the Leased Property with proceeds of the Bonds.

(e) **Private Business Use Limitation.** The City shall assure that (i) not in excess of ten percent (10%) of the Net Proceeds of the Bonds is used for Private Business Use if, in addition, the payment of more than ten percent (10%) of the principal or ten percent (10%) of the interest components of Lease Payments due during the term of this Agreement is, under the terms of this Agreement or any underlying arrangement, directly or indirectly, secured by any interest in property used or to be used for a Private Business Use or in payments in respect of property used or to be used for a Private Business Use or is to be derived from payments, whether or not to the City, in respect of property or borrowed money used or to be used for a Private Business Use; and that (ii) in the event that both (A) in excess of five percent (5%) of the Net Proceeds of the Bonds are used for a Private Business Use, and (B) an amount in excess of five percent (5%) of the principal or five percent (5%) of the interest components of Lease Payments due during the term of this Agreement is, under the terms of this Agreement or any underlying arrangement, directly or indirectly, secured by any interest in property used or to be used for said Private Business Use or in payments in respect of property used or to be used for said Private Business Use or is to be derived from payments, whether or not to the City, in respect of property or borrowed money used or to be used for said Private Business Use, then said excess over said five percent (5%) of Net Proceeds of the Bonds used for a Private Business Use shall be used for a Private Business Use related to the governmental use of the Project.

(f) **Private Loan Use Limitation.** The City shall assure that not in excess of the lesser of five percent (5%) or \$5,000,000 of the Net Proceeds of the Bonds is used, directly or indirectly, to make or finance a loan (other than loans constituting Nonpurpose Obligations) to persons other than state or local government units.

(g) **Federal Guarantee Prohibition.** The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Lease Payments to be “federally guaranteed” within the meaning of section 149(b) of the Code and Regulations promulgated thereunder.

### **Representations, Covenants and Warranties of the Authority**

The Authority represents, covenants and warrants to the City as follows:

(a) **Due Organization and Existence.** The Authority is a joint powers authority, duly organized, operating and existing under the laws of the State; has power to enter into the Subordinate Lease Agreement, the Site Lease and the Indenture; is possessed of full power to lease real and personal property; and has duly authorized the execution and delivery of all of the aforesaid Agreements.

(b) **No Encumbrances.** The Authority will not pledge the Lease Payments or any other amounts derived from the Project or the Leased Property and from its other rights under the Subordinate Lease Agreement or the Leased Property Lease except as provided in the Indenture, and will not mortgage or encumber the Project or the Leased Property, the Subordinate Lease Agreement, the Site Lease or the Indenture.

(c) **No Violations.** Neither the execution and delivery of the Site Lease, the Subordinate Lease Agreement or the Indenture, nor the fulfillment of or compliance with the terms and conditions of the Lease Agreement or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Authority is now a party or by which the Authority is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Authority, or upon the Project or the Leased Property, except Permitted Encumbrances.

(d) **No Assignments.** Except as provided in the Lease Agreement, the Authority will not assign the Subordinate Lease Agreement, its right to receive Lease Payments from the City, or its duties and obligations hereunder to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties.

### **Construction of Project**

The Authority hereby appoints the City its agent to supervise and provide for, or cause to be supervised and provided for, the construction, improvement and equipping of the Project, and to cause the same to be diligently performed after the Closing Date. The City, as agent of the Authority, shall cause all costs to be paid from amounts on deposit in the Project Fund. The City, as agent of the Authority, will enter into purchase orders and contracts, and will supervise and provide for, or cause to be supervised and provided for, the complete construction, acquisition, refinancing, improvement, repair, modification and installation of the Project. The City agrees that it will cause the work under said contracts to be diligently performed after the deposit of funds with the Trustee, and that the Project will be constructed, refinanced, improved, repaired, modified, acquired and installed in accordance with the specifications approved by the City on or prior to the Completion Date. The City may change the specifications of the Project, so long as such change does not substantially alter the nature of Project; provided, however, that the City and the Authority, in their sole discretion, may designate an Alternate Project. In

the event an Alternate Project is designated, the City shall certify in writing to the Trustee, the Insurer and the Authority that Project Costs shall not increase as a result from such change. In the event Project Costs shall materially increase as a result of the designation of an Alternate Project, prior to designating such Alternate Project the City shall either deposit in the Project Fund an amount sufficient to pay such increase, or shall certify in writing to the Trustee, the Insurer and the Authority that funds sufficient to pay such increase in Project Costs are otherwise available to the City.

### **Agreement to Lease**

The Authority hereby agrees to lease the Leased Property to the City, and the City hereby agrees to lease the Leased Property from the Authority upon the terms and conditions set forth in the Subordinate Lease Agreement. The Authority shall make the Leased Property available to the City from and after the Closing Date.

### **Lease Payments**

The City agrees to pay to the Authority, its successors and assigns, as rental for the use and occupancy of the Leased Property hereunder during each Rental Period, the Lease Payments (denominated into components of principal and interest) for the Leased Property in the respective amounts specified in Exhibit A, to be due and payable on the respective Lease Payment Dates specified in Exhibit A. Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the redemption of the Lease Payments in part but not in whole and other than amounts required for payment of past due principal or interest represented by any Bonds not presented for payment) shall be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund and available for such purpose are at least equal to the Lease Payment then required to be paid. The Lease Payments for the Leased Property payable in any Rental Period shall be for the use of the Leased Property during such Rental Period.

In the event that the City prepays all remaining Lease Payments, including any premium, in full, the City's obligations under the Subordinate Lease Agreement shall thereupon cease and terminate; subject however, to the provisions of Section 10.1 relating to the payment of Lease Payments from a security deposit. In the event that the City purchases the Project, the amount paid shall be credited entirely towards the redemption of the Lease Payments. In the event that the City prepays the Lease Payments in part but not in whole as a result of any insurance award or condemnation award with respect to the Leased Property, such redemption shall be credited entirely towards the redemption of the Lease Payments as follows: (i) the principal components of the remaining Lease Payments shall be reduced on a pro rata basis in integral multiples of \$5,000; and (ii) the interest component of the remaining Lease Payments shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Bonds thereby redeemed.

The Lease Payments for the Leased Property for each Rental Period shall constitute the total rental for the Leased Property during each Rental Period, and shall be paid by the City in each Rental Period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of the Leased Property during each Rental Period. The parties hereto have agreed and determined that the total Lease Payments for the Leased Property do not exceed the fair rental value of the Leased Property. In making such determination, consideration has been given to 1998 Lease and the uses and purposes which

are served by the Leased Property and the benefits therefrom which accrue to the City and the general public.

The City covenants to take such action as may be necessary to include all Lease Payments due hereunder in each of its budgets during the Term of the Subordinate Lease Agreement and to make the necessary annual appropriations for all such Lease Payments, except to the extent such Lease Payments are payable from amounts on deposit in the Lease Payment Fund. The covenants on the part of the City in the Lease Agreement contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Subordinate Lease Agreement agreed to be carried out and performed by the City.

### **Quiet Enjoyment**

The Authority shall provide the City with quiet use and enjoyment of the Leased Property, and the City shall, for the remainder of the Term of the Subordinate Lease Agreement, peaceably and quietly have and hold and enjoy the Leased Property, without suit, trouble or hindrance from the Authority, except as expressly set forth in the Subordinate Lease Agreement. The Authority will, at the request of the City and at the City's cost, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Authority may lawfully do so.

### **Title; No Merger of Estates**

During the term of the Subordinate Lease Agreement, title to the Leased Property shall remain with the City, and the Authority will maintain a leasehold interest in the Leased Property and any and all additions, replacements or modifications, except as provided below and except for those modifications which are added to the Leased Property by the City and which may be removed without damaging the Leased Property. The Authority shall not have any right, title or interest in the Leased Property or in any additions, repairs, replacements or modifications thereto except as expressly provided in the Subordinate Lease Agreement and the Site Lease. The lease by the Authority to the City of the Leased Property pursuant to the Subordinate Lease Agreement shall not effect or result in a merger of the City's leasehold estate pursuant hereto and its fee estate. The Authority agrees to defend and eliminate any claims adverse to the City's title to the Leased Property, and to save and hold the City harmless therefrom; provided that the Authority's obligations under this sentence shall not extend to claims arising out of actions by the City or persons asserting claims under it; provided that the City shall reimburse the Authority for any costs incurred by the Authority in defending or eliminating such claims, including reasonable attorneys' fees.

### **Additional Payments**

In addition to the Lease Payments, the City shall pay when due all costs and expenses incurred by the Authority to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), indemnification, compensation and expenses due to the Trustee and the Insurer (subject, however, to the provisions of Section 6.3 relating to abatement) and all reasonable costs and expenses of attorneys, auditors, engineers and accountants.

## **Maintenance, Utilities, Taxes and Assessments**

Throughout the Term of the Subordinate Lease Agreement, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or lessee thereof. In exchange for the Lease Payments in the Lease Agreement provided, the Authority agrees to provide only the Leased Property. The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Leased Property or the interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Subordinate Lease Agreement as and when the same become due. The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority shall notify the City that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Authority in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority and the Trustee with full security against any loss which may result from nonpayment, in form satisfactory to the Authority.

## **Modification of Leased Property**

The City shall, at its own expense, have the right to remodel the Leased Property or to make additions, modifications and improvements to the Leased Property. All additions, modifications and improvements shall thereafter comprise part of the Leased Property and be subject to the provisions of the Subordinate Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Leased Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto pursuant to this Section, shall be of a value which is not substantially less than the value of the Leased Property immediately prior to the making of such additions, modifications and improvements. The City will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City pursuant to this Section.

## **Commercial General Liability and Property Damage Insurance**

The City shall maintain or cause to be maintained, throughout the Term of the Subordinate Lease Agreement, a standard comprehensive commercial general insurance policy or policies in protection of the Authority, City, Trustee and their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Said policy or

policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$5,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$100,000 (subject to a deductible clause of not to exceed \$25,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$5,000,000 per occurrence covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City or through a joint powers authority created for such purpose.

### **Fire and Extended Coverage Insurance**

The City shall procure and maintain, or cause to be procured and maintained, throughout the remainder of the Term of the Subordinate Lease Agreement, insurance against loss or damage to any structures constituting any part of the Leased Property by flood, fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to one hundred percent (100%) of the replacement cost of the Leased Property or Outstanding Bonds and 1998 Bonds, whichever is less. Earthquake insurance shall only be carried if available from reputable insurers at a reasonable cost as determined by the Finance Director of the City. Other fire and extended coverage insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage carried by the City and may be maintained in whole or in part in the form of self-insurance by the City or through participation by the City in a joint powers authority for such purpose, or through a combination of both.

### **Rental Interruption Insurance**

The City shall procure, and maintain through the remainder of the Term of the Subordinate Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of any structures constituting any part of the Leased Property during the remainder of the Term of the Subordinate Lease Agreement as a result of any of the hazards covered in the insurance required by the Lease Agreement and which causes abatement of the Lease Payments, in an amount at least equal to the maximum amount of Lease Payments due in any succeeding two successive Rental Periods. So long as there shall be Insurance Policy with respect to the Bonds, the City shall not self-insure for rental interruption or use and occupancy insurance. The City shall be permitted to self-insure for rental interruption or use and occupancy insurance required above, so long as:

- (1) there is not Insurance Policy with respect to the Bonds; and
- (2) the City segregates a designated reserve for such loss; and
- (3) the City's liability under such self-insurance program is limited to amounts on hand in such segregated reserve; and
- (4) the combined coverage under such self-insurance program and any other rental interruption or use and occupancy insurance are equal to Lease Payments due in the then applicable Rental Period; and

(5) the amount on hand in such segregated reserve will not, in the opinion of Bond Counsel, cause the Subordinate Lease Agreement to become an “arbitrage bond” within the meaning of Section 148(a) of the Code.

### **Title Insurance**

The City shall cause to be delivered on the Closing Date a CLTA title insurance policy with respect to the Leased Property, in a principal amount at least equal to the principal amount of the Bonds, insuring the City’s leasehold interest in the Leased Property naming the Authority and the Trustee as beneficiaries.

### **Installation of City’s Equipment**

The City may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Leased Property. All such items shall remain the sole property of the City, in which neither the Authority nor the Trustee shall have any interest, and may be modified or removed by the City at any time provided that the City shall repair and restore any and all damage to the Leased Property resulting from the installation, modification or removal of any such items. Nothing in the Subordinate Lease Agreement shall prevent the City from purchasing or leasing items to be installed pursuant to this Section under a lease or conditional sale agreement, or subject to a vendor’s lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Property.

### **Liens**

The City shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Leased Property, other than the respective rights of the Authority and the City as in the Lease Agreement provided and Permitted Encumbrances. Except as expressly provided in this Article, the City shall promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time. The City shall reimburse the Authority for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

### **Removal of Property**

The City shall have, and is hereby granted, subject to the written consent of the Insurer, the option at any time and from time to time during the Term of the Subordinate Lease Agreement to remove from the Subordinate Lease Agreement any land and all improvements, facilities and property situated thereon; provided that if the fair market value of such property is in excess of \$100,000 the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such removal:

- (a) The City shall have obtained the prior written consent of the Insurer, or
- (b) If the Insurance Policy is no longer in place, the City shall satisfy the following requirements:

(1) No event of default has occurred and is continuing under the Subordinate Lease Agreement;

(2) The City shall file with the Authority and the Trustee an amended Exhibit B to the Subordinate Lease Agreement which deletes the legal description of such land;

(3) The City shall cause to be recorded in the Office of the San Mateo County Recorder a copy of the Subordinate Lease Agreement containing such amended Exhibit B, or a memorandum of the Subordinate Lease Agreement reflecting such amendment to Exhibit B; and

(4) The City shall cause to be filed with the Trustee and the Insurer an opinion of Bond Counsel substantially to the effect that such removal will not affect the obligation of the City to continue to pay Lease Payments in the amounts and at the times and in the manner required by the Subordinate Lease Agreement;

(5) The City shall file with the Authority, the Insurer and the Trustee an appraisal by a qualified appraiser selected by the City in its sole discretion, who is a member of the American Institute of Real Estate Appraisers (MAI), stating that the appraised value of the Leased Property, excluding such land and any improvements thereon, to be released at least equals the aggregate principal amount of the Bonds then Outstanding; and

(6) The City shall provide notice of any such removal to any rating agency then maintaining a rating on the Bonds.

### **Substitution for the Leased Property**

The City may, at its option at any time and from time to time during the Term of the Subordinate Lease Agreement, subject to the consent of the Insurer, if any, substitute other land ("Substitute Sites") and substitute facilities, which facilities may not be equipment ("Substitute Facilities") for all or any portion of the Leased Property, provided that the City shall satisfy certain requirements.

(a) The City shall execute a deed of trust or site lease, conveying, or creating an interest in, the Substitute Sites and the Substitute Facilities, to the Authority;

(b) The City shall file with the Authority, the Trustee and the Insurer a new appraisal prepared by an MAI appraiser setting forth the appraised value of the Substitute Sites and the Substitute Facilities, which appraised value, together with the appraised value of all other facilities and sites subject to the Subordinate Lease Agreement, shall be no less than the cumulative Outstanding principal amount of the Bonds, and any Additional Bonds;

(c) The City shall file with the Authority, the Trustee and the Insurer an amendment to the Subordinate Lease Agreement which adds thereto a description of such Substitute Facilities and deletes therefrom the description of the portion of the Leased Property for which substitution is being made;

(d) The City shall certify in writing to the Authority, the Insurer and the Trustee that such Substitute Sites and Substitute Facilities serve the purposes of the City, constitute property that is unencumbered (except for permitted encumbrances), constitute property which the City is permitted to lease under the laws of the State, and that the useful life

of the substituted property meets or exceeds the remaining term of the Bonds, and any additional Bonds;

(e) The City shall provide title insurance covering the Substituted Sites and Substituted Facilities as required by the Subordinate Lease Agreement;

(f) The Substitute Sites and Substitute Facilities shall not cause the City to violate any of its covenants, representations and warranties made in the Indenture and shall not cause any then-existing rating on the Bonds or the Additional Bonds to be downgraded or withdrawn;

(g) The City shall deliver to the Trustee, the Insurer and the Authority an opinion of Bond Counsel to the effect that the substitution will not adversely affect the exclusion from gross income for purpose of federal income taxation of the interest portion of the Lease Payment received by the Owners or the exemption of such interest from California personal income taxes;

(h) To the extent the Insurance Policy is in force and effect, the City shall receive the prior written consent of the Insurer, if any, to such substitution; and

(i) The City shall provide notice of any such substitution to any rating agency then maintaining a rating on the Bonds.

The City shall not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of any such substitution.

### **Use of Eminent Domain**

The City hereby covenants and agrees, to the extent it may lawfully do so, that so long as any of the Bonds remain outstanding and unpaid, the City will not exercise the power of condemnation with respect to the Leased Property. The City further covenants and agrees, to the extent it may lawfully do so, that if for any reason the foregoing covenant is determined to be unenforceable or if the City should fail or refuse to abide by such covenant and condemns the Leased Property, the appraised value of the Leased Property shall not be less than the greater of (i) if such Bonds are then subject to redemption, the principal of and interest on the Bonds Outstanding through the date of their redemption, or (ii) if such Bonds are not then subject to redemption, the amount necessary to defease the Bonds to the first available redemption date in accordance with the Indenture.

### **Continuing Disclosure**

The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to the Authority. Notwithstanding any other provision of the Lease Agreement, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the City to comply with its obligations.

## **Eminent Domain**

If the Leased Property shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of the Subordinate Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Leased Property shall be taken permanently, or if the Leased Property or any part thereof shall be taken temporarily, under the power of eminent domain, (1) the Subordinate Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (2) there shall be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the redemption of the Lease Payments hereunder, in an amount to be agreed upon by the City and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Property. The City covenants to contest any eminent domain award which is insufficient to either: (i) redeem the Bonds and the 1998 Bonds in whole, if all of the Leased Property is condemned; or (ii) redeem a pro rata share of Bonds and 1998 Bonds, in the event that less than all of the Leased Property is condemned.

## **Application of Net Proceeds**

(a) **From Insurance Award.** The Net Proceeds of any insurance award resulting from any damage to or destruction of any Project by fire or other casualty shall be paid to the Trustee, as assignee of the Authority under the Indenture, and deposited in the Insurance and Condemnation Fund for application as set forth in the Indenture.

(b) **From Eminent Domain Award.** The Net Proceeds of any eminent domain award shall be paid to the Trustee, as assignee of the Authority under the Indenture, and deposited in the Insurance and Condemnation Fund for application as set forth in the Indenture.

## **Abatement of Rental in the Event of Damage or Destruction**

The amount of Lease Payments shall be abated, during any period in which by reason of damage or destruction (other than by eminent domain) there is substantial interference with the use and occupancy by the City of the Leased Property or the Leased Property or any portion thereof. The amount of such abatement shall be agreed upon by the City and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property not damaged or destroyed. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Subordinate Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Subordinate Lease Agreement by virtue of any such damage and destruction. However, there shall be no abatement of Lease Payments to the extent that the proceeds of an eminent domain or insurance award, including self-insurance, are available to pay Lease Payments or to the extent that moneys are available in the Lease Payment Fund or the Reserve Fund, it being hereby declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

## **Disclaimer of Warranties**

The Authority makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the

use contemplated by the City of the Leased Property, or any other representation or warranty with respect to the Leased Property. In no event shall the Authority be liable for incidental, indirect, special or consequential damages, in connection with or arising out of the Subordinate Lease Agreement, the Site Lease or the Indenture for the existence, furnishing, functioning or City's use of the Leased Property.

### **Access to the Leased Property**

The City agrees that the Authority and any Authority Representative, and the Authority's successors or assigns, shall have the right at all reasonable times to enter upon and to examine and inspect the Leased Property. The City further agrees that the Authority, any Authority Representative, and the Authority's successors or assigns shall have such rights of access to the Leased Property as may be reasonably necessary to cause the proper maintenance of the Leased Property in the event of failure by the City to perform its obligations hereunder.

### **Assignment and Leasing by the City**

The Subordinate Lease Agreement may not be assigned by the City. The City may further lease any of the Leased Property or any portion thereof, but only with the written consent of the Authority and subject to all of the following conditions:

(i) The Subordinate Lease Agreement and the obligation of the City to make Lease Payments hereunder shall remain obligations of the City; and

(ii) The City shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such lease; and

(iii) No such lease by the City shall cause the Leased Property to be used for a purpose other than as may be authorized under the provisions of the City's charter or the Constitution and laws of the State; and

(iv) The City shall furnish the Authority and the Trustee with a written opinion of Bond Counsel, stating that such lease does not cause the interest on the Bonds to become subject to federal or State personal income taxes.

(v) The Trustee shall receive a favorable opinion from counsel to the City on items (i), (iii) and (iv) above.

### **Amendment of Subordinate Lease Agreement**

(a) **Amendment for Additional Financing.** The City may at any time amend or modify Appendix C of the Subordinate Lease Agreement to provide for the designation of an Alternate Project as provided for in Section 3.2 of the Lease Agreement without the consent of the Trustee, the Insurer or any of the Bond owners. In addition, the City may at any time amend or modify any of the provision of the Subordinate Lease Agreement, but only: (i) with the prior written consent of the Trustee (which consent shall not be unreasonably withheld) and with the prior written consent of the Insurer, if any; or (ii) without the consent of the Trustee (but only to the extent the rights and obligations of the Trustee are not affected) or any of the Bond owners, but only if the City has obtained the prior written consent of the Insurer or such amendment or modification is for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City contained in the Subordinate Lease Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power in the Lease Agreement reserved to or conferred upon the City;

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Subordinate Lease Agreement, to conform to the original intention of the City and the Authority, including an amendment to reflect a change in the Project or the designation of an Alternate Project, as permitted in the Subordinate Lease Agreement;

(iii) in any respect whatsoever as the Authority and the City may deem necessary or desirable, provided that, in the opinion of Bond Counsel, such modifications or amendments do not materially adversely affect the security of the Owners of the Bonds;

(iv) to amend any provision of the Lease Agreement relating to the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest represented by any of the Bonds under applicable federal income tax law, in the opinion of Bond Counsel;

(v) to amend the description of the Leased Property to reflect accurately the property originally intended to be included in the Lease Agreement, or to add additional Leased Property in connection with increasing Lease Payments; or

(vi) to obligate the City to pay additional amounts of rental for the use and occupancy of the Leased Property, provided that such additional amounts of rental do not cause the total rental payments made by the City under the Subordinate Lease Agreement to exceed the fair rental value of the Leased Property, the estimated fair market value of the Leased Property is not less than the aggregate principal components of such additional amounts plus the existing aggregate unpaid components of the Lease Payments, such additional amounts of rental are pledged or assigned for the payment of any bonds, notes, leases or other obligations the proceeds of which are applied to finance the completion of the Project, an Alternate Project or any portion thereof, or to finance the acquisition or construction of any additions to or modifications of the Project, an Alternate Project or any portion thereof, and to the extent the Bonds are Outstanding, the City must obtain the written consent of the Insurer (if any) to such amendment.

(b) **Generally.** Except as provided in subsection (a) of this Section, without the prior written consent of the Trustee and the Insurer, the City will not alter, modify or cancel, or agree or consent to alter, modify or cancel the Subordinate Lease Agreement, excepting only such alteration or modification as may be permitted by the Lease Agreement.

### **Events of Default**

The following shall be "events of default" under the Subordinate Lease Agreement and the terms "events of default" and "default" shall mean, whenever they are used in the Subordinate Lease Agreement, with respect to the Project, any one or more of the following events:

(i) Failure by the City to pay any Lease Payment when due and payable hereunder, or failure to pay any other payment when due and payable hereunder.

(ii) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in clause (i) or clause (iii) of this Section, for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority, the Trustee or the Owners of not less than five percent (5%) in aggregate principal amount of Bonds then outstanding; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Authority, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the City within the applicable period and diligently pursued until the default is corrected.

(iii) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or the filing of an involuntary petition in bankruptcy against the City which petition shall not have been withdrawn within sixty (60) days, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors; or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the federal bankruptcy law, or under any similar acts which may hereafter be enacted.

(iv) An Event of Default shall have occurred under the 1998 Lease.

### **Remedies on Default**

Whenever any event of default shall have happened and be continuing, it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Subordinate Lease Agreement; provided, however, that notwithstanding anything in the Lease Agreement or in the Indenture to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable, each and every covenant of the Lease Agreement to be kept and performed by the City is expressly made a condition and upon the breach thereof the Authority may, with the consent of the Insurer, and shall, at the direction of the Insurer, exercise any and all rights of entry and re-entry upon the Leased Property, and also, at its option, with or without such entry, may, with the consent of the Insurer, or shall, at the direction of the Insurer, terminate the Subordinate Lease Agreement; provided, that no such termination shall be effected either by operation of law or acts of the parties hereto, except only in the manner in the Lease Agreement expressly provided. In the event of such default and notwithstanding any re-entry by the Authority, the City shall, as in the Lease Agreement expressly provided, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Subordinate Lease Agreement and the performance of all conditions in the Lease Agreement contained and, in any event such rent and/or damages shall be payable to the Authority at the time and in the manner as in the Lease Agreement provided, to wit:

(a) In the event the Authority does not elect to terminate the Subordinate Lease Agreement, the City agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions in the Lease Agreement contained and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Leased Property, or, in the event the Authority does not re-lease the Leased Property, then for the full amount of all Lease Payments to the end of the Term of the Subordinate Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as in the Lease Agreement-above provided for the payment of Lease Payments hereunder, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or

otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Leased Property or the exercise of any other remedy by the Authority.

(b) In the event of the termination of the Subordinate Lease Agreement by the Authority on account of default by the City (and notwithstanding any re-entry upon the Leased Property by the Authority in any manner whatsoever or the re-leasing or sale of the Leased Property), the City nevertheless agrees to pay to the Authority all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is in the Lease Agreement provided in the case of payment of Lease Payments.

### **No Remedy Exclusive**

No remedy in the Lease Agreement conferred upon or reserved to the Authority or the Insurer is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Subordinate Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this Article it shall not be necessary to give any notice, other than such notice as may be required in this Article or by law.

### **No Additional Waiver Implied by One Waiver**

In the event any agreement contained in the Subordinate Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

### **Application of Proceeds**

All net proceeds received from the release or other disposition of the Project and the Leased Property, and all other amounts derived by the Authority or the Trustee as a result of an event of default hereunder, shall be subject to the Indenture and shall be transferred to the Trustee promptly upon receipt thereof after payment of any fees and expenses of the Trustee, including without limitation those of its counsel, for use as provided in the Indenture.

### **Security Deposit**

Notwithstanding any other provision of the Subordinate Lease Agreement, the City may on any date secure the payment of Lease Payments by a deposit with the Trustee of: (i) an amount of cash which, together with amounts on deposit in the Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund, is sufficient to pay all unpaid Lease Payments, including the principal and interest components thereof, in accordance with the Lease Payment Schedule set forth in Exhibit A, or (ii) Defeasance Securities together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of moneys or Defeasance Securities then on deposit in the Lease Payment Fund, the Insurance and Condemnation Fund and the Reserve Fund, be fully sufficient to pay all unpaid Lease Payments

on their respective Lease Payment dates or on any purchase option date, as the City shall instruct at the time of said deposit. In the event of a security deposit, all obligations of the City under the Subordinate Lease Agreement, and all security provided by the Subordinate Lease Agreement for said obligations, shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, Lease Payments from such security deposit.

### **Net-Net-Net Lease**

The Subordinate Lease Agreement shall be deemed and construed to be a “net-net-net lease” and the City hereby agrees that the Lease Payments shall be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever.

### **Applicable Law**

The Subordinate Lease Agreement shall be governed by and construed in accordance with the laws of the State.

### **Benefits of Subordinate Lease Agreement Limited to Parties**

Nothing in the Subordinate Lease Agreement, expressed or implied, is intended to give to any person other than the City, the Trustee, the Authority, the Insurer and the Owners of the Bonds any right, remedy, claim under or by reason of the Subordinate Lease Agreement. Any covenants, stipulations, promises or agreements in the Subordinate Lease Agreement contained by and on behalf of the City shall be for the sole and exclusive benefit of the Insurer, the Authority, the Owners of the Bonds and the Trustee. The Insurer shall be a third party beneficiary of the Subordinate Lease Agreement.

### **Waiver of Personal Liability**

No member, officer, agent or employee of the City or the Authority shall be individually or personally liable for the payment of the principal of or interest with respect to the Bonds; but nothing in the Lease Agreement contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

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**APPENDIX B**

**INDEPENDENT AUDITOR'S REPORT OF THE COUNTY  
FOR THE YEAR ENDED JUNE 30, 2002**

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**ACCOUNTANCY CORPORATION**  
1931 San Miguel Drive - Suite 100  
Walnut Creek, California 94596  
(925) 930-0902 • FAX (925) 930-0135  
E-Mail: [maze@mazeassociates.com](mailto:maze@mazeassociates.com)  
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## INDEPENDENT AUDITOR'S REPORT ON BASIC FINANCIAL STATEMENTS

City Council of the City of Redwood City  
Redwood City, California

We have audited the basic financial statements of the City of Redwood City as of and for the year ended June 30, 2002, as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the basic financial statements referred to above present fairly in all material respects the financial position of the City of Redwood City at June 30, 2002 and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

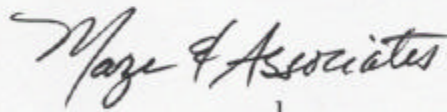
The basic financial statements referred to above follow the requirements of Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as discussed in Note 1 to the Basic Financial Statements.

Management's Discussion and Analysis is supplementary information required by the Government Accounting Standards Board, but is not part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

In accordance with Government Auditing Standards, we have also issued reports dated November 22, 2002 on our consideration of the City of Redwood City's internal control structure and on its compliance with laws and regulations.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic statements. Such information has been subjected to the auditing procedures applied in our audit of the government wide and fund financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The statistical section listed in the Table of Contents was not audited by us, and we do not express an opinion on this information.



October 25, 2002



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2002*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fiscal year 2001/02 marks the first year the City has issued its financial statements in the format prescribed by the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34), which requires the City to provide this overview of its financial activities for the fiscal year. Please read it in conjunction with the accompanying transmittal letter and Basic Financial Statements.

### **FISCAL YEAR 2001/02 FINANCIAL HIGHLIGHTS**

The City continues to struggle with the effects of the economic slowdown that began in the spring of 2001 and which hit the technology sector particularly hard. Financial highlights of the year include the following:

- The City's total net assets increased \$18 million in FY 2001/02, after a \$71 million increase in the prior year. At June 30, 2002, net assets totaled \$342 million.
- Total City revenues, including program and general revenues, were \$121 million, a decrease of \$38 million from the prior year, while total expenses were \$104 million, an increase of \$16 million from the prior year.
- Net assets in governmental funds increased \$13 million, while net assets in business activities increased \$5 million.
- Governmental program revenues were \$27 million, a decline of \$35 million from FY 2000/01's \$62 million, due to FY 2000/01 containing \$29 million in non-recurring contributions from property owners for capital projects, a \$2.0 million drop in development fees owing to less construction activity, and a reduction in grants for recreational programs and law enforcement.
- Governmental program expenses increased to \$79 million in FY 2001/02, up \$15 million from the prior year.
- Revenues from business-type activities were unchanged at \$28 million in FY 2001/02.
- Expenses of business-type activities increased to \$25 million in FY 2001/02, a \$1 million increase from the prior year.
- General fund revenues of \$64 million decreased by \$6.6 million from the prior year.
- General fund balance of \$41 million at the fiscal year end declined by \$8 million from the prior year.

### **OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This Comprehensive Annual Financial Report is in six parts:

1. Introductory section, which includes the transmittal letter and general information
2. Management's Discussion and Analysis (this part)
3. The Basic Financial Statements, which include the government-wide and the fund financial statements, along with the notes to these financial statements
4. Required supplemental information (none at this time)
5. Combining statements for non-major governmental funds and fiduciary funds
6. Statistical information

### **The Basic Financial Statements**

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each the City's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the City's activities are grouped into government activities and business-type activities, as explained below. All the amounts in the Statement of Net Assets and the Statement of Activities are separated into governmental activities and business-type activities in order to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's general fund and other major funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

Major funds account for the major financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major funds are explained below.

### **The Government-wide Financial Statements**

The Statement of Net Assets and the Statement of Activities present information about the following:

**Governmental activities** — All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, culture-recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.

**Business-type activities** — All the City's enterprise activities are reported here, including water, sewer, parking, and the Port of Redwood City. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Government-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

*The government-wide financial statements may be found on pages 16-17 of this report.*

### **Fund Financial Statements**

Fund financial statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of City's activities.

Fund financial statements include governmental, enterprise, and internal service funds as discussed below.

Governmental fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the governmental fund financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for

## MANAGEMENT'S DISCUSSION AND ANALYSIS

governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

*The governmental fund financial statements may be found on pages 20-24 of this report.*

Proprietary and internal service fund financial statements are prepared on the full accrual basis, as in the past, and include all their assets and liabilities, current and long-term.

*The proprietary fund financial statements may be found on page 26-28 of this report.*

Since the City's internal service funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the fund level. Internal service funds may not be major funds because their revenues are derived from other City funds. These revenues are eliminated in the City-wide financial statements and any related profits or losses are returned to the activities which created them, along with any residual net assets of the internal service funds.

Comparisons of budget and actual financial information are presented only for the general fund and other major funds that are special revenue funds.

### **Fiduciary Statements**

The City maintains fiduciary funds that account for tax free employee and employer contributions made under the provisions of section 125 of the Internal Revenue Code (cafeteria benefits fund), for employer contributions to a retiree medical insurance fund, and for transactions involving the Seaport Consolidated Assessment District, the Pacific Shores Community Facilities District, and the Shores Transportation Improvement District. The City's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets and the Agency Funds Statement of Changes in Assets and Liabilities. The accounting used for fiduciary funds is much like that used for proprietary funds. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

*The fiduciary fund financial statement may be found on page 29 of this report.*

### **Notes to the Financial Statements**

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

*The Notes to the Financial Statements may be found on pages 31-58 of this report.*

### **Combining and Individual Fund Statements and Schedules**

Combining and individual fund statements and schedules referred to earlier provide information for non-major governmental funds, non-major enterprise funds, internal service funds, and fiduciary funds.

*Combining and individual fund statements and schedules may be found on pages 62-84 of this report.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the City's governmental activities (Tables 1, 2 and 3) and business-type activities (Tables 4 and 5) presented in the City-wide Statement of Net Assets and Statement of Activities that follows.

Governmental Activities

**Table 1**  
**Governmental Net Assets at June 30, 2002**  
**(in Millions)**

	Governmental Activities	
	2002	2001
	\$	\$
Cash and investments	136	142
Other assets	24	22
Capital assets	145	128
Total assets	<u>305</u>	<u>292</u>
Long-term debt outstanding	57	60
Other liabilities	23	20
Total liabilities	<u>80</u>	<u>80</u>
Net assets:		
Invested in capital assets, net of debt	127	108
Restricted	58	68
Unrestricted		
Other unrestricted net assets	<u>40</u>	<u>36</u>
Total net assets	<u>225</u>	<u>212</u>

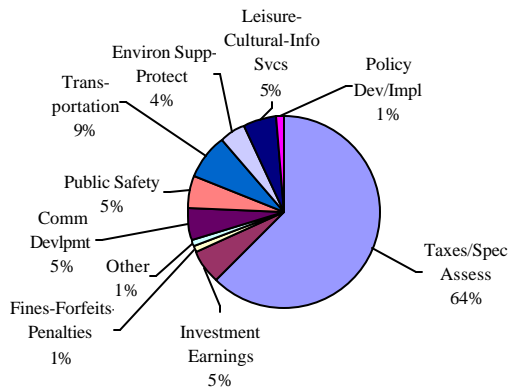
**MANAGEMENT’S DISCUSSION AND ANALYSIS**

The City’s net assets from governmental activities increased 6% to \$225 million in FY 2001/02 from \$212 million in FY 2000/01. This increase is the Change in Net Assets reflected in the Statement of Activities, as shown in Table 2, and is explained below:

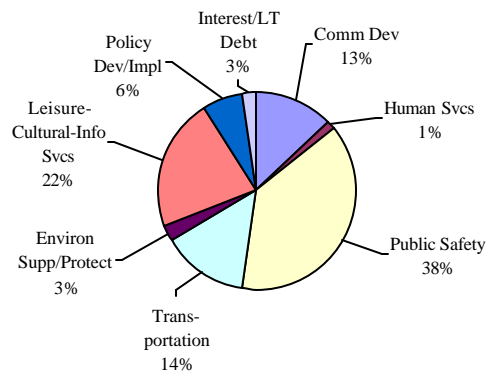
- Cash and investments decreased \$6 million, principally as a result of expenditures on transportation projects.
- Most of the increase in capital assets was due to the construction of transportation system improvements funded by developer contributions (assessment districts).
- Unrestricted net assets are normally the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements.

**Fiscal Year 2002 Governmental Activities**

**Sources of Revenue**



**Functional Expenses**



As the Sources of Revenue Chart above shows, \$57 million, or 64% of the City’s FY 2001/02 revenue, came from taxes and special assessments. In FY 2000/01, taxes and special assessments were \$58 million, or 45% of that year’s revenue. The City’s single largest area of expenses continues to be public safety which was also the highest single expense in FY 2000/01.

The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are now added to the City’s capital assets. In FY 2001/02, the City added \$23 million in capital assets.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Charges in Governmental Net Assets summarized below.

**Table 2**  
**Changes in Governmental Net Assets**  
**(in Millions)**

	Governmental Activities	
	2002	2001
<b>Expenses</b>	\$	\$
Community development	10	11
Human services	1	1
Public safety	30	27
Transportation	11	3
Environmental support and protection	2	1
Leisure, cultural and information services	17	14
Policy development and implementation	5	4
Interest on long term debt	2	2
Total expenses	<u>78</u>	<u>63</u>
<b>Revenues</b>		
Program revenues:		
Community development	5	7
Public safety	5	6
Transportation	7	37
Environmental support and protection	4	4
Leisure, cultural and information services	5	5
Policy development and implementation	1	1
Water		1
Sewer		1
Total program revenues	<u>27</u>	<u>62</u>
General revenues:		
Taxes/special assessments	57	58
Investment earnings	5	6
Fines, forfeitures and penalties	1	2
Other	1	1
Transfers		(1)
Total general revenues	<u>64</u>	<u>66</u>
Total revenues	<u>91</u>	<u>128</u>
Change in net assets	<u>13</u>	<u>65</u>

Table 2 shows total government revenues declined \$37 million in FY 2001/02, primarily due to FY 2000/01 (transportation) containing \$29 million in non-recurring contributions from property owners for capital projects. Taxes and special assessments dropped 2.4% as gains in property taxes and utility users' taxes were offset by declines in sales taxes and transient occupancy taxes. Investment earnings decreased as both cash balances and interest rates declined.

**Governmental Activities**

Table 3 presents the net cost of each of the City's largest programs—general government; public safety; leisure, cultural, and information services; and community development. Net cost is defined as total program cost less the revenues generated by those specific activities.

**Table 3  
Governmental Activities  
(in Millions)**

	Net (Expense) Revenue From Services	
	2002	2001
	\$	\$
Community development	(5)	(3)
Human services	(1)	(1)
Public safety	(24)	(21)
Transportation	(4)	34
Environmental support and protection	1	5
Leisure, cultural and information services	(12)	(10)
Policy development and implementation	(4)	(2)
Interest on long term debt	(2)	(3)
	<u>(51)</u>	<u>(1)</u>
Total net assets	<u>(51)</u>	<u>(1)</u>

Public Safety continues to generate the single largest net expense of all governmental activities as the services generate small amounts of revenues.

Transportation produced net revenue in FY 2000/01 as contributions were received from private property owners of over \$23.5 million in revenues while another \$5.5 million in traffic mitigation fees were received. The absence of such one-time-only revenues in FY 2001/02 was the primary factor in this program producing a net expense in FY 2001/02.

As development related revenues declined due to less development activity, net expenses for Community Development increased by \$2 million.

**Business-Type Activities**

**Table 4  
Business-Type Net Assets  
(in Millions)**

	Business-Type Activities	
	2002	2001
	\$	\$
Cash and investments	31.0	32.6
Other current assets	26.0	25.4
Capital assets	76.0	74.0
Total assets	<u>133.0</u>	<u>132.0</u>
Long-term debt outstanding	13.0	13.0
Other liabilities	3.0	6.0
Total liabilities	<u>16.0</u>	<u>19.0</u>
Net assets:		
Invested in capital assets, net of debt	66.0	61.0
Restricted	1.0	6.0
Unrestricted	<u>50.0</u>	<u>46.0</u>
Total net assets	<u>117.0</u>	<u>113.0</u>

Profits from business-type activities account for the addition to unrestricted net assets in FY 2001/02. Amounts invested in capital assets increased by \$5 million primarily due to the Port of Redwood City's construction of capital assets. Almost all of this investment came from restricted net assets (bond proceeds).

**Table 5  
Changes in Business-Type Net Assets  
(in Millions)**

	Business-Type Activities	
	2002	2001
	\$	\$
Water utility fund	2	3
Sewer utility fund	0	1
Port of Redwood City	<u>2</u>	<u>2</u>
Total net assets	<u>4</u>	<u>6</u>

Operating revenues at \$28 million for business-type activities were largely unchanged from FY 2000/01 to FY 2001/02. Each of the four business-type activities produced an increase in net assets. Moreover, the City's water, sewer, and parking funds each generated an increase in net cash and equivalents during the year. The Port, however, experienced a \$3.2 million decline in cash and equivalents for the year; \$2.2 million of this decrease was attributable to construction of capital assets while \$1 million was due to operating activities.

## The City's Fund Financial Statements

### Governmental Funds

At June 30, 2002, the City's governmental funds reported combined fund balances of \$124 million, which is a decrease of \$10 million from the beginning year balance of \$134 million. This decline was primarily due to capital outlay expenditures in the Pacific Shores Community Facilities District Fund, the resources for which were provided in the previous fiscal year.

Governmental fund revenues decreased \$14 million this year to a new total of \$89 million. The general fund accounted for \$6.6 million of this decrease, with non-major funds accounting for the remainder. Expenditures, including capital outlay, increased \$15 million this year to a new total of \$98.5 million. Of this increase, \$3 million was in the general fund, and the remainder was in non-major funds, with capital outlay representing the largest single increase.

### Proprietary Funds

Enterprise fund net assets totaled \$117 million at the end of the fiscal year, an increase of \$4 million over the prior year. Enterprise operating revenues were \$28 million this year, unchanged from last year, while net non-operating revenues were \$2.0 million compared to \$1.9 million the prior year.

Enterprise fund operating expenses were \$25 million this year, up \$1 million from the prior year.

### Analyses of Major Governmental Funds

**General Fund** - General fund revenues decreased approximately \$6.6 million this fiscal year due to decreases in sales and other taxes, licenses and permits, and charges for services. Property taxes increased \$3.2 million as assessed valuations rose 21%, reflecting continued development in the City, increased prices for existing residential properties, and large payments due to prior year's supplemental taxes.

General fund expenditures increased overall primarily due to higher salaries and benefits. Even so, expenditures were less than budgeted and represented an increase of 4% in FY2001/02, to a total of \$54.1 million.

Transfers out of the general fund increased \$10 million in FY 2001/02 as a result of transferring amounts that have accumulated in fund balance from prior years to fund capital projects.

**Capital Outlay Fund** - This fund accounts for resources provided to finance general governmental capital projects. In FY 2001/02, the capital outlay fund generated \$693,739 in revenue, most of which was from interest earnings on cash balances. This fund was also the recipient of \$16.5 million of transfers from the general fund, the majority of which (\$10.8 million) represents general fund resources that had accumulated during previous years. Total outlays were \$8.6 million of which \$3.8 million met with City's criteria for capitalization. The balance (\$4.8 million) was expensed in FY 2001/02. Total outlays in the prior year (FY 2000/01) were \$5.1 million. Of the capital outlay fund's \$24.4 million fund balance, \$17.7 million is designated for specific capital projects, \$3.2 million is designated for any capital projects the City Council may elect to fund, and the balance (\$3.5 million) is reserved for loans and encumbrances.

### Other Governmental Funds

These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information.

### Proprietary Funds

**Water Utility** - Net assets of the water utility fund increased \$2.0 million in the current year to a total of \$47 million. This increase comprised \$1.6 million in Operating Income for the current year, plus \$7 million in non-operating revenues as well as contributions and transfers out totaling -\$3 million.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Sewer Utility** - The sewer utility fund incurred an operating loss of \$43,000 in the current year, down from the operating income of \$700,000 in the prior year. Revenues declined by \$100,000 while expenses increased over \$500,000 over the prior year. Non-operating revenues increased by \$390,000 this year as a result of an increase in the value of the City's investment in the South Bayside System Authority.

**Parking Fund** - Operating revenues decreased by \$37,000 this year to \$470,000, while operating expenses increased to \$485,000, an increase of \$28,000. Non-operating revenues/(expenses) improved from a \$10,000 non-operating expense in FY 2000/01 to \$23,000 in non-operating revenues in FY 2001/02 primarily as a result of a drop in interest expense attributable to a variable rate loan.

**Port Fund** - Operating revenues were down moderately (6%) while operating expenses were down slightly (1.4%) from FY 2000/01. Non-operating revenues were up 29% primarily due to a large legal settlement received in FY 2001/02 in connection with the liquid bulk terminal toxic contamination clean-up. Overall, net assets increased from \$23.8 million to \$25.9 million (8.9%).

**CAPITAL ASSETS**

At the end of FY 2001/02, the City had \$145 million, net of depreciation, invested in a broad range capital assets used in governmental activities, as shown in Table 6 below:

**Table 6  
Capital Assets at Year-end  
(in Millions)**

	Government Activities	
	2002	2001
	_____ \$	_____ \$
<b>Governmental Activities</b>		
Land	11	11
Streets	58	54
Construction in progress	29	15
Buildings	56	56
Equipment	14	13
Parks, bridges, etc.	16	14
Traffic signals	2	2
Storm drains	2	1
Less accumulated depreciation	_____ (43)	_____ (38)
Total governmental activities	_____ 145	_____ 128
<b>Business-Type Activities</b>		
Land	3	3
Buildings	9	9
Equipment	2	2
Improvements	77	76
Harbor improvements	3	3
Construction in progress	16	13
Less accumulated depreciation	_____ (34)	_____ (32)
Total business-type activities	_____ 76	_____ 74

**Governmental Activities**

The substantial (93%) increase in construction in progress is driven, for the most part, by several transportation construction projects funded by developer's contributions which were made available through special assessment debt.

**Business-Type Activities**

There were no significant changes in the capital assets of business-type activities.

**DEBT ADMINISTRATION**

Each of the City's debt issues is described in detail in Notes 5 and 6 to Financial Statements. No debt was issued in FY 2001/02.

**Table 7  
Outstanding Debt  
(in Millions)**

	2002	2001
	\$	\$
<b>Governmental Activities</b>		
Revenue bonds	30	31
General improvement bonds	9	10
Tax increment bonds	12	13
Accrued sick leave and vacation	7	6
	<u>58</u>	<u>60</u>
<b>Business Activities</b>		
Revenue bonds	11	11
Loans	2	2
	<u>13</u>	<u>13</u>

**SPECIAL ASSESSMENT DISTRICT DEBT**

Special assessment districts in different parts of the City have also issued debt to finance infrastructure and facilities construction in their respective districts.

At June 30, 2002, a total of \$3.7 million in special assessment district debt was outstanding, issued by three special assessment districts. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City's responsibility, although the City does act as these Districts' agent in the collection and remittance of assessments.

**ECONOMIC OUTLOOK AND MAJOR INITIATIVES**

Redwood City is located on the west shore of the San Francisco Bay peninsula midway between San Francisco, 25 miles to the north, and San Jose, 17 miles to the south.

Redwood City's unemployment rate as of June 30, 2002 was 4.1% compared to a statewide rate of 5.2%. These changes over the prior year's unemployment rates of 2.5% and 5.1%, respectively, reflect the economic downturn being experienced in California and in this area in particular.

The economic recession that the nation entered into in the spring of 2001 has been experienced locally as well. Given the San Francisco Bay Area's reliance upon technology and related industries, this slowdown has had a marked impact on several of the City's revenues that are sensitive to the level of business activity occurring in the

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

surrounding area. Sales tax revenues have declined 29% from \$20.8M to \$14.9M, transient occupancy taxes have declined 43% from \$2.6M to \$1.5M while development related revenues have declined 55% from \$3.6M in FY 2000/01 to \$1.6M in FY 2001/02.

According to information published by BT Commercial Real Estate, the vacancy rate for commercial office space in San Mateo County was 26.8%. This is the highest vacancy rate since at least 1990. By comparison, in 1999 the vacancy rate for commercial office space was 1.2%. Redwood City currently has over 3.2 million square feet of vacant office space out of a total inventory of 9.8 million square feet. Despite the current economic malaise, City staff remains optimistic that local business activity will soon revive and that the City's revenues will respond accordingly.

The City's economy is diversified and is not dependent on any single industry or a segment of economic activity. We have high-technology companies (Ampex, Harris Corporation/Microwave Division, Liquid Audio, 3 DO, Broadvision, Electronic Arts, and Oracle), manufacturing (Tyco Electronics), biotechnology (Maxygen, Perclose, and Deltagen), auto dealers (both domestic and import), building materials, two hospitals (Kaiser and Sequoia), a University of California extension campus, a community college (Cañada), a high school (Sequoia), and a variety of retailers (Costco, K-Mart, Mervyns, and Target). The Port of Redwood City is the only deep-water port on the San Francisco Bay south of San Francisco, serving the entire region as a key entry point for many types of materials contributing to the local economy. Redwood City is also the county seat for San Mateo County, which results in a high daytime population from people conducting matters at the county offices and courts. Notwithstanding the economic trend that was evident by the end of the fiscal year, this diversity of economic activity will help to buffer Redwood City from some of the negative effects, while positioning the City to be a part of the longer-term economic growth that is certain to occur.

The Oracle Corporation, a leading database developer, maintains its world headquarters in Redwood City. Oracle presently has over 6,500 employees in Redwood City and occupies 1.5 million square feet of commercial office space. Broadvision, Liquid Audio, Electronic Arts, Informatica, and a number of other technology companies have also selected Redwood City as the site for their world headquarters.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Finance Department, at 1017 Middlefield Road, Redwood City, CA 94063

## STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities are entirely new statements required by Government Accounting Standards Board Statement 34. Their purpose is to summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net assets. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the “modified accrual” basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities differs considerably from those used in the past. It presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-Type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with Statement of Net Assets.

Both these Statements include the financial activities of the City and the Redevelopment Agency of the City of Redwood City, which is legally separate but is a component unit of the City because it is controlled by the City, which is financially accountable for the Agency's activities.

These new financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*; the term General Purpose Financial Statement is no longer used.

CITY OF REDWOOD CITY, CALIFORNIA  
STATEMENT OF NET ASSETS  
JUNE 30, 2002

	Governmental Activities \$	Business-Type Activities \$	Total \$
<b>ASSETS</b>			
Cash and investments available for operations	129,009,008	27,648,847	156,657,855
Cash and investments, restricted	7,015,553	3,313,496	10,329,049
Receivables (net of allowance for uncollectibles):			
Taxes and assessments - current	4,103,158		4,103,158
Accounts	1,784,275	2,505,274	4,289,549
Loans	7,828,677		7,828,677
Accrued interest	1,796,177		1,796,177
Due from other governmental agencies	2,620,228		2,620,228
Inventory of supplies at cost	647,956	205,187	853,143
Prepaid expenditures	21,030	322,987	344,017
Investment in land held for redevelopment	5,195,840		5,195,840
Capital assets, net of accumulated depreciation	145,129,499	76,533,732	221,663,231
Unamortized bond discounts & issuance costs		554,724	554,724
Investment in sewer authority		20,199,336	20,199,336
Investment in sewage capacity rights		2,039,450	2,039,450
	<u>305,151,401</u>	<u>133,323,033</u>	<u>438,474,434</u>
<b>LIABILITIES</b>			
Accounts payable	7,629,164	2,130,692	9,759,856
Accrued interest payable	716,276	75,532	791,808
Accrued payroll	2,522,375		2,522,375
Deposits payable	5,083,671	186,976	5,270,647
Insurance claims payable	6,219,790		6,219,790
Deferred revenue	643,259	182,836	826,095
Accrued sick leave and vacation	6,522,942	592,993	7,115,935
Long-Term Debt			
Due in one year	4,302,321	205,358	4,507,679
Due in more than one year	46,523,210	12,433,647	58,956,857
Total liabilities	<u>80,163,008</u>	<u>15,808,034</u>	<u>95,971,042</u>
<b>NET ASSETS (Note 9)</b>			
Invested in capital assets, net of related debt	<u>126,638,968</u>	<u>66,514,621</u>	<u>193,153,589</u>
Restricted for:			
Capital projects	30,318,036		30,318,036
Debt service	6,799,898	1,221,600	8,021,498
Community development projects	19,992,553		19,992,553
Other purposes	1,640,602		1,640,602
Total restricted net assets	<u>58,751,089</u>	<u>1,221,600</u>	<u>59,972,689</u>
Unrestricted net assets	<u>39,598,336</u>	<u>49,778,778</u>	<u>89,377,114</u>
Total unrestricted net assets	<u>39,598,336</u>	<u>49,778,778</u>	<u>89,377,114</u>
Total net assets	<u><u>224,988,393</u></u>	<u><u>117,514,999</u></u>	<u><u>342,503,392</u></u>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2002

Functions/Programs	Expenses	Overhead Charges	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Governmental Activities:</b>								
Community development	9,626,252	117,718	2,888,760	1,251,502	405,717	(5,197,991)		(\$5,197,991)
Human services	1,291,170			372,071		(919,099)		(919,099)
Public safety	29,400,247		1,651,498	1,439,950	2,017,657	(24,291,142)		(24,291,142)
Transportation	10,969,531		43,322	1,560,637	5,842,721	(3,522,851)		(3,522,851)
Environmental support and protection	2,287,169	34,182	1,131,331		2,553,066	1,363,046		1,363,046
Leisure, cultural and information services	17,245,538	(157,207)	2,145,510	2,047,828	824,395	(12,070,598)		(12,070,598)
Policy development and implementation	5,716,132	(939,390)	400,417	246,986	107,817	(4,021,522)		(4,021,522)
Interest on long term debt	2,177,099					(2,177,099)		(2,177,099)
<b>Total Governmental Activities</b>	<b>78,713,138</b>	<b>(944,697)</b>	<b>8,260,838</b>	<b>6,918,974</b>	<b>11,751,373</b>	<b>(50,837,256)</b>		<b>(50,837,256)</b>
<b>Business-type Activities:</b>								
Water Utility Fund	12,432,087	526,660	13,983,955				1,025,208	1,025,208
Sewer Utility Fund	9,063,133	380,688	9,020,026		206,245		(217,550)	(217,550)
Parking Fund	520,544	37,349	502,528				(55,365)	(55,365)
Port of Redwood City	2,563,940		4,500,516				1,936,576	1,936,576
<b>Total Business-type Activities</b>	<b>24,579,704</b>	<b>944,697</b>	<b>28,007,025</b>		<b>206,245</b>		<b>2,688,869</b>	<b>2,688,869</b>
<b>Total</b>	<b>103,292,842</b>		<b>36,267,863</b>	<b>6,918,974</b>	<b>11,957,618</b>	<b>(50,837,256)</b>	<b>2,688,869</b>	<b>(48,148,387)</b>
<b>General revenues:</b>								
<b>Taxes:</b>								
Property taxes						26,591,882		26,591,882
Sales taxes						14,937,621		14,937,621
Other taxes						15,478,213		15,478,213
Investment Earnings						4,920,828	1,150,558	6,071,386
Fines, forfeitures and penalties						1,526,934		1,526,934
Increase (decrease) in investment in sewer authority							521,441	521,441
Intergovernmental						46,657		46,657
Other						1,433,901		1,433,901
Transfers						(388,620)	388,620	
Loss on disposal of capital assets						(118,727)		(118,727)
						<b>64,428,689</b>	<b>2,060,619</b>	<b>66,489,308</b>
<b>Change in Net Assets</b>						<b>13,591,433</b>	<b>4,749,488</b>	<b>18,340,921</b>
<b>Net Assets-Beginning</b>						<b>211,396,960</b>	<b>112,765,511</b>	<b>324,162,471</b>
<b>Net assets-Ending</b>						<b>224,988,393</b>	<b>117,514,999</b>	<b>342,503,392</b>

See accompanying notes to financial statements



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2002*

## **GOVERNMENTAL FUND FINANCIAL STATEMENTS**

GASB 34 revises the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Groups of Accounts.

The Governmental funds described below were determined to be Major Funds by the City in fiscal 2002. Individual non-major funds may be found in the Supplemental section.

### **GENERAL FUND**

The general fund is the general operating fund of the City. It is used to account for all financial resources except those to be accounted for in another fund.

### **CAPITAL OUTLAY FUND**

This fund accounts for all miscellaneous capital improvement projects that are financed by the General Fund.

### **PACIFIC SHORES COMMUNITY FACILITIES DISTRICT FUND**

This fund accounts for the various transportation system improvements within the City's right-of-way in the Pacific Shores district that are financed by community facilities district bonds.

CITY OF REDWOOD CITY, CALIFORNIA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2002

	General Fund	Capital Outlay Fund	Pacific Shores Community Facilities District Fund	Other Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$	\$
<b>ASSETS</b>					
Cash and investments available for operations	43,932,812	23,965,509	4,029,732	39,900,129	111,828,182
Cash and investments, restricted				7,015,553	7,015,553
Receivables (net of allowance for uncollectibles):					
Taxes and assessments - current	3,874,715			228,443	4,103,158
Accounts	1,430,625	1,233		239,854	1,671,712
Loans		1,300,000		6,528,677	7,828,677
Accrued interest	1,213,966			217,208	1,431,174
Due from other governmental agencies	1,520,708	273,395		826,125	2,620,228
Inventory of supplies at cost	408,800				408,800
Advances to other funds	90,700				90,700
Prepaid expenditures	21,000			30	21,030
Investment in land held for redevelopment				5,195,840	5,195,840
<b>Total Assets</b>	<b>52,493,326</b>	<b>25,540,137</b>	<b>4,029,732</b>	<b>60,151,859</b>	<b>142,215,054</b>
<b>LIABILITIES</b>					
Accounts payable	1,730,133	832,158	2,725,943	1,825,090	7,113,324
Accrued payroll	2,522,375				2,522,375
Deposits payable	5,012,513			71,158	5,083,671
Deferred revenue	1,018,177	273,395		121,816	1,413,388
Deferred loan revenue				595,795	595,795
Advances from other funds				90,700	90,700
Accrued sick leave and vacation - current	1,148,444				1,148,444
<b>Total Liabilities</b>	<b>11,431,642</b>	<b>1,105,553</b>	<b>2,725,943</b>	<b>2,704,559</b>	<b>17,967,697</b>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	1,334,455	2,252,462		3,705,894	7,292,811
Loans		1,300,000		6,067,981	7,367,981
Land held for redevelopment				5,195,840	5,195,840
Low income housing				2,989,495	2,989,495
Inventory	408,800				408,800
Prepaid expenditures	21,000			30	21,030
Advance to other funds	90,700				90,700
Debt service				6,784,805	6,784,805
General reserve	250,000				250,000
Unreserved:					
Designated for subsequent years' expenditures	17,682,811	3,213,293	1,151,831	11,216,149	33,264,084
Designated for childcare facility	3,200,000				3,200,000
Designated for capital projects	11,857,688	17,668,829		6,225,796	35,752,313
Designated for street projects	3,810,728				3,810,728
Designated for Sandpiper Park	2,405,502				2,405,502
Undesignated			151,958	15,261,310	15,413,268
<b>TOTAL FUND BALANCES</b>	<b>41,061,684</b>	<b>24,434,584</b>	<b>1,303,789</b>	<b>57,447,300</b>	<b>124,247,357</b>
<b>Total Liabilities and Fund Balances</b>	<b>52,493,326</b>	<b>25,540,137</b>	<b>4,029,732</b>	<b>60,151,859</b>	<b>142,215,054</b>

CITY OF REDWOOD CITY, CALIFORNIA  
RECONCILIATION OF THE  
GOVERNMENTAL FUNDS - BALANCE SHEET  
WITH THE STATEMENT OF ACTIVITIES  
JUNE 30, 2002

	\$
TOTAL FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS	124,247,357
<p>Amounts reported for Governmental Activities in the Statement of  Net Assets are different from those reported in the Governmental Funds above because of the following:</p>	
<b>CAPITAL ASSETS</b>	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	145,129,499
<b>ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS</b>	
<p>Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are therefore included in Governmental Activities in the following line items in the Statement of Net Assets.</p>	
Cash and investments	17,180,826
Accounts receivable	112,563
Inventory of supplies at cost	239,156
Accounts payable	(515,840)
Accrued sick leave and vacation	(656,538)
Claims payable	(6,219,790)
<b>ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES</b>	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,730,927
<b>LONG TERM ASSETS AND LIABILITIES</b>	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Long-term debt	(50,825,531)
Interest payable	(716,276)
Non-current portion of accrued sick leave and vacation	(4,717,960)
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b>224,988,393</b>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2002

	General Fund	Capital Outlay Fund	Pacific Shores Community Facilities District Fund	Other Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$	\$
<b>REVENUES</b>					
Property taxes/special assessments	18,673,524			11,035,948	29,709,472
Sales and other taxes	26,133,966				26,133,966
Licenses and permits	1,107,393				1,107,393
Fines, forfeitures and penalties	430,926			390,375	821,301
Use of money and property	2,873,869	612,167	354,114	3,999,777	7,839,927
Net increase (decrease) in fair value of investments	56,734	19,197	11,105	195,052	282,088
Intergovernmental	8,344,315	23,375		5,115,273	13,482,963
Developers contributions		39,000		3,186,378	3,225,378
Charges for current services	5,672,757			135	5,672,892
Other	601,723			192,215	793,938
<b>Total Revenues</b>	<b>63,895,207</b>	<b>693,739</b>	<b>365,219</b>	<b>24,115,153</b>	<b>89,069,318</b>
<b>EXPENDITURES</b>					
Current Operations:					
Community development	5,150,813	253,841		4,074,321	9,478,975
Human services	1,200,528				1,200,528
Public safety	27,435,466	37,554		867,648	28,340,668
Transportation	180,064	2,692,031		5,284,594	8,156,689
Environmental support and protection	242,857	373,143		1,678,328	2,294,328
Leisure, cultural and information services	15,522,376	223,170			15,745,546
Policy development and implementation	4,127,784	1,238,629			5,366,413
Capital outlay	243,391	3,847,664	12,743,059	4,832,997	21,667,111
Debt service:					
Principal retirement				3,732,321	3,732,321
Interest and fiscal charges				2,524,675	2,524,675
<b>Total Expenditures</b>	<b>54,103,279</b>	<b>8,666,032</b>	<b>12,743,059</b>	<b>22,994,884</b>	<b>98,507,254</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>9,791,928</b>	<b>(7,972,293)</b>	<b>(12,377,840)</b>	<b>1,120,269</b>	<b>(9,437,936)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	881,324	16,522,621		3,720,367	21,124,312
Transfers (out)	(19,757,235)	(612,167)		(1,579,676)	(21,949,078)
Sale of property				308,797	308,797
<b>Total Other Financing Sources (Uses)</b>	<b>(18,875,911)</b>	<b>15,910,454</b>		<b>2,449,488</b>	<b>(515,969)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(9,083,983)</b>	<b>7,938,161</b>	<b>(12,377,840)</b>	<b>3,569,757</b>	<b>(9,953,905)</b>
Fund balances at beginning of period	50,145,667	16,496,423	13,681,629	53,877,543	134,201,262
<b>FUND BALANCES AT END OF PERIOD</b>	<b>41,061,684</b>	<b>24,434,584</b>	<b>1,303,789</b>	<b>57,447,300</b>	<b>124,247,357</b>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA  
RECONCILIATION OF THE  
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
WITH THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2002

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

	\$
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	(9,953,905)
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balance.	21,667,111
Depreciation expense is deducted from the fund balance. (Depreciation expense is net of internal service fund depreciation of \$679,665 which has already been allocated to serviced funds.)	(4,487,693)
Retirements of capital assets	(118,727)
LONG TERM DEBT PROCEEDS AND PAYMENTS	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.	
Repayment of debt principal is added back to fund balance.	3,732,321
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Non-current portion of compensated absences	(604,530)
Interest payable	347,576
Deferred loan revenue	116,753
Other	1,135,132
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Assets - All Internal Service Funds	1,757,395
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	13,591,433

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2002

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		Favorable (Unfavorable)
	\$	\$		\$
Fund balance, July 1	50,145,667	50,145,667	50,145,667	\$
Resources (inflows):				
Property taxes/special assessments	16,848,687	16,848,687	18,673,524	1,824,837
Sales and other taxes	32,679,209	32,679,209	26,133,966	(6,545,243)
Licenses and permits	1,560,000	1,560,000	1,107,393	(452,607)
Fines, forfeitures and penalties	278,000	278,000	430,926	152,926
Use of money and property	2,220,000	2,220,000	2,873,869	653,869
Net increase (decrease) in fair value of investments			56,734	56,734
Intergovernmental	7,761,583	8,440,455	8,344,315	(96,140)
Charges for current services	5,639,837	5,639,837	5,672,757	32,920
Other	392,000	392,000	601,723	209,723
Amounts available for appropriation	67,379,316	68,058,188	63,895,207	(4,162,981)
Charges to appropriations (outflows)				
Current Operations:				
Community development	5,291,401	6,241,401	5,150,813	1,090,588
Human services	1,214,189	1,226,189	1,200,528	25,661
Public safety	27,201,289	27,654,585	27,435,466	219,119
Transportation	179,795	179,795	180,064	(269)
Environmental support and protection	242,857	242,857	242,857	
Leisure, cultural and information services	15,618,321	16,467,917	15,522,376	945,541
Policy development and implementation	4,685,672	4,960,315	4,127,784	832,531
Capital outlay	243,391	243,391	243,391	
Total charges to appropriations	54,676,915	57,216,450	54,103,279	3,113,171
OTHER FINANCING SOURCES (USES)				
Operating transfers in	150,000	150,000	881,324	731,324
Operating transfers (out)	(19,306,275)	(20,834,330)	(19,757,235)	1,077,095
Total Other Financing Sources (Uses)	(19,156,275)	(20,684,330)	(18,875,911)	1,808,419
Fund balance, June 30	43,691,793	40,303,075	41,061,684	758,609

See accompanying notes to financial statements

## **PROPRIETARY FUND FINANCIAL STATEMENTS**

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of *major funds* established by GASB Statement 34 extends to Proprietary Funds. The City has identified the funds below as major proprietary funds in fiscal 2002.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds.

### **WATER UTILITY FUND**

This fund is used to account for the provision of water services to the residents of Redwood City and some residents of areas adjacent to the City. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, capital improvements, financing and billing/collections.

### **SEWER UTILITY FUND**

This fund is used to account for the provision of sewer services to the residents of Redwood City and some residents of areas adjacent to the City. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, capital improvements, financing and billing/collections.

### **PARKING FUND**

This fund is used to account for on-street and off-street parking operations within the boundaries of the central business district of the City. All activities necessary to provide metered parking within the district are accounted for in these funds, including, but not limited to, administration, operations and maintenance, capital improvements, meter collection, and financing including related debt service. The authority for the formation of the district and the issuance of revenue bonds are contained in the State of California's Streets and Highway Code.

### **PORT OF REDWOOD CITY (PORT FUND)**

This fund is used to account for Port activities within the Port Department as defined in the City Charter. These activities include, but are not limited to, administration, maintenance and operations, and Port improvements. Management of the Port of Redwood City is provided by the Port Commission, whose members are appointed for five-year terms by the City Council. The only limitation to the commissioner's authority is the power to levy taxes, which must be approved by the City Council. Also, the City Charter provides that the City Treasurer is the Port Treasurer and the City Attorney is the Port Attorney. This fund is included in this report because both the Bureau of Census and the State of California require the City to include a summary of the Port's financial transactions in the respective reports.

CITY OF REDWOOD CITY, CALIFORNIA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2002

	Business-type Activities-Enterprise Funds				Totals	Governmental Activities- Internal Service Funds
	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City		
	\$	\$	\$	\$	\$	\$
<b>ASSETS</b>						
Cash and investments available for operations	16,345,790	4,695,299	629,316	5,978,442	27,648,847	17,180,826
Cash and investments, restricted				3,313,496	3,313,496	
Receivables (net of allowance for uncollectibles):						
Accounts	1,141,550	949,176	1,775	412,773	2,505,274	112,563
Inventory of supplies at cost	205,187				205,187	239,156
Prepaid expenses				322,987	322,987	
Fixed assets, net of accumulated depreciation	30,596,130	12,259,108	6,092,552	27,585,942	76,533,732	4,262,315
Unamortized bond discounts & issuance costs				554,724	554,724	
Investment in sewer authority		19,799,336		400,000	20,199,336	
Investment in sewage capacity rights		2,039,450			2,039,450	
<b>Total assets</b>	<b>48,288,657</b>	<b>39,742,369</b>	<b>6,723,643</b>	<b>38,568,364</b>	<b>133,323,033</b>	<b>21,794,860</b>
<b>LIABILITIES</b>						
Accounts payable	907,067	358,905	1,866	862,854	2,130,692	515,840
Deposits payable	89,644		9,370	87,962	186,976	
Insurance claims payable						6,219,790
Accrued sick leave and vacation	351,074	190,256		51,663	592,993	656,538
Revenue bonds payable - current portion				185,000	185,000	
Loans/leases payable - current portion				20,358	20,358	
Deferred Revenue				182,836	182,836	
Accrued interest payable				75,532	75,532	
Proprietary fund long-term debt			1,300,000	11,133,647	12,433,647	
<b>Total liabilities</b>	<b>1,347,785</b>	<b>549,161</b>	<b>1,311,236</b>	<b>12,599,852</b>	<b>15,808,034</b>	<b>7,392,168</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	30,596,130	12,259,108	4,792,552	18,866,831	66,514,621	4,262,315
Restricted for debt service				1,221,600	1,221,600	
Unrestricted	16,344,742	26,934,100	619,855	5,880,081	49,778,778	10,140,377
<b>Total net assets</b>	<b>46,940,872</b>	<b>39,193,208</b>	<b>5,412,407</b>	<b>25,968,512</b>	<b>117,514,999</b>	<b>14,402,692</b>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUE, EXPENSES  
 AND CHANGES IN FUND NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2002

	Business-type Activities-Enterprise Funds				Totals	Governmental Activities- Internal Service Funds
	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City		
	\$	\$	\$	\$		
<b>Operating Revenues:</b>						
Charges for services	13,983,955	9,020,026	470,196	4,244,986	27,719,163	10,898,761
<b>Total Operating Revenues</b>	<b>13,983,955</b>	<b>9,020,026</b>	<b>470,196</b>	<b>4,244,986</b>	<b>27,719,163</b>	<b>10,898,761</b>
<b>Operating Expenses:</b>						
Employee services	2,414,426	1,481,501	159,740	640,688	4,696,355	5,295,610
Maintenance	786,916	449,914	48,959	91,657	1,377,446	1,732,184
Water purchases	5,201,703				5,201,703	
Utilities	267,992	162,395	36,583	187,554	654,524	52,750
Contractual services	243,015	4,869,563	20,479	614,846	5,747,903	587,862
Supplies and services	2,478,266	1,662,532	121,804	520,343	4,782,945	1,076,857
Depreciation and amortization	995,806	437,228	97,359	469,433	1,999,826	679,665
Insurance and claims						1,952,451
<b>Total Operating Expenses</b>	<b>12,388,124</b>	<b>9,063,133</b>	<b>484,924</b>	<b>2,524,521</b>	<b>24,460,702</b>	<b>11,377,379</b>
<b>Operating Income (Loss)</b>	<b>1,595,831</b>	<b>(43,107)</b>	<b>(14,728)</b>	<b>1,720,465</b>	<b>3,258,461</b>	<b>(478,618)</b>
<b>Non- Operating Revenues (Expenses):</b>						
Gain (loss) on disposal of equipment						17,672
Property taxes			32,332		32,332	
Contributions		206,245			206,245	77,929
Interest income	754,381	196,615	25,832	143,098	1,119,926	736,475
Net increase (decrease) in fair value of investments	23,657	6,165	810		30,632	23,094
Interest expense	(43,963)		(35,620)	(39,419)	(119,002)	
Legal settlements				30,182	30,182	
Proceeds from exchange of land				225,348	225,348	
Increase (decrease) in investment in sewer authority		521,441			521,441	
<b>Net Nonoperating Revenues (Expenses)</b>	<b>734,075</b>	<b>930,466</b>	<b>23,354</b>	<b>359,209</b>	<b>2,047,104</b>	<b>855,170</b>
<b>Net Income (Loss) Before Operating Transfer</b>	<b>2,329,906</b>	<b>887,359</b>	<b>8,626</b>	<b>2,079,674</b>	<b>5,305,565</b>	<b>376,552</b>
Transfers in						1,500,000
Transfers (out)	(354,478)	(201,599)			(556,077)	(119,157)
<b>Net Transfers in (out)</b>	<b>(354,478)</b>	<b>(201,599)</b>			<b>(556,077)</b>	<b>1,380,843</b>
<b>Change in net assets</b>	<b>1,975,428</b>	<b>685,760</b>	<b>8,626</b>	<b>2,079,674</b>	<b>4,749,488</b>	<b>1,757,395</b>
<b>Total net assets-beginning</b>	<b>44,965,444</b>	<b>38,507,448</b>	<b>5,403,781</b>	<b>23,888,838</b>	<b>112,765,511</b>	<b>12,645,297</b>
<b>Total net assets-ending</b>	<b>46,940,872</b>	<b>39,193,208</b>	<b>5,412,407</b>	<b>25,968,512</b>	<b>117,514,999</b>	<b>14,402,692</b>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA  
 PROPRIETARY FUNDS  
 COMBINING STATEMENT OF CASH FLOWS  
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Totals	Governmental Activities - Internal Service Funds
	\$	\$	\$	\$	\$	\$
Cash flows from operating activities:						
Cash received from customers	14,133,858	9,551,361	480,677	4,004,970	28,170,866	10,870,423
Cash payments to suppliers for goods and services	(7,602,829)	(6,519,198)	(186,721)	(4,516,800)	(18,825,548)	(5,141,213)
Cash payments to employees for services	(2,377,264)	(1,460,180)	(158,687)	(636,851)	(4,632,982)	(5,259,564)
Right of way compensation	(1,209,352)	(852,671)	(44,454)		(2,106,477)	
Net cash provided by operating activities	<u>2,944,413</u>	<u>719,312</u>	<u>90,815</u>	<u>(1,148,681)</u>	<u>2,605,859</u>	<u>469,646</u>
Cash flows from noncapital financing activities:						
Property taxes			32,332		32,332	
Transfers in						1,500,000
Transfers out						(119,157)
Net cash provided by noncapital financing activities			<u>32,332</u>		<u>32,332</u>	<u>1,380,843</u>
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(2,906,986)	(400,448)		(2,219,768)	(5,527,202)	(1,163,341)
Legal settlement				30,182	30,182	
Principal retirements				(195,836)	(195,836)	
Interest paid	(43,963)		(35,620)	(40,820)	(120,403)	
Proceeds from exchange of land				227,573	227,573	
Unamortized issuance cost				9,157	9,157	
Proceeds from sale of equipment						31,278
Net cash used for capital and related financing activities	<u>(2,950,949)</u>	<u>(400,448)</u>	<u>(35,620)</u>	<u>(2,189,512)</u>	<u>(5,576,529)</u>	<u>(1,132,063)</u>
Cash flows from investing activities:						
Interest and dividends on investment	754,381	196,615	25,832	143,098	1,119,926	736,475
Net increase (decrease) in fair value of investments	23,657	6,165	810		30,632	23,094
Net cash used in investing activities	<u>778,038</u>	<u>202,780</u>	<u>26,642</u>	<u>143,098</u>	<u>1,150,558</u>	<u>759,569</u>
Net increase (decrease) in cash and cash equivalents	771,502	521,644	114,169	(3,195,095)	(1,787,780)	1,477,995
Cash and cash equivalents at beginning of year	<u>15,574,288</u>	<u>4,173,655</u>	<u>515,147</u>	<u>12,487,033</u>	<u>32,750,123</u>	<u>15,702,831</u>
Cash and cash equivalents at end of year	<u><u>16,345,790</u></u>	<u><u>4,695,299</u></u>	<u><u>629,316</u></u>	<u><u>9,291,938</u></u>	<u><u>30,962,343</u></u>	<u><u>17,180,826</u></u>
<b>Reconciliation of Net Cash Flow from Operating Activities</b>						
Operating income (loss)	<u>1,595,831</u>	<u>(43,107)</u>	<u>(14,728)</u>	<u>1,720,465</u>	<u>3,258,461</u>	<u>(478,618)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation	995,806	437,228	97,359	469,433	1,999,826	679,665
Change in assets and liabilities:						
Decrease (increase) in accounts receivable	149,903	531,335	10,481	(48,265)	643,454	(28,338)
Decrease (increase) in inventory/prepaid expenses/deposits	(17,209)			(168,983)	(186,192)	(14,114)
Increase (decrease) in vacation & sick leave payable	37,162	21,321		3,837	62,320	36,046
Increase (decrease) in accounts payable	186,468	(227,465)	(3,350)	(2,933,417)	(2,977,764)	239,105
Increase (decrease) in customer deposits	(3,548)		1,053	7,233	4,738	
Increase in deferred revenue				(198,984)	(198,984)	
Increase in insurance claims payable						35,900
Total Adjustments	<u>1,348,582</u>	<u>762,419</u>	<u>105,543</u>	<u>(2,869,146)</u>	<u>(652,602)</u>	<u>948,264</u>
Net cash provided by operating activities	<u><u>2,944,413</u></u>	<u><u>719,312</u></u>	<u><u>90,815</u></u>	<u><u>(1,148,681)</u></u>	<u><u>2,605,859</u></u>	<u><u>469,646</u></u>

CITY OF REDWOOD CITY  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2002

	<u>Agency Funds</u>
	\$
ASSETS	
Cash and Investments, restricted	6,599,148
Interest receivable	<u>15,674</u>
Total Assets	<u><u>6,614,822</u></u>
LIABILITIES	
Due to Bondholders	5,954,797
Employee Benefit Plans Payable	<u>660,025</u>
Total Liabilities	<u><u>6,614,822</u></u>



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2002*

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. *Reporting Entity*

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, blended component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. This City's component units which are described below are all blended.

The City Council serves in separate session as the governing bodies of the Redwood City Redevelopment Agency, the Redwood City Facilities and Infrastructure Authority, and the Public Financing Authority, although these agencies are legal entities apart from the City. Under the City Charter, the City Council appoints the Board of Port Commissioners who oversee the operations of the Port of Redwood City, which is considered a department of the City of Redwood City.

The Redwood City Redevelopment Agency, Redwood City Facility and Infrastructure Authority, and Public Financing Authority are included as component units in the accompanying financial statements. The financial activities of the foregoing entities have been aggregated and merged (termed "blending") with those of the City in the accompanying financial statements, as each meets the criteria for inclusion as set forth in Government Accounting Standards Board Statement No. 14. Information concerning the Bay Cities Joint Powers Insurance Authority and South Bayside System Authority are presented in the notes to the financial statements, as the City's relationship to these organizations does not meet the aforementioned criteria for presenting these organizations as component units.

The Redwood City Redevelopment Agency was established in 1984 by City Council to eliminate blight within the defined project areas by encouraging and assisting planned development of low income housing and commercial projects.

Redwood City Facilities and Infrastructure Authority (RCFISA) was established in 1986 to finance the construction of certain public facilities such as the Main Fire Station, City Hall, and Main Library. After acquiring certain properties from the City, RCFISA leased them back to the City. The lease money provided the funds for the debt service for the Certificates of Participation issued by the RCFISA to acquire the properties from the City.

The Public Financing Authority was established in 1991 to finance construction of the new Police Facility, to finance the defeasance of outstanding certificates of participation issued by the RCFISA, and to issue tax increment bonds on behalf of the Redevelopment Agency.

Component unit financial statements for each of the above entities may be obtained from the City of Redwood City, P.O. Box 391, Redwood City, CA 94064.

The Port of Redwood City was established under the City Charter as a department of the City and is managed by the Port Commission of Redwood City, whose members are appointed by the City Council. This commission is a semi-autonomous body and has full authority to manage the Port. Its financial system is maintained separately from the City by the Port's own financial staff. The Port's Treasurer and Legal Counsel are the City's Finance Director and the City Attorney, respectively. The financial transactions of the Port are incorporated as an enterprise fund.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### ***B. Basis of Presentation***

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion Analysis—for State and Local Governments*, No. 36, *Recipient Reporting for Certain Non-exchange Revenues, an Amendment of GASB Statement No. 33*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments; Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting or internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### C. *Major Funds*

GASB Statement 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund is to account for all financial resources except those to be accounted for in another fund. It is the general operating fund of the City

Capital Outlay Fund is to account for all miscellaneous capital improvement projects that are financed by the General Fund.

Pacific Shores Community Facilities District Fund accounts for the various transportation system improvements within the City's right-of-way in the Pacific Shores district that are financed by community facilities district bonds issued by the City.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water Utility Fund to account for the provision of water services to the residents of Redwood City.

Sewer Utility Fund is to account for the provision of sewer services to the residents of Redwood City.

Parking Fund is to account for on-street and off-street parking operations within the boundaries of the central business district of the City.

Port of Redwood City (Port Fund) is to account for Port activities within the Port Department including, but not limited to, administration, maintenance and operations, and Port improvements.

The City also reports the following fund types:

Internal Service Funds - Internal service funds are used to account for costs of the City's equipment services, the City's insurance program, the costs of the City's telephone/communications and information technology services, maintenance and repair of buildings, custodial services, warehousing/supply and delivery service, and employee benefits. These services are provided to departments and other governments on a cost-reimbursement basis.

Fiduciary Funds - These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains four funds - Employee Benefit Plans Fund, Seaport Consolidated Bonds Fund, Pacific Shores Community Facilities District Fund, and the Shores Transportation Improvement District Fund - as an agent of the bondholders or City employees.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **D. Basis of Accounting**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

The City follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities unless they conflict with Government Accounting Standards Board pronouncements.

### **E. Budgets and Budgetary Accounting**

Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds, and capital projects funds.

Budgets for the general, special revenue, debt service, and capital projects funds (except the General Improvement District 1965 Construction fund) are adopted on a basis consistent with generally accepted accounting principles (GAAP), except for capital outlay in special revenue and capital projects funds which is budgeted on a project length basis.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The City Manager submits a recommended operating budget in May each year to the City Council for the fiscal year commencing the following July 1, showing proposed expenditures by programs and the means of financing them.

The City Council conducts budget study sessions, which are open for public comment, before adopting the budget. Once the budget is adopted, expenditures may not legally exceed appropriations at program level except when the excess is attributable to a particular activity for which the City has been reimbursed. This is especially apparent in the Community Development Program where developers reimburse the City through sub-division fees and environmental impact report fees.

At the request of the department head through the City Manager, the City Council may, by resolution, transfer appropriations between subprograms and funds, but shall not change total appropriations. Any increase or decrease to the total appropriations provided for in the budget must be carried through by ordinance passed by the City Council. The City Manager may authorize the transfer of funds between object categories within a subprogram of a department. The adoption and administration of the Port of Redwood City budget, unless property tax revenues are requested, is exclusively under the control of the Board of Port Commissioners.

Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Individual amendments were not material in relation to the original appropriations.

All unexpended appropriations lapse at the end of the fiscal year. Appropriations for capital projects carried over or encumbered are reappropriated and carried over in the following year's budget.

### ***F. Compensated Absences***

In compliance with Government Accounting Standards Board Statement No. 16, the City has established a liability for accrued sick leave and vacation in relevant funds. For governmental type funds, the current liability appears in the respective funds and the long-term liability appears in the government-wide financial statements. This liability is set up for the current employees at the current rates of pay. An employee may accumulate vacation up to two years entitlement and sick leave up to 960 or 1,200 hours depending on the bargaining unit (Fire Department employees who work 24 hour shifts may accumulate up to 1,920 hours of sick leave). If sick leave and vacation are not used by the employee during the term of employment, compensation is payable to the employee at the time of retirement. Such compensation is calculated at the employee's prevailing rate at the time of retirement or termination. Whereas vacation is compensated at 100% of accumulated hours, sick leave is compensated at 50% of accumulated hours at retirement depending upon varying restrictions of the bargaining units. Upon termination only accrued vacations are compensated. Each year an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. In 2001/02 the proportion of accrued liability and long-term liability had changed even though the total liability remained the same in order to be in compliance with Government Accounting Standards Board Statement No. 34. The General Fund is primarily responsible for the repayment of the Governmental portion of the Compensated Absences. Individual proprietary funds are responsible for the repayment of the liability attributable to their respective funds.

### ***G. Cash and Cash Equivalents***

For the purpose of the statements of cash flows for all proprietary fund types (enterprise and internal service funds), the City considers cash equivalents to be all highly liquid investments with a maturity of three months or less when purchased.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### ***H. Inventories***

Inventories are stated at moving average cost. The cost is recorded as an expenditure at the time an individual inventory item is consumed. As inventories must be maintained at a certain level, a reserve for inventories is set aside in the general fund balances. Consequently, these reserved funds are not available for appropriation.

General fund inventories consist of stationery, janitorial supplies, electrical supplies, switches, building maintenance supplies, fertilizers, seeds, and small tools.

Water fund inventory consists of water meters, water pipes, valves and fittings, and small tools.

Equipment services fund inventory consists of tires, batteries, testing equipment, automotive parts, and small tools.

### ***I. Property Taxes***

Property taxes attach as an enforceable lien on property as of January 1, and are collected for a 12 month period effective July 1 by the San Mateo County tax collector. Taxes are billed once a year in late October and are payable in two equal installments due by December 10 and April 10 of the following year. The taxes not paid by those dates are subject to a penalty of 10%.

In September of 1993, the County of San Mateo Board of Supervisors adopted the “Teeter Plan” for secured property taxes. Under the Teeter Plan, the state law allows the county to advance to the cities all property taxes billed, regardless of whether the taxes have been paid. The county then is entitled to keep all penalties and interest accruing on delinquent taxes. Property taxes on unsecured taxable property are not affected by this change.

Under Proposition 13, adopted by the voters in a statewide ballot in 1978, assessed value is increased by the Cost of Living Index, not to exceed 2%, as of January 1 each year, except for those properties that have changed ownership during the 12 month period since the lien date. City property tax revenues are recognized when levied to the extent that they result in current receivables.

### ***J. Unbilled Service Receivables***

In the water and sewer utilities, residential customers are billed bi-monthly and all commercial and industrial customers monthly. Revenue is recorded as billed to customers on a cyclical basis. No accrual is made for unbilled services. There were no unbilled services in Port, parking, or internal service funds as of June 30, 2002. There is no accrual for unbilled water services as of June 30, 2002; revenues cannot be recognized since water meters are not read at such date. Management believes that the revenue from unbilled services does not have a material effect on total revenue.

## NOTE 2 – CASH AND INVESTMENTS

### A. *Investment Policy*

Cash balances from all funds are combined and invested to the extent possible pursuant to the City Council approved Investment Policy and Guidelines and State Government Code. The earnings from these investments are allocated monthly to each fund based on an average of monthly opening and closing balances of cash and investments. Investments are stated at fair value. All enterprise fund investments are considered to be liquid investments for cash flow purposes.

Authorized investments per the City's investment policy and state government code are:

Certificates of Deposit	State of California Local Agency	Government Agency Securities
Bankers Acceptances	Investment Fund (LAIF)	Treasury Bills and Notes
Commercial Paper	County of San Mateo Investment Pool	Passbook Savings Accounts
Money Market Funds	Money Market Certificates	Corporate Notes

### B. *Collateral and Categorization Requirements*

All cash deposits in banks are fully insured or collateralized. California state law requires that public fund deposits be collateralized by either government securities with a value equal to 110% of the deposits or first trust deed mortgage notes having a value equal to 150%. Per state law each institution must use a third party (which may be the institution's trust department) to hold the pledged collateral in a pool to secure all the institution's public fund deposits. The code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash is considered to be held in the City's name. Banks and savings and loans in California are subject to state-mandated reporting requirements to ensure that the required levels of control are maintained. The City may waive collateral requirements for deposits, which are fully insured with each financial institution up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

The carrying amount of the City's cash and deposits was \$5,583,078 and \$6,219,683 at June 30, 2002 and 2001, respectively. Cash on hand was \$ 15,205 and bank balances, before reconciling items, were \$6,398,606 at June 30, 2002. Of the total bank balances, \$526,119 was insured or held by the City or its agent in the City's name (Category1) and \$5,872,487 was collateralized (Category 2) and no deposits were classified as Category 3.

Three categories of risk level have been developed by the Government Accounting Standards Board Statement No. 3 to disclose the risks associated with deposits and investments of public money:

<b>Deposits:</b>	Category 1 -	insured or collateralized with securities held by the entity or by its agent in the entity's name;
	Category 2 -	collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name;
	Category 3 -	uncollateralized.
<b>Investments</b>	Category 1 -	insured or registered, or securities held by entity or its agent in the entity's name;
<b>:</b>	Category 2 -	uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name;
	Category 3 -	uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

The foregoing categorizations do not address the risk of loss due to changes in fair value.

Investments in pools managed by other governments or in mutual funds are not required to be categorized pursuant to Government Accounting Standards Board Statement No. 3.

**C. Categorization**

Cash and investments, which are carried at fair value, consist of the following at June 30:

	2002		
	Category 1	Category 2	Total
<b><i>Cash and Deposits:</i></b>	\$	\$	\$
Demand accounts at banks	215,466	4,729,476	4,944,942
Certificates of Deposit	210,428		210,428
Employee Cafeteria Benefits			
Plan deposits in bank	100,000	306,203	406,203
Cash with fiscal agent	6,300		6,300
Petty cash	15,205		15,205
	<u>547,399</u>	<u>5,035,679</u>	<u>5,583,078</u>
<b><i>Categorized Investments:</i></b>			
U.S. Treasury Notes	9,334,710	1,275,372	10,610,082
U.S. Agency Issues	34,970,383	1,282,500	36,252,883
Corporate Bonds	24,893,875		24,893,875
	<u>69,198,968</u>	<u>2,557,872</u>	<u>71,756,840</u>
<b><i>Non-Categorized Investments:</i></b>			
County of San Mateo Investment Pool			58,482,264
California Local Agency Investment Fund			24,084,513
California Arbitrage Management Program			149,445
Guaranteed Investment Contract			2,274,275
Mutual Funds-U.S. Securities			7,942,140
Money Market - U.S. Treasuries			3,313,497
			<u>96,246,134</u>
<b><i>Total Cash and Investments</i></b>	<u>69,746,367</u>	<u>7,593,551</u>	<u>173,586,052</u>

The composition of cash and investments as of June 30, 2002 by fund is as follows:

	Available	Restricted	Total
	for		
	Operations		
	\$	\$	\$
General Fund	43,932,812		43,932,812
Special Revenue Funds	24,071,168		24,071,168
Capital Projects Funds	43,824,202		43,824,202
Debt Service Funds		7,015,553	7,015,553
Enterprise Funds	27,648,847	3,313,496	30,962,343
Internal Service Funds	17,180,826		17,180,826
Fiduciary Funds		6,599,148	6,599,148
Total	<u>156,657,855</u>	<u>16,928,197</u>	<u>173,586,052</u>

## NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Cash and investments were scheduled to mature as follows at June 30, 2002:

Available immediately	\$96,031,014
Maturities of three years or less	76,012,038
Maturities greater than three years but less than fifteen	<u>1,543,000</u>
Total	<u>\$173,586,052</u>

### **D. Classification**

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or Agency agreements.

Cash and investments available for operations	\$156,657,855
Cash and investments with fiscal agent	<u>10,329,049</u>
Total City cash and investments	166,986,904

Cash and investments in Fiduciary Funds (separate statement)	<u>6,599,148</u>
Total cash and investments, Statement of Net Assets	<u>\$173,586,052</u>

### **E. Funds Held by Fiscal Agents**

The City had \$17,802,702 in cash and investments as of June 30, 2002 held by trustees or fiscal agents pledged for the payment or security of certain bonds, certificates of participation, and lease obligations. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make. In some situations these investments differ from those permitted by the City investment policy. Included in these investments at June 30, 2002 is a guaranteed investment contract maturing in fiscal year 2012 authorized in the bond indenture and by City Council prior to purchase.

### **F. Marking Investments to Fair Value (GASB 31)**

In fiscal year 1997/98, the City adopted Government Accounting Standards Board Statement No. 31, which requires that the City's investments be carried at fair value instead of cost. Under GASB 31, the City must adjust the carrying value of its investments to reflect their fair value at each fiscal year end, and it must include the effects of these adjustments in income for that fiscal year.

GASB 31 applies to all the City's investments, even if they are held to maturity and redeemed at full face value. Since the City's policy is to hold all investments to maturity, the fair value adjustments required by GASB 31 result in accounting gains or losses (called "recognized" gains or losses) which do not reflect actual sales of the investments (called "realized" gains or losses). Thus, recognized gains or losses on an investment purchased at par will now reflect changes in its value at each succeeding fiscal year-end, but these recognized gains or losses will net to zero if the investment is held to maturity. By following the requirements of GASB 31, the City is reporting the amount of resources which would actually have been available if it had been required to liquidate all its investments at any fiscal year-end.

## NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

### G. *State and County Investment Pools*

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

The City is also a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code Section 53600 under the oversight of the Treasurer of the County of San Mateo. The City reports its investment in the County Pool at the fair value amount provided by the County. The balance available for withdrawal is based on the accounting records maintained by the County Pool, which are recorded on an amortized cost basis. Included in the County Pool's investment portfolio are US Treasury Notes, Obligations issued by agencies of the United States Government, LAIF, Corporate Notes, Commercial Paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

## NOTE 3 – CAPITAL ASSETS

### A. *Capital Asset Additions and Retirements*

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The City's policy is to capitalize all assets with costs exceeding certain minimum thresholds, \$5,000 for machinery and equipment, \$100,000 for buildings, improvements, and infrastructure, and with useful lives exceeding two years.

With the implementation of GASB Statement 34, the City has recorded all its public domain (infrastructure) capital assets placed in service after June 30, 1980, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. GASB Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets.

Buildings	20-50	Years
Improvements	33-60	Years
Equipment	2-15	Years
Streets	20	Years
Parks	25	Years
Bridges	30	Years
Traffic Signals	20	Years
Storm Drains	40	Years

### NOTE 3 – CAPITAL ASSETS (CONTINUED)

Capital assets at June 30 are comprised of the following:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
	\$	\$	\$	\$	\$
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	10,661,588	356,057			11,017,645
Construction in progress	<u>14,764,111</u>	<u>19,047,155</u>		<u>(4,759,909)</u>	<u>29,051,357</u>
Total capital assets not being depreciated	<u>25,425,699</u>	<u>19,403,212</u>		<u>(4,759,909)</u>	<u>40,069,002</u>
Capital assets being depreciated:					
Buildings	56,024,331				56,024,331
Accumulated depreciation	(9,098,773)	(1,120,487)			(10,219,260)
Parks	11,705,814	1,307,859		546,714	13,560,387
Accumulated depreciation	(5,175,352)	(515,778)			(5,691,130)
Streets	53,791,386	437,288		3,409,143	57,637,817
Accumulated depreciation	(14,932,016)	(2,427,061)			(17,359,077)
Bridges	2,248,335				2,248,335
Accumulated depreciation	(850,771)	(74,945)			(925,716)
Traffic Signals	1,968,385				1,968,385
Accumulated depreciation	(648,797)	(98,419)			(747,216)
Storm Drains	1,471,511	159,997		804,052	2,435,560
Accumulated depreciation	(167,726)	(48,838)			(216,564)
Machinery and equipment	13,164,803	1,603,570	(331,488)		14,436,885
Accumulated depreciation	<u>(7,406,021)</u>	<u>(881,830)</u>	<u>195,611</u>		<u>(8,092,240)</u>
Net capital assets being depreciated	<u>102,095,109</u>	<u>(1,658,644)</u>	<u>(135,877)</u>	<u>4,759,909</u>	<u>105,060,497</u>
Governmental activity capital assets, net	<u>127,520,808</u>	<u>17,744,568</u>	<u>(135,877)</u>		<u>145,129,499</u>
<b>Business-Type Activities</b>					
Capital assets not being depreciated:					
Land	3,445,058	2,464			3,447,522
Construction in progress	<u>12,656,769</u>	<u>3,532,351</u>		<u>(1,861)</u>	<u>16,187,259</u>
Total capital assets not being depreciated	<u>16,101,827</u>	<u>3,534,815</u>		<u>(1,861)</u>	<u>19,634,781</u>
Capital assets being depreciated:					
Harbor Improvements	2,710,146	431,349			3,141,495
Accumulated depreciation	(1,686,446)	(75,878)			(1,762,324)
Buildings	9,328,888				9,328,888
Accumulated depreciation	(2,626,289)	(201,729)			(2,828,018)
Machinery and equipment	2,281,583	5,102	(39,510)		2,247,175
Accumulated depreciation	(1,903,595)	(163,291)	39,145		(2,027,741)
Improvements other than buildings	75,451,148	999,861			76,451,009
Accumulated depreciation	<u>(26,092,605)</u>	<u>(1,558,928)</u>			<u>(27,651,533)</u>
Net capital assets being depreciated	<u>57,462,830</u>	<u>(563,514)</u>	<u>(365)</u>		<u>56,898,951</u>
Business-type activity capital assets, net	<u>73,564,657</u>	<u>2,971,301</u>	<u>(365)</u>	<u>(1,861)</u>	<u>76,533,732</u>

### NOTE 3 – CAPITAL ASSETS (CONTINUED)

#### *B. Depreciation Allocation*

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program were as follows:

##### **Governmental Activities**

Community Development	\$ 6,999
Human Services	75,427
Public Safety	460,421
Transportation	2,741,049
Leisure, cultural, and information services	927,181
Policy development and implementation	276,616
Equipment Services	650,217
Internal Services	29,448
Total Depreciation Expense-Governmental Activities	<u>\$ 5,167,358</u>

##### **Business-Type Activities**

Water Utility Fund	\$ 995,806
Sewer Utility fund	437,228
Parking Fund	97,359
Port of Redwood City	469,433
Total Depreciation Expense-Business-Type Activities	<u>\$ 1,999,826</u>

### NOTE 4 – INVESTMENT IN SOUTH BAYSIDE SYSTEM AUTHORITY

Redwood City has an investment in a Joint Powers Authority (JPA) with the cities of San Carlos and Belmont and the West Bay Sanitation District. In addition, the City and the Port of Redwood City have investments in SBSA capacity rights. This JPA, South Bayside System Authority (SBSA), operates and maintains a sewer plant which was jointly constructed with EPA federal and state grants and contributions from participating entities. The JPA is run by its board of directors which is comprised of four members. The City Councils of each member city and the board of the West Bay Sanitation District each select one of their own members to serve on this board. No member agency has control of SBSA's budget, finances, or operations. The board acts autonomously of the respective member agencies.

### NOTE 5 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

#### *A. Description*

Redwood City has no outstanding general obligation bonds. One improvement district has been formed within the City limits for specific improvements within the boundaries of the district. General Improvement District Bonds (GID 1-64 Reclamation and Facilities Bonds) are limited general obligations of Redwood City confined to the district boundary. The following is the list of long-term obligations of the City.

## NOTE 5 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)

### Revenue Bonds:

**Public Financing Authority Bonds** issued in August 1991 by the Redwood City Public Financing Authority, a Joint Powers Authority consisting of the City and the Redevelopment Agency, to prepay certain existing lease obligations of the City and to provide funds for the construction of a new Police facility. The original amount of \$26,715,000 (of which \$11,280,683 was for the defeasement of the 1986 Revenue Bonds) is due in annual installments of \$839,231 to \$2,391,125 through July 1, 2011. As discussed below a portion of the Bonds were repaid in fiscal year 1998/99.

**1998 City Hall Lease Revenue Certificates of Participation** - In October 1998, the City issued \$11,700,000 of variable rate demand certificates to provide permanent funding for the new City Hall project that was completed in August 1997. Principal payments will be made over a 23-year period commencing July 1, 2002. The variable rate is calculated weekly and fluctuates according to market conditions, but is capped at 12%. The average monthly interest paid in fiscal year 2001/02 was \$16,358 and the interest rate in effect at June 30, 2002 was 1.25%.

**1998 Lease Revenue Refunding Bonds** - In July 1998, the City issued \$12,160,000 of bonds to refund \$10,995,000 of the 1991 Public Financing Authority bonds. Principal is due in annual installments of \$695,000 to \$1,670,000 through July 15, 2011.

### General Improvement District Bonds:

**General Improvement District No. 1-64 Facilities Series Bonds** due in annual installments of \$26,500 to \$1,350,000 through July 1, 2008; original amount \$18,515,000 issued in 1966 for utility lines and infrastructure improvements in the Redwood Shores area.

**General Improvement District No. 1-64 Land Reclamation Series Bonds** due in annual installments of \$300,000 to \$510,000 through July 1, 2008; original amount \$9,510,000 issued in 1966 for land reclamation in the Redwood Shores area.

### Tax Increment Bonds:

**1997 Tax Allocation Refunding Bonds** issued in July 1997 by the Redwood City Redevelopment Agency to prepay a loan received by the Agency from the Redwood City Public Financing Authority. Original amount of \$15,430,000 is due in annual installments of \$417,805 to \$1,525,880 through July 15, 2011.

### Loans:

**Redwood City School District Loan** entered into by the Redevelopment Agency in 1998 to finance a portion of the land and buildings located at 2107 Broadway that were acquired for the purpose of eventually being resold to a developer; original amount of \$634,815 at 0% interest due in 15 annual installments of \$42,321 through 2013.

**NOTE 5 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)**

**B. Changes in Long-Term Obligations**

As of June 30, 2002, the City had the following long-term obligations outstanding including the current portion:

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
	%	\$	\$	\$	\$	\$
<b>Revenue Bonds</b>						
Public Financing Authority Bonds	4.75-6.50	8,630,000		595,000	\$8,035,000	635,000
1998 Lease Revenue Refunding Bonds	4.00-5.00	10,740,000		750,000	9,990,000	780,000
1998 Citv Hall Lease Revenue C.O.P.'s	variable	<u>11,700,000</u>			<u>11,700,000</u>	<u>395,000</u>
Subtotal		<u>31,070,000</u>		<u>1,345,000</u>	<u>29,725,000</u>	<u>1,810,000</u>
<b>General Improvement District Bonds</b>						
Facilities Series 1-64	5.00-6.00	7,135,000		930,000	6,205,000	985,000
Reclamation Series 1-64	5.00-6.00	<u>2,935,000</u>		<u>485,000</u>	<u>2,450,000</u>	<u>495,000</u>
Subtotal		<u>10,070,000</u>		<u>1,415,000</u>	<u>8,655,000</u>	<u>1,480,000</u>
<b>Tax Increment Bonds</b>						
1997 Tax Allocation Refunding Bonds	3.80-5.15	<u>12,910,000</u>		<u>930,000</u>	<u>11,980,000</u>	<u>970,000</u>
<b>Loans</b>						
Redwood City School District Loan		<u>507,852</u>		<u>42,321</u>	<u>465,531</u>	<u>42,321</u>
Total Bonds and Loans		<u>54,557,852</u>		<u>3,732,321</u>	<u>50,825,531</u>	<u>4,302,321</u>
<b>Accrued Sick Leave and Vacation</b>		<u>5,777,965</u>	<u>744,977</u>		<u>6,522,942</u>	<u>1,409,493</u>
Total General Long-Term Debt		<u>60,335,817</u>	<u>744,977</u>	<u>3,732,321</u>	<u>57,348,473</u>	<u>5,711,814</u>

**C. Annual Repayment Requirements for Long-Term Debt**

Year End	Governmental Activities	
	Principal	Interest
June 30	\$	\$
2003	4,302,321	2,419,388
2004	4,497,321	2,195,447
2005	4,712,321	1,959,008
2006	4,937,321	1,709,314
2007	4,902,321	1,452,778
2008-2012	20,461,605	4,030,157
2013-2017	3,192,321	1,076,055
2018-2022	<u>3,820,000</u>	<u>389,316</u>
	<u>50,825,531</u>	<u>15,231,463</u>

## NOTE 6 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

### A. Description

#### Revenue Bonds:

**Port of Redwood City 1999 Revenue Bonds** due in annual installments of \$170,000 to \$690,000 through 2030. On April 1, 1999, the Port issued bonds in the amount of \$10,945,000 to finance improvements to the Port, the majority of which will be expended on cleaning up hazardous waste remaining at the Port's liquid bulk terminal.

#### Loans:

**Yacht Harbor Rehabilitation Loan** from the State of California in the original principal amount of \$880,000. The loan is payable in annual installments of principal and interest of \$53,613 through the year 2024.

**Parking Fund Loan** agreement with the civic center construction fund in the original principal amount of \$1,300,000 to finance the construction of the parking fund's downtown parking structure. Payments are for interest only until funds are available to pay principal. All principal to be repaid by July 1, 2013. In 2000/01, the civic center construction fund was closed, and the loan receivable was transferred to the capital outlay fund.

### B. Changes in Debt

	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Current Portion</u>
	%	\$	\$	\$	\$	\$
Capitalized Lease:						
AT&T Lucent Technologies	15.76	<u>1,356</u>	<u>          </u>	<u>1,356</u>	<u>          </u>	<u>          </u>
Revenue Bonds:						
Port of Redwood City - 1999 Series	4.000-5.250	<u>10,775,000</u>	<u>          </u>	<u>175,000</u>	<u>10,600,000</u>	<u>185,000</u>
Loans:						
Yacht Harbor Rehabilitation Loan	4.70	<u>758,486</u>	<u>          </u>	<u>19,481</u>	<u>739,005</u>	<u>20,358</u>
Parking Fund Loan	none	<u>1,300,000</u>	<u>          </u>	<u>          </u>	<u>1,300,000</u>	<u>          </u>
		<u>2,058,486</u>	<u>          </u>	<u>19,481</u>	<u>2,039,005</u>	<u>20,358</u>
Accrued Sick Leave and Vacation		<u>530,673</u>	<u>62,320</u>	<u>          </u>	<u>592,993</u>	<u>285,633</u>
Total Business-type Activities Long-Term Debt		<u>13,365,515</u>	<u>62,320</u>	<u>195,837</u>	<u>13,231,998</u>	<u>490,991</u>

## NOTE 6 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)

### C. Annual Repayment Requirements for Business-type Activities Long Term Debt

Year End June 30	Business-Type Activities	
	Principal	Interest
	\$	\$
2003	205,358	638,825
2004	211,274	630,139
2005	222,231	620,917
2006	233,232	610,916
2007	239,277	600,211
2008-2012	1,388,788	2,816,644
2013-2017	3,082,957	2,166,751
2018-2022	2,300,536	1,580,164
2023-2027	2,785,352	938,035
2028-2030	1,970,000	205,256
	<u>12,639,005</u>	<u>10,807,858</u>

## NOTE 7 – DEBT WITHOUT CITY COMMITMENT

### A. Assessment District Bonds

Assessment District Bonds (1915 Act) were issued in July 1999 to refund bonds issued in 1990 by the Seaport Centre and Seaport Boulevard Assessment Districts (that were issued to refund bonds issued in 1985). The original bonds (1985) were issued for the purpose of installing water and sewer systems within the Seaport Centre area and for improvements and landscaping to Seaport Boulevard. The principal amount issued in 1999 was \$9,430,000. The 1999 bond issue also resulted in the consolidation of the two assessment districts into one district pursuant to the Refunding Act of 1984 for 1915 Improvement Act bonds.

These bonds are obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings. The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2002, the outstanding principal amount was \$7,650,000. The refunding resulted in a reduction of \$1,028,138 in total debt service payments over the next 10 years and an economic gain of \$622,557.

### B. Community Facilities District (Mello-Roos) Bonds

On October 17, 2000, the Community Facilities District (CFD) issued \$21,000,000 of bonds on behalf of the developer of the Pacific Shores Project to fund various transportation system improvements within the City's right-of-way that were required as a condition of the development. These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings. The City is not required to

**NOTE 7 – DEBT WITHOUT CITY COMMITMENT (CONTINUED)**

advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2002, the outstanding principal amount was \$21,000,000.

On January 17, 2001, the Shores Transportation Improvement District issued \$5,045,000 of CFD bonds. The proceeds of these bonds are being used to fund various transportation projects that are required under development agreements with commercial property owners in the Redwood Shores area of the City. These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City’s only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings. The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2002, the outstanding principal amount was \$5,045,000.

**NOTE 8 – EMPLOYEE BENEFITS**

**A. Retirement System**

**PERS Safety and Miscellaneous Employees' Plans**

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees' Retirement System (PERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. The City’s employees participate in the separate safety (police and fire) and miscellaneous (all other) employee plans. Benefit provisions under both plans are established by state statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both plans are determined annually on an actuarial basis as of June 30 by PERS; the City must contribute these amounts. The plans’ provisions and benefits in effect at June 30, 2002 are summarized as follows:

	<u>Police Safety</u>	<u>Fire Safety</u>	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	55
Monthly benefits, as a % of annual salary	2% - 2.7%	2% - 2.7%	1.426% - 2.418%
Required employee contribution rates	9%	9%	7%

Employer contributions are determined by PERS as a percentage of covered payroll and represent the actuarially required contribution. The employer contributions for the past three years are:

	<u>Police Safety</u>	<u>Fire Safety</u>	<u>Miscellaneous</u>
2000	10.451%	11.243%	0.000%
2001	5.986%	3.963%	0.000%
2002	4.636%	4.871%	0.000%

**NOTE 8 – EMPLOYEE BENEFITS (CONTINUED)**

Since the City consistently applied the employer contribution rates, as determined by PERS, the City's annual pension cost equaled the City's actuarially required contribution for the fiscal year ended June 30, 2002 and the City has no net pension obligation. The City also did not have any such obligation in 2000 or 2001.

All qualified permanent and probationary employees are eligible to participate in PERS. A credited service year is one year of full time employment. In accordance with the memorandum of understandings with the various employee groups, the City may contribute a portion of the employee contribution. This contribution varies from group to group. These benefit provisions and all other requirements are established by state statute and City ordinance. Contributions necessary to fund PERS on an actuarial basis are determined by PERS and its Board of Administration.

Police and fire safety employees are covered under the "2% at 50" formula. Under this retirement plan, an employee's retirement earnings at age 50 is calculated by multiplying 2% by the employee's years of service. This percentage factor increases with the employee's age upon retirement.

Miscellaneous employees are covered under the "2% at 55" formula. Under this retirement plan, an employee's retirement earnings, at age 55, is calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

PERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the pension benefit obligation.

PERS uses the market-related value method of valuing the plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.50%. Annual salary increases are assumed to vary by duration of service. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization periods for the City's plans are as follows:

Police Safety	June 30, 2020
Fire Safety	June 30, 2025
Miscellaneous	June 30, 2045

The plans' actuarial value (which differs from market value) and funding progress over the three most recently available years is set forth below at their actuarial valuation date of June 30, 2001:

*Police Safety Plan:*

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered	Unfunded (Overfunded) Liability as % of Payroll
1999	47,478,704	40,662,133	(6,816,571)	116.80%	6,653,689	(102.45%)
2000	52,349,673	46,188,616	(6,161,057)	113.3%	7,207,053	(85.49%)
2001	54,254,058	50,130,697	(4,123,361)	108.2%	8,090,274	(50.97%)

**NOTE 8 – EMPLOYEE BENEFITS (CONTINUED)**

*Fire Safety Plan:*

<u>Actuarial</u>						
<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Entry Age Accrued</u>	<u>Unfunded (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered</u>	<u>Unfunded (Overfunded) Liability as % of Payroll</u>
1999	52,881,926	48,547,101	(4,334,825)	108.9%	5,111,793	(84.80%)
2000	57,615,363	52,473,123	(5,142,240)	109.8%	5,462,619	(94.14%)
2001	59,245,727	56,895,469	(2,350,258)	104.1%	5,675,207	(41.41%)

*Miscellaneous Plan:*

<u>Actuarial</u>						
<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Entry Age Accrued</u>	<u>Unfunded (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered</u>	<u>Unfunded (Overfunded) Liability as % of Payroll</u>
1999	93,776,319	69,322,451	(24,453,868)	135.3%	19,658,694	(124.39%)
2000	101,136,901	78,242,220	(22,894,681)	129.3%	21,255,665	(107.71%)
2001	103,673,774	86,910,507	(16,763,267)	119.3%	23,963,320	(69.95%)

Audited annual financial statements and ten-year trend information for the fiscal year ended June 30, 2001, the most recent available, are available from PERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Total current payroll for all covered employees for the fiscal year ended June 30, 2002 was \$40,736,442. The payroll subject to retirement amounted to \$9,137,364 for police safety, \$5,844,361 for fire safety, and \$25,754,717 for the miscellaneous group.

PERS has reported that the value of the net assets in the Plan held for pension benefits changed as follows during the year ended June 30, 2001, the most recent available:

	<u>Police Safety</u>	<u>Fire Safety</u>	<u>Miscellaneous</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Beginning Balance 6/30/00	52,349,673	57,615,363	101,136,901
Contributions Received	1,187,001	1,163,199	1,597,111
Benefits and Refunds Paid	(1,709,867)	(2,216,002)	(3,825,938)
Expected Investment Earnings Credited	4,297,707	4,710,700	8,253,677
Expected Actuarial Value of Assets 6/30/01	<u>56,124,514</u>	<u>61,273,260</u>	<u>107,161,751</u>
Market Value of Assets 6/30/01	<u>50,513,146</u>	<u>55,190,660</u>	<u>96,697,820</u>
Actuarial Value of Assets 6/30/01	<u>54,254,058</u>	<u>59,245,727</u>	<u>103,673,774</u>

Additional disclosures will be included when made available by PERS.

Actuarially required contributions for fiscal years 2002, 2001, and 2000 were \$622,594, \$603,723, and \$1,162,110, respectively. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

## NOTE 8 – EMPLOYEE BENEFITS (CONTINUED)

### ***B. Post Employment Benefits***

Permanent employees who retire under the City’s retirement plan (PERS) are, pursuant to their respective collective bargaining agreements, eligible to have their medical insurance premiums paid by the City. Medical insurance premiums for spouses and other dependents generally are not paid by the City. In the case of public safety disability retirement, the City provides medical insurance for dependents. This benefit is financed on a pay-as-you-go basis.

Retiree medical insurance premium expenses for the past three fiscal years ended June 30, 2000, 2001, and 2002 are as follows:

2000	347,241
2001	452,161
2002	569,388

As of June 30, 2002, there were 205 retirees having their medical insurance premiums paid by the City.

### ***C. Cafeteria Benefit Plan***

The City has a cafeteria benefit plan established pursuant to section 125 of the IRS code. Under this plan eligible employees may direct a contribution, made by the City, into any combination of the following three benefit categories:

1. Medical Insurance Premium Account
2. Out of Pocket Medical Spending Account
3. Dependent Care Spending Account

In addition to directing the City’s contribution to the above categories, eligible employees may elect to contribute pre-tax dollars to these categories. Under no circumstances may an employee direct more than \$5,000 annually into the Dependent Care Spending Account. This cap applies to both City contributions and employee pre-tax contributions. There are no legal limits on contributions to the Medical Spending Account or Health Premium Account.

All regular full-time and part-time employees employed on a regular and continuous basis, including certain contractual employees, are eligible to participate in this plan. Temporary and casual employees are not eligible. The plan year adopted by the City begins on January 1 and ends December 31. To obtain reimbursement of expenses incurred within a plan year within the spending accounts (items 2 or 3), employees must submit claims within 90 days of the end of the plan year or separation of service from the City, whichever occurs first. Funds unclaimed after 90 days of the close of the plan year are then remitted to the City.

### ***D. Deferred Compensation Plans***

City employees may defer a portion of their compensation under four separate, optional City-sponsored deferred compensation plans created in accordance with Internal Revenue Code Section 457. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death, or in an emergency as defined by the plans.

## NOTE 8 – EMPLOYEE BENEFITS (CONTINUED)

Effective January 1, 1998, the City signed new deferred compensation plan administration agreements with the deferred compensation providers to provide for the administration and management of employees' deferred compensation plan assets. These agreements incorporate changes in the law governing deferred compensation plan assets which now require plan assets to be held for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these new plans are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

## NOTE 9 – NET ASSETS AND FUND BALANCES

GASB Statement 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

### A. *Net Assets*

Net Assets is the excess of all the City's assets over all its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, redevelopment funds restricted to low and moderate income purposes.

*Unrestricted* describes the portion of Net Assets which is not restricted as to use.

### B. *Fund Balances, Reserves and Designations*

In the Fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

#### Reserves:

Portions of fund balance have been reserved for specific purposes as follows:

**Encumbrances** – A reservation is reported for encumbrances outstanding at year-end since they are not considered an expenditure or liability and are reappropriated in the subsequent year.

**Loans** – An amount equal to the non-current portion of loans is reserved as it is not available to finance current operations. The non-current portion is that principal portion of a loan which is not expected to be repaid within 12 months.

**Land Held for Redevelopment** – Land held by governmental funds for redevelopment is reserved as it is not available to finance current operations.

## NOTE 9 – NET ASSETS AND FUND BALANCES (CONTINUED)

**Low Income Housing** - Pursuant to California Health and Safety Code, Division 24, Section 3334.2, 20% of all property tax increment revenues received by the Redevelopment Agency must be set aside and used exclusively for projects related to low and moderate income housing.

**Inventory** - Inventory held within governmental funds is reserved as it is not available to finance current operations.

**Prepaid Expenditures** - Expenditures that are paid in the current fiscal year for services or products to be provided in the following fiscal year.

**Debt Service** - Funds which legally may only be used for debt service are reserved within the appropriate fund.

**Advances to Other Funds** - Long-term amounts to be repaid by other funds are reserved.

**General Reserve** - Under Section 61 of the City Charter, a general reserve of \$250,000 is to be maintained in the general fund titled for emergency cash flow needs.

### Designations:

**Subsequent Year's Expenditures** - In accordance with Article XIII B of the California Constitution, any unspent funds at the year-end should either be returned to the taxpayers or designated for expenditures in the subsequent year. It is the Council's desire to appropriate this money in the following year.

**Street Projects** - The City maintains a reserve for unexpended appropriations for capital outlay projects within the general fund. Since these projects are funded by transfers from the general fund, the City desires to ensure that sufficient resources will be available to transfer to the special gas tax fund when capital outlay expenditures are incurred.

**Childcare Facility** - This designation represents a loan that the City has agreed to provide to construct a childcare facility in the Redwood Shores area of the community.

**Capital Projects** - The City maintains reserves for unexpended appropriations for capital outlay projects within the fund in which these projects have been appropriated.

**Sandpiper Park** - Funds received from the sale of land to the Belmont/Redwood Shores School District are held in reserve and will be expended over a 15-year period to supplement funding for the maintenance of Sandpiper Park.

**NOTE 9 – NET ASSETS AND FUND BALANCES (CONTINUED)**

**C. Reconciliation of General Fund Fund Balance to Governmental Activities Unrestricted Net Assets**

Unrestricted Net Assets of Governmental Activities reconciles with the general fund fund balance as follows:

Reconciliation of General Fund Fund Balance to Governmental Activities Unrestricted Net Assets June 30, 2002	
General Fund Fund Balance	\$ 41,061,684
Add Unrestricted Net Assets of the following funds:	
Capital Projects Funds	
Capital Outlay Fund	24,434,584
Internal Service Funds	
Equipment Services	5,683,413
Self Insurance	2,232,970
Internal Services	1,718,077
Employee Benefits	505,917
Add:	
Accrued Interest Receivable	365,003
Deferred Revenue	1,365,924
Deduct:	
Compensated Absences	(4,717,960)
Debt issued for purposes other than capital assets	(32,335,000)
Accrued Interest Payable	<u>(716,276)</u>
Unrestricted Net Assets of Governmental Activities	<u>\$ 39,598,336</u>

Funds not listed in the above reconciliation had no Unrestricted Net Assets at June 30, 2002.

**NOTE 10 – FUNDS WITH EXPENDITURES EXCEEDING APPROPRIATIONS**

The following individual fund and department (program) expenditures exceeded appropriations during the fiscal year:

Special Revenue Funds:	
Transportation Grants	12,827
Traffic Safety	128,208
Supplemental Law Enforcement Services	32,677

Special Revenue Funds

Transportation Grants - Expenditures exceeded budget due to an unanticipated increase in the cost of the Street Pavement Management Program.

Traffic Safety - Expenditures exceeded budget due to unanticipated increase in electrical energy costs.

Supplemental Law Enforcement Services - Expenditures exceeded budget due to an overcharge against this fund to successfully expend grant funds within a legislative time limit.

**NOTE 11 – INTERFUND TRANSFERS AND TRANSACTIONS**

**A. Transfers**

The following interfund transfers were made during the year:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
		\$
<b>General Fund</b>	Redwood Shores Maintenance Fund	150,000 (1)
	Capital Outlay Fund	612,167 (2)
	Internal Services Fund	119,157 (2)
<b>Special Revenue Funds</b>		
Traffic Safety Fund	General Fund	1,045,000 (4)
Special Gas Tax Street Improvement Fund	General Fund	981,697 (3) (4)
Grants Fund	General Fund	7,890 (5)
<b>Capital Project Funds</b>		
Capital Outlay Fund	General Fund	15,966,544 (3)
	Water Utility Fund	354,478 (3)
	Sewer Utility Fund	201,599 (3)
<b>Debt Service Funds</b>		
1997 Tax Allocation Refunding Bonds Fund	Redevelopment Agency Fund	1,143,741 (6)
	Redevelopment Agency Low and Moderate Housing Fund	285,935 (6)
1998 City Hall Lease Revenue COPs Fund	General Fund	256,104 (6)
<b>Internal Service Funds</b>		
Self Insurance Fund	General Fund	<u>1,500,000 (7)</u>
Total Interfund Transfers		<u><u>22,624,312</u></u>

The reasons for these transfers are set forth below:

- (1) Reimburse General Fund for expenditures incurred for maintenance in the Redwood Shores area.
- (2) Reimburse General Fund for interest earned by funds supported by the General Fund.
- (3) Allocation of funds to construct general capital assets.
- (4) Allocation of funds to support operations.
- (5) Transfer City's matching amounts required pursuant to grant agreements.
- (6) Transfer of amounts required to fund debt service payments.
- (7) Transfer available resources to ensure adequate funds for future liability.

**B. Long-Term Interfund Loans**

<u>Fund Receiving Advance</u>	<u>Fund Making Advance</u>	<u>Amount of Advance</u>
Transportation Grant Special Revenue Fund	General Fund	\$90,700

During 1996/97, the general fund advanced \$1,125,700 to the transportation grant special revenue fund. \$140,000 was repaid in fiscal year 1998, \$820,000 was repaid in fiscal year 2000, \$85,000 was advanced in fiscal year 2001, and in 2002 \$160,000 was repaid leaving a balance of \$90,700 owed to the general fund.

## NOTE 12 – RISK MANAGEMENT AND SELF-INSURANCE FUND

### A. *Workers' Compensation and Property Insurance*

The City is self-insured for workers' compensation for the first \$350,000 per occurrence and has a commercial insurance policy that covers the City's exposure above the retained limits up to \$1,000,000. The City paid \$37,803 during 2001/02 for the coverage.

The Port of Redwood City is included in the City's policy for workers' compensation only. The Port carries \$10,000,000 all risk insurance on property and comprehensive liability insurance varying between \$1,000,000 and \$150,000,000 dependent on type of risk.

Payments made for workers' compensation in 2001/02 (claims, legal costs, and excess workers' compensation coverage) totaled \$1,301,055.

### B. *General and Automobile*

The City is a member of the Bay Cities Joint Powers Insurance Authority for general liability and auto liability coverage. The City maintains a \$250,000 self-insured retention with coverage from \$250,000 to \$1,000,000 through Bay Cities, which is a liability pool consisting of 17 San Francisco Bay Area government agencies. The purpose of the pool is to provide certain levels of liability coverage, claims administration, and loss control support to member agencies. Annually, each agency pays an actuarially determined premium based upon a formula which takes into account the prior three years' loss experience, annual payroll, and population. This premium pays for administrative costs and funds liability reserves. The premium paid in 2001/02 was \$285,773.

Bay Cities belongs to the California Affiliated Risk Management Authority (CARMA) which is an excess liability pool comprised of funding by Bay Cities and two other local government insurance pools. CARMA provides coverage from \$1,000,001 to \$15,000,000. A layer from \$1,000,001 to \$3,000,000 is self-insured by CARMA (this layer is quota-shared 75% CARMA/25% with a commercial insurer), while the layer from \$3,000,001 to \$15,000,000 is insured by a commercial insurer.

The City also carries all risk coverage on buildings and their contents at current appraised value.

Audited financial statements are available from the Bay Cities Joint Powers Insurance Authority at 1020 19<sup>th</sup> Street, Sacramento, California 95814. The following is the Bay Cities JPIA condensed audited financial results for the year ended June 30, 2002:

Assets	5,433,180
Reserves for Claims	2,623,889
Liabilities	3,239,306
Retained Earnings	2,193,874
Member Contributions	4,249,387
Other Income	234,556
Provisions for Claims and Claim Adjustment Expenses	758,585
Operating Expenses	5,274,611
Net Income (Loss)	(1,549,253)

### C. *Self-Insurance Fund*

The City maintains a self-insurance internal service fund for its workers' compensation and general liability self-insurance programs. This fund accounts for revenues from departmental charges and operating expenses, including settlements within the City's self-insured retentions. Reserves for incurred

**NOTE 12 – RISK MANAGEMENT AND SELF-INSURANCE FUND (CONTINUED)**

but not reported claims are maintained within this fund. These reserves are based on an actuarial analysis performed by Richard E. Sherman & Associates, Inc., in accordance with GASB 10.

Changes in the self-insurance fund’s claims payable liability for fiscal years ended 2001 and 2002 were:

	<u>Beginning Balance</u>	<u>Current Year Claims/ Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
2000/01	4,924,240	1,976,156	(716,506)	6,183,890
2001/02	6,183,890	988,794	(952,894)	6,219,790

**NOTE 13 – REDWOOD CITY REDEVELOPMENT AGENCY**

The Agency has purchased parcels of land for redevelopment in order to develop or redevelop blighted properties within the city limits of Redwood City. Such land parcels are accounted for at the lower of cost, estimated net realizable value, or agreed-upon sales price if a disposition agreement has been made with a developer.

The Agency has entered into agreements with developers and other government entities for the purpose of ensuring the redevelopment of properties in its area. The Agency’s agreements with developers - termed Disposition and Development Agreements or Owner Participation Agreements - generally require the Agency to assist in financing land acquisition or operating costs of a specific project, but are based on the developer’s performance on that project as measured by increases in property taxes and sales taxes generated by the project or to provide affordable housing to the community. The increases in these taxes are the only source of Agency assistance for the project.

The Agency has agreements termed pass-throughs with government entities. These agreements require the Agency to pass through to these entities a portion of the property tax increases it collects, representing the increases these entities would have expected to collect if the Agency had not been formed.

**NOTE 14 – LITIGATION AND CONTINGENT LIABILITIES**

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determinable in amount.

There are lawsuits pending in which the City is a party. In the opinion of the City Attorney, the City has adequate legal defenses and/or reserves to cover such liability if it does arise.

**NOTE 15 – CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

As of June 30, 2002, the City had the following commitments (which were encumbered):

\$2,667,594 for the Roosevelt Avenue reconstruction and \$521,522 for the sidewalk replacement program.

## NOTE 16 – SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

Redwood City is a member of the South Bayside Waste Management Authority (SBWMA), a joint powers authority established to purchase the solid waste transfer station located in San Carlos, California from Browning-Ferris Industries (BFI) and then lease the transfer station back to BFI. Currently there are 12 public entities that are members of this organization. Each of these members also, by individual and separate legislative action, has entered into a franchise agreement with BFI for solid waste collection within their respective jurisdictions.

The SBWMA issued \$20 million in bonds in 1999 to provide funds for the purchase of the transfer station. The lease payments received from BFI for the use of the transfer station provide funds for the SBWMA to pay the principal and interest on the outstanding bonds. The debt issued by the SBWMA is not an obligation of any of the member entities. BFI in turn includes the lease payments to the SBWMA as an eligible cost to be recovered from solid waste collection customers under the terms of their franchise agreements.

The SBWMA also serves as a regional forum for member entities to collectively pursue other solid waste management matters such as rate setting, solid waste reduction, and meeting recycling goals as required by state law.

Audited financial statements are available from the SBWMA, c/o the City of San Carlos, 600 Elm Street, San Carlos, CA 94070. The following is SBWMA's condensed audited financial results for the year ended June 30, 2002.

Total assets	\$ 28,221,237
Total liabilities	<u>19,190,882</u>
Total equity	<u>\$ 9,030,355</u>

## NOTE 17 – RELATED PARTY TRANSACTIONS

In June 2000, the City's Redevelopment Agency authorized a First Time Homebuyer Program targeted to City employees and school teachers from the Redwood City Elementary School District. Under the program, the agency offers first time homebuyers financial assistance in the purchase of a home within the City of Redwood City. These loans bear no interest and are secured by third deeds of trust on the property. No payments are due until five years after the date of purchase. This loan program is extended to City employees who meet the criteria of the program. As of June 30, 2002, one employee had \$100,000 in loans due to the City.



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2002*

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## APPENDIX C

### PROPOSED FORM OF FINAL OPINION OF SPECIAL COUNSEL

[Addressees]

Re: City of Redwood City Public Financing Authority Lease Revenue Bonds, Series 2003

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the sale, execution and delivery by the City of Redwood City Public Financing Authority (the "Authority") of \$\_\_\_\_\_ aggregate principal amount of the Authority's Lease Revenue Bonds, Series 2003 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and laws of the State of California (the "State"), including the Marks Roos Local Bond Pooling Act of 1985 (commencing with Section 6584 of the California Government Code) (the "Law"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of November 1, 2003 (the "Indenture"), between the Authority and BNY Western Trust Company (the "Trustee"). The proceeds of the Bonds are being used to refinance certain outstanding obligations of the Authority. The Authority is obligated under the Indenture to pay principal of and interest on the Bonds solely from Revenues (as defined in the Indenture), being primarily amounts received by the Authority or the Trustee pursuant to or with respect to the Lease Agreement, dated as of November 1, 2003, between the Authority and the City of Redwood City (the "City").

As Bond Counsel we have examined copies certified to us as being true and complete copies of the proceedings of the Authority and the City and in connection with the authorization and sale of the Bonds. Our services as Bond Counsel were limited to an examination of the transcript of such proceedings and to rendering the opinions set forth herein. In this connection, we have also examined such other documents, opinions and instruments as we have deemed necessary in order to render the opinions expressed herein. In such examination, we have assumed the genuineness of all signatures on original documents (other than signatures of the Authority or the City) and the conformity to the original documents of all copies submitted to us.

We have also assumed the due execution and delivery of all documents (other than with respect to the Authority or the City) which we have examined where due execution and delivery are a prerequisite to the effectiveness thereof. As to the various questions of fact material to our opinion, we have relied upon statements or certificates of officers and representatives of the Authority and the City, public officials and others.

On the basis of the foregoing examination and assumptions and in reliance thereon and on all such other matters of fact as we deemed relevant under the circumstances, and upon consideration of the applicable law, we are of the opinion that:

1. The Indenture has been duly adopted by the Authority and constitutes the valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms. The Indenture creates a valid lien on and pledge of the Revenues and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture, on a parity with all additional parity obligations issued pursuant to the Indenture. The Lease Agreement has been duly adopted by the Authority and the City and constitutes the valid and binding obligation of the Authority and the City, enforceable against the Authority and the City in accordance with its terms.

2. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Indenture.

3. The obligation of the Authority to make payments on the Bonds does not constitute a debt of the Authority, or of the State of California or of any political subdivision thereof, within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the Authority is obligated to levy or pledge any form of taxation or for which the Authority has levied or pledged any form of taxation.

4. Interest received by the owners of the Bonds is excluded under existing statutes, regulations, rulings and court decisions, from gross income for Federal income tax purposes pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is exempt from personal income taxes of the State of California under present law. In addition, neither the Bonds, the Lease Agreement nor the Indenture are a "private activity bond" as defined in Section 141(a) of the Code and, therefore, the interest received by the owners of the Bonds is not an item of tax preference for purposes of the Code's alternative minimum tax provisions, except to the extent provided in the following sentence. Interest received by a corporation will be included in corporate book income and in "adjusted current earnings" for purposes of computing its alternative minimum tax liability.

In rendering the opinions expressed in paragraph 4 above, we are relying upon representations and covenants of the Authority in the Indenture and in the Tax Certificate of the Authority, dated as of the date hereof, concerning the use of the facilities financed and refinanced with Bond proceeds, the investment and use of Bond proceeds and the rebate, if any, to the Federal government of certain earnings thereon. In addition, we have assumed that all such representations are true and correct and that the Authority will comply with such covenants. We express no opinion with respect to the exclusions of the interest from gross income under Section 103(a) of the Code in the event that any such representations are untrue or the Authority fails to comply with such covenants. Except as stated above, we express no opinion as to any Federal tax consequences of the receipt of interest on, or the ownership or disposition of, the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed, and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any payment of interest on the Bonds if any such change occurs or action is taken or omitted to be taken upon the advice or approval of counsel other than ourselves.

Further, we note that the rights of the owners of the Bonds and the enforceability of the Bonds or the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of California.

We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility herein for the accuracy, completeness or fairness of the Official

Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Respectfully submitted,

NOSSAMAN, GUTHNER, KNOX & ELLIOTT, LLP

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## APPENDIX D

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the CITY OF REDWOOD CITY (the “City”) in connection with the issuance by the City of Redwood City Public Financing Authority of its \$11,475,000 Lease Revenue Bonds, Series 2003 (the “Bonds”). The Bonds are being issued pursuant to Indenture of Trust dated as of November 1, 2003 between the City and BNY Western Trust Company (the “Trustee”) (the “Indenture”). The City covenants and agrees as follows:

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

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

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

“*Dissemination Agent*” shall mean the City, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

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

“*National Repository*” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“*Participating Underwriter*” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Repository*” shall mean each National Repository and each State Repository.

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

“*State Repository*” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than nine (9) months after the end of the City’s fiscal year (which currently would be April 1), commencing with the report for the 2002-03 Fiscal Year, provide to each Repository an Annual Report which

is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

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

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

(a) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Principal amount of Bonds and any Additional Bonds (as defined in the Indenture) outstanding and the balance in the Reserve Account as of June 30 of the fiscal year reported, to the extent not included in the financial statements described in (a) above.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

**Section 5. Reporting of Significant Events.**

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Contingent or uncheduled bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule

at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

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

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: \_\_\_\_\_, 2003

CITY OF REDWOOD CITY

By: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Redwood City Public Financing Authority  
Name of Issue: \$11,475,000 Lease Revenue Bonds, Series 2003  
Date of Issuance: December 18, 2003

NOTICE IS HEREBY GIVEN that the City of Redwood City has not provided an Annual Report with respect to the above-named Bonds as required by the Subordinate Lease Agreement dated November 1, 2003 between the City of Redwood City and the City of Redwood City Public Financing Authority. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

CITY OF REDWOOD CITY

By: \_\_\_\_\_

## APPENDIX E

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest 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. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. Neither the issuer of the Bonds (the "Issuer") nor the trustee or fiscal agent appointed with respect to the Bonds (the "Trustee") take any responsibility for the information contained in this Appendix.*

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

**DTC and its Participants.** 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 security 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 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC", "GSCC", "MBSCC", and "EMCC", also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-

U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. 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](http://www.dtcc.com).

**Book-Entry Only System.** Purchases of the 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 Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 the 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 the 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 holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 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 Security documents. For example, Beneficial Owners of the 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 an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by 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 Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

***Discontinuance of DTC Services.*** In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Authority determines that DTC will no longer so act and delivers a written certificate to the Trustee to that effect, then the Authority will discontinue the Book-Entry Only System with DTC for the Bonds. If the Authority determines to replace DTC with another qualified securities depository, the Authority will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the indenture or fiscal agent agreement executed in connection with the Bonds. If the Authority fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds will no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but will be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds designates.

If the Book-Entry Only System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) principal of, and redemption premiums, if any, on, the Bonds will be payable upon surrender thereof at the corporate trust office of the Trustee, (iii) interest on the Bonds will be payable by check mailed by first-class mail or, upon the written request of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds received by the Trustee on or prior to the 15th day of the calendar month immediately preceding the interest payment date, by wire transfer in immediately available funds to an account with a financial institution within the continental United States of America designated by such Owner, and (iv) the Bonds will be transferable and exchangeable as provided in the indenture or fiscal agent agreement executed in connection with the Bonds.

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**APPENDIX F**  
**SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY**

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Ambac Assurance Corporation  
One State Street Plaza, 15th Fl.  
New York, New York 10004  
Telephone: (212) 668-0340

# Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

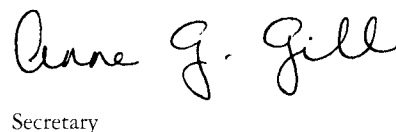
As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

  
President



  
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

  
Authorized Officer of Insurance Trustee

## Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions provisions, agreements or limitations of the above mentioned Policy other than as above stated.

**In Witness Whereof**, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

**Ambac Assurance Corporation**



President

Secretary

Authorized Representative