

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.



\$6,300,000
City of Redwood City
Public Financing Authority
(San Mateo County, California)
Water Revenue Refunding Bonds, Series 2017

Dated: Date of Delivery

Due: February 1, as shown on the inside front cover

The \$6,300,000 City of Redwood City Public Financing Authority Water Revenue Refunding Bonds, Series 2017 (the "Bonds"), will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased but will receive a credit balance in the records of DTC. Principal of and interest on the Bonds are payable directly to DTC by U.S. Bank National Association, San Francisco, California, as trustee (the "Trustee"). Principal is payable on the dates set forth below. Interest is payable semiannually on each February 1 and August 1, commencing August 1, 2017. Upon receipt of payments of principal of, premium, if any, and interest on the Bonds, DTC is obligated in turn to remit such principal, premium, if any, and interest to the DTC Participants (as defined herein) for subsequent disbursement to purchasers of the Bonds, as described herein.

The Bonds are being issued to (a) refund, on a current basis, the Authority's outstanding City of Redwood City Public Financing Authority Water Revenue Bonds, Series 2007A, and (b) pay the costs of issuance of the Bonds. See "REFUNDING PLAN" herein. **A reserve fund will not be funded for the Bonds.**

The Bonds are special obligations of the City of Redwood City Public Financing Authority (the "Authority") payable from the revenues pledged under the Indenture of Trust, dated as of February 1, 2017, by and between the Authority and the Trustee, consisting primarily of installment payments (the "2017 Installment Payments") to be made by the City of Redwood City (the "City") under an installment purchase contract, dated as of February 1, 2017, by and between the Authority and the City (the "2017 Installment Purchase Contract"). The 2017 Installment Payments are secured by a pledge of and lien on the net revenues (the "Net Revenues") of the City's municipal water enterprise (the "Enterprise"). The City's pledge of Net Revenues under the 2017 Installment Purchase Contract is on a parity basis with a similar pledge under an installment purchase contract by and between the Authority and the City (the "2013 Installment Purchase Contract"), under which the City makes installment payments that secure the Authority's Water Refunding Revenue Bonds, Series 2013, and under an installment purchase contract by and between the Authority and the City (the "2015 Installment Purchase Contract"), under which the City makes installment payments that secure the Authority's Water Refunding Revenue Bonds, Series 2015. Net Revenues may also be pledged to additional parity obligations hereafter issued or incurred by the City (the "Parity Obligations").

The City has covenanted under the 2017 Installment Purchase Contract to fix, prescribe and collect such charges in connection with the services and facilities of the Enterprise which will produce gross revenues sufficient in each Fiscal Year to provide Net Revenues equal to at least 1.20 times the aggregate amount of obligations of the City in such fiscal year with respect to the 2017 Installment Purchase Contract, the 2015 Installment Purchase Contract, the 2013 Installment Sale Agreement and any Parity Obligations hereafter issued or incurred by the City.

The Bonds are subject to redemption prior to maturity. See "THE BONDS—Redemption" herein.

Neither the Bonds nor the obligation of the City to make 2017 Installment Payments constitutes an obligation of the City or the Authority for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The Authority has no taxing power. Neither the Bonds nor the obligation of the City to make 2017 Installment Payments under the 2017 Installment Purchase Contract constitutes a debt of the City, the County of San Mateo, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

MATURITY SCHEDULE

SEE THE INSIDE FRONT COVER

This cover page contains information for general reference only. It is not a summary of this issue. Potential purchasers of the Bonds are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued and received by the Underwriter subject to the approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority and the City by Quint & Thimmig LLP, Larkspur, California, Disclosure Counsel, by Veronica Ramirez, Esq., the City Attorney, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is expected that the Bonds, in book-entry form, will be available for delivery through the facilities of DTC on or about March 1, 2017.

STIFEL

\$6,300,000
City of Redwood City
Public Financing Authority
(San Mateo County, California)
Water Revenue Refunding Bonds, Series 2017

MATURITY SCHEDULE

CUSIP+ Prefix: 75788R

Maturity Date (February 1)	Principal Amount	Interest Rate	Price	Yield	CUSIP+ Suffix
2018	\$265,000	2.000%	101.010	0.890%	FE5
2019	245,000	3.000	103.670	1.060	FF2
2020	255,000	4.000	107.851	1.250	FG0
2021	265,000	4.000	109.754	1.430	FH8
2022	275,000	4.000	111.153	1.630	FJ4
2023	290,000	5.000	117.759	1.820	FK1
2024	300,000	5.000	119.002	2.040	FL9
2025	320,000	5.000	119.918	2.240	FM7
2026	335,000	5.000	120.757	2.400	FN5
2027	355,000	5.000	121.639	2.520	FP0
2028	370,000	5.000	120.470 ^c	2.640	FQ8
2029	385,000	5.000	119.410 ^c	2.750	FR6
2030	405,000	3.000	97.069	3.280	FS4
2031	420,000	3.125	96.969	3.400	FT2
2032	430,000	3.250	96.772	3.530	FU9
2033	445,000	3.375	96.817	3.640	FV7
2034	460,000	3.500	97.499	3.700	FW5
2035	480,000	3.500	96.757	3.750	FX3

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^c Priced to the 2/1/2027 par call date.

No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Underwriter to give any information or to make any representations other than those contained herein 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 nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been furnished by the Authority and the City and from other sources which are believed to be reliable. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City or any other parties described herein since the date hereof.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the City's forecasts in any way, regardless of the level of optimism communicated in the information. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See "CONTINUING DISCLOSURE" herein.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT SUCH LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANYTIME.

The execution, sale and delivery of the Bonds has not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

The City maintains a website. Unless specifically indicated otherwise, the information presented on such website is not incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

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

1017 Middlefield Road
Redwood City, CA 94063
650-780-7000
<http://www.redwoodcity.org>

GOVERNING BODY OF THE AUTHORITY/MAYOR AND CITY COUNCIL

John D. Seybert, *Mayor*
Ian Bain, *Vice Mayor*
Alicia C. Aguirre, *Councilmember*
Janet Borgens, *Councilmember*
Jeffrey Gee, *Councilmember*
Diane Howard, *Councilmember*
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Larkspur, California

TRUSTEE

U.S. Bank National Association
San Francisco, California

\$6,300,000
CITY OF REDWOOD CITY PUBLIC FINANCING AUTHORITY
(San Mateo County, California)
Water Revenue Refunding Bonds, Series 2017

INTRODUCTION

General

The purpose of this Official Statement is to provide certain information concerning the issuance, sale and delivery by the City of Redwood City Public Financing Authority, a joint exercise of powers authority organized and existing under the laws of the State of California (the "Authority"), of its City of Redwood City Public Financing Authority (San Mateo County, California) Water Revenue Refunding Bonds, Series 2017 (the "Bonds"), in the aggregate principal amount of \$6,300,000.

The Bonds are special obligations of the Authority payable from the revenues (the "Revenues") pledged under an indenture of trust, dated as of February 1, 2017 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), consisting primarily of installment payments (the "2017 Installment Payments") to be made by the City of Redwood City (the "City") under an Installment Purchase Contract, dated as of February 1, 2017 (the "2017 Installment Purchase Contract"), by and between the Authority and the City, as the purchase price for certain improvements to the City's municipal water enterprise (the "Enterprise"). The 2017 Installment Payments are secured by a pledge of and lien on the net revenues of the Enterprise.

Capitalized terms used, but not otherwise defined herein, shall have the meanings assigned thereto as set forth in APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Certain Definitions.

The Authority

The Authority is a joint powers authority, formed under California law for the purpose of implementing the construction, acquisition, maintenance and improvement of public facilities and infrastructure within the City. See "THE AUTHORITY."

The City and the Enterprise

The City is located in southern San Mateo County (the "County") and, through the Enterprise, supplies water to the City, unincorporated areas of the County, and portions of the City of San Carlos and the Town of Woodside. Operation and maintenance of the Enterprise is financed through the Water Enterprise Fund. The City is one of 27 wholesale customers (the "Wholesale Customers") in San Mateo, Santa Clara, and Alameda Counties that are members of the Bay Area Water Supply and Conservation Agency ("BAWSCA") which purchase water from the City and County of San Francisco Public Utilities Commission (the "SFPUC") which owns and operates a municipal water supply, storage and distribution system. The SFPUC water enterprise consists of over 389 miles of pipeline, over 74 miles of tunnels, 11 reservoirs, five pump stations, and three water treatment plants located outside of the City and County of San Francisco (the "Regional Water System") and over 1,235 miles of pipeline, 11 reservoirs, eight storage tanks, 24 pump stations, eight hydropneumatic stations and 17 chlorination stations located inside the City and County of San Francisco. In 2009, the SFPUC and the Wholesale Customers entered into a WSA (the "WSA") that replaced a prior agreement entered

into in 1984. The WSA has a 25-year term (with provisions for two conditional five-year extensions). The City currently receives all of its potable water from the Regional Water System. See “THE ENTERPRISE” and APPENDIX A—GENERAL INFORMATION ABOUT THE CITY OF REDWOOD CITY AND SAN MATEO COUNTY.

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to (i) the laws of the State of California (the “State”), including the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code, as amended (the “Bond Law”), (ii) the Indenture, (iii) a resolution adopted by the Governing Board of the Authority on January 23, 2017, and (iv) a resolution adopted by the City Council of the City on January 23, 2017.

Purpose of the Bonds

The Bonds are being issued to (a) refund, on a current basis, the Authority’s outstanding City of Redwood City Public Financing Authority Water Revenue Bonds, Series 2007A (the “2007 Bonds”) and (b) pay the costs of issuance of the Bonds. See “THE FINANCING PLAN.”

Security and Source of Repayment

The City will secure its obligation to pay 2017 Installment Payments with its pledge of all of the “Net Revenues” of the Enterprise, defined as all gross income and receipts derived by the City from the ownership and operation of the Enterprise, less operation and maintenance costs. The Bonds are also secured by amounts held in any fund or account established under the Indenture (other than the Rebate Fund). See “SECURITY FOR THE BONDS.” **A reserve fund will not be established for the Bonds.**

The City’s pledge of Net Revenues as security for its obligation to make the 2017 Installment Payments is on a parity with its pledge of Net Revenues as security for certain other obligations of the City. See “Outstanding Enterprise Debt” below.

Outstanding Enterprise Debt

The City’s pledge of Net Revenues as security for its obligation to make the 2017 Installment Payments under the 2017 Installment Purchase Contract is on a parity with its pledge of Net Revenues as security for (i) its obligation to make installment payments (the “2013 Installment Payments”) under an Installment Purchase Contract (the “2013 Installment Purchase Contract”) entered into in connection with the issuance of the Authority’s Water Revenue Bonds, Series 2013 (the “2013 Bonds”), and (ii) its obligation to make installment payments (the “2015 Installment Payments”) under an Installment Purchase Contract (the “2015 Installment Purchase Contract”) entered into in connection with the issuance of the Authority’s Water Refunding Revenue Bonds, Series 2015 (the “2015 Bonds”).

Future Parity Obligations

The 2017 Installment Purchase Contract, the 2015 Installment Purchase Contract and the 2013 Installment Purchase Contract permit the City to issue bonds or incur other obligations payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the 2017 Installment Payments, the 2015 Installment Payments and the 2013 Installment Payments if certain conditions are satisfied. See “SECURITY FOR THE BONDS—Additional Debt.”

The 2013 Installment Purchase Contract, the 2015 Installment Purchase Contract and all bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the City payable from and secured by a pledge of Net Revenues on a parity with the payment of the 2017 Installment Payments are defined in the Indenture as “Parity Obligations.”

Rate Covenant

The City is obligated under the 2017 Installment Purchase Contract (and the 2015 Installment Purchase Contract and the 2013 Installment Purchase Contract) to fix, prescribe and collect rates, fees and charges in connection with the Enterprise so as to yield Gross Revenues at least sufficient to pay operation and maintenance costs of the Enterprise, the 2017 Installment Payments and all payments of principal of and interest with respect to any Parity Obligations as they become due and payable, all amounts, if any, required to replenish reserve funds established for Parity Obligations, and all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues.

In addition, the City is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield estimated Net Revenues which are at least equal to 120% of the aggregate amount of the 2017 Installment Payments, and principal of and interest on any Parity Obligations coming due and payable during such Fiscal Year.

See “SECURITY FOR THE BONDS—Rate Covenants; Collection of Rates and Charges.”

Redemption

The Bonds are subject to optional and extraordinary casualty redemption as described herein. See “THE BONDS—Redemption.”

Book-Entry Form

The Bonds will be delivered in fully registered form only and, when issued and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in denominations of \$5,000 or any integral multiple thereof, in book-entry form only. Principal, premium, if any, and interest are payable directly to DTC by the Trustee. Upon receipt of payments of principal of, premium, if any, and interest on the Bonds, DTC is obligated to remit such principal, premium, if any, and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Bonds. See “THE BONDS—Book-Entry Only System” below and APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

Continuing Disclosure

The City will covenant, pursuant to a continuing disclosure certificate (the “Continuing Disclosure Certificate”) to be executed on the date of delivery of the Bonds, for the benefit of owners and beneficial owners of the Bonds, to provide certain financial information and operating data related to the Enterprise by not later than nine months following the end of the City’s Fiscal Year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and any notices of enumerated events is summarized below under the caption “CONTINUING DISCLOSURE.” The form of the Continuing Disclosure

Certificate is set forth in APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. The covenants of the City in the Continuing Disclosure Certificate have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Tax Matters

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes, and is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in certain income and earnings in calculating corporate alternative minimum taxable income. In the further opinion of Bond Counsel, interest on the Bonds is, under existing law, exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS.”

Professionals Involved in the Offering

The proceedings of the Authority and the City in connection with the issuance of the Bonds are subject to the approval as to their legality of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority and the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel, by Veronica Ramirez, Esq., the City Attorney, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. U.S. Bank National Association, San Francisco, California, will act as the Trustee under the Indenture. William Euphrat Municipal Finance, Inc. will act as municipal advisor to the Authority and the City. The fees of Bond Counsel, the Municipal Advisor, Disclosure Counsel, and the Trustee are contingent upon the sale and delivery of the Bonds.

Forward-Looking Statements

This Official Statement, and particularly the information contained under the headings entitled “THE ENTERPRISE,” “ENTERPRISE FINANCIAL INFORMATION,” “RISK FACTORS RELATING TO THE BONDS,” and APPENDIX A—GENERAL INFORMATION ABOUT THE CITY OF REDWOOD CITY AND SAN MATEO COUNTY, contains statements relating to future results that are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 2000. When used in this Official Statement, the words “estimate,” “forecast,” “intend,” “expect” and similar expressions identify forward-looking statements. 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. Neither the Authority nor the City is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See “RISK FACTORS RELATING TO THE BONDS.”

Other Matters

There follows in this Official Statement brief descriptions of the Bonds, the security for the Bonds, the Indenture, the 2017 Installment Purchase Contract, the Parity Obligations, the Authority, the City, the Enterprise, and certain other information relevant to the issuance of the

Bonds. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all its respective terms and conditions. All statements herein with respect to such documents are qualified in their entirety by reference to each such document for the complete details of all of their respective terms and conditions. All statements herein with respect to certain rights and remedies are qualified by reference to laws and principles of equity relating to or affecting creditors' rights generally. Copies of the Indenture and the 2017 Installment Purchase Contract are available for inspection during business hours at the corporate trust office of the Trustee.

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 Authority or the City since the date hereof.

All financial and other information presented in this Official Statement has been provided by the Authority and the City from their records, except for information expressly attributed to other sources. The presentation of information, including the table of receipts from taxes 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 Authority or 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.

Other Information

This Official Statement speaks only as of its date and the information contained herein is subject to change without notice. Copies of the Indenture and the 2017 Installment Purchase Contract are available for inspection at the Principal Corporate Trust Office of the Trustee. The Trustee may impose a charge for copying, mailing and handling expenses related to any request for documents.

FINANCING PLAN

The Bonds are being issued to (a) refund the 2007 Bonds, and (b) pay the costs of issuance of the Bonds.

The 2007 Bonds were issued on May 31, 2007 to finance a portion of the costs of a water recycling project for the Enterprise (the "Recycling Project") in the principal amount of \$15,150,000, of which \$11,635,000 is presently outstanding. A portion of the net proceeds of the Bonds along with other available moneys will be used to redeem the 2007 Bonds in full on March 1, 2017, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to such date.

The 2007 Bonds to be refunded are shown in the following table:

Maturity Date	Amount Refunded	Interest Rate	Call Date	Call Price	CUSIP [†] Number
2/1/18	\$ 445,000	4.000%	3/1/17	100.000	75788R CW8
2/1/19	460,000	4.000	3/1/17	100.000	75788R CX6
2/1/20	480,000	4.125	3/1/17	100.000	75788R CY4
2/1/21	500,000	4.125	3/1/17	100.000	75788R CZ1
2/1/22	520,000	4.250	3/1/17	100.000	75788R DA5
2/1/23	545,000	4.250	3/1/17	100.000	75788R DB3
2/1/24	565,000	4.250	3/1/17	100.000	75788R DC1
2/1/25	590,000	4.250	3/1/17	100.000	75788R DD9
2/1/26	615,000	4.375	3/1/17	100.000	75788R DE7
2/1/27	645,000	4.375	3/1/17	100.000	75788R DF4
2/1/28	670,000	4.375	3/1/17	100.000	75788R DG2
2/1/29	700,000	4.375	3/1/17	100.000	75788R DH0
2/1/30	730,000	4.375	3/1/17	100.000	75788R DJ6
2/1/32	1,560,000	4.375	3/1/17	100.000	75788R DK3
2/1/35	2,610,000	4.500	3/1/17	100.000	75788R DL1

ESTIMATED SOURCES AND USES OF PROCEEDS

SOURCES

Par Amount of Bonds	\$ 6,300,000.00
Plus: Net Original Issue Premium	477,557.00
Plus: Released Moneys Related to the 2007, 2013 and 2015 Bonds	5,107,486.17
Total Sources	<u>\$11,885,043.17</u>

USES

Redemption of the 2007 Bonds	\$11,676,972.92
Deposit to Delivery Costs Fund (1)	208,070.25
Total Uses	<u>\$11,885,043.17</u>

(1) Includes the underwriter's discount, legal and financing costs, printing costs, rating agency fees, initial fees of the Trustee and other costs related to the issuance of the Bonds.

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DEBT SERVICE REQUIREMENTS

The following table sets forth the annual installment payment requirements under the 2017 Installment Purchase Contract, the 2015 Installment Purchase Contract and the 2013 Installment Purchase Contract, which provide revenues to support the Authority's debt service requirements on the Bonds, the 2015 Bonds and the 2013 Bonds, respectively (assuming no optional redemption or mandatory redemption from proceeds of insurance, sale or condemnation). The obligation of the City to make 2017 Installment Payments under the 2017 Installment Purchase Contract is secured by a pledge of Net Revenues on a parity with its pledge of Net Revenues as security for its obligation to make payments under the 2015 Installment Purchase Contract and the 2013 Installment Purchase Contract.

February 1	2013 Bonds	2015 Bonds	2017 Bonds			Total
	Total	Total	Principal	Interest	Total	
2018	\$ 2,061,112.50	\$ 1,419,493.75	\$ 265,000	\$ 228,588.03	\$ 493,588.03	\$ 3,974,194.28
2019	2,059,850.00	1,416,843.75	245,000	244,068.76	489,068.76	3,965,762.51
2020	2,060,650.00	1,420,843.75	255,000	236,718.76	491,718.76	3,973,212.51
2021	2,059,850.00	1,418,443.75	265,000	226,518.76	491,518.76	3,969,812.51
2022	2,062,450.00	1,419,843.75	275,000	215,918.76	490,918.76	3,973,212.51
2023	2,058,250.00	1,419,843.75	290,000	204,918.76	494,918.76	3,973,012.51
2024	2,061,000.00	1,418,443.75	300,000	190,418.76	490,418.76	3,969,862.51
2025	2,060,750.00	1,420,643.75	320,000	175,418.76	495,418.76	3,976,812.51
2026	2,062,500.00	1,421,243.75	335,000	159,418.76	494,418.76	3,978,162.51
2027	2,061,000.00	1,420,243.75	355,000	142,668.76	497,668.76	3,978,912.51
2028	2,061,250.00	1,418,293.75	370,000	124,918.76	494,918.76	3,974,462.51
2029	2,063,000.00	1,420,443.75	385,000	106,418.76	491,418.76	3,974,862.51
2030	2,061,000.00	1,421,543.75	405,000	87,168.76	492,168.76	3,974,712.51
2031	2,060,250.00	1,420,137.50	420,000	75,018.76	495,018.76	3,975,406.26
2032	2,060,500.00	1,421,137.50	430,000	61,893.76	491,893.76	3,973,531.26
2033	2,061,500.00	1,420,837.50	445,000	47,918.76	492,918.76	3,975,256.26
2034	2,058,000.00	1,421,037.50	460,000	32,900.00	492,900.00	3,971,937.50
2035	—	1,419,662.50	480,000	16,800.00	496,800.00	1,916,462.50
TOTALS	\$35,032,912.50	\$25,558,981.25	\$6,300,000	\$2,577,694.43	\$8,877,694.43	\$69,469,588.18

THE BONDS

General Provisions

The Bonds will be dated their date of delivery, will bear interest from such date at the rates per annum set forth on the inside cover page hereof, payable semiannually on each February 1 and August 1, commencing August 1, 2017, and will mature on February 1 in each of the designated years in the principal amounts set forth on the inside cover page hereof. Interest on the Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof, unless (a) a Bond is authenticated after the fifteenth (15th) calendar day of the month preceding such Interest Payment Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (b) unless a Bond is authenticated on or before July 15, 2017, in which event it will bear interest from its date of delivery; *provided, however*, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Book-Entry Only System

The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds so purchased. Individual purchases will be made

in book-entry-only form. Purchasers will not receive a certificate representing their beneficial ownership interest in the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders, holders or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the “Beneficial Owners” of the Bonds. In this Official Statement, the term “Beneficial Owner” shall mean the person for whom a Participant (as defined herein) acquires an interest in the Bonds. See APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

In the event the use of the book-entry-only system is discontinued, principal of the Bonds will be payable upon surrender thereof at the principal corporate trust office of the Trustee in St. Paul, Minnesota. Interest payable on the Bonds will be paid by check mailed on the Interest Payment Date to the person in whose name each Bond is registered in the registration books maintained by the Trustee as of the applicable Record Date for such Interest Payment Date; provided that registered owners of \$1,000,000 or more in aggregate principal amount of Bonds may request payment by wire transfer, such request to be submitted in writing to the Trustee on or before the applicable Record Date for such Interest Payment Date in accordance with the provisions set forth in the Indenture.

Transfer and Exchange

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. Transfer of any Bond shall not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption. Whenever any Bonds or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee may require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds. Any Bond may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity. Exchange of any Bond shall not be permitted during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption. The Trustee shall require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

Terms of Redemption

Optional Redemption. The Bonds maturing on or before February 1, 2027, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after February 1, 2028, are subject to optional redemption on any date on or after February 1, 2027, in whole or in part, from prepayments of the 2017 Installment Payments made at the option of the City pursuant to the 2017 Installment Purchase Contract, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest to the redemption date, without premium.

Extraordinary Casualty Redemption. 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 Enterprise, which Net Proceeds are deposited in the Payment Fund (as established under the Indenture) and credited towards the prepayment of the 2017 Installment Payments made by the City pursuant to the 2017 Installment Purchase Contract, 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.

Purchase of Bonds 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 in the manner hereinafter provided. 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 for Redemption. In the event that part, but not all, of the Bonds are to be redeemed (except for mandatory sinking fund redemption, if any), the Bonds to be redeemed will be selected by the Trustee among maturities as designated in writing by the Authority and by lot within a maturity; provided, however, that the Bonds may be redeemed by any maturity or maturities selected by the City to correspond with 2017 Installment Payments prepaid by the City, and by lot within a maturity.

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.

Notice of Redemption. The Trustee is required to give notice of the redemption of the Bonds, at the expense of the Authority, (i) at least 30 but not more than 45 days prior to the redemption date or (ii) immediately upon receipt of Net Proceeds from insurance or condemnation awards which are to be used to redeem Bonds. Notice must be given to the respective Owners of Bonds designated for redemption by first class mail, postage redeemed, at their addresses appearing on the Bond Register maintained by the Trustee.

Such notice must specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of any paying agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) if less than all the Bonds of a maturity are to be redeemed, the certificate numbers of the Bonds to be redeemed and, in the case of any Bond to be redeemed in part only, the amount of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such notice shall further state that on the specified date there will become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with interest accrued to the redemption date, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Such notice in respect of optional or extraordinary casualty redemption shall not be provided unless there has been deposited with the Trustee funds sufficient to pay such redemption price (except in the case of redemption resulting from the issuance of refunding obligations).

Neither failure to receive any redemption notice nor any defect in any redemption notice will affect the sufficiency of any redemption proceedings.

Rescission of Redemption Notice. The Authority may rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional

redemption will be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The Trustee will mail notice of rescission of redemption in the same manner notice of redemption was originally sent.

Effect of Redemption. Once notice of redemption is duly given as provided in the Indenture, and the moneys for the redemption, including interest to the applicable redemption date of the Bonds to be redeemed, has been set aside in the Redemption Account or Payment Account, the portion of Bonds to be redeemed shall become due and payable on said redemption date, and, upon presentation and surrender thereof at the office or offices specified in said notice, said Bonds shall be paid at the unpaid principal amount and premium, if any, with respect thereto, plus any unpaid and accrued interest to the redemption date.

SECURITY FOR THE BONDS

This section provides summaries of the provisions of the Indenture and the 2017 Installment Purchase Contract. See APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS for a more complete summary of the Indenture and the 2017 Installment Purchase Contract.

Revenues; Pledge of Revenues

Pledge of Revenues and Other Amounts. The Bonds are special limited obligations of the Authority, payable solely from and secured by Revenues (as defined below) of the Authority consisting primarily of 2017 Installment Payments received by the Authority from the City (which 2017 Installment Payments are payable by the City on a parity with the 2015 Installment Payments and the 2013 Installment Payments). The Bonds are also secured by amounts on deposit in the funds and accounts established under the Indenture, other than the interest earnings resulting from the investment of the Rebate Fund.

Definition of Revenues. “Revenues” are defined in the Indenture as (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Installment Purchase Contract, including, without limiting the generality of the foregoing, all of the 2017 Installment Payments (including both timely and delinquent payments and any late charges), prepayments of 2017 Installment Payments, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund, (b) amounts deposited in the Payment Fund, and (c) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to this Indenture (except the Rebate Fund).

Assignment to Trustee. The Authority, in 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 2017 Installment Purchase Contract (except for certain rights to indemnification set forth therein).

The Trustee is entitled to all of the protections, limitations from liability and indemnities provided it under the Indenture. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the provisions of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the 2017 Installment Purchase Contract.

2017 Installment Payments; Application of Systems Revenues

2017 Installment Payments. Under the 2017 Installment Purchase Contract, the City will irrevocably pledge all of the Net Revenues to the punctual payment of the 2017 Installment Payments, and the interest thereon. This pledge constitutes a first lien on the Net Revenues, on a parity with the pledge of and lien on Net Revenues which secures any Parity Obligations, including the 2015 Installment Payments and the 2013 Installment Payments. The City is obligated to make 2017 Installment Payments to the Trustee, on behalf of and as assignee of the Authority.

“Net Revenues” means, for any period, all of the Gross Revenues during such period less all of the Maintenance and Operation Costs during such period.

“Gross Revenues” means all gross income and revenue received or receivable by the City from the ownership and operation of the Enterprise, calculated in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including connection fees) received by the City for Water Service and all other income and revenue howsoever derived by the City from the Enterprise or arising from the Enterprise; provided, however, that (i) any specific charges levied for the express purpose of reimbursing others for all or a portion of the cost of the acquisition or construction of specific facilities, or (ii) customers' deposits or any other deposits subject to refund until such deposits have become the property of the City, are not Gross Revenues and are not subject to the lien of the 2017 Installment Purchase Contract. Gross Revenues shall also include interest with respect to any Parity Obligations reimbursed to or on behalf of the District by the United States of America.

“Gross Revenues” for a Fiscal Year includes moneys received or collected by the City in that Fiscal Year that would otherwise meet the definition of Gross Revenues that the City transfers from the Revenue Fund to the Rate Stabilization Fund and, except as provided in the following sentence, it includes amounts that are transferred in that Fiscal Year from the Rate Stabilization Fund to the Revenue Fund. “Gross Revenues” for a Fiscal Year does not include moneys received or collected by the City in that Fiscal Year that would otherwise meet the definition of Gross Revenues for that Fiscal Year that are transferred from the Revenue Fund to the Rate Stabilization Fund and transferred back from the Rate Stabilization Fund to the Revenue Fund in that same Fiscal Year. For the avoidance of doubt, moneys that the City received or collected in a Fiscal Year (“Year 1”) may be included in Gross Revenues for a subsequent Fiscal Year (“Year 2”) when they are transferred from the Rate Stabilization Fund to the Revenue Fund even if they were transferred from the Revenue Fund to the Rate Stabilization Fund in Year 2 as long as they were not otherwise included in Gross Revenues for Year 2.

“Maintenance and Operation Costs” means the reasonable and necessary costs and expenses paid by the City (excluding Installment Payments or other payments in the nature of debt service on obligations secured by Net Revenues) for maintaining and operating the Enterprise, as determined in accordance with Generally Accepted Accounting Principles, including but not limited to (a) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, (b) the cost of wholesale water purchases from the San Francisco Public Utilities Commission and any surcharges related thereto, and (c) administrative costs of the City attributable to the Enterprise and the financing thereof; Maintenance and Operation Costs exclude (x) depreciation, replacement and obsolescence charges or reserves therefor, (y) in any Fiscal Year prior to setting aside an amount equal to the Installment Payments for such Fiscal Year, capital expenditures other than as set forth in subsection (a) above, and (z) amortization of intangibles or other bookkeeping entries or a similar nature.

Application of Revenues. The City is required to deposit all of the Gross Revenues of the Enterprise immediately upon receipt in the Revenue Fund, which has been established and is held and maintained by the City with respect to the Enterprise.

Amounts on deposit in the Revenue Fund will be applied by the City to pay when due the following amounts in the following order of priority:

- (i) all Maintenance and Operation Costs of the Enterprise;
- (ii) the 2017 Installment Payments, and payment of all other Parity Obligations, including the 2015 Installment Payments and the 2013 Installment Payments; and
- (iii) the amount of any deficiency in any reserve fund established for Parity Obligations.

All Net Revenues remaining after paying all of the sums listed above, or in connection with any Parity Obligation, may be withdrawn by the Finance Officer for expenditure for any lawful purpose of the City. From time to time the City may deposit in the Rate Stabilization Fund from remaining Net Revenues or other available funds of the City such amounts as the City shall determine.

Rate Stabilization Fund. The City may withdraw amounts from the Rate Stabilization Fund (i) for transfer to the Revenue Fund for inclusion in Gross Revenues for any Fiscal Year, or (ii) for any other lawful use of the City. All interest or other earnings upon deposits in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Gross Revenues.

Deposits to Payment Fund. On the third Business Day next preceding each Interest Payment Date (each an "Installment Payment Date"), the City shall deposit with the Trustee, for deposit in the Payment Fund, from amounts legally available therefor on deposit in the Revenue Fund, a sum equal to the amount of interest and principal becoming due under the 2017 Installment Purchase Contract on the next Interest Payment Date.

The City is entitled to receive as a credit against 2017 Installment Payments an amount equal to the amount of any balance contained in the Payment Fund prior to the Installment Payment Date for such 2017 Installment Payments (excluding money designated for the prepayment of Bonds).

All money in the Payment Fund will be used and withdrawn by the Trustee in accordance with the Indenture.

Covenant to Maintain and Budget

The City covenants in the 2017 Installment Purchase Contract that during the Term of the 2017 Installment Purchase Contract, the City will maintain and preserve the Enterprise in good repair and working order at all times and will operate the Enterprise in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Enterprise as they become due and payable. On or before the first day of each Fiscal Year, the City will file with the Trustee a budget setting forth the estimated Maintenance and Operation Costs of the Enterprise for such Fiscal Year.

No Reserve Fund

A reserve fund will not be funded for the Bonds.

Special Obligation; Obligations Absolute

Special, Limited Obligation. **The City's obligation to pay the 2017 Installment Payments (on a parity with the 2015 Installment Payments, the 2013 Installment Payments and any other Parity Obligations) is a special obligation of the City limited solely to the Net Revenues.** Under no circumstances is the City required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the 2017 Installment Purchase Contract for the payment of the 2017 Installment Payments. No other funds or property of the City are liable for the payment of the 2017 Installment Payments and any other amounts coming due and payable under the 2017 Installment Purchase Contract.

Absolute and Unconditional Obligations. The obligation of the City to make the 2017 Installment Payments and to pay the interest thereon is absolute and unconditional, and until such time as all 2017 Installment Payments and the interest thereon shall have been fully paid and the Bonds are no longer Outstanding, the City will not, under any circumstances, discontinue, abate or suspend any 2017 Installment Payments or any interest thereon required to be made by it under the 2017 Installment Purchase Contract when due, whether or not the Enterprise or any part thereof is operating or operable or has been completed, or whether or not the Enterprise is condemned, damaged, destroyed or seized or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset, counterclaim, defense, recoupment, abatement, suspension, deferment or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or covenant contained herein for any cause whatsoever.

Rate Covenants; Collection of Rates and Charges

Sum Sufficient. The City will fix, prescribe and collect rates, fees and charges in connection with the Enterprise so as to yield Gross Revenues sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts in the following order of priority:

- (a) All Maintenance and Operation Costs of the Enterprise;
- (b) The 2017 Installment Payments and interest thereon and all payments (including payments of interest and under reimbursement agreements) with respect to related Parity Obligations (including the 2015 Installment Payments and the 2013 Installment Payments) as they become due and payable;
- (c) Amounts necessary to bring the amount of funds in reserve funds established for Parity Obligations, if any, up to the respective reserve requirement within one year of a draw thereon; and
- (d) All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from the Gross Revenues during such Fiscal Year.

120% Debt Service Coverage. The City is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield estimated Net Revenues which are at least equal to one hundred twenty percent (120%) of the aggregate amount of the 2017 Installment Payments, and principal of and interest on any Parity Obligations (including the 2015 Installment Payments and the 2013 Installment Payments) issued or incurred payable from Net Revenues coming due

and payable during such Fiscal Year. The City may make adjustments, from time to time, in its rates, fees and charges as it deems necessary, but shall not reduce its rates, fees and charges below those in effect unless the Net Revenues resulting from such reduced rates, fees and charges shall at all times be sufficient to meet the requirements described in this paragraph.

If the City violates the rate covenant described in the two preceding paragraphs, such violation shall not, in and of itself, be a default under the 2017 Installment Purchase Contract and shall not give rise to a declaration of an Event of Default if the coverage calculated in accordance with the 2017 Installment Purchase Contract does not decrease below 1.00 times annual Debt Service on the Bonds and Parity Obligations, and Maintenance and Operation Costs of the Enterprise and, within 120 days after the date such violation is discovered, the City hires an Independent Municipal Finance Consultant to review the revenues and expenses of the Enterprise and abides by such consultant's recommendations to revise the schedule of rates, fees and charges and to revise any Maintenance and Operation Costs of the Enterprise insofar as practicable and to take such other actions as are necessary so as to produce Net Revenues to cure such violation for future compliance; provided, however, that if the City does not cure such violation within twelve (12) months succeeding the date such violation is discovered, an Event of Default shall be deemed to have occurred under the 2017 Installment Purchase Contract.

Additional Debt

Additional Bonds. In addition to the Bonds, the Authority may, by Supplemental Indenture, issue one or more series 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 following specific conditions, among others:

(a) **Supplemental Indenture.** The Authority and the Trustee shall have executed a Supplemental Indenture which sets forth the terms and provisions of such Additional Bonds, including the establishment of such funds and accounts, which may be separate and apart from the funds and accounts established under the Indenture for the Bonds, as shall be necessary or appropriate.

(b) **Payment Dates.** 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) **Amendment of Installment Purchase Contract.** The 2017 Installment Purchase Contract shall have been amended, if necessary, to (i) increase or adjust the 2017 Installment Payments due and payable on each Installment 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, and (ii) make such other revisions to the 2017 Installment Purchase Contract as are necessitated by the issuance 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 this Indenture).

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

(e) **No Default of City.** The Trustee shall have received a certificate of the City that no Event of Default under the Indenture relating to the City, which includes an Event of Default under the 2017 Installment Purchase Contract, exists (or any event which, once all notice or grace periods have passed, would constitute an Event of Default).

(f) **Opinion Regarding Supplemental Indenture.** The Trustee shall have received an opinion of Bond Counsel substantially to the effect that (i) the Supplemental Indenture and the amendments to the 2017 Installment Purchase Contract comply in all respects with the requirements of the Indenture, (ii) the Supplemental Indenture and said amendments to the 2017 Installment Purchase Contract 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 2017 Installment Purchase Contract), (iii) assuming that no Event of Default has occurred and is continuing, the Indenture, as amended by the Supplemental Indenture, and the 2017 Installment Purchase Contract, 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 the Supplemental Indenture and the amendments to the 2017 Installment Purchase Contract, 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.

No Senior Obligations Payable from Net Revenues. So long as any Bonds are Outstanding, the City may not issue or incur any obligations payable from Net Revenues or the Revenue Fund senior or superior to the 2017 Installment Payments and interest thereon.

Parity Obligations. In addition to the 2015 Installment Purchase Contract and the 2013 Installment Purchase Contract, the City may also issue or incur Parity Obligations payable from Net Revenues on a parity with the 2017 Installment Payments to provide financing for the Enterprise, subject to the following specific conditions:

(a) **No Default.** No Event of Default may occur and be continuing under the 2017 Installment Purchase Contract.

(b) **Debt Service Coverage.** The Net Revenues, calculated in accordance with Generally Accepted Accounting Principles, either (i) as shown by the books of the City for the latest Fiscal Year, as verified by a certificate of a Finance Officer, or (ii) as shown by the books of the City for any more recent twelve (12) month period selected by the City and verified by a certificate or opinion of an Independent Certified Public Accountant employed by the City, plus, in either case, (at the option of the City) the Additional Revenues, shall be at least equal to one hundred twenty percent (120%) of the amount of Maximum Annual Debt Service.

The term "Additional Revenues" means, with respect to the issuance of any Parity Obligations, an allowance for Net Revenues (i) arising from any increase in the charges made for service from the Enterprise adopted prior to the incurring of such Parity Obligations and effective within eighteen (18) months following the date of incurring such Parity Obligations, in

an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, and (ii) arising from any increase in service connections to the Enterprise prior to the incurring of such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such connections had been in existence during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, all as shown by the certificate or opinion of an Independent Municipal Finance Consultant.

In order to maintain the parity relationship of the Installment Payments to all Parity Obligations permitted under the 2017 Installment Purchase Contract, the City covenants that all payments in the nature of principal and interest with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur semi-annually on the Installment Payment Dates and in each year as such payments are due with respect to the 2017 Installment Payments, except with respect to Governmental Loans, will be structured to occur monthly, and to otherwise structure the terms of such Parity Obligations to ensure that they are in all respects payable on a parity with the 2017 Installment Payments and not prior thereto; provided that the City shall not make a payment on such Governmental Loan to the extent it would have the effect of causing the City to fail to pay 2017 Installment Payments on a timely basis. In such event, the City shall make 2017 Installment Payments and payments on such Governmental Loan on a pro rata basis.

The term "Governmental Loan" means a loan from the State or the United States of America, acting through any of its agencies, to finance improvements to the Enterprise, and the obligation of the City to make payments to the State or the United States of America under the loan agreement memorializing said loan is on a parity basis with the payment of 2017 Installment Payments.

The provisions relating to Debt Service Coverage described above shall not apply to any Parity Obligations if (i) all of the proceeds of which (other than proceeds applied to pay costs of issuing such Parity Obligations) shall be deposited in an irrevocable escrow held in cash or invested in Federal Securities for the purpose of paying the principal of and interest and premium (if any) on any Outstanding Bonds or on any outstanding Parity Obligations, (ii) at the time of the incurring of such Parity Obligations, the City certifies in writing that maximum annual debt service on the refunding Parity Obligations will not exceed Maximum Annual Debt Service on the Outstanding Bonds, and (iii) the final maturity of the refunding Parity Obligations is not later than the final maturity of the refunded Bonds.

Insurance; Net Proceeds; Condemnation Awards

Insurance. Under the 2017 Installment Purchase Contract the City is required to procure and maintain insurance on the Enterprise with commercial insurers or through participation in a joint powers insurance authority, in such amounts, with such deductibles and against such risks (including accident to or destruction of the Enterprise) as are usually insurable in connection with similar enterprises.

In the event of any damage to or destruction of the Enterprise caused by the perils covered by such insurance, the proceeds of such insurance shall be applied to the repair, reconstruction or replacement of the damaged or destroyed portion of the Enterprise. The City shall cause such repair, reconstruction or replacement to begin promptly after such damage or destruction shall occur and to continue and to be properly completed as expeditiously as possible, and shall pay out of the proceeds of such insurance all costs and expenses in connection with such repair, reconstruction or replacement so that the same shall be completed and the Enterprise shall be free and clear of all liens and claims. If the proceeds received by

reason of any such loss shall exceed the costs of such repair, reconstruction or replacement, the excess shall be applied to the prepayment of 2017 Installment Payments and payments on any Parity Obligations.

Alternatively, if the proceeds of such insurance are sufficient to enable the City to retire all outstanding Parity Obligations and the 2017 Installment Payments and all other amounts due under the 2017 Installment Purchase Contract and under the Indenture, the City may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Enterprise, and thereupon such proceeds shall be applied to the prepayment of the 2017 Installment Payments as provided in the 2017 Installment Purchase Contract and to the payment of all other amounts due under the 2017 Installment Purchase Contract and under the Indenture, and as otherwise required by the documents pursuant to which such Parity Obligations were issued.

The City also agrees in the 2017 Installment Purchase Contract to procure and maintain commercial general liability insurance covering claims against the City for bodily injury or death, or damage to property and worker's compensation insurance to cover all persons employed in connection with the Enterprise.

Any policy of insurance required under the 2017 Installment Purchase Contract may be maintained by the City in the form of self-insurance, subject to the conditions set forth in the 2017 Installment Purchase Contract.

Condemnation Awards. If all or any part of the Enterprise shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If (1) the City prepares a report showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the City by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Enterprise proposed to be acquired by the City from any Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) on the basis of such certificate, the City determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the City to meet its obligations under the 2017 Installment Purchase Contract will not be substantially impaired (which determination shall be final and conclusive); then the City shall promptly proceed with the acquisition of such additions, betterments, extensions or improvements substantially in accordance with such report and such Net Proceeds shall be applied for the payment of the costs of such acquisition, and any balance of such Net Proceeds not required by the City for such purpose will be applied to prepay the 2017 Installment Payments and any Parity Obligations, on a pro rata basis in the manner provided in the 2017 Installment Purchase Contract and in the instruments authorizing such Parity Obligations.

(b) If the conditions described above are not met, then such Net Proceeds shall be applied to the prepayment of 2017 Installment Payments.

THE AUTHORITY

The Authority was established pursuant to a Joint Exercise of Powers Agreement, dated June 18, 1991 (the "JPA Agreement"), between the City and the former Redevelopment Agency of the City of Redwood City (the "Agency"). The Agency has been succeeded by the Successor Agency to the Redwood City Redevelopment Agency (the "Successor Agency"). The JPA

Agreement was entered into pursuant to the provisions of Articles 1 through 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code. The members of the governing board of the Authority consist of the members of the City Council of the City. The Authority was formed 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.

Although the Agency has been dissolved pursuant to State law and the Successor Agency has succeeded to the Agency as a party to the JPA Agreement, the Authority expects to remain in existence through the final maturity of the Bonds and each of the Authority and the City has covenanted to take all actions that are reasonably necessary to continue the Authority's existence until the Bonds have been paid in full.

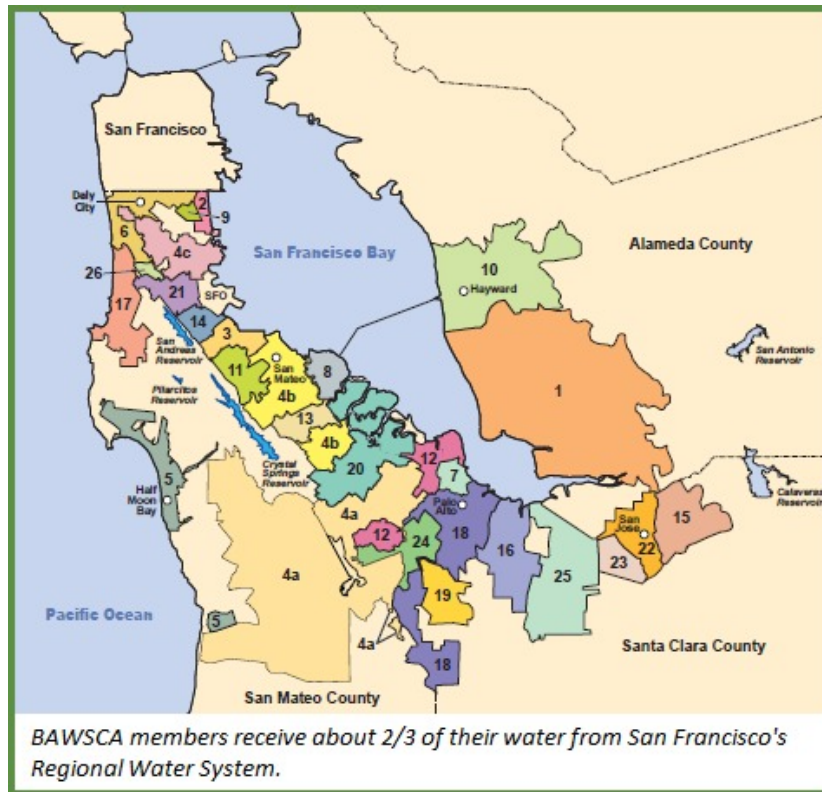
THE ENTERPRISE

General Background

The City is located in the southern portion of the County and, through the Enterprise, supplies water to the City, unincorporated areas of the County and portions of the City of San Carlos and the Town of Woodside. Operation and maintenance of the Enterprise is financed through the City's Water Enterprise Fund. The City is one of the Wholesale Customers that are members of BAWSCA which purchase water from the SFPUC which owns and operates a municipal water supply, storage and distribution system. The SFPUC water enterprise consists of over 389 miles of pipeline, over 74 miles of tunnels, 11 reservoirs, five pump stations, and three water treatment plants located outside of the City and County of San Francisco (the "Regional Water System") and over 1,235 miles of pipeline, 11 reservoirs, eight storage tanks, 24 pump stations, eight hydropneumatic stations and 17 chlorination stations located inside the City and County of San Francisco. In 2009, the SFPUC and the Wholesale Customers entered the WSA that replaced a prior agreement entered into in 1984. The WSA has a 25-year term (with provisions for two conditional five-year extensions). The City currently receives all of its potable water from the Regional Water System. See "THE ENTERPRISE" and APPENDIX A—GENERAL INFORMATION ABOUT THE CITY OF REDWOOD CITY AND SAN MATEO COUNTY.

BAWSCA members are located in Alameda, Santa Clara, and San Mateo Counties.

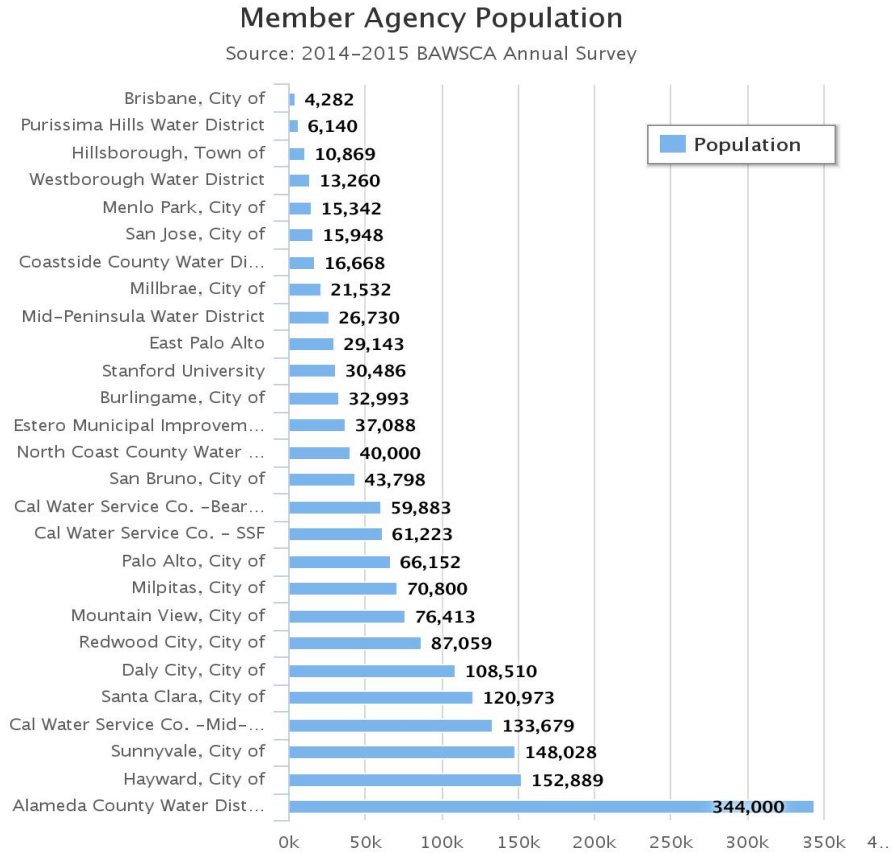
BAWSCA MEMBER AGENCIES MAP



Source: BAWSCA

Note: The District is the highlighted area #20 in the above BAWSCA map.

Collectively, the BAWSCA member agencies deliver water to over 1.74 million residents and nearly 40,000 commercial, industrial, and institutional accounts in the Bay Area.



Source: BAWSCA

Management

The maintenance and operation of the Enterprise is the responsibility of the City’s Public Works Services Department (“Public Works”). The Public Works Director has responsibility for the Department and one of the four superintendents reporting to him has the responsibility of maintaining and operating the Enterprise. The Water Utilities Section is staffed by a Public Works Utility Superintendent along with two field supervisors, who manage the operations and maintenance of the water system including transmission, storage, distribution, meter reading, regulatory compliance sampling and analyses, cross-connection control, long-range planning and asset management/mapping. The Section has 31.54 full time equivalent (FTE) employees involved in the Enterprise. The Engineering and Construction Division of the Community Development Department is responsible for the design and construction of water system projects, primarily system replacement, and regulatory compliance improvements. The Revenue Services Division of the Administrative Services Department is responsible for all City utility billing and collections, as well as processing connection and facilities fees.

Service Area

The Enterprise serves most of the corporate area of the City and portions outside the corporate limits, including Cañada College, portions of the City of San Carlos and the Town of

Woodside, and the unincorporated Emerald Hills area of the County. The Enterprise's service area presently covers approximately 14 square miles. Service is provided to areas between Highways 280 and 101, and between Whipple Avenue and Marsh Road in the area east of Highway 101, and in the Redwood Shores development.

As of June 30, 2016, the Enterprise served domestic water to approximately 87,023 people through 23,717 active service connections. Residential connections account for 89 percent of the total service connections. Commercial connections account for 8 percent. The remaining three percent are mostly fire connections, and some municipal and institutional connections. The Enterprise's service area is substantially built out, with a relatively stable customer base. See "Customer Base" below.

Water Supply and Demand

Background. The water supply delivered to the 26 Wholesale Customers (including the City) by the SFPUC originates from two primary sources (i) the Tuolumne River through the Hetch Hetchy Reservoir and (ii) local runoff into Bay Area reservoirs in the Alameda and Peninsula watersheds. Water originating in the Hetch Hetchy watershed represents the majority of the water supply available to the Regional Water System. On average, the Hetch Hetchy Reservoir provides approximately 85% of the water delivered and runoff into Bay Area reservoirs provides approximately 15% of the water delivered through the Regional Water System. Water produced is dependent on precipitation and the ability of the SFPUC to regulate watershed runoff. Water collected in the Hetch Hetchy is delivered by gravity to Bay Area reservoirs and users. The remaining water supply is drawn from local surface waters in the Alameda and Peninsula watersheds. The Regional Water System was constructed and is owned by San Francisco and is operated by the SFPUC. The Regional Water System delivers approximately 65% of its water to Wholesale Customers in Alameda County, Santa Clara County and San Mateo County. The Wholesale Customers pay for the Regional Water System in proportion to their purchases of water.

Water Supply Agreements. The City entered into two contractual arrangements with the City and County of San Francisco, on behalf of the SFPUC in 2009, both of which have 25 year terms beginning on July 1, 2009 (with provisions for two conditional five-year extensions): (i) the WSA, which the City co-signed with 25 other suburban water purchasers, and (ii) a "Water Sales Contract." Under the WSA, the SFPUC is responsible for maintaining the Regional Water System and delivering water that meets all applicable drinking water standards (including all treatment necessary to meet those standards). The WSA also requires the SFPUC to complete the Regional Water System Water System Improvement Program ("WSIP"). Under the WSA, the City's Individual Supply Guarantee ("ISG") is 10.93 million gallons per day ("MGD") on an annual average basis (or approximately 12,243 acre feet per year ("AFY")).

Water Supply Assurance. The WSA assures a maximum supply of 184 MGD collectively to group of the suburban purchasers, including the City. The City's perpetual water supply assurance is 10.93 MGD, or approximately 12,243 AFY, however, through December 31, 2018 Redwood City has an interim supply allocation of 10.88 MGD. In case of rationing due to drought, the City's usage may be limited pursuant to the Water Shortage Allocation Plan ("WSAP"), approved as part of the WSA in July 2009. Per the WSA, the individual supply guarantee may also be reduced due to emergencies or other circumstances including repair and maintenance on the regional water system. Additionally, the City of Hayward does not have an individual supply guarantee, but is one of the cities subject to the 184 MGD Supply Assurance. If collectively all suburban purchasers subject to the 184 MGD supply exceed 184 MGD of use for three consecutive years, SFPUC may reduce the individual supply guarantee of the cities other than Hayward on a pro rata basis so that the combined entitlement and sustained use does not exceed 184 MGD.

In Fiscal Year 2015-16, the Regional Water System delivered an average of 7.29 MGD to the City, or approximately 8,053 acre feet for the Fiscal Year. The six-year average (2010-11 to 2015-16) delivery was 8.71 MGD, or 9,693 AFY. The reduction from the six-year average was due to the drought.

SFPUC Water System Improvement Program. The WSIP is an approximately \$4.8 billion dollar, multi-year capital improvement program undertaken by the SFPUC to upgrade the Regional Water System and San Francisco's in-city water distribution system to meet water quality requirements, improve seismic and delivery reliability, and meet water supply goals. At the end of fiscal year 2015-16, construction of 37 regional projects were completed and an additional 8 regional projects valued at \$2.1 billion were in progress. The Regional Program includes 46 projects that benefit both retail customers and wholesale customers, and includes a wide variety of improvements such as upgrades to and the addition of new treatment, transmission (pipelines, tunnels, pump stations), and storage (dams and reservoirs) facilities spread over seven counties. The Wholesale Customers pay a proportionate share of the costs of these projects pursuant to the terms of the WSA.

The most significant WSIP project remaining is the Calaveras Dam Replacement Project ("CDRP"), which includes a main dam project and a sub-project to the CDRP, the Fish Passage Facilities at Alameda Creek Diversion Dam ("ACDD"). Although the overall WSIP has only increased 12% since 2005, the CDRP and the ACDD will be completed significantly later and at significantly higher costs than originally anticipated. Budget increases for the CDRP were primarily due to complex geologic site conditions encountered during construction that were different than conditions understood during the design phase, resulting in construction change orders, including significant additional excavation quantities for the dam abutments and foundation, disposal of excavation materials and other unusable spoil materials from areas, import of rockfill materials to replace unusable spoil materials, and acceleration of the project construction schedule. Budget increases for the ACDD were primarily due to necessary changes in the design of the fish ladder and appurtenances to accommodate existing site conditions and operational requirements. The current forecast date to complete the overall WSIP is December 2019.

SFPUC faces various challenges in the continued supply of imported water. A description of these challenges as well as a variety of other operating information with respect to SFPUC is included in certain disclosure documents prepared by SFPUC. SFPUC periodically prepares official statements and other disclosure documents in connection with its bonds and other obligations. SFPUC has also entered into certain continuing disclosure agreements pursuant to which SFPUC is contractually obligated for the benefit of owners of certain of its outstanding obligations to file certain annual reports, including audited financial statements and notice of certain events, pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). Such official statements, other disclosure documents, annual reports and notices (collectively, the "SFPUC Information") are filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") at <http://emma.msrb.org>. The SFPUC Information is not incorporated herein by reference thereto, and the City makes no representation as to the accuracy or completeness of such information. SFPUC HAS NOT ENTERED INTO ANY CONTRACTUAL COMMITMENT WITH THE CITY, THE TRUSTEE OR THE OWNERS OF THE BONDS TO PROVIDE SFPUC INFORMATION TO THE CITY OR THE OWNERS OF THE BONDS.

SFPUC HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS NOT MADE REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO SFPUC. SFPUC IS NOT

CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH INFORMATION FOR THE BENEFIT OF THE CITY OR THE OWNERS OF THE BONDS UNDER RULE 15c2-12.

Recycled Water. The Enterprise currently receives recycled water from Silicon Valley Clean Water (the "SVCW"), formerly the South Bayside System Authority. In Fiscal Year 2015-16, deliveries of recycled water from the SVCW totaled 746 acre feet, or approximately 6.0% of the Enterprise's total water supply. Phase 1 of the Recycled Water Project was completed in 2010. The City expects recycled water demand from SVCW of approximately 892 AFY by Fiscal Year 2019-20 which would constitute approximately 7.3% of the Enterprise's total water deliveries.

Tables 1 and 2 below shows water supplies and water demand for the Enterprise for the five most recent fiscal years. Table 1 shows the City's ISG of 12,243 AFY under the WSA and the City's water surplus or deficit based solely on the assured water supply.

Table 1
Historical Water Supply and Demand, Excluding Recycled Water
Annual Production (Acre-Feet)

Source of Water	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Individual Supply Guarantee (1)	12,243	12,243	12,243	12,243	12,243
Regional Water System Demand	10,148	10,897	10,118	8,698	8,054
Surplus/(deficit) (2)	2,095	1,346	2,215	3,545	4,189

Source: City of Redwood City Public Works Services Department; 2015 Urban Water Management Plan.

(1) See "—Water Supply Assurance" above.

(2) Individual Supply Guarantee less Demand.

Table 2
Historical Recycled Water Supply and Demand
Annual Production (Acre-Feet)

Source of Water	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Recycled Water Production Capacity	3,238	3,238	3,238	3,238	3,238
Recycled Water Demand	586	797	784	755	746
Surplus/(deficit) (1)	2,652	2,441	2,454	2,483	2,492

Source: City of Redwood City Public Works Services Department.

(1) Recycled Water Supply less Recycled Water Demand.

The 2015 Urban Water Management Plan for the Enterprise predicts that with conservation savings, estimated annual water demands associated with buildout of the City's 2010 General Plan will be approximately 12,059 AFY in 2020 and 13,697 AFY in 2040 for both potable and recycled water uses. Tables 3 and 4 below show both current and projected water supply and demand in five year increments from Fiscal Year 2017-18 through Fiscal Year 2039-40, the City's assured supply under the WSA. Table 3 shows the City's water surplus or deficit based solely on the assured water supply.

Table 3
Projected Water Supply and Demand, Excluding Recycled Water
Annual Production (Acre-Feet)

Source of Water	FY 2017-18	FY 2019-20	FY 2024-25	FY 2029-30	FY 2039-40
Individual Supply Guarantee (1)	12,243	12,243	12,243	12,243	12,243
Regional Water System Demand	10,228	11,167	11,478	11,605	12,086
Surplus/(deficit) (2)	2,015	1,076	765	638	157

Source: City of Redwood City Public Works Services Department; 2015 Urban Water Management Plan.

(1) See “—Water Supply Assurance” above.

(2) Individual Supply Guarantee less Demand.

Table 4
Projected Recycled Water Supply and Demand
Annual Production (Acre-Feet)

Source of Water	FY 2017-18	FY 2019-20	FY 2024-25	FY 2029-30	FY 2039-40
Recycled Water Production Capacity	3,238	3,238	3,238	3,238	3,238
Recycled Water Demand	797	892	1,072	1,252	1,611
Surplus/(deficit) (1)	2,441	2,346	2,166	1,986	1,627

Source: City of Redwood City Public Works Services Department; 2015 Urban Water Management Plan.

(1) Recycled Water Supply less Recycled Water Demand.

Historical Wholesale Water Cost

The table below sets forth the history of wholesale water cost increases under the WSA since Fiscal Year 2009-10 and projected wholesale water cost increases through Fiscal Year 2020-21. See Table 11 for historical water rate increases for the Enterprise.

Table 5
Historical and Projected Wholesale Water Cost Change

Fiscal Year	Wholesale Water Rate Changes	Cost Per CCF
2009-10	15.4%	\$1.65
2010-11	15.2	1.90
2011-12	38.4	2.63
2012-13	11.4	2.93
2013-14	(4.4)	2.80
2014-15	17.1	3.28
2015-16	26.2	4.14
2016-17	10.4	4.57
2017-18	3.5	4.73
2018-19	8.5	5.13
2019-20	12.7	5.78
2020-21	.2	5.79

Sources: Bay Area Water Supply and Conservation Agency and City of Redwood City Public Works Services Department.

(1) Includes the BAWSCA Surcharge.

The WSA contains rate setting procedures that allocate the cost of operating the Regional Water System among San Francisco and the suburban water purchasers based on their respective water deliveries. These procedures, together with the actual amount of water

deliveries to the City, determine the amount that the City pays under the WSA. The City anticipates that its cost of acquiring water from San Francisco will increase in the future as the SFPUC continues to implement the WISP. See “RISK FACTORS – Wholesale Water Costs.”

Pursuant to the WSA, the members of BAWSCA (the “Members”) are required to make payments to San Francisco for water delivered and, as a component of the price of water, the Members collectively are obligated to make annual payments to San Francisco through 2034 to provide capital cost recovery for certain assets of the Regional Water System for which San Francisco had not recovered fully its capital costs at the time of the execution and delivery of the WSA (the “Capital Cost Recovery Payments”).

The WSA provides that the Members, acting through BAWSCA, may prepay the remaining Capital Cost Recovery Payments, in whole or in part, and, in order to achieve cost savings. The Members authorized BAWSCA to make a prepayment of the Capital Cost Recovery Payments on their behalf (the “Prepayment”).

In 2013, BAWSCA issued its Bay Area Water Supply and Conservation Agency Revenue Bonds (Capital Cost Recovery Prepayment Program), Series 2013A (the “2013A BAWSCA Bonds”), in the aggregate principal amount of \$241,475,000, and its Bay Area Water Supply and Conservation Agency Revenue Bonds (Capital Cost Recovery Prepayment Program), Series 2013B (Taxable) (the “2013B BAWSCA Bonds” and, with the 2013A BAWSCA Bonds, the “BAWSCA Bonds”).

To provide for payment of the BAWSCA Bonds, BAWSCA imposes surcharges on water sold to the Members (the “BAWSCA Surcharge”). Each Member is charged a fixed amount based upon such member’s share of water delivered by the SFPUC in the Fiscal Year prior to the one in which such charge is calculated. Each Member’s payment obligation is expected to be adjusted in subsequent Fiscal Years to reflect such Member’s actual share of water deliveries in the current Fiscal Year. The BAWSCA Surcharge is billed and collected for BAWSCA by the SFPUC together with amounts billed by the SFPUC for water deliveries under the WSA.

Water Conservation Program

In order to address the Enterprise’s water supply concerns, the City has developed an extensive water conservation program. This conservation program includes several of the best management practices developed by the California Urban Water Conservation Council (www.cuwcc.org). The City projects that this conservation program will reduce water use by customers of the Enterprise by 1,459 AFY by 2020.

Drought Measures

State Orders. On January 17, 2014, the California Governor declared a drought state of emergency (the “Declaration”) with immediate effect. The Declaration included the following orders, among others: (a) local urban water suppliers, including the City, were encouraged to implement their local water shortage contingency plans; the City’s plan is discussed under the caption “—City Response to Drought;” (b) local urban water suppliers, including the City, were encouraged to update their urban water management plans to prepare for extended drought conditions; (c) DWR and the SWRCB were directed to expedite the processing of water transfers; (d) the SWRCB was directed to put water rights holders on notice that they may be required to cease or reduce water diversions in the future; (e) the SWRCB was directed to consider modifying requirements for reservoir releases or diversion limitations; and (f) DWR was directed to take necessary actions to protect water quality and supply in the Sacramento-San Joaquin River Delta/San Francisco Bay Estuary (the “Bay-Delta”), including the installation

of temporary barriers or temporary water supply connections, while minimizing impacts to aquatic species. In addition, on July 15, 2014, the SWRCB adopted emergency measures that required water suppliers to implement mandatory Statewide water conservation actions.

On March 17, 2015, the SWRCB adopted additional emergency regulations limiting outdoor irrigation to two days per week, extending certain measures set forth in the July 15, 2014 action for an additional 270 days, prohibiting outdoor potable water irrigation for 48 hours following rain and prohibiting restaurants from serving water to customers unless requested. The City complied with the new regulations through its Water Shortage Contingency Plan (the "Drought Plan"), as discussed under the caption "—City Response to Drought."

On April 1, 2015, the Governor issued an executive order extending the measures set forth in the Declaration and adopting the following additional orders, among others: (i) the SWRCB was directed to impose restrictions to reduce potable urban water usage, including usage by commercial, industrial and institutional properties and golf courses, by 25% from 2013 amounts through February 28, 2016; portions of a water supplier's service area with higher per capita use had to achieve proportionally greater reductions than areas with lower per capita use; (ii) DWR was directed to lead a statewide initiative to replace 50 million square feet of lawns with drought tolerant landscaping; (iii) the California Energy Commission was directed to implement a rebate program for replacement of inefficient appliances; (iv) urban water suppliers were required to provide monthly water usage, conservation and enforcement information; (v) service providers were required to monitor groundwater basin levels in accordance with California Water Code § 10933; (vi) permitting agencies were required to prioritize approval of water infrastructure and supply projects; and (vii) DWR was required to plan salinity barriers in the Bay-Delta.

On May 6, 2015, the SWRCB adopted regulations in response to the Governor's executive order that require the City to effect an 8% reduction from 2013 water usage. On November 13, 2015, the Governor issued Executive Order B-36-15, which called for an extension of urban water use restrictions until October 31, 2016, should drought conditions persist through January 2016.

On May 9, 2016, the Governor issued Executive Order B-37-16, which required the SWRCB to adjust its emergency regulation and extend it through the end of January 2017. On May 18, 2016 the SWRCB adopted a revised regulation that recognized improved and differing water supply conditions across the State. The revised regulation gives water agencies the ability to establish their own conservation standards based on a "stress test" of supply reliability. By June 22, 2016, water agencies were required to submit self-certifications to the SWRCB demonstrating that they have sufficient supplies to withstand three additional years of severe drought. Any identified percentage gap between supplies and demands would become the water agency's updated mandatory conservation target.

City Response to Drought. The City leveraged its long standing water conservation program during the drought to offer water saving rebates, public trainings courses, efficient fixture giveaways, and home water audits to its customers. Additional actions included adopting water use prohibitions as required by the SWRCB such as watering two days per week for residential customer, and also launched an aggressive public outreach campaign through a variety of communication channels and community events. Following the submission of the self-certification required by June 22, 2016, the City's water use reduction goal was reevaluated and set to 0% as compared to 2013, and the City removed the two day per week watering restriction and reduced public outreach to normal levels. During the drought, the City anticipated the Enterprise would have reduced revenue due to conservation while also experiencing reduced expenditures for wholesale water purchases from SFPUC. Through June

2016, expenditures for wholesale water purchases were 94% of budget and water service and sales revenues were 93% of budget.

Water Storage and Distribution System

General. The Enterprise’s distribution system consists of distribution mains, 12 storage facilities, 10 pump stations, and 26 pressure reducing valves ranging from 2 to 16 inches in diameter.

Water Storage Facilities. The Enterprise’s 12 storage facilities range in size from 0.09 million gallons to 4.00 million gallons with a total storage capacity of 21.24 million gallons. Typically, the storage tanks are filled to 50% of capacity, which would provide two days’ supply to the customers of the Enterprise in an emergency situation.

**Table 6
Existing Potable Water Storage Facilities**

Pressure Zone	Storage Facility	Capacity (million gallons)
Easter Cross	Easter Cross – 1 Tank	0.10
Easter Bowl	Easter Bowl – 1 Tank	1.20
Glenloch	Glenloch – 1 Tank	0.09
Wilmington South	Wilmington – 1 Tank	0.25
Cambridge	Cambridge – 2 Tanks	0.65
Lakeview	Lakeview – 1 Reservoir	1.00
Main City Zone	Sequoia – 2 Tanks	8.00
Main City Zone Reservoir	Carson – 1	3.75
Redwood Shores	Peninsula 1 – 1 Tank	3.20
Redwood Shores	Peninsula 2 – 1 Tank	3.00
Total Domestic		21.24

Source: City of Redwood City Public Works Services Department (“A Technical Report on the City Water Storage Capability” and Redwood City Pressure Zone Map).

In addition, the Enterprise has storage for 4.4 million gallons of recycled water at the SVCW site.

Distribution System. The Enterprise currently contains approximately 259.66 miles of pipeline.

Water Quality and Environmental Issues and Regulatory Requirements

Monitoring of the imported Hetch Hetchy supply is conducted by the SFPUC. The SFPUC treats the Hetch Hetchy supply by lime addition at Rock River for corrosion control and ultraviolet light at Tesla Portal and chloramination at Sunol Valley for disinfection, as well as, fluoridation at Sunol Valley. Water that is delivered to Bay Area reservoirs receives filtration and disinfection treatment at either the Sunol or the Harry Tracy filtration plants. Filtered water from these treatment plants may be co-mingled with unfiltered Hetch Hetchy water in Bay Area transmission pipelines. Water is continuously monitored and tested by the SFPUC to ensure that water delivered to customers meets or exceeds federal and state drinking water and public health requirements. The SFPUC and its wholesale customer agencies were granted filtration avoidance for the Hetch Hetchy supply under Federal and State law. Under revisions to the Surface Water Treatment regulations (California Code of Regulations), which became effective in July 1998, public water systems serving water from the Hetch Hetchy supply must demonstrate to the California Department of Public Health (CDPH) that the supply meets the

State criteria for filtration avoidance. The City confirms, in its certification to the CDPH, that the Hetch Hetchy water supply it distributes will be in compliance with the State criteria for filtration avoidance.

Monitoring of the water quality within the City distribution system is the responsibility of the City. The City routinely monitors its system for bacteriological quality, chlorine residual, general physical parameters and disinfection byproducts. The City also conducts lead and copper tap sampling, water quality parameter monitoring, and public education as required by the EPA's Lead and Copper Rule. The City's potable water quality consistently meets primary and secondary drinking water standards. The City also has a proactive program to flush the distribution pipelines to remove deposits, encrustations, sediments, and other materials. This flushing prevents water quality problems related to taste, odor, and turbidity, among others. The City maintains a database recording the schedule and length of time for each flushing. During times of water shortage, the City may suspend flushing activities to conserve water resources.

In January 2014, the City received a citation from the California Department of Public Health (the "CDPH") for exceeding a the total coliform maximum contaminant level. The City submitted a corrective action plan to the CDPH and has since returned to compliance. In March 2015, due to an operational error in the San Francisco Regional Water System, the SFPUC failed to adequately filter the drinking water supplied to the City resulting in a treatment technique citation from the State Water Resources Control Board. The City prepared and completed a corrective action plan and has since returned to compliance.

Capital Improvement Program

The City's projected capital improvement plan for the Enterprise for Fiscal Year 2016-17 through Fiscal Year 2020-21 is set forth below. The City intends to fund its capital improvement plan through fund equity and current revenues.

Since the late nineties, the City has spent approximately \$2,000,000 per year from fund equity and current revenue in order to replace aging facilities and equipment of the Enterprise. Starting from Fiscal Year 2012-13, the City developed plans to substantially increase its investment in the City's potable water capital improvement program. From 2010 to 2015, the City completed the following capital improvements: seismic retrofits of four potable water storage tanks and eight pump stations, rebuild of one pump station, and replacement of five miles of water mains. In the 2015-2020 capital improvement program cycle, the City aims to replace seven miles of water mains and plan two new pump stations and two new storage tanks.

The City Council appropriated \$4,000,000 for capital improvements in Fiscal Year 2016-17. Additionally, the City expensed or committed \$250,000 for its water conservation program in Fiscal Year 2016-17 and expects to continue this level of funding for water conservation measures in future fiscal years.

Table 8
Capital Improvement Program Summary

	Amount*
FY 2016-17	\$ 4,000,000
FY 2017-18	3,500,000
FY 2018-19	4,000,000
FY 2019-20	4,500,000
FY 2020-21	5,500,000
Total	\$21,500,000

Source: City of Redwood City – Finance Department.

* Amounts capitalized in the City's Comprehensive Annual Financial Reports may vary depending on whether expenses meet the City's capitalization policy.

Billing and Collection Procedures

The City issues a combined utility bill to each of its customers for water, sewer, and solid waste collection services (the City acts as the billing and collection agent for the private company, Recology San Mateo County, which performs solid waste collection services under a franchise agreement with the City) on a bi-monthly basis for residential customers and monthly basis for commercial customers. The utility bills are due and payable within 30 days of the bill date. If not paid within 30 days, the utility bill is delinquent, a 10 day reminder notice is mailed to the customer and assessed a 1.5% interest charge, and if still unpaid 40 days after the initial bill has been issued, a 7 day notice is mailed indicating that water will be shut off if the bill remains unpaid and another 5% interest charge is assessed. If the utility bill continues to be unpaid after the 5% interest charge, water service will be disconnected until payment is made. Prior to disconnecting water service, the City provides the affected customer with forty eight hour notice of possible disconnection. The reconnection fee ranges from \$20 to \$100 if paid during business hours and \$320 if paid after business hours.

Current Water Rates, Fees and Charges

Water rates are based on the City's costs for operating and maintaining the Enterprise, including the cost of water from the SFPUC under the WSA and the BAWSCA Surcharge, and on projected amounts required for the Enterprise capital improvement program.

Current Water Rate Structure. There are two components of the water utility bill for all customers, which work independently of each other:

- A fixed, monthly basic service charge.
- A variable usage rate.

The following tables set forth the fixed and variable components of the Enterprise current rate structure, as of August 1, 2016.

**Table 9
Current Water Rate Structure**

**RESIDENTIAL
(Billed Bi-Monthly)**

Residential Basic Service Charge	\$50.78 (\$25.39 monthly)
Quantity Charge ⁽¹⁾ (Unit = 100 cubic feet)	
0-8 Units (Lifeline)	\$5.27
9-20 Units	6.32
21-40 Units	8.77
41+ Units	11.57

Source: City of Redwood City Public Works Services Department.
(1) Per Billing Period.

**COMMERCIAL
(Billed Monthly)**

Meter Size (inch)	Charge
5/8	\$25.39
3/4	38.09
1	63.48
1 ½	126.95
2	203.12
3	380.85
4	634.75
6	1,269.50
8	1,269.50
10	1,269.50

Quantity Charge⁽¹⁾
(Unit = 100 cubic feet)

All Water Use	\$6.32
---------------	--------

Source: City of Redwood City Public Works Services Department.

Connection and Facilities Fees. The following table sets forth the current Enterprise schedule of connection and facilities fees for the Enterprise, which was approved in 1994.

The property owner is responsible for the cost of connection to the City's water main. Every application requesting such a connection to the City is required to be accompanied by a water connection fee. A facilities fee is established to provide for the use and construction of existing and future water system capital facilities in accordance with a capital improvement program approved by the City Council. Such fee is collected concurrently with the connection fees. The facilities fee is charged per dwelling unit equivalent (DUE).

**Table 10
Current Connection and Facilities Fees**

Meter Size (inch)	Meter Installation Fee	Service Line Installation Fee	Water Facilities Fee
5/8	\$150.00		\$1,787.00
3/4	\$175.00		\$2,680.50
1	\$200.00		\$4,467.50
1 1/2"	\$350.00	determined at time of application	\$8,935.00
2	\$450.00		\$14,296.00
3	determined at time of application		\$26,805.00
4	determined at time of application		\$44,675.00
6	determined at time of application		\$89,350.00

Source: City of Redwood City Public Works Services Department.

Water Capacity Charge. A water capacity charge was established in 2007) to provide for capital facilities that improve the City's ability to provide water within the service area. This one time charge is \$11.58 per gallon per day of projected net consumption of water on the property to be connected to the Enterprise.

Water Rate Increases

Historical Rates Increases. The City's most recent rate increase took effect in August, 2016. The City's practice since 1993 has been to adjust rates and service charges annually, at the beginning of the City's fiscal year, based on changes in the wholesale rates paid under the WSA and approved Enterprise budgets. Table 11 below sets forth historical water rate increases since Fiscal Year 2010-11.

**Table 11
Historic Water Rate Increases**

Fiscal Year	Rate Increase
2010-11	9.0%
2011-12	9.0
2012-13	12.0
2013-14	9.0
2014-15	9.0
2015-16	9.0
2016-17	4.8

Source: City of Redwood City Public Works Services Department.

Future Rate Increases. A 4.8% water rate increase for Fiscal Year 2016-17 was approved and adopted by the City Council on June 27, 2016. At the same meeting, City Council also approved a 7.8% increase for Fiscal Years 2017-18 and 2018-19. While additional increases have not been considered by the City Council, increases of 5.0% and 4.0% in Fiscal Years 2019-20 and 2020-21, respectively, have been assumed for planning purposes and have been used in the projection of revenues, expenses and debt service coverage shown in Table 18. Such increases, if approved, could be higher or lower. Rate increases are made, when necessary, to reflect wholesale water rate increases (see Table 5), the cost of City capital improvement projects for the potable water system, debt service obligations and operating costs to manage the Enterprise.

Comparative Monthly Water Bills

The table following shows comparative residential monthly water bills for neighboring communities for Fiscal Year 2016-17, based on customers with 5/8-inch or 3/4-inch meters consuming water at a rate of 8 units per month.

Table 12
Average Monthly Residential Bills
Fiscal Year 2016-17

Agency	Fixed Monthly Charge	Variable Consumption Charge	Calculated Monthly Bill
Daly City	\$16.06	\$28.05	\$44.11
North Coast CWD (Pacifica)	13.38	39.97	53.35
Foster City	18.90	37.76	56.66
Millbrae	15.00	43.60	58.60
Mountain View	14.00	46.03	60.03
Cal Water (South San Francisco)	14.71	54.02	68.73
Cal Water (San Mateo)	14.71	54.02	68.73
Cal Water (San Carlos)	14.71	54.02	68.73
Menlo Park	20.08	48.90	68.98
Redwood City	25.39	46.36	71.75
Palo Alto	16.77	60.44	77.21
East Palo Alto	24.49	52.88	77.37
San Bruno	21.13	63.29	84.42
Mid-Peninsula WD (Belmont)	24.00	60.56	84.56
Burlingame	41.80	42.91	84.71
Brisbane	30.34	56.16	86.50
Montara (MWSD)	26.36	65.07	91.43
Hillsborough	60.00	69.92	129.92

Source: City of Redwood City Public Works Services Department (Water and Sewer Financial Plans and Rate Studies, 2016).

* Includes miscellaneous surcharges where applicable.

Customer Base

Number of Accounts. The Enterprise has a relatively stable customer base with some growth expected in the number of residential and commercial accounts within the next few years. There are currently 7 large multi-family residential and 8 large commercial developments in review or under construction. If approved, the developments could add 1,000 new housing units, 38,559 square feet of retail space, and up to 343,895 square feet of office space. The Enterprise expects increased water supply demand and revenues as a result of the new developments. The Enterprise is in good shape to respond to increased water demands as the planned increases are accounted for in the City's 2015 Urban Water Management Plan.

The following table sets forth a five-year history of the number of accounts for the Enterprise.

**Table 13
Number of Accounts
(As of June 30)**

	2012	2013	2014	2015	2016
<u>Residential</u>					
Single-family	18,846	18,991	19,047	19,145	19,134
Multi-family	1,684	1,671	1,666	1,668	1,675
Sub-total	20,530	20,662	20,713	20,813	20,809
<u>Non-Residential</u>					
Commercial	1,538	1,538	1,527	1,499	1,477
Industrial/Other	113	113	114	125	126
Irrigation	411	409	413	421	423
Fire	657	669	681	697	708
Sub-total	2,719	2,729	2,735	2,742	2,734
Recycled	162	164	164	172	174
Total	23,411	23,555	23,612	23,727	23,717

Source: City of Redwood City Public Works Services Department.

Largest Water Customers. The following are the ten largest customers of the Enterprise for the Fiscal Year 2015-16. Some users have multiple water accounts under different names. The data in the following table was collected by aggregating multiple accounts believed to be of the same entity from a listing of the 5,000 largest user accounts. The data in the table may omit consumption data of certain small accounts owned by large water users, but the City believes that any such omissions would not constitute a material amount of consumption and that the information presented in the table is a fair representation of water use by the largest customers of the Enterprise.

**Table 14
Ten Largest Customers
Fiscal Year 2015-16**

	Customer	Primary Business Activity	Revenue	% of Total Revenues	% of Total Use
1	County of San Mateo	Government	\$592,302.14	1.82%	1.80%
2	Oracle USA Inc.	Commercial	560,568.75	1.73	1.57
3	Westport Office Park	Commercial	352,122.28	1.08	.16
4	Sequoia Hospital District	Health Care	322,124.80	.99	.93
5	Hudson Pacific Properties	Commercial	243,373.72	.75	.71
6	Redwood City School District	Institutional	223,481.57	.69	.48
7	Western Athletic Clubs Inc.	Commercial	211,613.63	.65	.65
8	Stanford University and Hospital	Institutional	203,675.51	.63	.45
9	Electronic Arts	Commercial	193,624.71	.60	.37
10	Kaiser Permanente	Health Care	182,721.14	.56	.34
	Total		3,085,608.25	9.50	7.45

Source: City of Redwood City Public Works Services Department.

Water Customers and Revenues. The following table sets forth a breakdown of revenues of the Enterprise by customer type for Fiscal Year 2015-16 (excluding revenues derived from connection fees, late payment penalties and shut-off fees).

**Table 15
Revenues by Customer Type
Fiscal Year 2015-16**

	Number of Accounts	Consumption (CCF)	Percent of Total Consumption	Total Revenues	Percent of Total Revenue
Single-family	19,134	1,557,358	44%	\$13,587,250.06	42%
Multi-family	1,675	692,805	20	6,508,568.18	20
Commercial	1,477	686,984	19	6,989,729.31	22
Industrial/Other	126	102,057	3	1,045,964.69	3
Irrigation	423	217,894	6	2,019,202.21	6
Fire	708	5,608	0	743,715.91	2
Recycled	174	282,033	8	1,594,944.27	5
Total	23,717	3,544,739	100	32,489,374.63	100

Source: City of Redwood City Finance Department.

The following table sets forth the revenues of the Enterprise derived from water connection and facilities fees, and water capacity charges since Fiscal Year 2011-12.

**Table 16
Revenues from Connection and Facilities Fees and Capacity Charges**

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Connection Fees	\$ 98,436	\$ 110,233	\$ 180,209	\$ 109,245	\$ 136,336
Facilities Fees	264,526	588,273	559,925	1,155,230	836,968
Capacity Charge (1)	328,286	1,592,702	1,422,513	936,495	1,760,662
Total	\$691,248	\$2,291,208	\$2,162,647	2,200,970	2,733,965

Source: City of Redwood City Finance Department.

(1) The increase in revenues for Fiscal Year 12-13 through Fiscal Year 15-16 is the result of new residential and commercial developments in the City.

Insurance

Workers' Compensation. 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 the statutory limits required by the State.

General Liability and Automobile. The City is a member of the Bay Cities Joint Powers Insurance Authority (the "BCJPIA"), which is an insurance pool consisting of 19 San Francisco Bay Area government agencies, which the City uses for general liability and auto liability coverage. In FY 2015-16 the City maintained a \$350,000 self-insured retention with coverage from \$350,000 to \$1,000,000 through the BCJPIA. 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 loss experience, annual payroll, and population. This premium pays for administrative costs and funds liability reserves. The BCJPIA belongs to the California Affiliated Risk Management Authority ("CARMA") which is an excess liability pool comprised of the BCJPIA and four other local government insurance pools. CARMA provides coverage from \$1,000,001 to \$28,000,000. A layer from \$1,000,001 to \$4,000,000 is self-insured by CARMA,

the layer from \$4,000,001 to \$28,000,000 is reinsured through agreements with commercial insurers. The City also carries all risk coverage on buildings and their contents at replacement cost value.

Property Insurance. The City participates in a Pooled Property Program through BCJPIA with limits of liability of \$250,000, and is additionally fully insured through Alliant Property Insurance Program (APIP) for all scheduled properties. The all-risk coverage on buildings and their contents is at replacement cost value and covers the full water system, including reservoirs, tanks, and pump stations. The City's self-insured retention is \$50,000 per loss.

ENTERPRISE FINANCIAL INFORMATION

Budgetary Process

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, capital project funds, and proprietary funds (including the water enterprise fund).

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 Assistant City Manager meet with department heads to review the requests and establish program objectives for the coming fiscal year. The City Manager then prepares recommendations for the City Council and the City Manager 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 end of May and thereafter schedules one or two public study sessions to review the recommendations and obtain public comments. The City Manager submits the City Council approved budget for final public hearing and adoption by the end of June. 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 for operating expenses 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 pursuant to a resolution (rather than an ordinance) adopted by 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 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 resolution passed by the City Council. The City Manager may authorize the transfer of funds between object categories within a subprogram of a department.

Financial Statements

APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2016, includes the audited financial statements of the City (the “Financial Statements”) for Fiscal Year 2015-16, which include financial statements for the Enterprise, prepared by the City Department of Finance and audited by Badawi & Associates, Oakland, California (the “Auditor”).

The Auditor’s letter concludes that the Financial Statements present fairly, in all material respects, the financial position of the City as of June 30, 2016, and the results of its operations and the cash flows of its proprietary fund type for the Fiscal Year then ended in conformity with accounting principles generally accepted in the United States of America. The Financial Statements should be read in their entirety. The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City. In addition, the Auditor has not reviewed this Official Statement.

Enterprise Accounting

The Enterprise is accounted for as an enterprise fund with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Revenues are fully accrued to include unbilled services at fiscal year end.

The City uses the accrual basis of accounting for its “proprietary funds,” including the City’s water enterprise fund. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred. All assets and liabilities for these funds are included on the balance sheet with this measurement focus. Fund equity (i.e., net total assets) is segregated into restricted, unrestricted and net investment in capital assets.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2016 for a more complete summary of the City’s accounting policies.

Outstanding Enterprise Obligations

Following issuance of the Bonds and the discharge of the 2007 Installment Purchase Contract, the obligations of the City secured by Net Revenues will be the 2017 Installment Purchase Contract, the 2015 Installment Purchase Contract and the 2013 Installment Purchase Contract.

Capitalization Policy

Generally, capital assets are major assets that have initial useful lives extending beyond a single reporting fiscal period. The cost criterion used to determine whether a given asset should be capitalized and included in the balance sheet is known as the “capitalization threshold.” If the cost of the asset equals or exceeds this threshold, then that amount is included

in the balance sheet, or capitalized. The City's current threshold for each individual general capital asset is \$5,000 for equipment with an initial useful life of 2 years or greater and \$100,000 for all other general capital assets with an initial useful life of 20 years or greater. The threshold for infrastructure is \$100,000 for assets with a useful life of 20 years or greater.

Costs are capitalized only if they are directly identifiable with a specific asset. Thus, the cost of a study undertaken to determine water system improvements for a specific area would not be capitalized. Neither would the cost of training employees on new capital assets. Improvements to capital assets that provide additional value, such as lengthening a capital asset's estimated useful life, or increasing a capital asset's ability to provide service, such as greater effectiveness or efficiency or increasing water pumping capacity, would be capitalized, but only if the cost of the improvement met or exceeded the capitalization threshold. Repairs and maintenance costs, which are costs incurred to retain the value of a capital asset, rather than provide additional value, are not capitalized. Repairs and maintenance costs are generally recognized as those expenses necessary to keep an asset in its intended operational condition and which do not materially provide additional value to the asset.

The City accounts for annual water enterprise expenses in the separate funds into which expenses were appropriated, which include a bond-funded projects fund, a capital project fund (funded from operations) and an operating fund. Capital additions and replacements are appropriated to the capital project fund, as are certain other expenses not strictly necessary for the operation of the enterprise. Capital expenses in each fund that do not meet the capitalization threshold, as well as all water conservation program expenses, capital planning expenses and meter replacement expenses, are treated as operating expenses and are shown as maintenance and operating expenses in the City's Comprehensive Annual Financial Report ("CAFR").

It had been the City's policy to subtract discretionary non-capitalized capital fund expenses, along with depreciation and amortization, from its CAFR-reported maintenance and operating expenses when calculating the debt service coverage ratio of the water enterprise operating fund. Non-capitalized capital fund expenses were not reported separately in the City's CAFRs prior to 2013. Beginning in 2013, these amounts are now reported in the City's CAFR.

Beginning with the fiscal year ended June 30, 2013, it is the City's policy not to subtract discretionary non-capitalized capital fund expenses from the total operating maintenance and operating expenses when calculating the debt service coverage ratio of the water enterprise operating fund. Additionally, for fiscal year ending June 30, 2015, and going forward the City will transfer the appropriations related to water conservation and its smart meter replacement program from the capital project fund into the operating fund. The expenses related to these programs will be reflected as maintenance and operation costs for budget and financial reporting purposes.

Reserve Policy

The Enterprise has a policy to reserve a fund balance equal to 25% of Maintenance and Operation Costs, plus \$2,000,000. As of June 30, 2016, the unrestricted net position of the Enterprise was \$18,897,656.

Historical Revenues, Expenses and Debt Service Coverage

The following table presents Enterprise revenues and expenses for each of the five fiscal years ended June 30, 2012, through 2016, including debt service coverage. The table shows, as a separate line item, the aggregate amount of expensed capital fund expenses that have been deducted from maintenance and operating costs for the purpose of reporting debt service coverage in the years ended June 30, 2010 through June 30, 2012. Expensed capital fund expenses are no longer deducted from maintenance and operating costs for the purpose of reporting debt service coverage.

Table 17
Historical Revenues and Expenses
Fiscal Year ended June 30,

	Fiscal Year Ended				
	2012	2013	2014	2015	2016
GROSS REVENUES					
Charges for Services	\$28,110,649 (3)	\$33,167,498	\$35,655,559	\$35,035,470	\$35,202,290
Non-operating Income	215,531	105,202	255,820	288,210	295,874
TOTAL GROSS REVENUES	28,326,180	33,272,700	35,911,379	35,323,680	35,498,164
MAINTENANCE AND OPERATION COSTS (1)	23,189,096	25,992,025	25,032,582	25,430,020	28,248,490
Expensed Capital Projects	(1,085,647)	—	—	—	—
REVISED MAINTENANCE AND OPERATION COSTS (2)	22,103,449	25,992,025	25,032,582	25,430,020	28,248,490
NET REVENUES AVAILABLE FOR DEBT SERVICE	6,222,731	7,280,675	10,878,797	9,893,660	7,249,674
2005 Installment Payments	2,146,699	2,147,673	464,377 (4)	—	—
2006 Installment Payments	1,569,579	1,573,754	1,572,054	1,569,014	—
2007 Installment Payments	946,725	946,425	950,450	948,475	946,025
2013 Installment Payments	—	—	1,584,262	2,058,762	2,058,113
2015 Installment Payments	—	—	—	—	1,205,491
TOTAL DEBT SERVICE	4,663,003	4,667,853	4,571,143	4,576,251	4,209,629
DEBT SERVICE COVERAGE	1.33x	1.56x	2.38x	2.16x	1.73x

Source: City of Redwood City.

(1) As reported in the CAFR. Excludes depreciation and amortization.

(2) Adjusted in FY 2012 to exclude discretionary capital expenses that were not capitalized in the City's CAFR.

(3) Varies from the total amounts on Tables 15 and 16 due to miscellaneous adjustments and credits made to customers' accounts.

(4) Accrued interest from February 1, 2013 to June 30, 2013. This amount was scheduled to be paid in Fiscal Year 2014 but was paid in Fiscal Year 2013 as part of the refunding of the 2005 Bonds. It is shown as originally scheduled in Fiscal Year 2014 in order to avoid inflating debt service coverage for that year.

Projection of Revenues, Expenses and Debt Service Coverage

Estimated projected operating results and debt service coverage for the City for the current and next four Fiscal Years are set forth below. Certain assumptions have been made by the City in the development of the projections, such as expected increases in revenues from new planned developments and steady water rate increases. Many of these assumptions are reflected in the projections. While the City believes its assumptions are reasonable, there can be no assurance that the assumed conditions will in fact occur. The City's projections may be affected (favorably or unfavorably) by unforeseen future events. Therefore, the results projected below cannot be assured.

Table 18
Projection of Revenues, Expenses and Debt Service Coverage
Fiscal Years Ended June 30,

	FISCAL YEAR				
	2017	2018	2019	2020	2021
GROSS REVENUES					
Water Meter Charges & Sales (1) Facility/Connection/Capacity Fees	\$35,590,000	\$38,450,000	\$41,475,000	\$43,775,000	\$45,329,000
Total Operating Income	1,500,000	1,000,000	250,000	250,000	250,000
Non-Operating Income	37,090,000	39,450,000	41,725,000	44,025,000	45,579,000
TOTAL GROSS REVENUES	450,000	361,000	364,000	422,000	474,000
	37,540,000	39,811,000	42,089,000	44,447,000	46,053,000
MAINTENANCE AND OPERATION COSTS (2)					
Water Purchases	14,637,000	15,280,000	16,708,000	19,028,000	19,064,000
BAWSCA Bond Surcharge	1,536,000	1,550,000	1,550,000	1,550,000	1,550,000
Right of Way Rent	2,263,000	2,263,000	2,263,000	2,263,000	2,263,000
Meter Replacement Program	750,000	750,000	750,000	—	—
Other Expenses	11,061,000	11,502,000	11,961,000	12,440,000	12,938,000
TOTAL MAINTENANCE AND OPERATION COSTS	30,247,000	31,345,000	33,232,000	35,281,000	35,815,000
NET REVENUES AVAILABLE FOR DEBT SERVICE					
	7,293,000	8,466,000	8,857,000	9,166,000	10,238,000
2007 Installment Payments	947,800	—	—	—	—
2013 Installment Payments	2,062,913	2,061,113	2,059,850	2,060,650	2,059,850
2015 Installment Payments	1,421,544	1,419,494	1,416,844	1,420,844	1,418,444
2017 Installment Payments	—	493,588	489,069	491,719	491,519
TOTAL DEBT SERVICE	4,432,256	3,974,195	3,965,763	3,973,213	3,969,813
DEBT SERVICE COVERAGE	1.65x	2.13x	2.23x	2.31x	2.58x

Source: City of Redwood City, Administration.

- (1) Charges for Service include those charges shown in Table 9 and 10 and other miscellaneous charges for Service. Charges for Service includes a 4.8% water rate increase for fiscal year 2016-17 and 7.8% water rate increase for Fiscal Years 2017-18 and 2018-19, which was approved and adopted by the City Council on June 27, 2016. Charges for Services for Fiscal Years 2019-20, 2020-21 include assumed rate increases of 5% and 4%, respectively, but these increases have not been reviewed or approved by the City Council. Such increases, if approved, could be higher or lower.
- (2) Excludes depreciation and amortization. Other Maintenance and Operation expenses consist mostly of labor-related costs and are assumed to increase 4% annually.

INVESTMENT OF CITY FUNDS

Revenues collected by the City will be held and invested by the City in accordance with the provisions of the Indenture.

Funds held by the City, including Enterprise moneys, are invested in accordance with the City's Statement of Investment Policy (the "Investment Policy") prepared by the City Treasurer as authorized by section 53601 of the Government Code of California. The Investment Policy is submitted to the City Council annually. The Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The City recently hired an external investment advisor to benefit from the expertise of professionals in the investment field. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made under the management of the investment advisor. Invested funds are managed to insure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, operating funds may not be invested in any investment with a maturity greater than five years. The City does not invest in derivatives or reverse repurchase agreements and such investments and instruments are not allowed by City policy.

For more information about the City's investment policy, see APPENDIX C—CITY INVESTMENT POLICY.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. In the past, the voters have exercised this power from time to time, including through the adoption of Propositions 13 and 218.

From time to time other State and local initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

Article XIII A

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the maximum ad valorem tax on real property to 1% of full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property 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 value," or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

Article XIII B

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The “base year” for establishing such appropriations limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial sources for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity’s 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. Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

Proposition 218

General. On November 5, 1996, California voters approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related “fee” or “charge,” which is defined as “any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service” (and referred to in this section as a “property-related fee or charge”).

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

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

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

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIII D regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIII D to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIII D.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIII D before imposing or increasing such fees. The California Supreme Court denied the City of Fresno’s petition for review of the Court of Appeal’s decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (39 Cal. 4th 205), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency’s rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency’s charges for ongoing water delivery are “fees and charges” within the meaning of Article XIII D, and went on to hold that charges for ongoing water delivery are also “fees” within the meaning of Article XIII C’s mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIII C authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency’s water rates and other water charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIII C and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was not determining whether the electorate’s initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Current Practice Regarding Rates and Charges. The City's practice has been to provide public notice of proposed water rate increases through means that include, among others, holding informational presentations at community group meetings, mailings to residential and commercial customers of public hearings on rate increases, and press releases and media campaigns regarding rate increases, followed by public hearings conducted by the City Council. The most recent rate increase was enacted by the City in strict compliance with the procedures mandated by Proposition 218 and *Bighorn*.

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

Effect of Proposition 218 on the City; Possible Limitations on Enforcement Remedies.

The general financial condition of the City may be affected by provisions of Article XIIC and Article XIID. In particular, provisions of Article XIIC (i) require taxes for general governmental purposes to be approved by a majority vote and taxes for specific purposes, even if deposited into the General Fund, to be approved by two-thirds vote, (ii) require any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994, to be approved by majority vote on November 5, 1998 and (iii) provide that all taxes, assessments, fees and charges are subject to reduction or repeal at any time through the initiative process, subject to overriding constitutional principles relating to the impairment of contracts. Provisions of Article XIID that affect the ability of the City to fund certain services or programs that it may be required or choose to fund include (i) adding notice, hearing, protest and, in some cases, voter approval requirements to impose, increase or extend certain assessments, fees and charges and (ii) adding stricter requirements for finding individualized benefits associated with such levies.

The ability of the City to comply with its covenants under the 2017 Installment Purchase Contract and to generate Net Revenues sufficient to pay the 2017 Installment Payments and, therefore, the principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) under Article XIIC or Article XIID by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the 2017 Installment Purchase Contract are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the possible limitations on the ability of the City to comply with its covenants under the 2017 Installment Purchase Contract, the rights and obligations under the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California.

Based on the foregoing, in the event the City fails to comply with its covenants under the 2017 Installment Purchase Contract, including its covenants to generate sufficient Net Revenues, as a consequence of the application of Article XIIC and Article XIID, or to pay

principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

Proposition 26

On November 2, 2010, State voters approved Proposition 26 which amended certain sections of Article XIII C. The proposition defines “tax” as used within Article XIII C as “any levy, charge, or exaction of any kind imposed by a local government, *except* the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.” The local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

The foregoing discussion of Proposition 218 and Proposition 26 should not be considered an exhaustive or authoritative treatment of the provisions of such propositions or the possible effects of Proposition 218 and Proposition 26. Interim rulings, final decisions, legislative proposals and legislative enactments affecting Proposition 218 and Proposition 26 may impact the City’s ability to make the 2017 Installment Payments. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity related to these issues.

Future Initiatives

Articles XIII C, XIII D and Proposition 26 were adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives could be proposed and adopted affecting Net Revenues or the City’s ability to increase its rates for water service. See “Proposition 218” above. The California constitution, Article XIII D, Section 5(c), specifically recognizes that any assessment existing on the effective date (of Article XIII D) shall be exempt from the procedures and approval process set forth in Article 4, to wit: “....(c) Any assessment the proceeds of which are exclusively used to repay bonded indebtedness of which the failure to pay would violate the Contract Impairment Clause of the Constitution of the United States.”

RISK FACTORS RELATING TO THE BONDS

The following section describes certain special considerations and risk factors affecting the risk of nonpayment or the security for the Bonds. The following discussion is not meant to be an exhaustive or definitive description of the risks associated with a purchase of the Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following special factors regarding the Bonds, together with all other information in this Official Statement, in order to make an informed investment decision with respect to the Bonds. There can be no assurance that other risk factors are not or will not become material in the future.

General

The payment of principal of and interest on the Bonds is secured solely by a pledge of Revenues, Revenue primary consist of the 2017 Installment Payments made by the City under the 2017 Installment Purchase Contract. The City's agreement to make the 2017 Installment Payments is secured by a pledge of the Net Revenues. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water services to its users, and the ability of the City to establish and maintain water fees and charges sufficient to provide the required debt service coverage as well as pay for Operation and Maintenance Costs.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net Revenues realized by the City.

Limited Obligations

The 2017 Installment Payments are limited obligations of the City and are not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues. The obligation of the City to pay the 2017 Installment Payments from Net Revenues does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The City is obligated under the 2017 Installment Purchase Contract to make 2017 Installment Payments solely from Net Revenues. There is no assurance that the City can succeed in operating the Enterprise such that the Net Revenues in the future will be sufficient for that purpose.

Risks Relating to Water Supplies

As described above under "THE ENTERPRISE—Water Supply and Water Demand," the Enterprise currently receives virtually all of its water, and all of its potable water, from the Regional Water System pursuant to the WSA and its Water Sales Contract that provides Redwood City an ISG of 11.08 MGD or 12,243 AFY. Accordingly, an interruption in the delivery of water from San Francisco for any reason would severely impact the ability of the Enterprise to deliver water to its customers, thereby reducing the amount of Gross Revenues available to the Enterprise to pay its Maintenance and Operation Costs and its obligations under the WSA. The City estimates, for example, that a 20% water shortage of the Regional Enterprise would reduce water deliveries to the Enterprise by 28% (from 12,243 AFY to 8,861 AFY). Additionally, as the demands on the Regional Enterprise grow, the possibility of water shortages will increase.

Wholesale Water Costs

San Francisco is expected to substantially raise wholesale water rates for the Wholesale Customers, including the Enterprise, due to the costs of San Francisco's capital improvement program, which is described above under "THE ENTERPRISE – Water Supply – San Francisco Capital Improvement Plan and Long-Range Financial Plan" above. The City projects that these rates may increase by up to 38% through Fiscal Year 2022-2023, from \$1,415 per acre foot in Fiscal Year 2014-15 to \$1,960 per acre foot in Fiscal Year 2022-2023 (exclusive of the BAWSCA Surcharge). Including the BAWSCA Surcharge, rates may increase up to 54% through Fiscal Year 2022-2023, from \$1,415 per acre foot in Fiscal Year 2014-15 to \$2,178 per acre foot in Fiscal Year 2022-2023.

The City has covenanted in the 2017 Installment Purchase Contract to prescribe and collect rates, fees and charges in connection with the Enterprise in an amount sufficient to allow the Enterprise to pay Operation and Maintenance Costs and amounts due under the 2017 Installment Purchase Contract and any Parity Obligations. Further, the Enterprise has agreed, in the 2017 Installment Purchase Contract, to prescribe and collect rates, fees and charges in connection with the Enterprise during each Fiscal Year which are sufficient to yield estimated Net Revenues which are at least equal to one hundred twenty percent (120%) of the aggregate amount of the 2017 Installment Payments, and principal of and interest on any Parity Obligations (including the 2013 Installment Purchase Contract and the 2015 Installment Purchase Contract) payable from Net Revenues coming due and payable during such Fiscal Year.

In order to issue Parity Obligations in the amounts currently anticipated based on future expected operating and non-operating expenses (see Table 18), the City will be required to raise its rates and charges by the percentages set forth above under the caption "THE ENTERPRISE—Water Rate Increases—Future Rate Increases."

Seismic Considerations

The City, like much of California, is subject to seismic activity that could result in interference with the delivery of water from the Regional Water System or the City's operation of the Enterprise. San Francisco's Water System Improvement Plan for the SFPUC (see "THE ENTERPRISE – Water Supply – SFPUC Water System Improvement Plan") is intended, in part, to make seismic upgrades to the Regional Water System. However, a major seismic event could result in water deliveries from the Regional Water System to the Enterprise being interrupted for a significant period of time. As a result, no assurance can be given that a future seismic event will not materially adversely affect the operation of the Enterprise. Additional details about how water is allocated during an emergency can be found in the WSA. The City does not, and does not expect to, maintain earthquake insurance on the Enterprise.

Environmental Regulation

The kind and degree of water treatment effected through the Enterprise is regulated, to a large extent, by the federal government and the State of California. Treatment standards set forth in federal and state law control the operations of the Enterprise and mandate the use of water treatment technology. In the event that the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state agencies, should impose stricter water quality standards upon the Enterprise, the City's expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to water quality standards, although

it is likely that, over time, both will impose more stringent standards with attendant higher costs.

Maintenance and Operation Costs

There can be no assurance that the City's expenses for the Enterprise will be consistent with the descriptions in this Official Statement. Changes in technology, changes in quality standards, loss of large customers, increased or decreased development, increases in the cost of operation, or other expenses could require increases in rates or charges in order to comply with the City's rate covenant in the 2017 Installment Purchase Contract.

Limited Recourse on Default

Failure by the City to make 2017 Installment Payments constitutes an event of default under the 2017 Installment Purchase Contract and the Trustee is permitted to pursue remedies at law or in equity to enforce the City's obligation to make such payments. Although the Trustee has the right to accelerate the total unpaid principal amount of the 2017 Installment Payments, there is no assurance that the City would have sufficient funds to pay the accelerated amounts.

Limitations on Remedies

The ability of the City to comply with its covenants under the 2017 Installment Purchase Contract and to generate Net Revenues sufficient to pay the 2017 Installment Payments and, therefore, to cause sufficient Revenues to be available to pay principal of and interest on the Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. Furthermore, the remedies available to the owners of the Bonds upon the occurrence of an event of default under the 2017 Installment Purchase Contract are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Initiatives

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. There is no assurance that the electorate or the State legislature will not at some future time approve additional limitations which could affect the ability of the City to implement rate increases which could reduce Net Revenues and adversely affect the security for the Bonds. See CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218."

Bankruptcy

The rights and remedies provided in the 2017 Installment Purchase Contract and the Indenture may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to the Bonds, the 2017 Installment Purchase Contract and the Indenture, including the opinion of Bond Counsel, will be similarly qualified. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the Bonds and the City could be prohibited from taking any steps to enforce their rights under the Indenture.

Rate Process

The passage of Proposition 218 by the California electorate potentially affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition under Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218" and "—Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies."

Insurance

The 2017 Installment Purchase Contract obligates the City to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the Enterprise in the event of damage or destruction to such portion of the Enterprise. The City expects to self-insure a portion of the risk of loss as permitted by the 2017 Installment Purchase Contract. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the Enterprise. Significant damage to the Enterprise could result in a lack of the ability to generate sufficient Net Revenues to repay the Bonds. The City does not, and does not expect to, maintain earthquake insurance on the Enterprise.

Tax Exemption

The Authority and the City have covenanted that they will take all actions necessary to assure the exclusion of interest with respect to the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Internal Revenue in the gross income of the Owners thereof for federal tax purposes. See "TAX MATTERS." See also "TAX MATTERS—Changes in Federal and State Tax Law."

Parity Obligations

As described in "SECURITY FOR THE BONDS—Parity Obligations" above, the 2017 Installment Purchase Contract permits the City to issue or incur Parity Obligations which would be payable from Net Revenues on a parity with the payment of the 2017 Installment Payments. In the event of a decline in Net Revenues available to pay the 2017 Installment Payments, the existence of Parity Obligations could adversely affect the City's ability to pay the 2017 Installment Payments.

Secondary Market

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

APPROVAL OF LEGAL PROCEEDINGS

The legality and enforceability of the Bonds is subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, acting as Bond Counsel. Certain disclosure matters will be passed upon for the City and the Authority by Quint & Thimmig

LLP, Larkspur, California, acting as Disclosure Counsel. Certain legal matters will be passed upon for the City and the Authority by Veronica Ramirez, Esq., the City Attorney.

LITIGATION

At the time of delivery of and payment for the Bonds, the City and the Authority will certify that there is no action, suit, proceedings, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City and the Authority, threatened against the City or the Authority affecting the existence of the City or the Authority or the titles of its officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture or the 2017 Installment Purchase Contract or any action of the City or the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or the Authority with respect to the Bonds or any action of the City or the Authority contemplated by any of said documents, nor to the knowledge of the City or the Authority, is there any basis therefor.

RATINGS

Moody's Investor's Service ("Moody's") and S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"), have assigned the ratings of "Aa3" and "AA," respectively, to the Bonds. Such ratings reflect only the views of Moody's and S&P and any desired explanation of the significance of such rating should be obtained from Moody's at 7 World Trade Center, 250 Greenwich Street, New York, NY 10007, and from S&P at 55 Water Street, New York, NY 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by Moody's and/or S&P, if in the judgment of Moody's and/or S&P, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price for the Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of Bond Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Enterprise by not later than nine months following the end of the City's fiscal year (currently ending June 30) (the "Annual Report"), commencing with the report for the fiscal year ended June 30, 2015, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of material events will be filed by the City with the Municipal Securities Rulemaking Board (the "MSRB") through the Electronic Municipal Access (EMMA) System. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption 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 "Rule").

The City has not failed to comply in all material respects with any undertaking under the Rule in the past five years, except to the extent the following are material: (i) with respect to the City of Redwood City Public Financing Authority Lease Revenue Bonds, Series 2003, the fiscal year 2011-12 annual report did not include the reserve account balance, (ii) with respect to

the City's Community Facilities District No. 99-1 Special Tax Refunding Bonds, Series 2012B, and the City's Community Facilities District No. 2000-1 Special Tax Refunding Bonds, Series 2012, the City's financial statements were filed almost two months late for fiscal year 2011-12 and 16 days late for fiscal year 2012-13, (iii) with respect to water revenue bonds issued in 2006 and 2007, the City's dissemination agent omitted from its fiscal year 2014 filing the City's operating data reports; and (iv) with respect to the City's Community Facilities District No. 99-1 Special Tax Bonds, Series 2001 and 2003, and for the City's Community Facilities District No. 2000-1 Special Tax Bonds, Series 2000, the City's financial statements were not filed for fiscal year 2010-11 (although they were timely filed for all other City bond issues).

Additionally, with respect to (i) the South Bayside System Authority 2008 Wastewater Revenue Bonds and 2009 Wastewater Revenue Bonds for which the City has a continuing disclosure obligation, (a) the City's financial statements for fiscal year 2010-11 and fiscal year 2011-12 were not filed until April 2015, and (b) certain required financial information was missing for the reports filed for fiscal year 2011-12 and 2012-13, and (ii) the Silicon Valley Clean Water 2014 Wastewater Revenue Bonds for which the City has a continuing disclosure obligation (a) the fiscal year 2012-13 audit and annual report were not filed on a timely basis and (b) the otherwise timely and complete fiscal years 2013-14 and 2014-15 audit and annual report filings inexplicably were not linked to every 9-digit CUSIP associated with the issue. Finally, in all of these cases where a notice of failure to file was required to be filed, no notice of a failure to file such information was provided.

TAX MATTERS

General

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code") that must be satisfied subsequent to the issuance of the Bonds. The Authority and the City have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this

section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

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

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Form of Opinion

The form of Bond Counsel's anticipated opinion is included as APPENDIX E—FORM OF FINAL OPINION OF BOND COUNSEL. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

UNDERWRITING

The Bonds were purchased by Stifel, Nicolaus & Company, Incorporated, as underwriter (the "Underwriter"), at a purchase price of \$6,746,157.00 (consisting of the

\$6,300,000.00 aggregate principal amount of the Bonds, plus \$477,557.00 of net original issue premium, less \$31,400.00 of Underwriter's discount).

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

MUNICIPAL ADVISOR

The City has entered into an agreement with William Euphrat Municipal Finance, Inc. (the "Municipal Advisor"), whereunder the Municipal Advisor is providing municipal advisory services to the City with respect to preparation and sale of the Bonds. The Municipal Advisor has read and participated in the drafting of certain portions of this Official Statement. The Municipal Advisor has not audited, authenticated or otherwise verified the information set forth in the Official Statement, or any other related information available to the City with respect to accuracy and completeness of disclosure of such information, and the Municipal Advisor makes no guaranty, warranty or other representation respecting accuracy and completeness of the Official Statement or any other matter related to the Official Statement. The compensation of the Municipal Advisor is contingent upon the sale of the Bonds.

OTHER INFORMATION

All summaries and explanations of the Act, the Indenture, the 2017 Installment Purchase Contract and the other documents referred to herein are qualified in their entirety by reference to the Act and such documents, and references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture.

Any statements in this Official Statement involving matters of opinion are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of the Bonds.

Copies of the Indenture and the 2017 Installment Purchase Contract are available for inspection at the Principal Corporate Trust Office of the Trustee.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the owners of the Bonds.

The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and reference is made to each of them for a complete statement of their provisions. Copies are available for review by making requests to the City.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City,

including a summary of significant accounting policies, for the fiscal year ended June 30, 2016, are contained in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2016.

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

CITY OF REDWOOD CITY PUBLIC
FINANCING AUTHORITY

By /s/ Melissa Stevenson Diaz
Executive Director

CITY OF REDWOOD CITY

By /s/ Melissa Stevenson Diaz
City Manager

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APPENDIX A

GENERAL INFORMATION ABOUT THE CITY OF REDWOOD CITY AND SAN MATEO COUNTY

The information in this section of the Official Statement is presented as general background data. The Bonds are payable solely from the revenues of the Enterprise and other sources as described in the Official Statement. The taxing power of the City the County, the State of California, or any political subdivision thereof is not pledged to the payment of the Bonds.

General

The City of Redwood City (the "City") is located in the San Francisco Bay Area 25 miles south of San Francisco. It is the oldest bayside city in San Mateo County (the "County"), incorporated in 1867, and has been the County Seat since 1856. 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.

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 the 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>
John D. Seybert, <i>Mayor</i>	November 2017
Ian Bain, <i>Vice Mayor</i>	November 2019
Alicia C. Aguirre, <i>Councilmember</i>	November 2019
Janet Borgens, <i>Councilmember</i>	November 2019
Jeffrey Gee, <i>Councilmember</i>	November 2017
Diane Howard, <i>Councilmember</i>	November 2017
Shelly Masur, <i>Councilmember</i>	November 2019

The City Manager is appointed by the City Council.

Pension Plan

Plan Description. All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System ("CalPERS"), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided. CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and/or their beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death

Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law ("PERL").

Police and fire safety employees hired before October 13, 2011 (Tier 1) are covered under the "3% at 50" formula. Under this retirement plan, an employee's retirement earnings at age 50 are calculated by multiplying 3% by the employee's years of service. This percentage factor increases with the employee's age upon retirement.

Police and fire safety employees hired on or after October 13, 2011 (Tier 2) are covered under the "3% at 55" formula. Under this retirement plan, an employee's retirement earnings at age 55 are calculated by multiplying 3% 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, with the maximum percentage factor equal to 3%.

Police and fire safety employees hired on or after January 1, 2013 (Tier 3) are covered under the "2.7% at 57" formula. Under this retirement plan, an employee's retirement earnings at age 57 are calculated by multiplying 2.7% 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, with a maximum percentage factor equal to 2.7% at age 57.

Miscellaneous employees hired before October 13, 2011 (Tier 1) are covered under the "2.7% at 55" formula. Under this retirement plan, an employee's retirement earnings, at age 55, are calculated by multiplying 2.7% 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.

Miscellaneous employees hired on or after October 13, 2011 (Tier 2) are covered under the "2% at 60" formula. Under this retirement plan, an employee's retirement earnings at age 60 are 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.

Miscellaneous employees hired on or after January 1, 2013 (Tier 3) are covered under the "2% at 62" formula. Under this retirement plan, an employee's retirement earnings at age 62 are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 52 at a reduced pension amount. The pension amount increases with age and length of service, with a maximum percentage factor equal to 2.5% at age 67.

Employees Covered. At June 30, 2016, the following employees were covered by the benefit terms for each Plan:

REDWOOD CITY Pension Plan Membership		
	Miscellaneous Plan	Safety Plan
Inactive employees or beneficiaries currently receiving benefits	500	307
Inactive employees entitled to but not yet receiving benefits	457	60
Active employees	384	174
Total	1,341	541

Source: Redwood City 2015-16 CAFR.

Contributions. Section 20814(C) of the California PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended

June 30, 2015 (the measurement date), the average active employee contribution rate is 8.197 percent of annual pay for the Miscellaneous Plan and 9.557 percent of annual pay for the Safety Plan, and employer contribution rate is 24.134 percent of annual payroll for the Miscellaneous Plan and 42.457 percent of annual payroll for the Safety Plan.

Changes in the Net Pension Liability. The changes in the Net Pension Liability for each Plan follow:

REDWOOD CITY						
Changes in Net Pension Liability						
	Miscellaneous Plan			Safety Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 6/30/15	<u>267,985,557</u>	<u>197,591,985</u>	<u>70,393,572</u>	<u>309,747,565</u>	<u>215,992,153</u>	<u>93,755,412</u>
Changes in the year:						
Service cost	4,787,766	-	4,787,766	7,620,719	-	7,620,719
Interest on total pension liability	19,792,491	-	19,792,491	22,992,406	-	22,992,406
Δ btw actual/expected experience	(546,244)	-	(546,244)	210,529	-	210,529
Changes in Assumptions	(4,797,291)	-	(4,797,291)	(5,686,859)	-	(5,686,859)
Changes in benefit terms	-	18,362	(18,362)	-	-	-
Contribution – Employer	-	6,882,313	(6,882,313)	-	9,993,967	(9,993,967)
Contribution – Employee	-	2,372,657	(2,372,657)	-	2,420,787	(2,420,787)
Net investment income	-	4,413,116	(4,413,116)	-	4,953,411	(4,953,411)
Administrative Expenses	-	(223,524)	223,524	-	(245,450)	245,450
Benefit payments	(12,621,036)	(12,621,036)	-	(15,054,516)	(15,054,516)	-
Net Changes	<u>6,615,686</u>	<u>841,888</u>	<u>5,773,798</u>	<u>10,082,279</u>	<u>2,068,199</u>	<u>8,014,080</u>
Balance at 6/30/16	<u>274,601,243</u>	<u>198,433,873</u>	<u>76,167,370</u>	<u>319,829,844</u>	<u>218,060,352</u>	<u>101,769,492</u>

Source: Redwood City 2015-16 CAFR.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions. For the fiscal year ended June 30, 2016, the City recognized pension expense of \$13,257,437. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

REDWOOD CITY			
Deferred Outflows/Inflows of Resources			
	Deferred Outflows of Resources	Deferred Inflows of Resources	
Contributions subsequent to measurement date	<u>17,362,779</u>	<u>-</u>	
Changes in assumptions	-	(7,210,834)	
Δ between actual and expected experiences	155,127	(343,931)	
Net Δ between projected/actual earnings on plan investments	-	(4,408,288)	
Total	<u>17,517,906</u>	<u>(11,963,053)</u>	

Source: Redwood City 2015-16 CAFR.

For information concerning the City's pension obligations, including descriptions of the actuarial methods and assumptions, and an explanation of the discount rate used by please See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2016, Note 9.

Other Post-Employment Benefits (OPEB)

The City administers a single-employer defined benefit post-employment healthcare plan. Permanent employees who retire under the City's retirement plan are, pursuant to their respective collective bargaining agreements, eligible to have their medical insurance premiums reimbursed by the City up to the Kaiser family premium rate. 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. Currently there are 375 retirees receiving this benefit.

The City is not required by law or contractual agreement to provide funding for retiree health costs other than the pay-as-you-go amount necessary to provide current benefits to retirees. The City's retiree health plan is being managed through the California Employer's Retiree Benefits Trust (CERBT), an irrevocable trust fund that allows public employers to prefund the future cost of their retiree health insurance benefits and other post-employment benefits for their covered employees or retirees.

The CERBT's administrator, CalPERS, issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811. During FY 2015-16, the City contributed \$5,982,000, or 100%, of the actuarially required contributions to the retiree health plan.

Total current payroll for all covered employees for the fiscal year ended June 30, 2016 was \$57,881,620.

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

REDWOOD CITY Annual OPEB Cost	
Annual Required Contribution (ARC)	5,920,000
Interest on net OPEB obligation	505,000
Adjustment to ARC	(443,000)
Annual OPEB Cost	<u>5,982,000</u>
Contributions made to irrevocable trust	(2,889,260)
Benefit payments made outside of trust	<u>(3,092,740)</u>
Increase in net OPEB obligation	-
Net OPEB obligation – beginning of year	6,962,477
Net OPEB obligation – end of year	<u>6,962,477</u>

Source: Redwood City 2015-16 CAFR.

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2016 and the three preceding years were as follows:

REDWOOD CITY
Net OPEB Obligation History

Fiscal Year	Annual OPEB Cost	Annual OPEB Cost Contributed	OBEB Obligation
2012-13	5,172,000	98%	6,962,477
2013-14	4,890,000	100	6,962,477
2014-15	5,037,000	100	6,962,477
2015-16	5,982,000	100	6,962,477

Source: Redwood City 2015-16 CAFR.

As of June 30, 2015, the most recent actuarial valuation date, the plan was 25.9% funded. The actuarial accrued liability (AAL) for benefits was \$70,852,000, and the actuarial value of plan assets was \$18,382,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$52,470,000. The covered payroll (annual payroll of active employees covered by the plan) was \$51,466,341 and the ratio of UAAL to the covered payroll was 101.9%.

For information concerning the City’s OPEB obligations, including descriptions of the actuarial methods and assumptions, and an explanation of the discount rate used by please See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2016, Note 9.

Location

The County is one of nine counties comprising the economic geographic unit known as the San Francisco Bay Area. The County is a major employment base, and is also accessible to the San Jose and Silicon Valley areas approximately 30 miles south via Interstate 280 or U.S. Highway 101. San Francisco International Airport is located in the County.

The City is located in the San Francisco Bay Area 25 miles south of San Francisco. It is the oldest bayside city in the County. The City was incorporated in 1867, and has been the County Seat since 1856. City limits cover approximately 34 square miles of generally level terrain. The City combines residential, industrial, and commercial elements in a largely suburban 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. Services and trade, the County’s two largest industry divisions, are expected to provide close to two-thirds of anticipated growth in the next two years.

Population

The following table lists population estimates for the City, County and the State for the last five calendar years, as of January 1.

REDWOOD CITY, SAN MATEO COUNTY and CALIFORNIA
Population Estimates

	2012	2013	2014	2015	2016
City of Redwood City	79,410	81,450	83,030	84,179	85,992
San Mateo County	735,256	745,626	752,145	759,155	766,041
State of California	37,881,357	38,239,207	38,567,459	38,907,642	39,255,883

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2010-2016.

Employment and Industry

SAN MATEO COUNTY Civilian Labor Force, Employment and Unemployment; Employment by Industry (Annual Averages)

	2011	2012	2013	2014	2015 ⁽⁴⁾
Civilian Labor Force ⁽¹⁾	399,900	412,700	419,100	429,400	442,000
Employment	369,800	386,200	397,100	411,400	427,000
Unemployment	30,000	26,400	22,000	18,100	15,000
Unemployment Rate	7.5%	6.4%	5.3%	4.2%	3.4%
Wage and Salary Employment:⁽²⁾					
Total, All Industries ⁽³⁾	326,900	340,300	355,300	371,900	384,100
Total Farm	1,600	1,600	1,700	1,800	1,800
Mining, Logging and Construction	14,500	15,300	16,800	19,300	23,100
Manufacturing	25,500	24,400	25,500	25,500	25,500
Trade, Transportation & Utilities	68,500	70,300	72,300	74,300	74,300
Information	17,900	20,900	23,800	26,300	28,100
Financial Activities	19,400	20,000	20,200	20,600	21,600
Professional & Business Services	64,100	69,800	71,200	75,200	76,500
Educational & Health Services	37,200	38,100	40,500	43,000	44,300
Leisure & Hospitality	35,500	36,800	39,400	40,900	42,500
Other Services	12,200	12,900	13,400	13,900	14,000
Government	30,600	30,300	30,400	31,200	32,700

Source: State of California Employment Development Department, March 2016 Benchmark and Bureau of Labor Statistics U.S. Department of Labor.

- (1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
- (2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
- (3) Totals may not add due to rounding.
- (4) Latest available full year data.

Major Employers

The following table shows the major employers in the County as of June 30, 2014.

PRINCIPAL PRIVATE SECTOR EMPLOYERS San Mateo County

Employer	Number of Employees	% of Total City Employment
United Airlines	10,000	2.42%
Genentech Inc.	9,800	2.37
Oracle Corp.	6,750	1.63
County of San Mateo	5,472	1.32
Facebook Inc.	3,957	.96
Kaiser Permanente	3,900	.94
Visa	3,500	.85
Gilead Services Inc.	3,115	.75
Mills-Peninsula Health Systems	2,500	.61
San Mateo Community College	2,285	.55
Total Top 10	51,279	12.41

Source: San Mateo County, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2016.

Construction Activity

Provided below are the building permits and valuations for the City and the County for the past five years.

CITY OF REDWOOD CITY Total Building Permit Valuations (Valuations in Thousands)

	2011	2012	2013	2014	2015
<u>Permit Valuation</u>					
New Single-family	9,184	35,516	3,399	6,400	13,130
New Multi-family	13,095	103,125	57,869	83,820	16,463
Res. Alterations/Additions	22,504	10,362	28,261	26,301	27,433
Total Residential	44,784	149,004	89,529	116,521	57,027
Total Nonresidential	49,178	19,507	164,701	98,699	120,258
Total All Buildings	93,962	168,512	254,231	215,221	177,285
<u>New Dwelling Units</u>					
Single Family	41	60	8	15	17
Multiple Family	70	297	395	749	135
Total	111	357	403	764	152

Source: Construction Industry Research Board, Building Permit Summary.

SAN MATEO COUNTY Total Building Permit Valuations (Valuations in Thousands)

	2011	2012	2013	2014	2015
<u>Permit Valuation</u>					
New Single-family	194,950	245,163	292,893	289,903	374,275
New Multi-family	107,040	171,390	151,019	168,859	259,181
Res. Alterations/Additions	289,619	201,543	299,830	348,231	408,011
Total Residential	591,609	618,097	743,743	806,993	1,041,467
Total Nonresidential	301,725	244,054	1,238,401	1,016,790	1,010,485
Total All Buildings	893,334	862,151	1,982,144	1,823,784	2,051,952
<u>New Dwelling Units</u>					
Single Family	213	264	350	315	521
Multiple Family	545	671	840	1,302	1,386
Total	758	935	1,190	1,617	1,907

Source: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

Effective Buying Income

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

The following table summarizes the total effective buying income for the City, the County of San Mateo, the State and the United States for the past five years.

CITY OF REDWOOD CITY; COUNTY OF SAN MATEO Effective Buying Income			
Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2011	City of Redwood City	2,351,140	61,892
	San Mateo County	23,717,577	66,434
	California	814,578,457	47,062
	United States	6,438,704,663	41,253
2012	City of Redwood City	2,693,877	62,528
	San Mateo County	26,570,647	68,429
	California	864,088,827	47,307
	United States	6,737,867,730	41,358
2013	City of Redwood City	2,802,145	65,351
	San Mateo County	26,846,688	70,427
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Redwood City	2,893,518	66,809
	San Mateo County	28,257,708	72,165
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Redwood City	3,175,728	72,095
	San Mateo County	30,989,833	77,717
	California	981,231,666	53,589
	United States	7,757,960,399	46,738

Source: Neilson, Inc.

Commercial Activity

In 2010, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, data for 2010 is not comparable to that of prior years. A summary of historical taxable sales within the City and the County during the past five years in which data is available is shown in the following table. Figures for 2014 are the most recently available data.

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

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2010	1,230	1,053,741	2,023	1,451,454
2011	1,236	1,170,101	2,023	1,551,074
2012	1,287	1,278,605	2,084	1,696,509
2013	1,315	1,363,758	2,098	1,828,715
2014	1,291	1,447,923	2,039	1,958,291

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

COUNTY OF SAN MATEO
Taxable Transactions
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits on July 1	Taxable Transactions	Number of Permits on July 1	Taxable Transactions
2010	11,340	7,846,274	18,979	11,966,338
2011	11,470	8,536,043	18,995	13,020,643
2012	11,748	9,277,144	19,189	13,906,978
2013	12,438	9,935,641	19,808	14,611,618
2014	12,673	10,278,717	19,999	15,298,434

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

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APPENDIX B

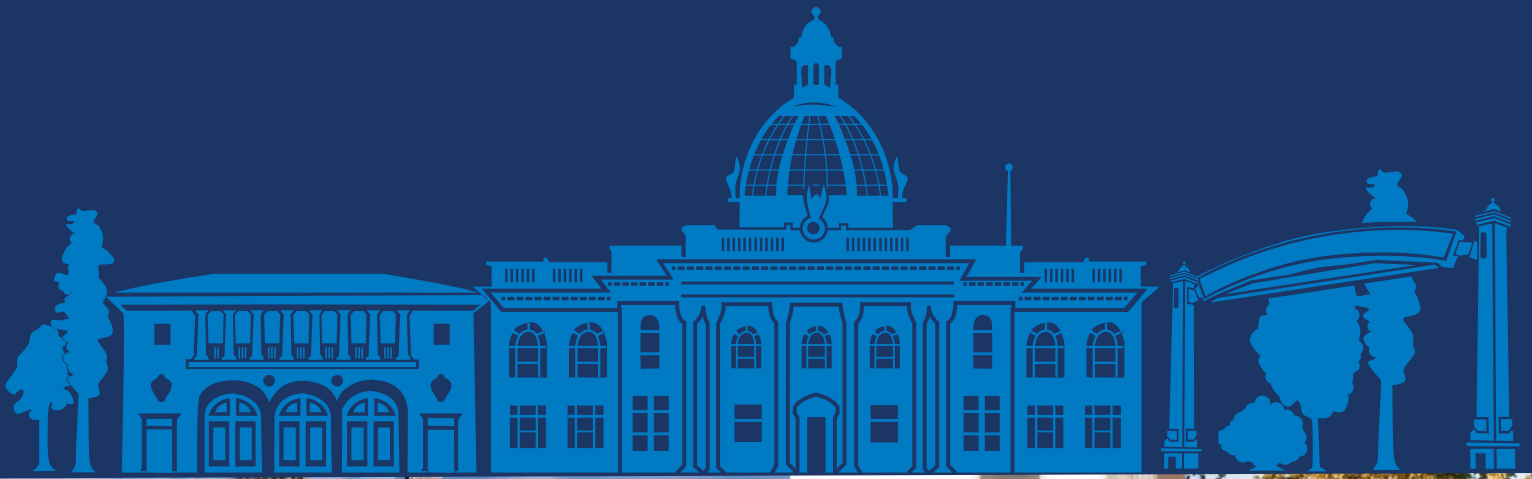
**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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City of Redwood City

2016 Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2016





*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2016*

City of Redwood City

Redwood City, California



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2016

**City of Redwood City
 Comprehensive Annual Financial Report
 For the fiscal year ended June 30, 2016**

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December 12, 2016

Honorable Mayor John Seybert
Members of the City Council,
City Manager, and Citizens of the
City of Redwood City
Redwood City, California

I am pleased to submit for your information and consideration the Comprehensive Annual Financial Report of the City of Redwood City for the fiscal year ended June 30, 2016.

This report contains a complete set of audited financial statements, prepared by the City's Finance Division in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB). The responsibility for both the accuracy of the printed data and the completeness and fairness of the presentation including all disclosures rests with the management of the City. It is our opinion: that the data presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial positions and results of operations of the City and its related entities as measured by the financial activities of their various funds; and that all disclosures necessary for the reader to gain a full understanding of their financial activities have been included. To provide a reasonable basis for making those representations, City management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP.

Badawi and Associates, a firm of independent, licensed and Certified Public Accountants, has audited the City's financial statements for the fiscal year ended June 30, 2016. The objective of the independent audit is to provide reasonable assurance that the financial statements of the City and related entities are free of material misstatement. The auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion on the City's basic financial statements as of and for the year ended June 30, 2016. The independent auditor's report is located at the front of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Redwood City's MD&A can be found immediately following the report of the independent auditors. The notes to the financial statements are provided in the financial section and are considered essential to fair presentation and adequate disclosure.

REPORTING ENTITY AND ITS SERVICES

Redwood City is a San Francisco Bay Area community located in the heart of Silicon Valley. With a population of over 85,000, Redwood City is the third largest city within the County of San Mateo. The City of Redwood City was incorporated in 1867 and became a Charter City in 1929. It operates under a council-manager form of government and is a full service City, providing a range of services that include police and fire protection,

recreation and parks, libraries, street maintenance and construction, infrastructure improvements, planning and zoning, water delivery, port facilities, and storm drains. Although the City maintains sewer lines and pump stations, the sewer plant and treatment services are provided by Silicon Valley Clean Water (formerly the South Bayside System Authority), a joint powers authority of which Redwood City is an equity holder.

The financial reporting entity includes all funds of the primary government (i.e. the City of Redwood City) as well as its component units. The City Council serves in separate session as the governing bodies of the Successor Agency to the Redevelopment Agency of Redwood City, the Redwood City Facilities and Infrastructure Authority, and the Public Financing Authority although these agencies are legal entities apart from the City. Debt service paid during the year is shown under debt service funds. Under the City Charter, the City Council appoints the Board of Port Commissioners which oversees the operations of the Port of Redwood City, which is considered a department of the City of Redwood City. The Port of Redwood City is an enterprise activity and is presented as an enterprise fund.

Financial information for separate legal entities related to the City including the Redwood City Facilities and Infrastructure Authority, Redwood City Public Financing Authority, and Successor Agency to the Redevelopment Agency of Redwood City is blended in the City's financial statements in accordance with Governmental Accounting Standards Board Statement No. 14.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

The City's accounting records for governmental operations are maintained on a modified accrual basis, with the revenues being recorded when both measurable and available, and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprises are maintained on the accrual basis.

In developing and modifying the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding 1) the safeguarding of assets against loss from unauthorized use or disposition, and 2) the reliability of financial records for preparing financial statements and maintaining accountability for assets.

Because the cost of internal controls should not outweigh their benefits, the City's controls have been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. The concept of reasonable assurance recognizes that the evaluation of costs and benefits requires estimates and judgments by management. Within this framework, we believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

As demonstrated by the statements and schedules included in the financial section of this report, the City of Redwood City continues to meet its responsibility for sound financial management.

Beginning with the financial statements for fiscal year 2014-15, Redwood City, along with other governmental agencies, was required to implement a new accounting standard, Governmental Accounting Standards Board Statement 68 (GASB 68). GASB 68 required all governmental agencies to record the unfunded pension liability on their balance sheet (i.e. Statement of Net Position). More detailed information regarding the pension liability is available in Note 9.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The local economy is recovering from the “Great Recession” more robustly than the national economy with the unemployment rate in San Mateo County remaining at 3.3% as of June 2016, which was the same as of June 2015, and which is slightly higher than Redwood City’s unemployment rate of 3%. Both San Mateo County and Redwood City unemployment rates are consistently lower than the State’s unemployment rate of 5.7% and the national rate of 4.9%. The number of employed residents in the County increased slightly from 426,600 in June 2015 to 430,900 in June 2016.

The Redwood City commercial real estate market continues to exhibit signs of high demand with the citywide vacancy rate stable at 3.3% as of the second quarter 2016. Vacancy rates as of June 2016 in Redwood City’s downtown area are notably lower, with retail vacancy down to 1.2% from 2.5% last year. The office space vacancy rate has increased slightly to 4.4% as of June 2016 compared to 3.2% as of June 2015.

We believe these indicators paint a positive picture of the local economy and provide a solid underpinning for steady economic growth continuing into the near future. Recognizing that local and regional growth have exacerbated long-term mobility and affordable housing challenges, the City Council has taken numerous steps to address these issues, including adoption of a housing impact fee, authorization of using City land on Bradford Street for affordable housing, and asking the City’s Housing and Human Concerns Committee to assess new strategies for addressing housing challenges. The City Council has also directed staff to complete a citywide transportation study and will undertake several related planning projects, including the El Camino Real Corridor Plan and the Downtown Transit Center and Broadway Streetcar/Urban Circulator Study.

Economic Development Initiatives

In 2011, the City Council adopted the Downtown Precise Plan, to establish development standards for new development within the Downtown area and create a review process that would remove some of the uncertainty associated with the development approval process. The adoption of this document as well as approving several public/private partnerships to get the first few developments in the downtown moving forward has started the creation of a vibrant downtown district where Redwood City residents enjoy working, living, and playing.

The opening of the Crossing 900 Building, brought the first major office development to downtown Redwood City since the development of the City and County offices. This 306,000 square foot building, home to five new businesses and over 1,500 employees, has helped to bolster the daytime population of downtown which is necessary to support the many locally owned restaurants and service businesses in the downtown. In addition to this new development, three other office buildings are currently under construction, which will add an additional 250,000 square feet of new leasable space in the downtown area. Most of the new structures under construction are fully leased with new companies looking to bring their businesses into Downtown Redwood City.

In addition to the new office developments locating in the Downtown, Redwood City is also seeing a growth in housing production. As part of the Downtown Precise Plan, 2,500 new housing units could be built in the Downtown area. As of November 2016, approximately 1,000 of those units are now built and occupied with tenants and the remainder of the 1,500 allocated units are either under construction or completing their entitlements to be built. These new housing units have started to bring a much-needed evening population to the Downtown area, thus creating the critical mass necessary to support new retail establishments. The remaining residential units are expected to be completed near the end of 2018.

Outside of the Downtown area, the City continues to see interest in developing additional housing for the community. Two new residential housing developments are underway along the east side of Veteran’s Boulevard, providing an additional 225 units. 131 units are proposed near the terminus of Redwood Creek at the Bay, and an additional 400 units along with 400,000 square feet of office space are proposed at Broadway Plaza

at Woodside Road. Though the proposed developments have not been approved, there is strong market interest in housing construction in Redwood City. Construction of new housing units will help meet the City's and region's long-term housing challenges.

In addition to the new housing projects outside of the downtown, the Planning Commission issued final approvals for architectural designs for the Stanford in Redwood City project. This was the final step in moving forward with the proposed development that was approved as part of the Stanford in Redwood City Precise Plan and Development Agreement approved by the City Council in September 2013. Phase I of the project will include the construction of 570,000 square feet of office space, a 1,057 space parking structure, a fitness center, childcare facility and a 2.4 acre publicly-accessible open space. As part of the development, Stanford is providing over \$15 million in community benefits for such things as education, sustainability, public transportation studies, affordable housing and more.

Long-Term Financial Planning

Maintaining a sustainable budget and prudently planning for the City's current and long-term needs is a top priority for Redwood City. The City continues to focus strategically on appropriate funding strategies for annual operations, a robust capital improvement program and future liabilities. Each year, the City prepares a five-year forecast to project revenue and expenditure trends. These forecasts are an integral part of the annual budget process as the City seeks to establish and implement its priorities in a fiscally sustainable manner. The City reviews major cost drivers to anticipate and control expenses to the full extent possible and makes fiscal decisions within the framework of the forecast. The City also monitors its revenue sources to identify and plan for trends. A summary of major revenue sources and other significant financial planning items is below.

Sales Tax

Sales tax is an important source of general fund revenue as it accounts for almost 20% of total general fund revenues. Sales tax revenue has increased 2% on a year over year basis in FY 2015-16 but, when compared to FY 2015-16 budget, generated approximately 1% less revenue than expected. Given the cyclical nature of the local economy, the loss of retail sales tax generators such as Office City and Lyngso and the stabilizing of the rate of new vehicles sales, it is anticipated that sales tax revenue will remain flat or possibly even decline in the near future.

Consistent, steady growth in the general retail category, due in part to large retailers and online sales growth in the building materials segment, and growth in the restaurant segment continue to more than offset the decreasing revenue associated with a growing number of businesses engaged in selling and delivering software digitally to their customers. Transactions of this kind are not subject to sales tax under State Board of Equalization Regulations. Regarding retail sales, it is important to note that there is a growing risk of erosion in sales tax revenue due to the increase in online retail sales. The growing trend toward online retail sales and the risk that this poses to local sales tax revenue is a regional issue, not unique to Redwood City.

Property Taxes

Property tax accounts for 40% of City revenue and is a key indicator of the City's economic outlook. Projections for secured taxes in Redwood City in FY 2016-17 call for an 5.5% increase over FY 2015-16 actuals with indications that growth in assessed value will continue in FY 2016-17 due to strong real estate sales, property improvements, and development.

Utilities Users Taxes

This City collects a voter-approved Utilities User Tax (UUT) on gas, electricity, cable and telecommunications services. UUT revenue increased 3.2% in 2015-16 compared to 2014-15, driven by an increase in P.G.&E utility rates and usage, although other sources of UUT revenues such as wireless and cable continue to decline. Following the passage of Assembly Bill 1717 in 2014, the City entered into an agreement with the State Board of

Equalization for the collection of our UUT on prepaid wireless services. We began collecting revenue on prepaid wireless in January 2016 and will continue until AB 1717 sunsets in 2020. This revenue source amounted to \$67,600 for FY 2015-16. While traditional UUT revenue has been dedicated on an annual basis to support the City's capital improvement program, the City has committed this new source of UUT revenue to affordable housing.

Educational Revenue Augmentation Fund Refunds

In FY 1992-93 and FY 1993-94, the State shifted property taxes from cities, counties, and special districts to school districts to supplant funding that the State was providing to school districts. The funds shifted from these local governments are placed into the Educational Revenue Augmentation Fund (ERAF) by the County Controller. The Controller then disburses these funds to school districts based upon the formula prescribed by State law. Any funds remaining in ERAF (after the distribution to the school districts) are returned to the cities, county, and special districts in proportion to the amount they contributed to ERAF. This return of property tax revenue is difficult to anticipate due to complicated State school funding formulas and at risk of reduction or elimination by State action. In FYs 2014-15 and 2015-16, the City received \$5.1 million and \$4.8 million annually respectively. This level of funding was higher than can be expected in the future due to various one-time factors and recent and potential changes in school financing, which the County Controller has indicated could significantly reduce this revenue source in FY 2015-16 and future years. The City's policy is to budget what reasonably can be estimated, which is approximately \$2.5 million or about 52%. Any additional funds will be committed to one time uses and to reduce long term liabilities, per City Council direction.

In Lieu Sales Tax Triple Flip

The "Triple Flip" was part of the State's 2004 budget in which sales and use taxes that previously went to cities and counties were diverted to the State to be used to repay the State's Economic Recovery Bonds. The Economic Recovery Bonds were defeased in July 2015 and the final "Triple Flip" payment was received in August 2016.

Successor Agency to the Redevelopment Agency

As Successor Agency, the City continues the focus on the disposition of the \$10.3 million in funds that had been in the former Redevelopment Agency's possession and which were encumbered for below-market housing through an agreement with the Legal Aid Society. The control of these funds has been in dispute with the State of California Department of Finance (DOF) since the Redevelopment Agency was dissolved in FY 2011-12. The City filed suit against the State challenging the DOF's position that these funds are unencumbered and must be remitted to the County Controller. Although the State prevailed in the Superior Court trial the City's legal team does not agree with the Court's decision and has filed an appeal. The appeal is fully briefed and the City is awaiting a court date.

In the meantime, new State legislation (SB107) was passed in September 2015 requiring that all obligations determined by the DOF be paid in order for successor agencies to receive the benefits of a finding of completion. The City remitted the funds prior to the end of calendar year 2015 for distribution to the taxing entities while it continues to pursue its appeal. The City advised the taxing entities to hold the funds in case the City prevails in this appeal.

The City also continues to work with the State of California regarding the disposition of several former Redevelopment Agency land parcels.

Relevant Financial Policies

In April 1999 the City Council adopted a policy targeting the unreserved portion of the general fund's fund balance designated for subsequent year's expenditures to fall within a range from 15% to 20% of anticipated general fund revenues. As a result of implementing GASB 54 these amounts are now reported under the category "Unassigned

Fund Balances". In recent fiscal years, the City has used balances in excess of the reserve policy to pay down unfunded liabilities.

In addition, the City Council adopted a Debt Disclosure Policy and updated the investment policy. The City reviews these policies regularly and uses them to maintain sound fiscal practices. The City has also established cash management, accounting, budgetary and risk management policies and practices that are essential to the City's long-term fiscal health. These financial policies and practices also promote public confidence and increase the City's credibility in the eyes of bond rating agencies and potential investors. Such policies also provide the resources to react to financial needs in a prudent manner.

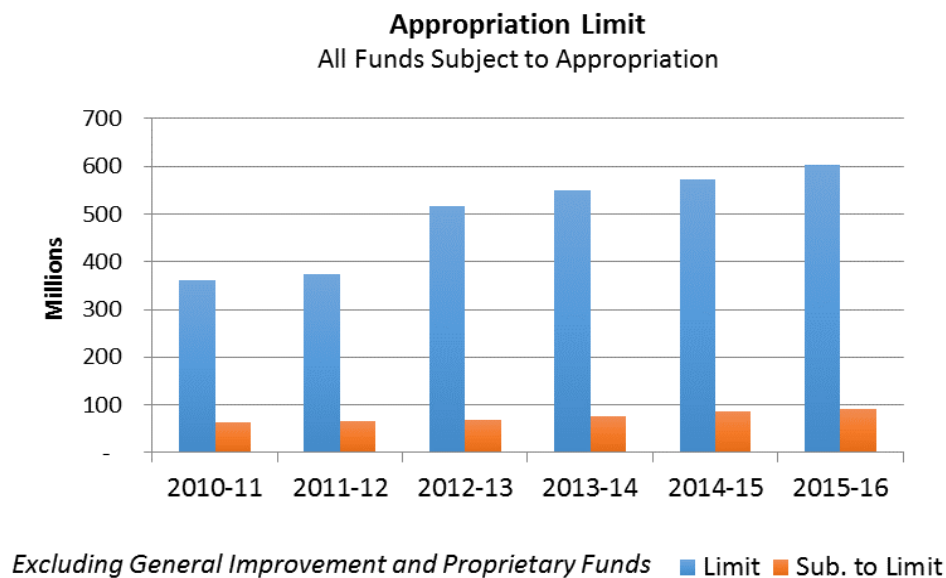
The City also elected to change investment practices by hiring a third party to provide independent, professional investment management services. The purpose is to create a more strategic investment policy, and to diversify the City's investments.

Appropriation Limit

Article XIII B of the California State Constitution, which became effective in FY 1979-80, and which was modified (by Proposition 111) in November 1989, establishes, by formula, an appropriation limit for governmental agencies. Using the appropriations of FY 1978-79 as the base year, the limit is modified by the change in the composite consumer price index, population, and the value of commercial property development within the City limits during each fiscal year. Article XIII B also sets the guidelines as to what is to be included in the appropriation limits.

The appropriation limit for Redwood City for FY 2015-16 was at \$602,484,739 while the actual appropriations subject to the limit amounted to \$ 91,095,700. The 2015-16 appropriation limit has increased from FY 2014-15 due primarily to the increase (3.82%) in per capital personal income, one of the factors used in calculating the change in the appropriation limit.

The following graph indicates the trend in appropriations subject to limitation:



OTHER INFORMATION

Annual Independent Audit

The annual audit of the books and financial records of Redwood City was completed by Badawi and Associates, certified public accountants appointed by the City Council. The independent auditor's report has been made a part of this report.

Awards

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City of Redwood City for its Comprehensive Annual Financial Report (CAFR) for the FY ended June 30, 2015. This is the 29th consecutive year that Redwood City has received this prestigious award. In order to be awarded a certificate of achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the certificate of achievement program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report could not have been achieved without the skillful, dedicated and efficient services of the entire staff of the Finance Division. I would like to extend special recognition to Derek Rampone for his professionalism and leadership in overseeing this process. Special thanks must also be expressed to Toni Saldou, Jun Nguyen Luis Bertelsen, Jennifer Chang, Carolyne Kerans, and Sylvia Peters for their important contributions, and to Nancy Murguia for her support with the publication of this document.

I would also like to thank and commend the City Council and City Manager for their ongoing interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner in the best interests of the residents of Redwood City.

Respectfully submitted,

A handwritten signature in black ink that reads "Kimbra McCarthy". The signature is written in a cursive style with a large, looping flourish at the end.

Kimbra McCarthy
Assistant City Manager of Administrative Services
City of Redwood City
Redwood City, California



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Redwood City
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

CITY OF REDWOOD CITY - REDWOOD CITY, CALIFORNIA

PRINCIPAL OFFICIALS

AS OF JUNE 30, 2016

CITY COUNCIL

John Seybert, Mayor	November 2017
Ian Bain, Vice Mayor	November 2019
Alicia C. Aguirre	November 2019
Janet Borgens.....	November 2019
Jeffrey Gee	November 2017
Diane Howard	November 2017
Shelly Masur.....	November 2019

CITY MANAGER

Melissa Stevenson Diaz

DEPARTMENT DIRECTORS

Assistant City Manager / Community Development.....	Aaron Akin
City Clerk	Silvia Vonderlinden
Finance (Interim)	Starla Jerome-Robinson
Fire Chief	Stan Maupin
Library	Derek Wolfgram
Parks, Recreation, and Community Services	Chris Beth
Police Chief	JR Gamez
Public Works	Ramana Chinnakotla

CITY ATTORNEY (Acting)

Michelle Kenyon

City of Redwood City
1017 Middlefield Road
Redwood City, California 94063
Telephone: (650) 780-7070
Fax: (650) 366-2447
E-Mail: mail@redwoodcity.org
Web Site: www.redwoodcity.org

CITY OF REDWOOD CITY - REDWOOD CITY, CALIFORNIA

FINANCE DEPARTMENT STAFF

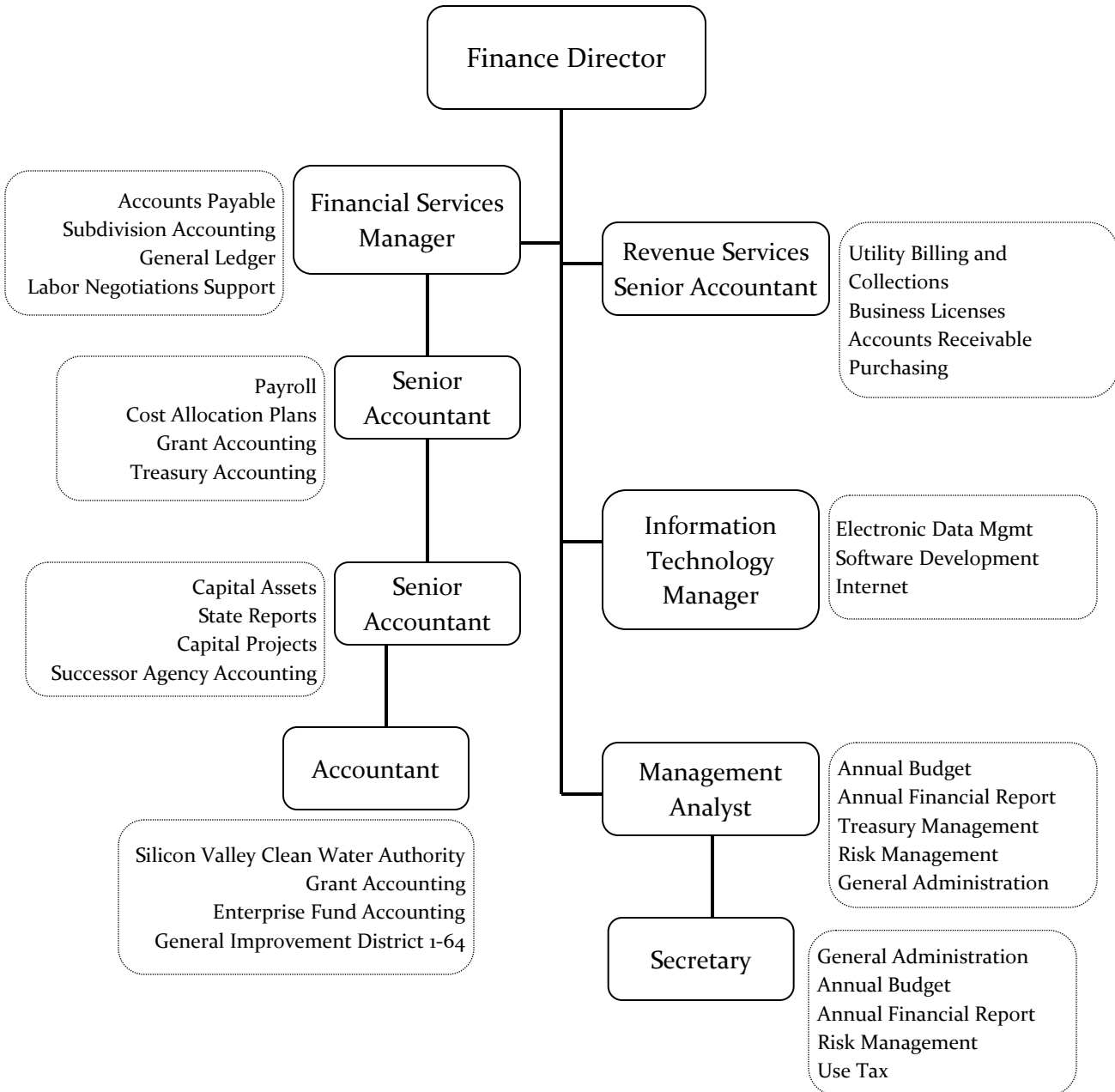
As of June 30, 2016

Starla Jerome-RobinsonInterim Director of Finance
Alison FreemanFinancial Services Manager
Jennifer ChangSenior Accountant
Carolyn KeransSenior Accountant
Jun NguyenSenior Accountant
Antonia SaldouAccountant
Sylvia Bravo PetersManagement Analyst
Nancy MurguiaSecretary



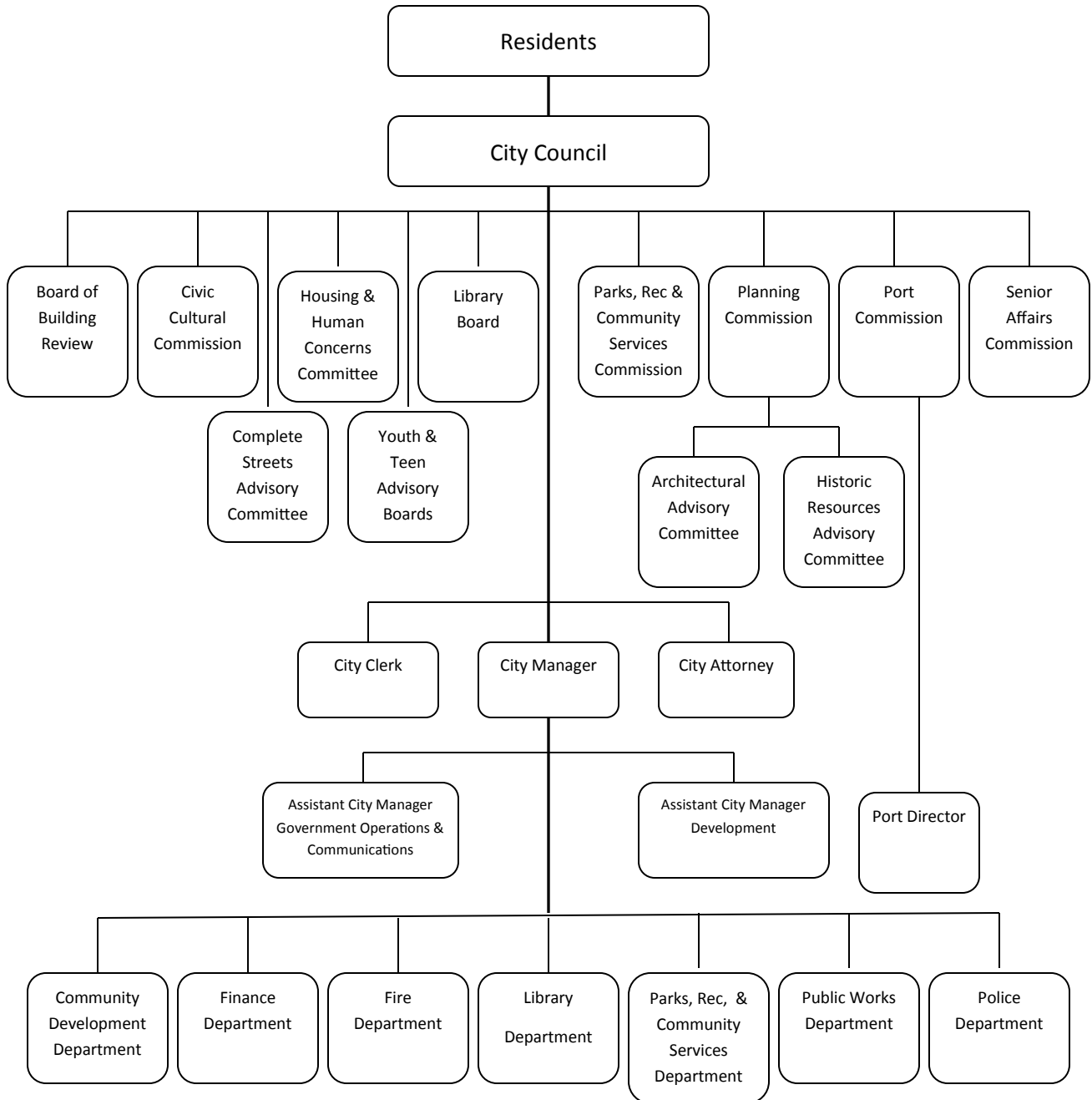
June 30, 2016

Finance Department





June 30, 2016



CORE PURPOSE

Build a Great Community Together

CORE VALUES

Excellence:

Passion to Do Our Best in Each Moment

Integrity:

Do the Right Thing, Not the Easy Thing

Service:

We Care and It Makes a Difference

Creativity:

Freedom to Imagine and Courage to Act



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2016*

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
of the City of Redwood City
Redwood City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redwood City, California (City), as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the City's investment in the Silicon Valley Clean Water Authority, which represents 40 percent, 43 percent and 10 percent, respectively, of the City's assets, net position, and revenues of the Sewer Utility Fund and 12 percent, 17 percent, and 5 percent, respectively, of the assets, net position, and revenues of the business-type activities. The City's investment in the Silicon Valley Clean Water Authority was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for the City's investment in the Silicon Valley Clean Water Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension information, and schedules of funding progress other post-employment benefit plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, general fund comparative statements, general fund comparative budgetary schedules on pages 98-99, combining and individual nonmajor fund financial statements, budgetary comparison information for non-major funds, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The general fund comparative statements, comparative budgetary schedules on pages 98-99, combining and individual nonmajor fund financial statements, and budgetary comparison information for non-major funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the general fund comparative statements, combining and individual nonmajor fund financial statements, and budgetary comparison information for non-major funds are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.



Badawi and Associates
Certified Public Accountants
Oakland, California
December 19, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's Comprehensive Annual Financial Report presents a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and basic financial statements.

FISCAL YEAR 2015-16 FINANCIAL HIGHLIGHTS

During fiscal year 2015-16, the City experienced growth in revenues as the local economy continued to grow. Financial highlights of the fiscal year include the following:

- The City's total net position increased \$30.6 million in FY 2015-16, after a \$34.2 million increase in the preceding fiscal year. At June 30, 2016, net position totaled \$396.1 million, comprised of \$159.7 million for governmental activities and \$236.4 for business-type activities.
- Total City revenues, including program and general revenues, were \$232.9 million, an increase of \$16.7 million over the prior fiscal year, while total expenses were \$202.3 million, an increase of \$20.3 million from FY 2014-15.
- Net position in governmental activities increased \$9.4 million, while net position in business-type activities increased \$21.2 million.
- Governmental program revenues were \$40.9 million, which reflected a decrease of \$4.2 million over the prior fiscal year.
- Governmental general revenues increased to \$97.4 million in FY 2015-16, up \$3.4 million from the prior fiscal year.
- Governmental program expenses increased to \$125.4 million in FY 2015-16, up \$5.4 million from the prior fiscal year.
- Total revenues from business-type activities increased to \$94.6 million in FY 2015-16, up \$17.5 million from the prior fiscal year.
- Total expenses of business-type activities increased to \$76.9 million in FY 2015-16, a \$15.0 million increase over the prior fiscal year.
- General fund revenues of \$118.4 million increased by \$6.2 million over the prior fiscal year.
- General fund expenditures of \$101.7 million increased by \$5.8 million over the prior fiscal year.
- General fund balance of \$28.4 million at June 30, 2016 decreased by \$167 thousand over the prior fiscal year.

For more in-depth information on the highlights above, see pages 9-11.

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 supplementary information
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.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position 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. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. 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 of the City's programs. The Statement of Activities explains in detail the change in Net Position for the fiscal 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 Position 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, which are prepared using the modified accrual basis of accounting, 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 Position 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 activities have been broken down into various functions, such as community development, human services, public safety, transportation, environmental support and protection, leisure, cultural and information services, and policy development and implementation. 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, the Port of Redwood City, and Docketown Marina. 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 full 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 20-21 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Redwood City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Redwood City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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 fiscal year, and may change from fiscal year to fiscal year as a result of changes in the pattern of the City's activities.

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 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 City of Redwood City maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Outlay Fund, which meet the criteria to be considered major funds. Data from the other 20 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Redwood City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund.

The governmental fund financial statements may be found on pages 24-27 of this report.

Proprietary funds are maintained in two ways. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, sewer, parking, Port, and Docktown Marina operations. Internal services 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, and employee benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements may be found on pages 29-31 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 position 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. For the fiscal year ended June 30, 2016 there were no major special revenue funds.

Fiduciary Funds

The City maintains fiduciary funds that consist of a Private Purpose Trust Fund and Agency Funds. The Private Purpose Trust Fund accounts for the activity of the former Redevelopment Agency of Redwood City, while the Agency Funds account for tax free employee and employer contributions made under the provisions of section 125 of the Internal Revenue Code (cafeteria benefits fund), and for transactions involving the Pacific Shores Community Facilities District, the Shores Transportation Improvement District, the One Marina Community Facilities District, and the Community Benefit Improvement District. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, 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 statements may be found on pages 32-33 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 34-84 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may over time serve as a useful indicator of the City's financial position. The City's assets exceeded liabilities by \$365.4 million at June 30, 2015.

City's Net Position (in Millions)

	Governmental Activities		Business-type Activities		Total		Variance
	2016	2015	2016	2015	2016	2015	
	\$	\$	\$	\$	\$	\$	
Cash and investments	152.571	156.331	91.469	87.771	244.040	244.102	-0.025%
Other assets	38.929	37.945	45.971	35.782	84.900	73.727	15.155%
Capital assets	193.563	186.821	200.074	195.333	393.637	382.154	3.005%
Total assets	<u>385.063</u>	<u>381.097</u>	<u>337.514</u>	<u>318.886</u>	<u>722.577</u>	<u>699.983</u>	3.228%
Total deferred outflows of resources	<u>14.391</u>	<u>15.006</u>	<u>4.922</u>	<u>3.359</u>	<u>19.313</u>	<u>18.365</u>	5.162%
Long-term debt outstanding	12.778	12.974	75.700	78.604	88.478	91.578	-3.385%
Other liabilities	<u>217.714</u>	<u>206.570</u>	<u>27.670</u>	<u>25.546</u>	<u>245.384</u>	<u>232.116</u>	5.716%
Total liabilities	<u>230.492</u>	<u>219.544</u>	<u>103.370</u>	<u>104.150</u>	<u>333.862</u>	<u>323.694</u>	3.141%
Total deferred inflows of resources	<u>9.271</u>	<u>26.306</u>	<u>2.692</u>	<u>2.908</u>	<u>11.963</u>	<u>29.214</u>	-59.050%
Net Position:							
Net investment in capital assets	191.852	184.443	132.570	125.259	324.422	309.702	4.753%
Restricted	60.812	57.862	5.662	5.742	66.474	63.604	4.512%
Unrestricted	<u>(92.973)</u>	<u>(92.052)</u>	<u>98.142</u>	<u>84.191</u>	<u>5.169</u>	<u>(7.861)</u>	165.755%
Total net position	<u>159.691</u>	<u>150.253</u>	<u>236.374</u>	<u>215.192</u>	<u>396.065</u>	<u>365.445</u>	8.379%

The largest portion (81.9%) of the City's net position reflects its capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (16.8%) represents resources that are subject to external restrictions on how they may be used. Unrestricted net position may be used to meet the government's ongoing obligations (although portions of unrestricted net position may by law or contract be only used for specified purposes and may not necessarily be used for any general governmental purpose) to residents and creditors. Due to the City's net pension liability, the City's unrestricted net position has a balance of \$5.169 million, or 1.6% of total net position.

The City's net position increased by \$30.6 million during the current fiscal year.

City of Redwood City
Management's Discussion and Analysis
For the fiscal year ended June 30, 2016

Changes in City's Net Position (in Millions)

	Governmental Activities		Business-type Activities		Total		Variance
	2016	2015	2016	2015	2016	2015	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program revenues:							
Community development	9.616	7.631			9.616	7.631	26.012%
Human Services		0.477				0.477	-100.000%
Public safety	8.882	9.064			8.882	9.064	-2.008%
Transportation	7.970	10.288			7.970	10.288	-22.531%
Environmental support and protection	1.562	1.745			1.562	1.745	-10.487%
Leisure, cultural and information services	10.486	13.222			10.486	13.222	-20.693%
Policy development and implementation	2.405	2.735			2.405	2.735	-12.066%
Water			38.228	37.083	38.228	37.083	3.088%
Sewer			45.533	29.837	45.533	29.837	52.606%
Parking			2.402	2.020	2.402	2.020	18.911%
Port of Redwood City			6.863	6.722	6.863	6.722	2.098%
Docktown Marina			0.664	0.681	0.664	0.681	-2.496%
General revenues:							
Taxes/special assessments	95.747	90.284	0.157	0.124	95.904	90.408	6.079%
Investment earnings	1.425	1.055	0.742	0.587	2.167	1.642	31.973%
Gain (loss) on sale of capital assets		1.315				1.315	
Other	0.199	1.278	0.001	0.002	0.200	1.280	-84.375%
Total revenues	<u>138.292</u>	<u>139.094</u>	<u>94.590</u>	<u>77.056</u>	<u>232.882</u>	<u>216.150</u>	7.741%
Expenses							
Community development	10.472	9.592			10.472	9.592	9.174%
Human services	1.673	1.486			1.673	1.486	12.584%
Public safety	65.192	62.454			65.192	62.454	4.384%
Transportation	13.001	12.945			13.001	12.945	0.433%
Environmental support and protection	3.524	2.723			3.524	2.723	29.416%
Leisure, cultural and information services	25.393	23.747			25.393	23.747	6.931%
Policy development and implementation	6.122	7.044			6.122	7.044	-13.089%
Interest on long term debt	0.023	0.039			0.023	0.039	-41.026%
Water			33.505	30.937	33.505	30.937	8.301%
Sewer			34.346	22.082	34.346	22.082	55.538%
Parking			3.006	2.916	3.006	2.916	3.086%
Port of Redwood City			5.179	5.232	5.179	5.232	-1.013%
Docktown Marina			0.826	0.763	0.826	0.763	8.257%
Total expenses	<u>125.400</u>	<u>120.030</u>	<u>76.862</u>	<u>61.930</u>	<u>202.262</u>	<u>181.960</u>	11.157%
Change in net position before transfers	12.892	19.064	17.728	15.126	30.620	34.190	-10.442%
Transfers	<u>(3.453)</u>	<u>(0.022)</u>	<u>3.453</u>	<u>0.022</u>			
Change in net position	9.439	19.042	21.181	15.148	30.620	34.190	-10.442%
Net position - July 1, as restated	<u>150.253</u>	<u>131.211</u>	<u>215.192</u>	<u>200.044</u>	<u>365.445</u>	<u>331.255</u>	10.321%
Net position - June 30	<u>159.692</u>	<u>150.253</u>	<u>236.373</u>	<u>215.192</u>	<u>396.065</u>	<u>365.445</u>	8.379%

GOVERNMENTAL ACTIVITIES

Governmental activities prior to transfers increased the City's net position by \$12.89 million. Including transfers, governmental activities net position increased \$9.44 million. Transfers out of governmental activities and into business-type activities during FY 2015-16 consisted of the transfer out of the General Fund to the Docktown Marina fund of \$3.004 million to cover litigation settlement expenses, transfer out

of the General Fund to the Water Fund in the amount of \$173 thousand to support operations, and transfer out of the Special Gas Tax Street Improvement Special Revenue Fund to the Sewer Fund in the amount of \$276 thousand for a developer fee deposited into the Special Gas Tax Street Improvement Special Revenue Fund in FY 2014-15.

Key elements of the increase/decrease in revenues for governmental activities are as follows:

General governmental revenues (non-program) increased by 3.7%, or \$3.439 million from FY 2014-15 as almost all broad categories of general revenues increased, other than property transfer taxes, gain on sale of capital assets, and other revenues, which all decreased. Within the broad categories, property taxes increased \$3.487 million, sales taxes increased \$1.141 million, franchise taxes increased \$121 thousand, property transfer taxes decreased \$459 thousand, business license taxes increased \$121 thousand, utility users taxes increased \$297 thousand, transient occupancy taxes increased by \$419 thousand, and investment earnings increased by \$370 thousand. There was no gain on sale of capital assets during FY 2015-16, which was a decrease of \$1.315 million. Other revenues decreased \$1.079 million from \$1.278 million in FY 2014-15 to \$199 thousand in FY 2015-16, partly due to presenting the motor vehicle in lieu tax as a single line item (\$337 thousand), which was presented as other revenue in the prior fiscal years.

Community development revenues increased due to an increase in building permits issued and an increase in the grant amount received from the Housing and Urban Development Department for the Community Development Block Grant program. Human services revenues decreased due to the grant funded programs for Fair Oaks Community Center being reclassified to the Leisure, cultural, and information services function. Public safety revenues slightly decreased due to decreases in operating and capital grants and contributions, offset by an increase in fees collected for full fire services provided by Redwood City to the City of San Carlos through an agreement between the Cities. Transportation revenues decreased due to a decrease in gasoline taxes and a decrease in grant revenues, offset by an increase in developer contributions. Environmental support and protection revenues decreased slightly due to the decrease in the receipt of developer contributions. Leisure, cultural and information services decreased primarily due to the large decrease in the receipt of Park Impact Fees for housing projects in the downtown area and at the harbor. Policy development and implementation revenue slightly decreased due to the City receiving less of reimbursement from the State of California for prior fiscal year State mandated programs.

Key elements of the increase/decrease in expenses for governmental activities are as follows:

Total governmental activities expenses were up \$5.37 million or 4.5% due to increases in almost all functions, except policy development and implementation. Interest on long-term debt decreased slightly to \$23 thousand.

Community development expenses increased \$880 thousand primarily due to increases in building regulation, administration, and code enforcement. Human services expenses increased slightly (\$187 thousand) due to general increases related to employee costs and supplies and services. Public safety expenses increased by \$2.738 million primarily due to increases in police administration, property/evidence, PAL, patrol services, and criminal investigation, as well as an increase in fire operations, prevention, training, EMS, emergency operations, and San Carlos Fire operation costs, offset by decreases in fire administration and police records and training. A component of these increased expenses is the increase in required CalPERS contributions. Transportation expenses increased \$56 thousand due to increased expenditures in the Capital Outlay Fund (for non-capitalized transportation

project expenditures), the Transportation Grants Fund and the Traffic Mitigation Fees Fund, offset by a decrease in the Transportation Fund. Environmental support and protection increased \$801 thousand mostly due to the allocation of internal service fund operating losses being allocated differently in FY 2015-16. Leisure, cultural, and information services increased \$1.646 million due to increased costs to operate the Library, and increases in community services and street tree maintenance expenses. Policy development and implementation decreased \$922 thousand due to less expenditures in the capital outlay fund related to non-capitalized policy development and implementation expenditures (projects).

During FY 2015-16 there was a decrease of \$16 thousand in interest expense related to the outstanding 2013 Public Financing Authority Refunding Lease.

BUSINESS-TYPE ACTIVITIES

Business-type activities prior to transfers increased the City's net position by \$17.728 million in FY 2015-16.

Key elements accounting for increases or decreases in revenues and expenses are as follows:

Business-type revenues increased primarily due to the increase in utility rates and parking rates, and an increase in the value of our investment in the Silicon Valley Clean Water Authority (Authority) of \$10.759 million during the FY 2015-16, compared to a decrease of \$4.359 in FY 2014-15. A large part of this increase in the value of the investment was due to our contribution of \$10 million to partially supplant our portion of the bond issued by the Authority in FY 2015-16. Port revenues increased \$141 thousand due to increased maritime revenue from higher cargo tonnage, as well as capital contributions of \$83 thousand that were received in FY 2015-16.

The water utility's expenses were higher in FY 2015-16 due to an increase in the rates charged for water by the San Francisco Public Utilities Commission, an increase in employee costs, utility costs, contractual services, and insurance costs and claims, offset by decreases in supplies and services and non-capitalized project costs.

Sewer utility expenses increased due to an increase in payments to Silicon Valley Clean Water (SVCW) for wastewater treatment, and debt service reimbursement for SVCW debt issued for wastewater system capital improvements, as well as an increase in employee costs, utility costs, non-capitalized project costs, and insurance costs and claims, offset by decreases in maintenance and supplies and services.

The expenses of the parking fund increased \$90 thousand due to slight increases in utility costs, contractual services, and insurance costs and claims, offset by decreases in employee costs, maintenance, and supplies and services.

The expenses of the Port of Redwood City experienced a slight decrease of \$53 thousand primarily due to a decrease in interest expense of \$163 thousand, offset by an increase in operating expenses.

During fiscal year 2015-16, the third full fiscal year of operations of the Docketown Marina by the City, expenses increased by \$63 thousand, primarily due to an increase in employee costs and contractual services, offset by decreases in maintenance, utilities, and supplies and services.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The general government functions are contained in the general, special revenue, debt service, and capital project funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources by using the modified accrual basis of accounting. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At June 30, 2016, the City's governmental funds reported combined fund balances of \$124.939 million, which reflects a decrease of \$2.253 million from the beginning fiscal year balance.

Governmental fund revenues increased \$2.426 million this fiscal year to \$136.882 million. Significant increases occurred in the general fund and transportation grants fund, offset by decreases in the special gas tax street improvement fund, the parks impact and in lieu fee fund, and the One Marina CFD Fund. Expenditures, including capital outlay, increased \$13.81 million this fiscal year to \$131.693 million. A portion of the increase was attributable to the \$5.828 million expenditure increase in the general fund, described below, and increased expenditures related to community development, public safety, and transportation programs.

The general fund is the primary operating fund of the City. At June 30, 2016, unassigned fund balance of the general fund was \$25.2 million, while total fund balance decreased to \$28.438 million from a beginning fund balance of \$28.605 million, as a result of expenditures and transfers out of \$119.130 million exceeding revenues and transfers in of \$118.963 million. Unassigned fund balance decreased \$999 thousand during the fiscal year, leaving less resources available for ongoing operations when compared to the prior fiscal year. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 24.8% of total fund expenditures, while total fund balance represents 28.0% of that same amount.

The following are the major funds that qualified under the reporting criteria for major funds selection:

General Fund – General fund revenues increased approximately \$6.213 million this fiscal year due to increases in all revenues, except for contributions and other revenues. These increases were a result of the continued recovery from the recession. The increase in property taxes of \$3.306 million resulted primarily from an increase in assessed value. There was a slight decrease in revenue received in the general fund from the county as its share of the Education Revenue Augmentation Fund (ERAF) refund in FY 2014-15. ERAF decreased by \$340,297 to a total of \$4.774 million.

ERAF, which was created by state law in the early 1990's, allowed the state to shift on an ongoing basis a portion of each city, county, and special district's property taxes to school districts. This shift allowed the state to decrease the state's general fund support to schools throughout the state and concomitantly

reduced state funding of schools. Within each county, ERAF revenues are allocated to schools based upon a formula that considers, among several factors, the average daily attendance and the amount of each school district's own property tax revenue. Within San Mateo County, the outcome of applying this formula was that the school districts did not require all of the funds shifted from the cities, county, and special districts. Consequently, these funds were returned to each entity in proportion to the amount that was initially collected.

Sales and other taxes increased by \$879 thousand, due to increased taxable sales within the City, as a result of continued economic recovery. Sales taxes increased \$1.141 million, while other taxes decreased \$262 thousand.

Licenses and permits increased \$805 thousand, a 55% increase, due to increases in building activity.

Intergovernmental revenues increased \$721 thousand primarily due to an increase in mutual aid reimbursement revenue from fire operations.

Charges for current services increased \$445 thousand primarily due to an increase in revenue received from the City of San Carlos for fire services provided, and an increase in recreational program revenue.

General fund expenditures increased \$5.828 million over the prior fiscal year. The increase primarily resulted from programmatic changes, including increases in required CalPERS contributions, and additional employees in public safety, leisure, cultural and information services, and policy development and implementation, which enhanced the quality of service and programs provided to the public. Additionally, there were increased consultant costs related to the increased building activity in the City and planning related projects.

Transfers out of the general fund increased \$5.32 million in FY 2015-16 primarily due to an increase in the transfer out to the doctown marina fund of \$2.982 and an increase of \$1.8 million for the transfer to the self-insurance internal service fund to cover increased workers' compensation costs.

Capital Outlay Fund – This fund accounts for resources provided to finance general governmental capital projects. In FY 2015-16, the capital outlay fund generated \$846 thousand in revenue, most of which was from developer contributions. This fund was also the recipient of \$8.822 million of transfers from the general fund primarily from the Utility User's Tax, which has been allocated to support the City's infrastructure. Total outlays were \$12.758 million of which \$7.424 million met the City's criteria for capitalization. The balance (\$5.334 million) was expended in FY 2015-16. Total outlays in the prior fiscal year (FY 2014-15) were \$7.208 million. Of the capital outlay fund's \$28.971 million fund balance, \$16.41 million was committed, and \$12.561 million was assigned.

Proprietary Funds – Enterprise fund net position totaled \$236.373 million at the end of the fiscal year, an increase of \$21.181 million over the prior fiscal year balance of \$215.192 million. Enterprise operating revenues were \$79.798 million this fiscal year, an increase of \$2.777 million over last fiscal year, while net non-operating revenues (expenses) were \$8.754 million compared to a negative \$6.978 million the prior fiscal year. Net non-operating revenues (expenses) experienced a \$15.732 million increase primarily due to decreases in interest expense of \$456 thousand, an increase in investment revenues of \$156 thousand, and an increase in the investment in the Silicon Valley Clean Water Authority of \$15.118 million (current fiscal year increase of \$10.759 versus a decrease of \$4.359 in the prior fiscal year).

Enterprise fund operating expenses were \$73.940 million this fiscal year, up \$15.342 million from the prior fiscal year, most of which was due to higher operating expenses in the sewer utility fund (\$12.265 million).

Water Utility – The water utility fund realized operating income of \$3.960 million in the current fiscal year, down from the operating income of \$6.644 million in the prior fiscal year. Revenues increased by \$1.164 million, while expenses also increased by \$2.568 million, and transfers into the water fund increased by \$689 thousand.

Sewer Utility – The sewer utility fund realized operating income of \$406 thousand in the current fiscal year, down from the operating income of \$10.481 million in the prior fiscal year. Revenues increased by \$11.410 million, while expenses increased by \$7.905 million from the prior fiscal year, primarily due to expenses and increase in the investment in the Silicon Valley Clean Water Authority. Net transfers out increased by \$240 thousand as well.

Parking Fund – Operating revenues increased by \$318 thousand this fiscal year to \$2.401 million, while operating expenses increased by \$90 thousand to \$3.006 million. The net position of the parking fund decreased by \$338 thousand primarily due to depreciation on capital assets.

Port Fund – Operating revenues were slightly up \$58 thousand while operating expenses were up \$75 thousand over FY 2014-15. Nonoperating expenses were down \$141 thousand and capital contributions were up \$83 thousand from FY 2014-15. Overall, net position increased from \$33.245 million to \$34.991 million, or 5.3%.

Docktown Marina – This fund's activity began in March 2013. During this third full fiscal year of operations it had \$664 thousand in operating revenues, \$826 thousand in operating expenses, and \$15 thousand in investment earnings. During the FY 2015-16, the General Fund transferred \$3.004 million into the Docktown Marina Fund in relation to the litigation settlement agreement. The Docktown Marina Fund had a change in net position of \$2.857 million, resulting in an ending net position of \$2.692 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

Property taxes exceeded budget by \$4.133 million primarily due to the receipt of a \$4.774 million payment from the County of San Mateo due to the over-deduction of education revenue augmentation fund amounts from the City in prior fiscal years. This payment exceeded the estimated revenue amount by \$2.274 million. Other factors were the receipt of residual property tax distribution attributable to the former Redevelopment Agency in the amount of \$3.399 million, which exceeded the estimated amount by \$350 thousand, and the overall increase in property taxes as the housing market strengthened.

Sales and other taxes were greater than budget by \$204 thousand mostly due to an unanticipated increase in franchise taxes (\$1.091 million) and utility users tax (\$271 thousand), offset by shortfalls in transient occupancy tax (\$299 thousand) and sales tax (\$227 thousand).

Licenses and permits were less than budget by \$126 thousand due to building permits and fire permits coming in lower than expected.

Use of money and property tax revenue was greater than budget by \$321 thousand due to greater investment earnings than expected as investment returns continued to rise.

Intergovernmental revenue was greater than budget by \$59 thousand, with no large variances in any particular grant or contribution.

Charges for current services were greater than budget by \$488 thousand primarily due to downtown program revenues, planning related fees and recreation program fees exceeding expectations, offset by fire services fees falling short of budget. Fire Services fees were below budget due to lower than expected revenue from fire inspection fees and less revenue related to a fire services contract with the City of San Carlos.

Other revenue was slightly over budget by \$16 thousand due to the receipt of accounts that were sent to collection exceeding original estimates.

Expenditures, overall, were \$1.528 million less than budgeted primarily due to most departments not exceeding their budgets and having unfilled positions stay vacant.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2015-16, the City had \$393.637 million, net of depreciation, invested in a broad range of capital assets used in governmental and business-type activities, as shown in the table below. Additional information on the City's capital assets can be found in Note 4 of this report.

Capital Assets at fiscal Year-end (in Millions)

	Governmental Activities		Business-Type Activities		Total		Variance
	2016	2015	2016	2015	2016	2015	
	\$	\$	\$	\$	\$	\$	
Land	31.397	31.397	3.180	3.180	34.577	34.577	0.000%
Streets	114.667	111.450			114.667	111.450	2.886%
Construction in progress	24.539	16.023	10.008	7.487	34.547	23.510	46.946%
Buildings	83.309	83.309	62.467	61.213	145.776	144.522	0.868%
Equipment	24.622	23.905	1.684	1.682	26.306	25.587	2.810%
Improvements	7.884	6.906	196.336	189.850	204.220	196.756	3.794%
Harbor improvements			4.774	4.774	4.774	4.774	0.000%
Parks, bridges, etc.	32.210	30.619			32.210	30.619	5.196%
Traffic signals	2.641	2.641			2.641	2.641	0.000%
Storm drains	12.190	11.850			12.190	11.850	2.869%
Less accumulated depreciation	(139.895)	(131.279)	(78.376)	(72.853)	(218.271)	(204.132)	6.926%
Total capital assets	193.564	186.821	200.073	195.333	393.637	382.154	3.005%

Governmental Activities – Streets increased due to the completion of the Brewster Avenue pedestrian improvement project and the City's acceptance of developer improvements at several sites throughout the City. Equipment increased due to the replacement and addition of 27 vehicles through the equipment replacement program. Improvements increased due to the completion of the material handling system and installation of the modular early childhood learning center. Parks and bridges increased due to the

completion of the new dog park and the Jardin de Ninos Park renovation. Storm drains increased due to the completion of the Seaport pump station and developer improvements at two sites throughout the City. Construction in progress increased primarily due to work being done on the 101/84 Highway interchange and the Red Morton Community Center synthetic turf replacement and other upgrades to the site.

Business-Type Activities – Buildings increased due to various building improvements at the Port. Equipment slightly increased due to the purchase of equipment at the Port. Increases in the improvements category were caused by completion of a portion of the replacement of the water distribution system, the sewer collection system, and the sewer rehabilitation program. Construction in progress increased due to the extension of the recycled water main, rehabilitation and/or replacement of three pump stations, and replacement of the parking control system in the downtown area.

Long-Term Debt

Issues described in detail in Notes 6 and 7 to Financial Statements.

Outstanding Debt (in Millions)

	Governmental Activities		Business-Type Activities		Total		Variance
	2016	2015	2016	2015	2016	2015	
	\$	\$	\$	\$	\$	\$	
Revenue bonds			74.814	77.749	74.814	77.749	-3.775%
Refunding lease	1.711	2.378			1.711	2.378	-28.049%
Accrued sick leave and vacation	11.067	10.596	0.886	0.855	11.953	11.451	4.384%
Total long term debt	12.778	12.974	75.700	78.604	88.478	91.578	-3.385%

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, 2016, a total of \$14.755 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.

PRIVATE PURPOSE TRUST FUND DEBT

On February 1, 2012, the Redevelopment Agency of the City of Redwood City was dissolved pursuant to California State law, and as of that date, the long-term debt associated with the former Redevelopment Agency was transferred to a private purpose trust fund for the Successor Agency. At June 30, 2016, the Successor Agency had tax allocation bonds outstanding in the amount of \$39,974,921 including unamortized premium and accreted interest payable.

ECONOMIC OUTLOOK AND NEXT FISCAL YEAR'S BUDGET

Redwood City, like many cities, relies heavily upon property taxes and sales taxes to finance general governmental activities with these two revenues accounting for approximately 40.4% and 19.2% of general fund revenues respectively in FY 2015-16. In FY 2015-16 the City experienced significant gains in these revenues with property taxes increasing 7.8% and sales taxes increasing 5.1%. We see the increases in each of these revenues, both of which are sensitive to consumer confidence, reflecting the strength of the local job market. Given the continued increase in the number of local residents employed and the low unemployment rate, we are hopeful that these revenues will continue to grow.

The adopted FY 2016-17 general fund budget projects a surplus of \$168 thousand. For the foreseeable future, contributions to retirement system are estimated to increase each fiscal year, due to changes in the actuarial assumptions and methodologies used by the California Public Employees Retirement System. City staff is monitoring these factors very closely and is keeping the City Council apprised of significant developments. While property taxes and sales taxes have shown strong increases in recent fiscal years, it is unlikely these increases will continue. All of these factors will be taken into consideration when developing the FY 2017-18 budget.

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 Division, at 1017 Middlefield Road, Redwood City, CA 94063.



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2016*

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position and the Statement of Activities 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 of accounting — 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 Position 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 Position 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 position, by subtracting total liabilities from total assets.

The Statement of Net Position summarizes the financial position of the City's governmental activities in a single column, and the financial position of all City 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 position. 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 Statement of Activities 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 activity. The City's general revenues are then listed in the governmental activities or business-type activities column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

CITY OF REDWOOD CITY, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	<u> </u>
	\$	\$	\$
ASSETS			
Cash and investments available for operations	147,841,933	84,582,808	232,424,741
Cash and investments, restricted	4,728,557	6,885,855	11,614,412
Receivables (net of allowance for uncollectibles):			
Taxes and assessments - current	9,699,935		9,699,935
Accounts	1,898,747	5,442,931	7,341,678
Loans	8,429,543		8,429,543
Accrued interest	1,325,919	23,507	1,349,426
Due from other governmental agencies	4,880,129	1,175,766	6,055,895
Internal balances	2,100,000	(2,100,000)	
Advances to RDA successor agency	3,957,246		3,957,246
Inventory of supplies at cost	124,323		124,323
Deposits	530,000	10,360	540,360
Prepaid items and other assets	242,052	1,309,121	1,551,173
Land held for redevelopment	5,741,208		5,741,208
Investment in sewer authority		39,710,068	39,710,068
Investment in sewer capacity rights		400,000	400,000
Capital assets:			
Nondepreciable	55,936,284	13,188,603	69,124,887
Depreciable buildings, property, equipment and infrastructure, net	<u>137,627,494</u>	<u>186,884,694</u>	<u>324,512,188</u>
Total assets	<u>385,063,370</u>	<u>337,513,713</u>	<u>722,577,083</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refundings		1,794,296	1,794,296
Deferred outflows - pension	155,127		155,127
Deferred pension contributions	<u>14,235,421</u>	<u>3,127,358</u>	<u>17,362,779</u>
Total deferred outflows of resources	<u>14,390,548</u>	<u>4,921,654</u>	<u>19,312,202</u>
LIABILITIES			
Accounts payable	7,579,111	6,298,441	13,877,552
Accrued interest payable	6,461	1,034,646	1,041,107
Accrued payroll	4,352,304		4,352,304
Deposits payable	8,175,968	1,189,448	9,365,416
Unearned revenue	6,368,221	2,213,490	8,581,711
Insurance claims payable:			
Due in one year	4,277,299		4,277,299
Due in more than one year	18,839,543		18,839,543
Accrued sick leave and vacation:			
Due in one year	432,796	402,093	834,889
Due in more than one year	10,633,804	402,093	11,035,897
Net OPEB obligation due in more than one year	6,488,784	704,449	7,193,233
Net Pension liability	161,625,625	16,311,237	177,936,862
Long-Term Debt:			
Due in one year	676,920	2,851,916	3,528,836
Due in more than one year	<u>1,034,666</u>	<u>71,962,031</u>	<u>72,996,697</u>
Total liabilities	<u>230,491,502</u>	<u>103,369,844</u>	<u>333,861,346</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	9,271,040	2,692,013	11,963,053
Total deferred inflows of resources	<u>9,271,040</u>	<u>2,692,013</u>	<u>11,963,053</u>
NET POSITION			
Net investment in capital assets	<u>191,852,192</u>	<u>132,569,634</u>	<u>324,421,826</u>
Restricted for:			
Capital projects	14,467,826	438,201	14,906,027
Transportation	9,534,679		9,534,679
Environmental support	20,013,048		20,013,048
Leisure, cultural, and information services	255,061		255,061
Debt service		5,224,265	5,224,265
Community development projects	16,445,436		16,445,436
Public safety	<u>96,031</u>		<u>96,031</u>
Total restricted	<u>60,812,081</u>	<u>5,662,466</u>	<u>66,474,547</u>
Unrestricted	<u>(92,972,897)</u>	<u>98,141,410</u>	<u>5,168,513</u>
Total net position	<u>159,691,376</u>	<u>236,373,510</u>	<u>396,064,886</u>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Overhead Charges	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$	\$	\$
Governmental Activities:								
Community development	10,469,065	2,922	6,340,242	2,159,728	1,116,553	(855,464)		(\$855,464)
Human services	1,673,308					(1,673,308)		(1,673,308)
Public safety	65,192,296		7,905,079	977,001		(56,310,216)		(56,310,216)
Transportation	13,001,063			1,486,065	6,483,545	(5,031,453)		(5,031,453)
Environmental support and protection	3,504,576	19,460	1,460,797	14,517	86,195	(1,962,527)		(1,962,527)
Leisure, cultural and information services	25,367,819	24,784	3,090,945	2,489,586	4,905,872	(14,906,200)		(14,906,200)
Policy development and implementation	7,090,052	(967,772)	1,775,752	628,933		(3,717,595)		(3,717,595)
Interest on long term debt	23,269					(23,269)		(23,269)
Total Governmental Activities	126,321,448	(920,606)	20,572,815	7,755,830	12,592,165	(84,480,032)		(84,480,032)
Business-Type Activities:								
Water Utility Fund	32,958,022	547,006	35,202,290	16,316	3,009,151		4,722,729	4,722,729
Sewer Utility Fund	34,094,403	251,162	45,510,319		23,046		11,187,800	11,187,800
Parking Fund	2,915,043	90,686	2,400,997	927			(603,805)	(603,805)
Port of Redwood City	5,179,284		6,779,863		82,799		1,683,378	1,683,378
Docktown Marina	794,449	31,752	663,658				(162,543)	(162,543)
Total Business-Type Activities	75,941,201	920,606	90,557,127	17,243	3,114,996		16,827,559	16,827,559
Total	202,262,649		111,129,942	7,773,073	15,707,161	(84,480,032)	16,827,559	(67,652,473)
General revenues:								
Taxes:								
Property taxes						48,033,490	157,417	48,190,907
Sales taxes						23,513,420		23,513,420
Franchise taxes						4,349,427		4,349,427
Property transfer taxes						946,259		946,259
Business license taxes						2,483,708		2,483,708
Utility users taxes						9,632,779		9,632,779
Transient occupancy taxes						6,451,477		6,451,477
Motor vehicle in lieu tax						336,777		336,777
Investment Earnings						1,424,919	742,410	2,167,329
Other						199,510	755	200,265
Transfers						(3,453,013)	3,453,013	
Total general revenues and transfers						93,918,753	4,353,595	98,272,348
Change in Net Position						9,438,721	21,181,154	30,619,875
Net position-Beginning						150,252,655	215,192,356	365,445,011
Net position-Ending						159,691,376	236,373,510	396,064,886

See accompanying notes to financial statements



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2016*

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between fund types. The governmental funds described below were determined to be major funds by the City in fiscal year 2015-16.

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.

CITY OF REDWOOD CITY, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund \$	Capital Outlay Fund \$	Non-Major Governmental Funds \$	Total Governmental Funds \$
ASSETS				
Cash and investments available for operations	35,852,795	27,229,095	48,405,464	111,487,354
Cash and investments, restricted		128,491	4,600,066	4,728,557
Receivables (net of allowance for uncollectibles):				
Taxes and assessments - current	9,141,396		558,539	9,699,935
Accounts	1,643,694		30,007	1,673,701
Loans	1,205,478	214,286	7,009,779	8,429,543
Accrued interest	279,016		1,041,144	1,320,160
Due from other governmental agencies	3,122,201		1,548,126	4,670,327
Due from other funds		495,263	8,607	503,870
Advances to RDA successor agency		2,269,543	1,687,703	3,957,246
Prepaid items	86,385	104,202	1,500	192,087
Land held for redevelopment			5,741,208	5,741,208
Total Assets	51,330,965	30,440,880	70,632,143	152,403,988
LIABILITIES				
Accounts payable	3,984,399	1,026,178	1,959,836	6,970,413
Accrued payroll	4,352,304			4,352,304
Deposits payable	7,720,787	444,093	11,088	8,175,968
Due to other funds	503,870			503,870
Unearned revenue	6,301,397		66,824	6,368,221
Accrued sick leave and vacation	30,137		27,760	57,897
Total Liabilities	22,892,894	1,470,271	2,065,508	26,428,673
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - interest			1,035,962	1,035,962
Total Deferred Inflows of Resources			1,035,962	1,035,962
FUND BALANCES				
Nonspendable:				
Loans	1,205,478			1,205,478
Prepaid items	86,385	104,202	1,500	192,087
Restricted for:				
Community development			15,409,474	15,409,474
Public safety			96,031	96,031
Transportation			9,533,184	9,533,184
Environmental support and protection			2,411,850	2,411,850
Leisure, cultural and information services			17,856,259	17,856,259
Capital projects			14,058,832	14,058,832
Other purposes	96,338		312,656	408,994
Committed to:				
General plan	837,563			837,563
Capital projects		16,305,266	2,573,833	18,879,099
Community benefits			955,756	955,756
Human services financial assistance			913,530	913,530
Housing purposes			1,698,497	1,698,497
Assigned to:				
Capital projects		12,561,141	1,709,271	14,270,412
Other purposes	978,967			978,967
Unassigned:	25,233,340			25,233,340
TOTAL FUND BALANCES	28,438,071	28,970,609	67,530,673	124,939,353
Total Liabilities, Deferred Inflows of Resources and Fund Balances	51,330,965	30,440,880	70,632,143	152,403,988

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
RECONCILIATION OF THE
GOVERNMENTAL FUNDS - BALANCE SHEET
WITH THE STATEMENT OF NET POSITION
JUNE 30, 2016

	\$
TOTAL FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS	124,939,353
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:</p>	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	184,594,448
ALLOCATION OF INTERNAL SERVICE FUND NET POSITION	
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 assets and liabilities of the Internal Service Funds are therefore included in Governmental Activities in the Statement of Net Position.	9,234,790
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
The amounts below are revenues in the statement of activities that do not provide current financial resources and therefore are not reported as revenues in the Funds:	
Interest revenue	1,035,962
LONG TERM ASSETS AND LIABILITIES	
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	(1,711,586)
Interest payable	(6,461)
Accrued sick leave and vacation	(10,052,545)
Net OPEB obligation	(5,997,462)
Net Pension liability	(147,255,515)
DEFERRED OUTFLOWS OF RESOURCES - Deferred employer pension contributions	11,442,790
DEFERRED OUTFLOWS OF RESOURCES - Pension	155,127
DEFERRED INFLOWS OF RESOURCES - Pension	(6,687,525)
NET POSITION OF GOVERNMENTAL ACTIVITIES	159,691,376

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, 2016

	General Fund	Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$
REVENUES				
Property taxes/special assessments	47,851,873		1,460,797	49,312,670
Sales and other taxes	44,186,332			44,186,332
Licenses and permits	2,272,333	7,707	4,871,246	7,151,286
Fines, forfeitures and penalties	767,857		215,592	983,449
Use of money and property	569,715	270,765	1,324,263	2,164,743
Intergovernmental	5,475,525	86,195	7,703,326	13,265,046
Charges for current services	16,280,079	34,006	586,764	16,900,849
Contributions	431,924	436,003	1,428,146	2,296,073
Other	599,378	10,905	10,964	621,247
Total Revenues	118,435,016	845,581	17,601,098	136,881,695
EXPENDITURES				
Current Operations:				
Community development	8,267,137	338,213	1,715,457	10,320,807
Human services	1,524,187		100,000	1,624,187
Public safety	64,493,704	422,723	104,073	65,020,500
Transportation	290,747	3,523,346	5,285,624	9,099,717
Environmental support and protection	245,121	587,979	1,527,069	2,360,169
Leisure, cultural and information services	23,115,583	120,108	301,471	23,537,162
Policy development and implementation	3,661,518	342,055	255,559	4,259,132
Capital outlay	44,485	7,423,665	7,261,874	14,730,024
Debt service:				
Principal retirement			666,814	666,814
Interest and fiscal charges	41,457		33,239	74,696
Total Expenditures	101,683,939	12,758,089	17,251,180	131,693,208
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	16,751,077	(11,912,508)	349,918	5,188,487
OTHER FINANCING SOURCES (USES)				
Transfers in	527,271	8,822,477	1,446,143	10,795,891
Transfers (out)	(17,445,633)	(209,808)	(581,993)	(18,237,434)
Total Other Financing Sources (Uses)	(16,918,362)	8,612,669	864,150	(7,441,543)
NET CHANGE IN FUND BALANCES	(167,285)	(3,299,839)	1,214,068	(2,253,056)
Fund balances - beginning	28,605,356	32,270,448	66,316,605	127,192,409
FUND BALANCES - ENDING	28,438,071	28,970,609	67,530,673	124,939,353

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 FISCAL YEAR ENDED JUNE 30, 2016

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 Position 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	(2,253,056)
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	14,771,876
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$1,250,744 which has already been allocated to serviced funds.)	(7,844,211)
Loss on sale of capital assets	(780)
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 Position. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities	
Repayment of debt principal is added back to fund balance	666,814
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)	
Change in compensated absences	(536,002)
Change in interest payable	9,970
Interest receivable and intergovernmental revenue	(171,848)
Deferred pension contributions	11,442,790
Pension expense	(8,034,417)
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 Position - All Internal Service Funds	1,387,585
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	9,438,721

See accompanying notes to financial statements

PROPRIETARY FUND FINANCIAL STATEMENTS

ENTERPRISE 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 four-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.

DOCKTOWN MARINA

This fund is used to account for the operation of the Docktown Marina including administration, operations, maintenance and billing/collections.

INTERNAL SERVICE FUNDS

These funds are used to account for the financing of goods and services provided by one City department to others on a cost reimbursement basis. Internal service funds are included with enterprise funds as both use the same accounting and financial reporting.

CITY OF REDWOOD CITY, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2016

	Business-Type Activities-Enterprise Funds					Totals	Governmental Activities- Internal Service Funds
	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Non-Major Docktown Marina		
	\$	\$	\$	\$	\$	\$	\$
ASSETS							
Current assets:							
Cash and investments available for operations	31,306,204	25,342,608	10,022,281	14,964,469	2,947,246	84,582,808	36,354,579
Receivables (net of allowance for uncollectibles):							
Accounts	2,944,782	1,709,370	55,367	725,185	8,227	5,442,931	225,046
Accrued interest	23,507					23,507	5,759
Due from other governmental agencies	185,220	990,546				1,175,766	209,802
Due from other funds							300,000
Inventory of supplies at cost							124,323
Deposits	10,360					10,360	530,000
Prepaid items and other assets	40,686	969,354		299,081		1,309,121	49,965
Total current assets	<u>34,510,759</u>	<u>29,011,878</u>	<u>10,077,648</u>	<u>15,988,735</u>	<u>2,955,473</u>	<u>92,544,493</u>	<u>37,799,474</u>
Noncurrent assets:							
Cash and investments, restricted	5,391,178		438,201	1,056,476		6,885,855	
Advances to other funds							1,800,000
Investment in sewer authority		39,710,068				39,710,068	
Investment in sewer capacity rights				400,000		400,000	
Capital assets:							
Nondepreciable	2,591,000	3,797,731	1,427,221	5,372,651		13,188,603	434,894
Depreciable buildings, property, equipment and infrastructure, net	108,632,668	26,237,651	21,897,271	30,004,199	112,905	186,884,694	8,534,436
Total noncurrent assets	<u>116,614,846</u>	<u>69,745,450</u>	<u>23,762,693</u>	<u>36,833,326</u>	<u>112,905</u>	<u>247,069,220</u>	<u>10,769,330</u>
Total assets	<u>151,125,605</u>	<u>98,757,328</u>	<u>33,840,341</u>	<u>52,822,061</u>	<u>3,068,378</u>	<u>339,613,713</u>	<u>48,568,804</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred charge on refundings	1,544,251			250,045		1,794,296	
Deferred employer pension contributions	1,645,828	802,410	424,768	165,636	88,716	3,127,358	2,792,631
Total deferred outflows of resources	<u>3,190,079</u>	<u>802,410</u>	<u>424,768</u>	<u>415,681</u>	<u>88,716</u>	<u>4,921,654</u>	<u>2,792,631</u>
LIABILITIES							
Current liabilities:							
Accounts payable	3,474,483	1,792,117	456,298	535,266	40,277	6,298,441	608,698
Deposits payable	971,088		13,200	162,693	42,467	1,189,448	
Due to other funds	300,000					300,000	
Insurance claims payable - current portion							4,277,299
Accrued sick leave and vacation - current portion	243,611	87,006	71,476			402,093	379,703
Revenue bonds payable - current portion	2,080,000			771,916		2,851,916	
Unearned revenue	1,956,324		81,886	175,280		2,213,490	
Accrued interest payable	985,866			48,780		1,034,646	
Total current liabilities	<u>10,011,372</u>	<u>1,879,123</u>	<u>622,860</u>	<u>1,693,935</u>	<u>82,744</u>	<u>14,290,034</u>	<u>5,265,700</u>
Noncurrent liabilities:							
Insurance claims payable							18,839,543
Accrued sick leave and vacation	243,611	87,006	71,476			402,093	576,455
Advances from other funds	1,800,000					1,800,000	
Net OPEB obligation	306,124	115,029	52,540	230,756		704,449	491,322
Net Pension liability	8,054,634	3,838,315	2,308,773	1,781,952	327,563	16,311,237	14,370,110
Revenue bonds payable	57,542,450			14,419,581		71,962,031	
Total noncurrent liabilities	<u>67,946,819</u>	<u>4,040,350</u>	<u>2,432,789</u>	<u>16,432,289</u>	<u>327,563</u>	<u>91,179,810</u>	<u>34,277,430</u>
Total liabilities	<u>77,958,191</u>	<u>5,919,473</u>	<u>3,055,649</u>	<u>18,126,224</u>	<u>410,307</u>	<u>105,469,844</u>	<u>39,543,130</u>
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows - pension	1,453,308	689,268	373,593	120,882	54,962	2,692,013	2,583,515
NET POSITION							
Net investment in capital assets	51,601,217	30,035,382	23,324,492	27,495,638	112,905	132,569,634	8,969,330
Restricted for capital projects			438,201			438,201	
Restricted for debt service	4,405,312			818,953		5,224,265	
Unrestricted	18,897,656	62,915,615	7,073,174	6,676,045	2,578,920	98,141,410	265,460
Total net position	<u>74,904,185</u>	<u>92,950,997</u>	<u>30,835,867</u>	<u>34,990,636</u>	<u>2,691,825</u>	<u>236,373,510</u>	<u>9,234,790</u>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities-Enterprise Funds					Totals	Governmental Activities- Internal Service Funds
	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Non-Major Downtown Marina		
Operating Revenues:							
Charges for services	35,202,290	34,751,478	2,400,997	6,779,863	663,658	79,798,286	27,064,029
Total Operating Revenues	35,202,290	34,751,478	2,400,997	6,779,863	663,658	79,798,286	27,064,029
Operating Expenses:							
Employee services	5,077,450	2,562,626	1,090,817	1,316,203	301,684	10,348,780	12,280,119
Maintenance	1,707,202	824,622	75,132	116,100	12,564	2,735,620	774,227
Water purchases	15,225,601					15,225,601	
Utilities	1,019,854	775,485	152,554	256,019	70,559	2,274,471	40,833
Contractual services	1,530,473	25,101,346	850,222	695,022	216,969	28,394,032	3,701,041
Supplies and services	2,399,434	1,639,287	131,879	516,769	154,003	4,841,372	2,634,548
Noncapitalized projects	3,314	2,254,223				2,257,537	
Depreciation and amortization	2,993,516	627,173	579,103	1,289,310	32,258	5,521,360	1,250,774
Insurance and claims	1,285,162	560,803	126,022	330,618	38,164	2,340,769	9,399,166
Total Operating Expenses	31,242,006	34,345,565	3,005,729	4,520,041	826,201	73,939,542	30,080,708
Operating Income (Loss)	3,960,284	405,913	(604,732)	2,259,822	(162,543)	5,858,744	(3,016,679)
Nonoperating Revenues (Expenses):							
Gain (loss) on disposal of capital assets							(54,542)
Property taxes			157,417			157,417	
Grant revenue	16,316		927			17,243	
Investment earnings	306,009	250,884	108,437	61,861	15,219	742,410	401,827
Interest expense	(2,252,122)			(628,180)		(2,880,302)	
Increase (decrease) in investment in sewer authority		10,758,841				10,758,841	
Insurance recovery	755					755	7,479
Contributions							
Other	(10,900)			(31,063)		(41,963)	
Net Nonoperating Revenues (Expenses)	(1,939,942)	11,009,725	266,781	(597,382)	15,219	8,754,401	354,764
Net Income (Loss) Before Capital Contributions and Transfers	2,020,342	11,415,638	(337,951)	1,662,440	(147,324)	14,613,145	(2,661,915)
Capital contributions	3,009,151	23,046		82,799		3,114,996	60,970
Transfers in	689,046	276,000			3,004,253	3,969,299	4,000,000
Transfers (out)		(516,286)				(516,286)	(11,470)
Total Capital Contributions and Transfers	3,698,197	(217,240)		82,799	3,004,253	6,568,009	4,049,500
Change in net position	5,718,539	11,198,398	(337,951)	1,745,239	2,856,929	21,181,154	1,387,585
Total net position-beginning	69,185,646	81,752,599	31,173,818	33,245,397	(165,104)	215,192,356	7,847,205
Total net position-ending	74,904,185	92,950,997	30,835,867	34,990,636	2,691,825	236,373,510	9,234,790

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, 2016

	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Non-Major Docktown Marina	Totals	Governmental Activities - Internal Service Funds
	\$	\$	\$	\$	\$	\$	\$
Cash flows from operating activities:							
Cash received from customers	34,716,844	35,333,751	2,412,250	6,769,783	659,039	79,891,667	
Cash received from interfund services provided							27,369,714
Cash payments to suppliers for goods and services	(20,350,543)	(28,900,029)	(875,944)	(1,872,247)	(446,501)	(52,445,264)	(14,628,979)
Cash payments to employees for services	(5,380,923)	(2,730,382)	(1,084,812)	(1,380,018)	(318,120)	(10,894,255)	(12,829,869)
Right of way compensation	(2,262,500)	(1,865,119)	(42,000)			(4,169,619)	
Net cash provided by (used in) operating activities	6,722,878	1,838,221	409,494	3,517,518	(105,582)	12,382,529	(89,134)
Cash flows from noncapital financing activities:							
Nonoperating grant revenue	16,316		927	51,736		68,979	
Insurance recovery	755					755	7,479
Property taxes			157,417			157,417	
Transfers in	689,046	276,000			3,004,253	3,969,299	4,000,000
Transfers out		(516,286)				(516,286)	(11,470)
Advances to other funds	(300,000)					(300,000)	300,000
Other				256		256	
Net cash provided by (used in) noncapital financing activities	406,117	(240,286)	158,344	51,992	3,004,253	3,380,420	4,296,009
Cash flows from capital and related financing activities:							
Acquisition and construction of capital assets	(3,283,736)	(4,026,740)	(871,561)	(2,081,112)		(10,263,149)	(1,066,244)
Contributions	3,009,151	23,046				3,032,197	60,970
Principal retirements	(2,200,153)			(736,029)		(2,936,182)	
Interest paid	(2,027,984)			(610,471)		(2,638,455)	
Proceeds from sale of capital assets							(54,542)
Net cash used in capital and related financing activities	(4,502,722)	(4,003,694)	(871,561)	(3,427,612)		(12,805,589)	(1,059,816)
Cash flows from investing activities:							
Interest on investments	304,438	250,884	108,437	61,861	15,220	740,840	399,400
Net cash provided by investing activities	304,438	250,884	108,437	61,861	15,220	740,840	399,400
Net increase (decrease) in cash and cash equivalents	2,930,711	(2,154,875)	(195,286)	203,759	2,913,891	3,698,200	3,546,459
Cash and cash equivalents at beginning of year	33,766,671	27,497,483	10,655,768	15,817,186	33,355	87,770,463	32,808,120
Cash and cash equivalents at end of year	36,697,382	25,342,608	10,460,482	16,020,945	2,947,246	91,468,663	36,354,579
Financial statement presentation:							
Cash and investments available for operations	31,306,204	25,342,608	10,022,281	14,964,469	2,947,246	84,582,808	36,354,579
Cash and investments, restricted	5,391,178	-	438,201	1,056,476	-	6,885,855	-
Cash and cash equivalents at end of year	36,697,382	25,342,608	10,460,482	16,020,945	2,947,246	91,468,663	36,354,579
Reconciliation of Net Cash Flow from Operating Activities							
Operating income (loss)	3,960,284	405,913	(604,732)	2,259,822	(162,543)	5,858,744	(3,016,679)
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation	2,993,516	627,173	579,103	1,289,310	32,258	5,521,360	1,250,774
Change in assets and liabilities:							
Decrease (increase) in accounts receivable	(408,643)	(167,551)	(42,199)	(10,080)	(4,631)	(633,104)	280,954
Decrease (increase) in due from other governmental agencies	796,678	749,824				1,546,502	24,731
Decrease (increase) in inventory/prepaid expenses/deposits	(4,611)	(85,533)		38,379	7,500	(44,265)	99,503
Increase (decrease) in vacation & sick leave payable	2,670	(18,360)	52,472			36,782	(30,221)
Increase (decrease) in accounts payable	562,608	476,151	417,865	8,430	38,258	1,503,312	(391,951)
Increase (decrease) in customer deposits	36,308		(28,434)	(254)	12	7,632	
Increase (decrease) in unearned revenue	(909,789)		81,886	75		(827,828)	
Increase (decrease) in deferred employer contributions	(929,366)	(462,217)	(205,778)	(6,920)	(61,780)	(1,666,061)	(1,493,486)
Increase (decrease) in other pension deferred inflows	(11,929)	(5,815)	5,100	(203,026)	(644)	(216,314)	(20,241)
Increase (decrease) in net pension liability	635,152	318,636	154,211	141,782	45,988	1,295,769	994,198
Increase (decrease) in insurance claims payable							2,213,284
Total adjustments	2,762,594	1,432,308	1,014,226	1,257,696	56,961	6,523,785	2,927,545
Net cash provided by (used in) operating activities	6,722,878	1,838,221	409,494	3,517,518	(105,582)	12,382,529	(89,134)
Noncash investing, capital and financing activities:							
Noncash capital contributions	207,190	23,046				230,236	
Gain (loss) on disposal of equipment							(54,542)
Increase (decrease) in investment in sewer authority		10,758,845				10,758,845	

See accompanying notes to financial statements

CITY OF REDWOOD CITY
 FIDUCIARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2016

	Successor Agency Private Purpose Trust Fund	Agency Funds
	<u>\$</u>	<u>\$</u>
ASSETS		
Cash and Investments, restricted	6,834,640	3,246,334
Accounts	667	
Loans	1,073,924	
Accrued Interest Receivable	249,924	
Deposits		29,505
Non depreciable capital assets	3,126,664	
Depreciable capital assets, net	13,654,556	
Unamortized bond issuance costs	<u>528,140</u>	
 Total Assets	 <u><u>25,468,515</u></u>	 <u><u>3,275,839</u></u>
 LIABILITIES		
Accounts payable	4,031	
Advances from City	3,957,246	
Accrued interest payable		
Long-term debt:		
Due in one year	1,889,861	
Due in more than one year	38,085,060	
Due to Bondholders		3,115,744
Employee Benefit Plans Payable		72,044
Due to Community Benefit Improvement District		<u>88,051</u>
 Total Liabilities	 <u><u>43,936,198</u></u>	 <u><u>3,275,839</u></u>
 NET POSITION		
Held in trust for other governments	<u><u>(18,467,683)</u></u>	

See accompanying notes to financial statements

CITY OF REDWOOD CITY
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Successor Agency Private Purpose Trust Fund <hr style="border: none; border-top: 1px solid black;"/>
	\$
ADDITIONS	
Property taxes	5,211,208
Investment earnings	<u>87,875</u>
Total additions	<u>5,299,083</u>
DEDUCTIONS	
Community development	124,211
Depreciation	517,127
Interest and fiscal agency expenses of former redevelopment agency	<u>2,495,181</u>
Total deductions	<u>3,136,519</u>
Change in net position	2,162,564
Net position - beginning, as restated	<u>(20,630,247)</u>
Net position - ending	<u><u>(18,467,683)</u></u>

See accompanying notes to financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Redwood City was incorporated in 1867, became a Charter City in 1929, and operates under a council-manager form of government. The City has defined its reporting entity in accordance with generally accepted accounting principles (“GAAP”) in the United States of America, which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body’s financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude. A primary government is financially accountable and shares a financial benefit or burden relationship if it appoints a voting majority of an organization’s governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Based upon the application of these criteria, the following is a brief description of each component unit included within the City’s reporting entity. All such component units have been “blended” as though they are part of the primary government because the component unit’s governing body is substantially the same as the City’s primary government and there is a financial benefit or burden relationship between the City and the component unit, management of the City has operational responsibilities for the component unit, and/or the component units provide services entirely to the City or otherwise exclusively benefits the City, even though it does not provide services directly to it.

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 (PFA) 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 former Redevelopment Agency. The PFA has since issued various types of debt on behalf of the City and the former Redevelopment Agency.

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. Financial statements for the Port of Redwood City may be obtained from the Port at 675 Seaport Blvd., Redwood City, CA 94063.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate financial statements are not prepared for other component units.

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 Governmental 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.

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

Government-wide Statements: The Statement of Net Position 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. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities, which are presented as internal balances and eliminated in the total primary government column. 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 non-major funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. 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. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Operating expenses for proprietary funds are those expenses that are essential to the primary operations of the funds. All other expenses are reported as non-operating expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Major Funds

GASB Statement No. 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 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.

The City reported all of its enterprise funds except the Docktown Marina Fund as major funds in the accompanying financial statements:

Water utility fund is 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, and employee benefits. These services are provided to departments and other governments on a cost-reimbursement basis.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 one private purpose trust fund to account for activities of the Successor Agency to the former Redevelopment Agency.

The City also maintains five agency funds - Employee Benefit Plans Fund, Pacific Shores Community Facilities District Fund, the Shores Transportation Improvement District Fund, the One Marina Community Facilities District Fund, and the Community Benefit Improvement District Fund - as an agent of the bondholders, City employees, or the Downtown Redwood City Community Benefit Improvement District.

D. Basis of Accounting

The government-wide and proprietary 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 90 days after year-end.

The City's fiduciary funds consist of one private purpose trust fund and agency funds which use the accrual basis of accounting. The private purpose trust fund uses the economic resources measurement focus, whereas the agency funds do not have a measurement focus.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 position may be available to finance program expenditures/expenses. The City's policy is to first apply restricted resources to such programs, followed by unrestricted resources if necessary.

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

E. *Compensated Absences*

In compliance with Governmental Accounting Standards Board Statement No. 16, the City has established a liability for accrued sick leave and vacation in relevant funds. For governmental activities, the current liability for the payouts made after June 30, 2016 for those employees retired on or before June 30, 2016 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 1,920 hours depending on the bargaining unit (with the exception that Battalion Chiefs who work 24 hour shifts may accumulate up to 2,400 hours of sick leave).

An employee may elect to receive compensation in lieu of sick leave credits for any calendar year with payment equal to varying amounts from 25% to 50% of the year's unused sick leave, depending upon the employee's sick leave usage during the year. In addition to sick leave, payouts are made for unused administrative holidays and accrued compensatory time.

If sick leave and vacation are not used by the employee or paid out during the term of employment, compensation is payable to the employee at the time of separation. 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. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Cash Equivalents

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City does not have any investments that are measured using Level 3 inputs.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to the change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying Basic Financial Statements.

For purposes of the statement of cash flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. *Inventories and Prepaid Items*

Inventories are stated at moving average cost. The cost is recorded as expenditure at the time an individual inventory item is consumed. As inventories must be maintained at a certain level, an amount for inventories is recorded as non-spendable in the general fund balances. Consequently, these non-spendable fund balance amounts are not available for appropriation.

General fund inventories consist of stationery. Equipment services fund inventory consists of tires, batteries, testing equipment, automotive parts, and small tools.

Under the consumption method, certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

H. *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.

I. *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, Docketown Marina, or internal service funds as of June 30, 2016.

There is no accrual for unbilled water services as of June 30, 2016; 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 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

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 No. 34, the City recorded all of 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 using the basic approach.

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 No. 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 as follows to capital assets:

Buildings	20-50 Years	Storm Drains	40 Years	Traffic Signals	20 Years
Improvements	33-60 Years	Bridges	30 Years	Streets	20 Years
Equipment	2-15 Years	Parks	25 Years		

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources related to the unamortized losses on refunding of debt. The losses on refunding result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or the refunding debt. The City also has deferred outflows of resources related to employer pension contributions and other amounts related to pension actuarial valuations.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The City has deferred inflows of resources related to unavailable revenues reported under the modified accrual basis of accounting in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, advances from the federal and state governments, and other sources as appropriate. These amounts are deferred and recognized as revenues in the period the amounts become available. The City also has deferred inflows of resources related to pension actuarial valuations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. *Interfund Transactions*

Interfund transactions are reflected as loans, services provided or used, reimbursements, or transfers.

Loans reported as receivables and payables are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses.

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are reflected as expenditures or expenses in the reimbursing fund and reductions to expenditures or expenses in the reimbursed fund.

All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

M. *Use of Estimates*

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

N. *Pensions*

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City’s California Public Employees’ Retirement System (CalPERS) plans (Plans) and additions to /deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Receivable from Successor Agency

During FY 2004/05, the Capital Outlay Fund advanced \$3,000,000 to the former redevelopment agency fund to fund various downtown improvements. Prior to the dissolution of the redevelopment agency, the former redevelopment agency fund repaid \$730,457, leaving a balance of \$2,269,453. During FY 2011/12, the redevelopment agency was dissolved and the advance payable was transferred to the successor agency private purpose trust fund. During FY 2009/10, the low and moderate income housing fund advanced \$2,812,838 to the former redevelopment agency fund to partially finance the amount taken away from the redevelopment agency by the State of California. Prior to the dissolution of the redevelopment agency, the former redevelopment agency fund repaid \$562,568 to the low and moderate income housing fund. During FY 2011/12, the redevelopment agency was dissolved and the advance payable was transferred to the successor agency private purpose trust fund. During FY 2011/12, the successor agency repaid \$562,567 to the low and moderate income housing fund, leaving a balance of \$1,687,703.

P. Implementation of New GASB Pronouncements

In FY 2015-16 the City adopted the following new accounting standard in order to conform to the following Governmental Accounting Standards Board Statement:

GASB Statement No. 72, *Fair Value Measurement and Application*– This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. There was no impact on beginning net position as part of implementation of this accounting standard.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*- The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. There was no impact on beginning net position as part of implementation of this accounting standard.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*— The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. There was no impact on beginning net position as part of implementation of this accounting standard.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* - This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. There was no impact on beginning net position as part of implementation of this accounting standard.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statement No. 67, No. 68, and No. 73* - This Statement addresses certain issues that had been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in the required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City updated covered employee payroll information in the required supplementary information as part of implementation of this accounting standard.

NOTE 2 – CASH AND INVESTMENTS

A. Cash and Deposits

The carrying amount of the City’s cash and deposits, including restricted cash, was \$1,678,097 at June 30, 2016. Bank balances before reconciling items were \$2,594,206 at June 30, 2016. Of the total bank balances, \$500,000 was insured or held by the City or its agent in the City's name.

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 \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

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.

The following is a summary of pooled cash and investments, including cash and investments with fiscal agent at June 30, 2016:

	<u>Government-Wide Statement of Net Position</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
	\$	\$	\$	\$
Cash and investments	147,841,933	84,582,808	-	232,424,741
Restricted cash and investments	4,728,557	6,885,855	10,080,974	21,695,386
Total cash and investments	<u>152,570,490</u>	<u>91,468,663</u>	<u>10,080,974</u>	<u>254,120,127</u>

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

B. Risk Disclosures

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy provides that final maturities of securities cannot exceed three years. Specific maturities of investments depend on liquidity needs.

As of June 30, 2016, the City had the following cash and investments available for operations:

Cash and Investments	Total	Investment Maturities (in years)		
		1 year or Less	1 - 2 years	2- 3 years
Demand Accounts at Banks	1,678,097	1,678,097		
Petty Cash	11,860	11,860		
County of San Mateo Investment Pool	50,325,003	50,325,003		
California Local Agency Investment Fund	45,194,491	45,194,491		
U.S. Agencies, Securities, and Corporate Notes:				
Federal Home Loan Bank	14,014,690		8,009,170	6,005,520
Federal National Mortgage Association	20,041,220		9,027,930	11,013,290
Federal Home Loan Mortgage Corporation	80,139,790		59,058,940	21,080,850
Federal Farm Credit	21,019,590	6,002,550	12,016,320	3,000,720
Total	\$ 232,424,741	\$ 103,212,001	\$ 88,112,360	\$ 41,100,380

Credit Risk – Defined as the risk of loss of value of an investment due to a downgrade of its rating or the failure or impairment of its issuer. Credit Risk shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that failure of any one issue does not unduly harm the City’s capital base and cash flow. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of commercial paper investments to those rated A-1 by Standard and

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Poor's or P-1 by Moody's Investor's Service, and corporate bonds to those rated A or better by Standard and Poor's or Moody's Investor's Service.

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	5 years	No limit	No limit
Federal Agency or Government Sponsored Enterprises (GSEs)	N/A	70%	35%
Local Agency Investment Fund	N/A	No limit	\$65 Million
San Mateo County Pool	N/A	No limit	\$50 Million
State and Local Agency Bonds	N/A	20%	2%
Money Market and Mutual Funds	N/A	20%	5%
U.S. Medium-Term Notes	3 years	20%	2%
Certificates of Deposit	3 years	10%	2%
Prime Commercial Paper	270 days	10%	2%
Bankers' Acceptances	180 days	10%	2%
Repurchase Agreements	90 days	10%	No limit

The City's investments are rated by the nationally recognized statistical rating organizations as follows:

	Moody's	S&P	Fitch
U.S. Agencies, Securities, and Corporate Notes:			
Federal Home Loan Bank	Aaa	AA+	
Federal National Mortgage Association	Aaa	AA+	AAA
Federal Home Loan Mortgage Corporation	Aaa	AA+	AAA
Federal Farm Credit	Aaa	AA+	AAA
U.S. Treasury Securities	Aaa	AA+	AAA
External Investment Pools:			
San Mateo County Investment Fund	Not Rated	AAAf/S1	Not Rated
California Local Agency Investment Fund	Not Rated	Not Rated	Not Rated

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All securities, with the exception of the County Pool and LAIF, are held by third-party custodians (Union Bank of California Trust Division, U.S. Bank and

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Bank of New York). Union Bank, U.S. Bank, and Bank of New York are registered members of the Federal Reserve Bank. The securities held by Union Bank, U.S. Bank, and Bank of New York are in street name, and an account number assigned to the City identifies ownership. None of the City's investments were subject to custodial credit risk.

In fiscal year 1997-98, the City adopted Governmental 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. Changes in value at the fiscal year ended June 30, 2016 from the fiscal year ended June 30, 2015 amounted to an unrealized gain of \$366,784.

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.

C. *Restricted Cash*

The City's restricted cash consisted of \$13,580,937 in cash and investments as of June 30, 2016 held by trustees or fiscal agents. The City had \$8,114,449 in restricted cash and investments held by the City. This restricted cash is 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, 2016 is a guaranteed investment contract with a maturity date in fiscal year 2035 authorized in the bond indenture and by City Council prior to purchase.

D. *External 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, supranational obligations, and corporations.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

These investments may include the following:

Structured Notes - are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2016, the City had \$46,459,995 (estimated fair value) invested in LAIF. LAIF had invested 2.81% of the pool investment funds in Structured Notes and Asset-Backed Securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The City valued its investments in LAIF as of June 30, 2016, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. The fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized costs.

Accordingly, as of June 30, 2016, the City's investment in LAIF at fair value amounted to \$46,459,995 using a LAIF fair value factor of 1.000621222. The fair value of the City's position in the pool is materially equivalent to the value of the pool shares.

The City is also a voluntary participant in the San Mateo County Investment Fund that is regulated by California Government Code Section 16429 under oversight of the Treasurer of the County of San Mateo. The City reports its investment in the San Mateo County Investment Fund at the fair value amount provided by County of San Mateo. Included in the San Mateo County Investment Fund 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, repurchase agreements, and corporations.

E. Investment Valuation

Investments (except for money market accounts, time deposits, and commercial paper) are measured at fair value on a recurring basis. *Recurring* fair value measurements, are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investment fair value measurements at June 30, 2016 are described on the following page.

Investments included in restricted cash and investments included money market accounts and guaranteed investment contracts are not subject to fair value measurement.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investment Type	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Securities of U.S. Government	\$	\$	\$	\$
Treasury and Agencies:				
Federal Home Loan Bank	14,014,690		14,014,690	
Federal national Mortgage Association	20,041,220		20,041,220	
Federal Home Loan Mortgage Corporation	80,139,790		80,139,790	
Federal Farm Credit Bank	21,019,590		21,019,590	
San Mateo County Investment Pool	50,325,003		50,325,003	
California Local Agency Investment Fund	45,194,491		45,194,491	
Subtotal	230,734,784		230,734,784	
California Local Agency Investment Fund (Restricted)	8,114,449		8,114,449	
Total investments subject to levelling disclosure	238,849,233		238,849,233	

Treasury securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. Federal Farm Credit Bank Bonds, Federal Home Loan Banks, Federal Home Loan Mortgage Corporate Notes, Federal National Mortgage Association Notes and Corporate Notes categorized as Level 2 are valued based on matrix pricing which use observable market inputs such as yield curves and market indices that are derived principally from or corroborated by observable market data by correlation to other means.

The City's fair value for its investment in the State of California Local Agency Investment Fund (LAIF) and the San Mateo County Investment Pool (SMCIP) is based on the fair market value factors provided by LAIF and SMCIP that are calculated based on the total fair market value of the pool. LAIF includes investments categorized as Level 1 such as United States Treasury securities, Federal Agency securities, and supranational debentures that are valued based on prices quoted in active markets and investments categorized as Level 2 such as negotiable certificates of deposit and bank notes that are based on market corroborated pricing utilizing inputs such as yield curves and indices that are derived principally from or corroborated by observable market data by correlation to other means. SMCIP includes investments in LAIF, Treasury securities, Federal Agency securities, U.S. Instrumentalities, floating rate securities, and corporate bonds. SMCIP utilizes a pricing service that uses valuation techniques that utilizes observable market inputs such as yield curves and market indices that are derived principally from or corroborated by observable market data by correlation to other means. The City categorized its investments in LAIF and in the SMCIP based on the lowest significant input used to determine the fair market value of the total pool.

NOTE 3 - LOANS RECEIVABLE

As of June 30, 2016, loans receivable consists of the following:

	Government-Wide	Private Purpose Trust Fund
	\$	\$
Wyndham Place First Time Homebuyer Loan Program	363,978	
City Centre Plaza Loans	371,076	1,073,924
First Time Homebuyer Silent Loan Program	288,106	
Loans with Non-profits and For Profit Organizations	1,133,153	
Housing Rehabilitation Loans	1,474,513	
Shores Childcare Loan	1,205,478	
First Community Housing Loan	2,627,000	
PAL Loan	214,286	
Kainos Home and Training Center Loans	1,493,222	
HIP Housing Development Corporation Loan	92,197	
Mental Health Association of San Mateo County Loan	400,000	
Mezes Court Association	259,757	
Allowance for Uncollectible Loans	(1,493,222)	
Total	<u>8,429,544</u>	<u>1,073,924</u>

A. Wyndham Place First Time Homebuyer Loan Program

The City established a First Time Homebuyer Program during fiscal year 1995 on a specific development sponsored by the former Redevelopment Agency called Wyndham Place. The program currently involves the resale of Wyndham units where the City has First Right of Refusal. The City exercises its First Right of Refusal and markets the units to qualified buyers.

A portion of the City's Shared Appreciation is used to assist the new buyer in the Resale Program. While the initial program in 1995 made 0% interest loans, current buyers in the Resale Program are assisted according to the needs of the borrower. Depending on the borrower's ability to secure private financing for a first mortgage, the City loan is underwritten based on the borrower's spendable income.

These loans bear no interest and are secured by second deeds of trust on the property, and typically, no payments are due until five years after the date of purchase. As of June 30, 2016 the City has outstanding loans of \$363,978 to eleven Wyndham Place buyers.

B. City Centre Plaza Loans

The former Redevelopment Agency sold several parcels of land to the developers of the City Centre Plaza project (a residential and commercial development) for \$1,700,000 in 1996. The developers constructed City Center Plaza, which contains 81 affordable housing units, a childcare facility, residential and commercial parking, and 17,900 square feet of retail space. The promissory note from Mezes Court Associate in the amount of \$1,445,000 is to be repaid through 2028 from surplus revenues generated by the housing project and accrued interest at 3%, with \$371,076 due to the City's Low and Moderate Income Housing Asset Fund, and \$1,073,924 due to the Successor Agency Private Purpose Trust Fund.

NOTE 3 - LOANS RECEIVABLE (CONTINUED)

C. *First Time Homebuyer Silent Loan Program*

In 2000, the former Redevelopment Agency established a First Time Homebuyer Silent Loan Program. Loans are deferred for the first five years, and then amortized at 4% interest over the remaining 25 years. An Equity Participation requirement shares appreciation based on the amount of the Agency's original loan amount. At June 30, 2016 there were outstanding loans to four homebuyers totaling \$288,106.

D. *Loans with Non-profits and For Profit Organizations*

The City and former Redevelopment Agency loaned \$500,000 to MP Redwood Court Associates and \$650,000 to Hallmark Apartments LLP. The MP Redwood Court Associates loan agreement was entered into in July 2003 for the repair and rehabilitation of housing units. The loan term is 55 years and bears 0% interest. The loan to Hallmark Apartments LLP has interest deferred for the first 30 years after which it bears interest at 3% until the December 2058 maturity. The outstanding balance at June 30, 2016 was \$1,133,153.

E. *Housing Rehabilitation Loans*

The City and former Redevelopment Agency have outstanding loans for housing rehabilitation in the amount of \$1,474,513.

F. *Shores Childcare Loan*

The City entered into an agreement with Shores Childcare, LLC whereby \$3,200,000 was loaned to Shores Childcare, LLC for construction of a childcare facility on City-owned land in the Redwood Shores area. The term of the loan is 20 years maturing January 2023, with interest payable quarterly and calculated based on the quarterly rate of the State of California Local Agency Investment Fund plus 250 basis points. The outstanding balance of the loan at June 30, 2016 was \$1,205,478.

G. *First Community Housing Loan*

The City entered into an agreement with First Community Housing whereby \$2,627,000 (\$200,000 from Community Development Block Grant, \$1,927,000 from the former Redevelopment Agency low and moderate housing fund, \$500,000 pass-through from County of San Mateo) was loaned to First Community Housing for construction of the Villa Montgomery housing development at El Camino and Vera Avenue. The portion of the loan attributable to the former Redevelopment Agency has been transferred to the City's Low and Moderate Income Housing Asset fund. The loan bears interest at 3% for 40 years. The loan will be repaid annually from 70% of the project's net cash flow. The outstanding balance of the loan at June 30, 2016 was \$2,627,000.

H. *Police Activities League Loan*

In March 2006, the City paid off a construction loan in the amount of \$1,500,000 that the Police Activities League (PAL), a separate, private, non-profit agency, entered into with Bay Area Bank to partially finance the construction of the new PAL community center at Taft School. The City Council and PAL agreed that one-half of the amount, or \$750,000, will be paid back to the City by PAL over a period of 15 years. The outstanding balance of the loan at June 30, 2016 was \$214,286.

NOTE 3 - LOANS RECEIVABLE (CONTINUED)

I. Kainos Home and Training Center Loan

In 1989-90, the City entered into an agreement with Kainos Home and Training Center whereby \$548,000 from Community Development Block Grant was loaned to acquire and rehabilitate property at 2555 Middlefield Road. In 2013-14, Kainos Home and Training Center sold 2555 Middlefield Road, and used the proceeds from the sale to purchase 2761 Fair Oaks Avenue. The current City loan is structured as a lien transfer of the original amount plus the shared equity of \$437,722 from 2555 Middlefield Road to 2761 Fair Oaks Avenue, totaling \$985,722. The loan bears no interest and is due and payable on March 29, 2039.

In 1997-98, the City entered into an agreement with Kainos Home and Training Center whereby \$57,500 from Community Development Block Grant was loaned to acquire property at 2033 Jefferson Avenue for Kainos Home and Training Center. The loan is deferred and payable upon the sale of the property, at which time the City would receive repayment of the loan plus any accrued equity based on the prorated City share.

In 2012-13, the City entered into an agreement with Kainos Home and Training Center whereby \$450,000 from HOME grant was loaned to acquire property located at 1033 Redwood Avenue for special needs housing. The loan is deferred for a term of 30 years at 0% interest.

The loans to Kainos Home and Training Center are intended to be forgiven upon maturity, and therefore, an allowance for uncollectible loans has been set up in the amount of \$1,493,222.

J. HIP Housing Development Corporation (HHDC) Loan

In March 2013, the City entered into an agreement with HHDC whereby \$92,197 from HOME investment Partnership Act (HOME) funds were loaned to assist in the rehabilitation of a 12 unit apartment building located at 1157-1161 Willow Road in Menlo Park. The loan is deferred for a term of 30 years at 3% interest. The outstanding balance of the loan at June 30, 2016 was \$92,197.

K. Mental Health Association of San Mateo County (MHA) Loan

In July, 2013, the City entered into an agreement with MHA whereby \$400,000 from Community Development Block Grant (CDBG) was loaned to assist with the acquisition of a vacant commercial property located at 105 5th Avenue in Redwood City. The loan is deferred for a term of 30 years at 0% interest.

L. Mezes Court Association

The City entered into an agreement with Mezes Court Associates on November 24, 2015 whereby \$259,757 from Community Development Block Grant was loaned to acquire property at 950 Main Street for affordable rental housing as set forth in the loan agreement evidencing the loan. The loan accrues interest from December 1, 2016 at the rate of two percent (2%) annual, simple interest for 57 years. Principal and interest are payable in full on the date which 57 years from the date of recordation of the Deed of Trust or the date of sale of property.

City of Redwood City
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2016

NOTE 4 – CAPITAL ASSETS

A. Summary

Capital assets at June 30 are comprised of the following:

	Balance June 30, 2015	Additions	Retirements	Transfers	Balance June 30, 2016
Government activities					
Capital assets not being depreciated:					
Land	31,397,153				31,397,153
Construction in progress	16,023,246	15,286,887		(6,771,002)	24,539,131
Total capital assets not being depreciated	<u>47,420,399</u>	<u>15,286,887</u>		<u>(6,771,002)</u>	<u>55,936,284</u>
Capital assets being depreciated:					
Buildings	83,309,015				83,309,015
Accumulated depreciation	(28,421,561)	(1,664,156)			(30,085,717)
Improvements other than buildings	6,905,894			977,661	7,883,555
Accumulated depreciation	(1,852,132)	(337,004)			(2,189,136)
Parks	28,371,402			1,590,920	29,962,322
Accumulated depreciation	(16,156,494)	(932,567)			(17,089,061)
Streets	111,449,970	410,910		2,805,909	114,666,789
Accumulated depreciation	(64,761,026)	(4,062,160)			(68,823,186)
Bridges	2,248,335				2,248,335
Accumulated depreciation	(1,899,996)	(74,944)			(1,974,940)
Traffic Signals	2,640,545				2,640,545
Accumulated depreciation	(2,111,379)	(83,814)			(2,195,193)
Storm Drains	11,850,347	139,599		200,000	12,189,946
Accumulated depreciation	(2,135,886)	(348,375)			(2,484,261)
subtotal	<u>129,437,034</u>	<u>(6,952,511)</u>		<u>5,574,490</u>	<u>128,059,013</u>
Machinery & Equipment	23,904,681	97,424	(577,013)	1,196,512	24,621,604
Accumulated depreciation	(13,940,691)	(1,592,608)	480,176		(15,053,123)
Net capital assets being depreciated	<u>139,401,024</u>	<u>(8,447,695)</u>	<u>(96,837)</u>	<u>6,771,002</u>	<u>137,627,494</u>
Governmental activity capital assets, net	<u>186,821,423</u>	<u>6,839,192</u>	<u>(96,837)</u>		<u>193,563,778</u>
Business-Type Activities					
Capital assets not being depreciated:					
Land	3,180,272				3,180,272
Construction in progress	7,487,366	10,031,641		(7,510,676)	10,008,331
Total capital assets not being depreciated	<u>10,667,638</u>	<u>10,031,641</u>		<u>(7,510,676)</u>	<u>13,188,603</u>
Capital assets being depreciated					
Harbor Improvements	4,773,955				4,773,955
Accumulated depreciation	(3,048,958)	(125,922)			(3,174,880)
Buildings	61,212,575			1,254,108	62,466,683
Accumulated depreciation	(13,114,160)	(1,278,341)			(14,392,501)
Machinery and equipment	1,682,325	1,272			1,683,597
Accumulated depreciation	(1,479,413)	(73,923)			(1,553,336)
Improvements other than buildings	189,849,551	230,236		6,256,568	196,336,355
Accumulated depreciation	(55,210,732)	(4,044,447)			(59,255,179)
Net capital assets being depreciated	<u>184,665,143</u>	<u>(5,291,125)</u>		<u>7,510,676</u>	<u>186,884,694</u>
Business-type activity capital assets, net	<u>195,332,781</u>	<u>4,740,516</u>			<u>200,073,297</u>

NOTE 4 – 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 is as follows:

Governmental Activities

Community Development	\$ 209,489
Human Services	77,270
Public Safety	1,221,235
Transportation	4,136,086
Leisure, cultural, and information services	2,165,834
Policy development and implementation	848,548
Environmental support and protection	437,166
Total Depreciation Expense-Governmental Activities	<u>\$ 9,095,628</u>

Business-Type Activities

Water Utility Fund	\$ 2,994,789
Sewer Utility fund	627,173
Parking Fund	579,103
Dock Town	32,258
Port of Redwood City	1,289,310
Total Depreciation Expense-Business-Type Activities	<u>\$ 5,522,633</u>

NOTE 5 – INVESTMENT IN SILICON VALLEY CLEAN WATER AUTHORITY

Redwood City has an investment of \$33,350,588 in a joint powers authority (JPA) with the cities of San Carlos, Belmont, and the West Bay Sanitation District. In addition, the City has an investment of \$6,359,480, in Silicon Valley Clean Water Authority (SVCW) stage II construction. SVCW operates and maintains a sewer plant which was jointly constructed with federal and state grants and contributions from participating entities. SVCW 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 SVCW's budget, finances, or operations. The board acts autonomously of the respective member agencies.

Audited financial statements are available from Silicon Valley Clean Water Authority, 1400 Radio Road, Redwood City, CA 94065.

During the fiscal year ended June 30, 2016, the City contributed \$10,000,000 for capital funding in-lieu of full participation in the JPA's 2015 Wastewater Revenue Bonds (Bonds). This contribution reduced the City's share of the 2015 Bonds by this amount.

NOTE 5 – INVESTMENT IN SILICON VALLEY CLEAN WATER AUTHORITY (Continued)

The condensed unaudited financial information of the JPA as of June 30, 2016 is as follows:

Total Assets	\$	304,262,866
Deferred Outflows of Resources		3,547,927
Total Liabilities		224,521,135
Deferred Inflows of Resources		4,125,769
Total Net Position	\$	<u>79,163,889</u>
Total Operating Revenues	\$	50,284,840
Total Operating Expenses		30,749,580
Total Operating Income (loss)		19,535,260
Other Income (loss)		(5,785,038)
Net Income (loss)	\$	<u>13,750,222</u>
Cumulative Agency Balances:		
Belmont	\$	21,179,816
San Carlos		5,012,757
Redwood City		39,710,068
West Bay Sanitation District		13,261,248
Total Net Position	\$	<u>79,163,889</u>

NOTE 6 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

A. Description

Redwood City has no outstanding general obligation bonds. The following is the only long-term obligation of the City.

2013 Public Financing Authority Refunding lease – In May 2013, the City entered into a lease agreement with BBVA Compass Bank in the amount of \$3,360,000 to refund the 2003 Public Financing Authority Bonds. Net proceeds of \$3,292,748 plus the 2003 Public Financing Authority Bond Reserve were utilized for the purpose of establishing an irrevocable escrow to refund \$5,880,000 of the City’s 2003 Public Financing Authority Bonds. Principal is due in annual installments of \$347,486 to \$687,180, with total principal and interest remaining on the lease in the amount of \$2,450,768 through July 15, 2018. Payments are made from the Public Financing Authority Refunding Lease Debt Service fund out of lease payment revenue received from the general fund, requiring less than 10% of net revenues. The refunding resulted in a decrease in total debt service payments of \$347,302 and an economic gain of \$270,485.

NOTE 6 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (Continued)

B. Changes in Long-Term Obligations

As of June 30, 2016, the City had the following long-term obligations outstanding:

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Due within One year
	%	\$	\$	\$	\$	\$
Governmental Activities:						
Revenue Bonds						
2013 PFA Refunding Lease	1.51	2,378,400		666,814	1,711,586	676,920
Total Bonds and Loans		2,378,400		666,814	1,711,586	676,920
Accrued Sick Leave and Vacation						
		10,595,579	943,381	472,360	11,066,600	432,796
Total Governmental Activities Long-Term Debt		12,973,979	943,381	1,139,174	12,778,186	1,109,716

At year-end, \$956,158 of internal service fund compensated absences is included in the above amounts. For the governmental activities, compensated absences are generally liquidated by the general fund.

C. Annual Repayment Requirements for Long-Term Debt

Year End June 30	Refunding Lease	
	Principle	Interest
	\$	\$
2017	676,920	23,299
2018	687,180	13,039
2019	347,486	2,624
	1,711,586	38,962

NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

A. Description

Revenue Bonds:

Port of Redwood City 2012 Revenue Bonds – In June 2012, bonds were issued in the amount of \$10,000,000 to finance construction of the Port’s Wharf 1 & 2 Redevelopment Project. The bonds are due in annual installments of \$386,916 to \$725,679 through 2032, with total principal and interest remaining of \$11,876,699. The bonds are payable out of net revenues of the Port, which are expected to equal at least 120% of the annual debt service requirement.

NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (Continued)

Port of Redwood City 2015 Revenue Bonds – In June 2015, bonds were issued in the amount of \$6,940,000 to (a) refund the 1999 Bonds, (b) purchase the 2015 Reserve Fund Policy in lieu of cash funding a reserve fund for the 2015 Bonds, and (c) pay a portion of the costs of issuance of the 2015 Bonds. The refunding resulted in a decrease of total debt service payments of \$2,312,114. The refunding of the 1999 Bonds resulted in an economic gain of \$745,800. The bonds are due in annual installments of \$385,000 to \$611,000 through 2030, with total principal and interest remaining of \$8,453,570. The bonds are payable out of net revenues of the Port, which are expected to equal at least 120% of the annual debt service requirement.

Water Revenue Bonds Series 2007A – In February 2007, Redwood City Public Financing Authority issued \$15,150,000 of bonds to finance a portion of the City's recycled water project. Principal and interest is payable in 28 annual installments of \$728,072 to \$950,950 from August 2007 through February 2035, with total principal and interest remaining of \$17,069,663. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

Water Revenue Bonds Series 2013 – In June 2013, Redwood City Public Financing Authority issued \$26,870,000 of bonds to refund the remaining Water Revenue Bonds Series 2005A. The refunding resulted in a decrease of total debt service payments of \$2,386,569 and an economic gain of \$1,231,113. Principal and interest is payable in 21 annual installments of \$1,584,262 to \$2,063,000 from August 2013 through February 2034, with total principal and interest remaining of \$35,032,914. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

Water Revenue Bonds Series 2015 – In May 2015, Redwood City Public Financing Authority issued \$20,235,000 of bonds to refund the remaining Water Revenue Bonds Series 2006A. The refunding resulted in a decrease of total debt service payments of \$3,243,691 and an economic gain of \$2,117,710. Principal and interest is payable in 20 annual installments of \$1,205,491 to \$1,421,544 from August 2016 through February 2035 with total principal and interest remaining of \$29,991,236. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

Pledges of Future Revenues – The pledge of future water utility fund revenues ends upon repayment of the \$82.1 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2034-35. For fiscal year 2015-16, water utility fund operating revenues amounted to \$36,906,034 and operating expenses excluding depreciation and amortizations amounted to \$28,248,490. Net revenues available for debt service amounted to \$8,657,544 which represented a coverage ratio of 2.06 over the \$4,209,627 in debt service.

The pledge of future Port of Redwood City fund revenues ends upon repayment of the \$15.9 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2031-32. Port of Redwood City fund operating revenues amounted to \$6,779,863 and operating expenses excluding depreciation, amortizations, and subvention to the City amounted to \$2,417,147. Net revenues available for debt service amounted to \$4,362,716 which represented a coverage ratio of 3.11 over the \$1,402,323 in debt service.

NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)

B. Changes in Debt

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Business-type Activities:	%					
Revenue Bonds						
Port of Redwood City-2012 Series	4.20-4.20	9,008,399		371,029	8,637,370	386,916
Port of Redwood City-2015 Series	2.00-4.00	6,940,000		365,000	6,575,000	385,000
Water Revenue Bonds Series 2007A	4.00-4.50	12,465,000		405,000	12,060,000	425,000
Water Revenue Refunding Bonds Series 2013	3.00-5.00	25,185,000		880,000	24,305,000	920,000
Water Revenue Refunding Bonds Series 2015	3.00-4.00	20,235,000		710,000	19,525,000	735,000
Unamortized Premium-Water		3,937,605		205,153	3,732,452	
Unamortized Discount-Port		(22,375)		(1,500)	(20,875)	
		<u>77,748,629</u>	<u>-</u>	<u>2,934,682</u>	<u>74,813,947</u>	<u>2,851,916</u>
Accrued Sick Leave and Vacation:		<u>855,176</u>	<u>462,959</u>	<u>432,221</u>	<u>885,914</u>	<u>402,093</u>
Total Business-type Activities Long-Term Debt		<u><u>78,603,805</u></u>	<u><u>462,959</u></u>	<u><u>3,366,903</u></u>	<u><u>75,699,861</u></u>	<u><u>3,254,009</u></u>

C. Annual Repayment Requirements for Business-type Activities Long Term Debt

Business-Type Activities:

Year End June 30	Revenue Bonds	
	Principal	Interest
	\$	\$
2017	2,851,916	2,930,222
2018	2,953,483	2,824,130
2019	3,040,759	2,728,291
2020	3,163,775	2,609,525
2021	3,292,563	2,485,287
2022-2026	18,594,019	10,298,513
2027-2031	22,250,177	6,000,723
2032-2036	14,955,678	1,445,021
	<u><u>71,102,370</u></u>	<u><u>31,321,712</u></u>

NOTE 8 – DEBT WITHOUT CITY COMMITMENT

A. Successor Agency Private Purpose Trust Fund Debt

Tax Increment Bonds:

2003 Tax Allocation Bonds – In October 2003, the former Redevelopment Agency issued \$33,997,448 in bonds to finance various downtown improvements. These bonds consist of current coupon bonds and capital appreciation bonds. The current coupon bonds pay interest-only through January 15, 2010. Principal on the current coupon bonds is paid in annual installments of \$1,225,000 to \$3,045,000 from July 15, 2010 to July 15, 2014. Payments reflecting interest and principal on the capital appreciation bonds are due in annual installments of \$3,505,000 to \$3,510,000 from July 15, 2016 through July 15, 2032. Total principal and interest remaining on the bonds is \$59,595,000. Payments are made from property tax increment generated by the former redevelopment agency fund.

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.

In July 2012 the CFD issued \$5,555,000 Community Facilities District No. 2000-1 Pacific Shores Special Tax Refunding Bonds, Series 2012 to refund \$8,655,000 of the Series 2000A bonds. The refunding reduced annual debt service payments by approximately 25% or \$52,000, and resulted in an economic gain of \$398,000, which equates to 7.61% of the refunding bonds.

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, 2016, the outstanding principal amount was \$1,430,000.

On January 17, 2001, the Shores Transportation Improvement District issued \$5,045,000 of Phase I CFD bonds, and on September 3, 2003 the District issued \$7,505,000 of Phase II CFD bonds. The proceeds of these bonds were used to fund various transportation projects that are required under development agreements with commercial property owners in the Redwood Shores area of the City.

In December 2012 the Shores Transportation District issued \$10,275,000 Redwood Shores Community Facilities District No. 99-1 Special Tax Refunding Bonds, Series 2012B to refund \$3,640,000 of the outstanding Series 2001A Bonds and \$6,675,000 of the outstanding Series 2003A Bonds. The refunding reduced annual debt service payments by approximately 16% or \$140,000, and resulted in an economic gain of \$1.7 million, which equates to 16.62% of the refunding bonds.

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

NOTE 8 – DEBT WITHOUT CITY COMMITMENT (CONTINUED)

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, 2016, the outstanding principal amount was \$8,975,000.

On April 5, 2011, the Community Facilities District (CFD) issued \$5,760,000 of bonds on behalf of the developer of the One Marina 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.

In June 2016, Community Facilities District No. 2010-1 issued \$4,350,000 Community Facilities District No. 2010-1 (One Marina) 2016 Special Tax Refunding Bonds to refund the outstanding 2011 Bonds.

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, 2016, the outstanding principal amount was \$4,350,000.

NOTE 9 – EMPLOYEE BENEFITS

A. Pension Plan

General Information about the Pension Plan:

Plan Description – All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and/or their beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law (PERL).

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

The plans' provisions and benefits in effect at June 30, 2016 are summarized as follows:

	<u>Public Safety Tier 1</u>	<u>Public Safety Tier 2</u>	<u>Public Safety Tier 3</u>
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	50
Benefit factor for each year of service as a % of annual salary	3%	2.4%-3%	2%-2.7%
Required employee contribution rates	9%	9%	12%
Required employer contribution rates	42.457%	42.457%	42.457%
	<u>Miscellaneous Tier 1</u>	<u>Miscellaneous Tier 2</u>	<u>Miscellaneous Tier 3</u>
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	52
Benefit factor for each year of service as a % of annual salary	2%-2.7%	1.092%-2.418%	1%-2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	24.134%	24.134%	24.134%

The City's Tier 2 plans for public safety and miscellaneous cover new employees hired on or after October 13, 2011.

The City's Tier 3 plans for public safety and miscellaneous cover new employees hired on or after January 1, 2013 pursuant to the Public Employees' Pension Reform Act of 2013.

Police and fire safety employees hired before October 13, 2011 (Tier 1) are covered under the "3% at 50" formula. Under this retirement plan, an employee's retirement earnings at age 50 are calculated by multiplying 3% by the employee's years of service. This percentage factor increases with the employee's age upon retirement.

Police and fire safety employees hired on or after October 13, 2011 (Tier 2) are covered under the "3% at 55" formula. Under this retirement plan, an employee's retirement earnings at age 55 are calculated by multiplying 3% 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, with the maximum percentage factor equal to 3%.

Police and fire safety employees hired on or after January 1, 2013 (Tier 3) are covered under the "2.7% at 57" formula. Under this retirement plan, an employee's retirement earnings at age 57 are calculated by multiplying 2.7% 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, with a maximum percentage factor equal to 2.7% at age 57.

Miscellaneous employees hired before October 13, 2011 (Tier 1) are covered under the "2.7% at 55" formula. Under this retirement plan, an employee's retirement earnings, at age 55, are calculated by

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

multiplying 2.7% 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.

Miscellaneous employees hired on or after October 13, 2011 (Tier 2) are covered under the “2% at 60” formula. Under this retirement plan, an employee’s retirement earnings at age 60 are 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.

Miscellaneous employees hired on or after January 1, 2013 (Tier 3) are covered under the “2% at 62” formula. Under this retirement plan, an employee’s retirement earnings at age 62 are calculated by multiplying 2% by the employee’s years of service. An employee with five years of service is eligible to retire at age 52 at a reduced pension amount. The pension amount increases with age and length of service, with a maximum percentage factor equal to 2.5% at age 67.

Employees Covered – At June 30, 2016, the following employees were covered by the benefit terms for each Plan:

	Miscellaneous	Safety
Inactive employees or beneficiaries currently receiving benefits	500	307
Inactive employees entitled to but not yet receiving benefits	457	60
Active employees	384	174
Total	1,341	541

Contributions – Section 20814(C) of the California PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the average active employee contribution rate is 7.47 percent of annual pay for the Miscellaneous Plan and 7.65 percent of annual pay for the Safety Plan, and employer contribution rate is 21.65 percent of annual payroll for the Miscellaneous Plan and 31.59 percent of annual payroll for the Safety Plan.

Net Pension Liability:

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

Actuarial Assumptions – The total pension liabilities in the June 30, 2014 actuarial valuation were determined using the following assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	
Investment Rate of Return	7.65%	7.65%
Mortality (1)	Derived using CalPERS' Membership Data for all Funds	
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter	

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrives at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Changes in the Net Pension Liability:

The changes in the Net Pension Liability for each Plan follow:

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015(1)	\$ 267,985,557	\$ 197,591,985	\$ 70,393,572
Changes in the year:			
Service cost	4,787,766		4,787,766
Interest on the total pension liability	19,792,491		19,792,491
Differences between actual and expected experience	(546,244)		(546,244)
Changes in assumptions	(4,797,291)		(4,797,291)
Changes in benefit terms			-
Plan to Plan Resource Movement		18,362	(18,362)
Contribution - employer		6,882,313	(6,882,313)
Contribution - employee		2,372,657	(2,372,657)
Net investment income		4,413,116	(4,413,116)
Administrative expenses		(223,524)	223,524
Benefit payments , including refunds of employee contributions	(12,621,036)	(12,621,036)	-
Net changes	6,615,686	841,888	5,773,798
Balance at June 30, 2016	\$ 274,601,243	\$ 198,433,873	\$ 76,167,370

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

Safety Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015 (1)	\$ 309,747,565	\$ 215,992,153	\$ 93,755,412
Changes in the year:			
Service cost	7,620,719		7,620,719
Interest on the total pension liability	22,992,406		22,992,406
Differences between actual and expected experience	210,529		210,529
Changes in assumptions	(5,686,859)		(5,686,859)
Changes in benefit terms			
Contribution - employer		9,993,967	(9,993,967)
Contribution - employee		2,420,787	(2,420,787)
Net investment income		4,953,411	(4,953,411)
Administrative expenses		(245,450)	245,450
Benefit payments, including refunds of employee contributions	(15,054,516)	(15,054,516)	-
Net changes	10,082,279	2,068,199	8,014,080
Balance at June 30, 2016	\$ 319,829,844	\$ 218,060,352	\$ 101,769,492

Sensitivity of Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City for each Plan, calculated using the discount rate for each Plan, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1- percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous	Safety	Total
1% Decrease	6.65%	6.65%	6.65%
Net Pension Liability	\$ 112,512,641	\$ 145,285,502	257,798,143
Current Discount Rate	7.65%	7.65%	7.65%
Net Pension Liability	\$ 76,167,370	\$ 101,769,492	177,936,862
1% Increase	8.65%	8.65%	8.65%
Net Pension Liability	\$ 46,099,757	\$ 66,101,346	112,201,103

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

For the year ended June 30, 2016, the City recognized pension expense of \$4,161,249 for the Miscellaneous Plan and \$9,096,188 for the Safety Plan. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 17,362,779	
Changes of Assumptions		7,210,834
Differences between Expected and Actual Experiences	155,127	343,931
Net differences between projected and actual earnings on plan investments		4,408,288
Total	<u>\$ 17,517,906</u>	<u>\$ 11,963,053</u>

\$17,362,779 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expenses as follows:

Fiscal Year Ending June 30:	
2017	\$ (6,348,215)
2018	(5,754,489)
2019	(4,080,897)
2020	4,375,675

B. Post Employment Benefits

Redwood City:

The City administers a single-employer defined benefit post-employment healthcare plan. Permanent employees who retire under the City’s retirement plan are, pursuant to their respective collective bargaining agreements, eligible to have their medical insurance premiums reimbursed by the City up to the Kaiser family premium rate. 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. Currently there are 375 retirees receiving this benefit.

The City is not required by law or contractual agreement to provide funding for retiree health costs other than the pay-as-you-go amount necessary to provide current benefits to retirees. The City’s retiree health plan is being managed through the California Employer’s Retiree Benefits Trust (CERBT), an irrevocable trust fund that allows public employers to prefund the future cost of their retiree health insurance benefits and other post-employment benefits for their covered employees or retirees.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

The CERBT’s administrator, CalPERS, issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811. During FY 2015-16, the City contributed \$5,982,000, or 100%, of the annual OPEB cost to the retiree health plan.

Total current payroll for all covered employees for the fiscal year ended June 30, 2016 was \$57,881,620.

The City’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City’s annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation.

Annual required contribution	\$ 5,920,000
Interest on net OPEB obligation	505,000
Adjustment to annual required contribution	<u>(443,000)</u>
Annual OPEB cost	5,982,000
Contributions made to irrevocable trust	(2,889,260)
Benefit payments made outside of trust	<u>(3,092,740)</u>
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of the year	<u>6,962,477</u>
Net OPEB obligation - end of year	<u><u>\$ 6,962,477</u></u>

The General fund, the Capital Outlay fund, and other non-major funds have been used to finance the net OPEB obligation.

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2016 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost		OPEB Obligation (Asset)
	Annual OPEB Cost	Contributed	
	\$	%	\$
6/30/2014	4,890,000	100	6,962,477
6/30/2015	5,037,000	100	6,962,477
6/30/2016	5,982,000	100	6,962,477

As of June 30, 2015, the most recent actuarial valuation date, the plan was 25.9% funded. The actuarial accrued liability (AAL) for benefits was \$70,852,000, and the actuarial value of plan assets was \$18,382,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$52,470,000. The covered payroll (annual payroll of active employees covered by the plan) was \$51,466,341 and the ratio of UAAL to the covered payroll was 101.9%.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016 actuarial valuation, the actuarial cost method used is Entry Age Normal (EAN) cost method. Under the EAN cost method, the plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime. Entry age is based on current age minus years of service. The Actuarial Accrued Liability (AAL) is the cumulative value on the valuation date of prior Normal Cost. For the retirees, the AAL is the present value of all projected benefits. The Unfunded AAL is being amortized as a level dollar closed 30 year basis, as a level percent of payroll with a remaining amortization period at June 30, 2016 of 26 years.

GASB 45 requires the interest rate to represent the underlying expected return for the source of funds used to pay benefits. The actuarial methods and assumptions included a 7.25% interest rate, annual inflation at 3% per annum, aggregate payroll assumed to increase at 3.25% per annum, and an annual healthcare trend rate of 7.5% - 7.8% for 2016, reduced gradually each year with an ultimate rate of 5% for 2021 and thereafter. The study also used assumptions for the salary merit and longevity increases, and demographic assumptions such as mortality, withdrawal, and disability based on CalPERS 1997- 2011 Experience Study. Retirement assumption was also based on CalPERS 1997-2011 Experience Study. For employees hired before October 24, 2011 it was assumed Miscellaneous Plan 2.7% at 55 years, with expected retirement age of approximately 57.8, and Public Safety 3% at 50 years, with expected retirement age of approximately 54 for Police and 55.4 for Fire.

For employees hired on or after October 24, 2011 it was assumed Miscellaneous Plan 2% at 60 years, with expected retirement age of approximately 61 years, and Public Safety 3% at 55 years, with expected retirement age of approximately 59.9 for Police and 56.2 for Fire.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

Port of Redwood City:

The other post-employment benefits (other than pension) offered by the Port are limited to reimbursement of medical premiums only. Eligibility extends to those employees hired before January 1, 2011 who have worked ten or more consecutive years at the Port on a full time basis, and prior to retirement are: (a) enrolled in the Port’s medical plan, (b) age 55 or older, and (c) have not been voluntarily or involuntarily terminated from employment at the Port. Spouses and/or dependents are ineligible.

The reimbursement of medical premiums is limited to the lesser of: (a) the medical insurance premium paid by the eligible retiree, or (b) the Port’s cost to provide medical coverage for an active employee of the same age as the retiree, or (c) the insurance premium for a Medicare supplement plan at the retiree’s earliest Medicare eligibility age, whether or not the retiree enrolls in Medicare.

The accounting rules governing other post-employment benefits (OPEB) do not require mandatory funding of the actuarial accrued liability or annual required contribution. During the fiscal year ended June 30, 2011, the Port adopted a comprehensive funding policy for post-employment benefits other than pension. The policy addresses the selection of a Section 115 Trust, prefunding strategy, valuation frequency, valuation methodology, disbursements, and administrative matters. The Section 115 Trust selected was the CalPERS California Employer’s Retiree Benefit Trust Program (CERBT).

For the fiscal year ended June 30, 2016, the Port’s annual OPEB cost was \$37,624; of this amount \$9,106 was expensed and funded by reimbursements to current retirees and the remaining \$25,518 net OPEB obligation was expensed and recorded as a liability. Combined with the \$202,238 net OPEB obligation as of June 30, 2015, the total net OPEB obligation as of June 30, 2016 was \$230,756.

The annual required contribution was determined as part of the July 1, 2014 actuarial valuation using the Entry Age Actuarial Cost Method and assumptions consistent with the CalPERS OPEB Assumptions Model. The actuarial assumptions included: (a) salary increases of 3.25% per year, (b) a discount rate of 7.61%, (c) 100% of eligible employees assumed to elect coverage upon retirement and to remain covered for life, (d) retirement, withdrawal, and mortality rates based on CalPERS Assumption model for the classification “public agency miscellaneous 2.7% at 55”, and (e) medical premium inflation rates ranging from 9% to 6% over time. The actuarial present value of future benefits was calculated for each individual using the economic assumptions and specific member data, then aggregated. The amortization component of the unfunded actuarial accrued liability was based on a 30 year amortization period.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

The following table shows the components of the Port’s annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the Port’s net OPEB obligation:

Annual OPEB Cost and Net OPEB Obligation

Normal Cost	\$ 9,884
Amortization of unfunded actuarial accrued liability	28,569
Annual required contribution	38,453
Interest on beginning net OPEB obligation	10,112
Annual required contribution adjustment	(10,941)
Annual OPEB expense	37,624
Actual current year employer payment	(9,106)
Decrease in OPEB obligation	28,518
Net OPEB obligation at June 30, 2015	202,238
Net OPEB obligation at June 30, 2016	<u>\$ 230,756</u>

OPEB Unfunded Actuarial Accrued Liabilities

Actuarial accrued liabilities	\$ 528,089
Actuarial value of plan assets	-
Unfunded actuarial accrued liabilities (UAAL)	<u>\$ 528,089</u>
Funded Ratio	0%
Covered Payroll	\$ 645,077
UAAL as a % of Covered Payroll	81.86%

The Port’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan for 2016 and the two preceding fiscal years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost</u> <u>Contributed</u>	<u>OPEB Obligation (Asset)</u>
	\$	%	\$
6/30/2014	32,421	0	172,132
6/30/2015	35,737	15.8	202,238
6/30/2016	38,453	28.5	230,756

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the new employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

B. 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 or elect to contribute pre-tax dollars, 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

Under no circumstances may an employee direct more than \$5,000 annually into the Dependent Care Spending Account and \$2,550 annually into the Medical Spending Account. This cap applies to both City contributions and employee pre-tax contributions. There are no legal limits on contributions to the 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.

C. 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.

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 – EMPLOYEE BENEFITS (CONTINUED)

Effective January 28, 2003, the City implemented a retirement enhancement plan (401-A defined contribution plan) for certain executive management employees. In February 2005, a plan amendment was adopted to extend the 401-A plan to all members of the executive management employee classification. Under this plan, the City contributes 2% of the employees' compensation into the 401-A plan.

Effective October 1, 2002 for the Redwood City Management Employees Association, the City contributes an amount equal to 2% of the base monthly salary to a deferred compensation plan offered by the City to members of the Association.

NOTE 10 – NET POSITION AND FUND BALANCES

GASB Statement No. 63 adds the concept of net position, which is measured on the full accrual basis, to the concept of fund balance, which is measured on the modified accrual basis.

A. Net Position

Net position is the excess of all the City's assets over all its liabilities, regardless of fund. Net position is divided into three captions. These captions apply only to net position, which is determined only at the government-wide level and are described below:

Net investment in capital assets describes the portion of net position 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 position 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, and redevelopment funds restricted to low and moderate income purposes. At June 30, 2016, restricted net position for the governmental activities was \$60,812,081.

Unrestricted describes the portion of net position which is not restricted as to use.

NOTE 10 – NET POSITION AND FUND BALANCES (CONTINUED)

B. Fund Balances

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. As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2016, fund balances for governmental funds are made up of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term loans receivable.

Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action, adopting a resolution, of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City adopting another resolution, as a resolution imposed the constraint originally.

Assigned Fund Balance – comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council or City Manager, to which the City Council has delegated the authority through a resolution, to assign amounts to be used for specific purposes.

Pursuant to the authority delegated by City Council, the City Manager determines the amount of assigned fund balances, which includes items such as encumbrances, and constrained amounts when it is the City's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of special revenue, capital projects and debt service funds which have not been restricted or committed.

Unassigned Fund Balance – is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. In other governmental funds, if expenditures exceed amounts restricted, committed, or assigned, the negative amount is reflected as negative unassigned fund balance. Within the unassigned fund balance of the general fund, the City Council has established a minimum balance representing a level not less than 15%, nor more than 20% of estimated general fund revenues.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

NOTE 10 – NET POSITION AND FUND BALANCES (CONTINUED)

C. Deficit Fund Equity/Net Position

The Successor Agency private purpose trust fund had negative net position of \$18,467,683 due to long-term debt outstanding for bonds used to finance various downtown improvements.

The self-insurance internal service fund had a negative net position of \$771,166 due to higher liability and worker’s compensation claims than budgeted and actuarial liability adjustments.

The internal services fund had a negative net position of \$11,574,741 due to the net pension liability.

NOTE 11 – FUNDS WITH EXPENDITURES EXCEEDING APPROPRIATIONS

Fire and Parks, Recreation and Community Services expenditures exceeded appropriations in the general fund primarily due to unbudgeted program expenditures for which there were sufficient revenues available.

NOTE 12 – INTERFUND TRANSFERS AND TRANSACTIONS

A. Transfers

The following interfund transfers were made during the year:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Fund	Non-major Governmental Funds	305,993 ⁽¹⁾
	Capital Outlay Fund	209,808 ⁽¹⁾
	Internal Service Funds	11,470 ⁽²⁾
Capital Outlay Fund	General Fund	8,822,477 ⁽³⁾
Non-major Governmental Funds	General Fund	1,446,143 ^{(1) (2)}
Water Fund	General Fund	172,760 ⁽¹⁾
	Sewer Fund	516,286 ⁽¹⁾
Sewer Fund	Non-major Governmental Funds	276,000 ⁽³⁾
Docktown Marina	General Fund	3,004,253 ⁽¹⁾
Internal Service Funds	General Fund	4,000,000 ⁽¹⁾
Total Interfund Transfers		18,765,190

The reasons for these transfers are set forth below:

- ⁽¹⁾ Allocation of funds to support operations.
- ⁽²⁾ Reimburse General Fund for interest earned by funds supported by the General Fund.
- ⁽³⁾ Allocation of funds to construct/purchase general capital assets.

NOTE 12 – INTERFUND TRANSFERS AND TRANSACTIONS (CONTINUED)

B. Short-Term Due to/From other Funds

At the end of the fiscal year the general fund had net utility users tax receivable in the amount of \$495,263. The policy of the City Council dictates the transfer of utility users tax to the capital outlay fund, and once the revenue is received, the general fund will transfer the cash to the capital outlay fund.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount Due to/From</u>
		\$
Capital Outlay Fund	General Fund	495,263
Non Major Governmental Funds	General Fund	8,607
Internal Service Funds	Water Utility Fund	300,000
		<u>803,870</u>

C. Long-Term Interfund Loans

<u>Fund Receiving Advance</u>	<u>Fund Making Advance</u>	<u>Amount of Advance</u>
		\$
Water Utility Fund	Internal Service Funds	<u>1,800,000</u>
Total Long-term Interfund Loans		<u>1,800,000</u>

During FY 2012-13, the equipment services internal service fund advanced \$3,000,000 to the water utility enterprise fund for the implementation of the Automated Meter Infrastructure Project to replace water meters. During FY 2013-14 the water utility enterprise fund repaid \$300,000 to the equipment services internal service fund. During FY 2015-16 the water utility enterprise fund repaid \$300,000 to the equipment services internal service Fund. As of June 30, 2016, \$300,000 of this advance is considered current.

NOTE 13 – 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 the statutory limits required by the State of California. The City paid \$527,346 during FY 2015-16 for the coverage.

The City’s workers’ compensation policy includes coverage for the Port of Redwood City. The Port carries property and liability insurance policies with limits of \$15,000,000 and \$150,000,000, respectively.

B. General Liability and Automobile

The City is a member of the Bay Cities Joint Powers Insurance Authority (BCJPIA), which is an insurance pool consisting of 19 San Francisco Bay Area government agencies, which the City uses for general liability and auto liability coverage. In FY 2015-16 the City maintained a \$350,000 self-insured retention with coverage from \$350,000 to \$1,000,000 through the BCJPIA. 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 loss experience, annual payroll, and population. This premium pays for administrative costs and funds liability reserves. The premium paid in FY 2015-16 was \$758,962.

The BCJPIA belongs to the California Affiliated Risk Management Authority (CARMA) which is an excess liability pool comprised of the BCJPIA and four other local government insurance pools. CARMA provides coverage from \$1,000,001 to \$28,000,000. A layer from \$1,000,001 to \$4,000,000 is self-insured by CARMA, the layer from \$4,000,001 to \$28,000,000 is reinsured through agreements with commercial insurers.

The City also carries all risk coverage on buildings and their contents at replacement cost value.

Audited financial statements are available from the Bay Cities Joint Powers Insurance Authority at 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833. The following is the BCJPIA condensed audited financial results for the year ended June 30, 2016:

Assets	\$ 33,545,914
Reserves for Claims	19,224,927
Liabilities(1)	3,553,419
Net Position Unrestricted	10,767,568
Member Contributions	12,334,380
Other Income	556,289
Claims and Claim Adjustment Expenses (2)	3,806,788
Operating Expenses(3)	6,224,159
Change in Net Position	2,859,722

(1)Excluding claims liabilities

(2)Including change in unpaid claims

(3)Excluding claims and claim adjustment expenses

NOTE 13 – RISK MANAGEMENT AND SELF-INSURANCE FUND (CONTINUED)

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 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 2014, 2015, and 2016 were:

	Beginning Balance	Current Year Claims/Changes in Estimates	Claim Payments	Ending Balance
	\$	\$	\$	\$
2013-14	13,400,352	7,617,770	(2,563,399)	18,454,723
2014-15	18,454,723	6,671,124	(4,222,289)	20,903,558
2015-16	20,903,558	7,782,145	(5,568,861)	23,116,842

Settlements have not exceeded coverage for each of the past three fiscal years.

NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY

As part of the FY 2011-12 State Budget package, and in an effort to help solve the State’s budget problems, the California legislature enacted and the Governor signed two companion bills addressing redevelopment, AB X1 26 (Dissolution Act) and AB X1 27 (Voluntary Program Act), which took effect on June 29, 2011.

The Dissolution Act immediately suspended all new redevelopment activities and incurrence of indebtedness, and eliminated redevelopment agencies as of October 1, 2011.

The Voluntary Program Act allows the community that created the redevelopment agency to avoid dissolution by opting to pay a substantial community remittance beginning FY 2011-12 and each year thereafter.

On July 18, 2011, the California Redevelopment Association, the League of California Cities, and others filed a Petition for Writ of Mandate in the Supreme Court of the State of California (California Redevelopment Association, et al. v. Ana Matosantos, et al., Case No. 5194861), challenging the constitutionality of the companion bills, the Dissolution Act, and the Voluntary Program Act, on behalf of cities, counties, and redevelopment agencies, and requesting a stay of their enforcement.

NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY (CONTINUED)

On December 29, 2011, the California Supreme Court upheld the Dissolution Act and found the Voluntary Program Act to be unconstitutional and extended the date of dissolution to February 1, 2012.

The Dissolution Act provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the “Successor Agency” to hold the assets until they are distributed to other units of state and local government. The City Council elected to become Successor Agency on August 22, 2011 with resolution 15141, and reconfirmed this action on January 23, 2012 with resolution 15164.

Under the Dissolution Act, redevelopment agencies in the State of California cannot enter into new projects, obligations, or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In FY 2010-11, prior to AB X1 26 becoming law, \$3.3 million of real property assets (vacant land) were transferred from the RDA’s Low and Moderate Income Housing Fund to the City in an attempt to protect these assets from being diverted for the benefit of the State. AB X1 26, however, specifically disallowed such transfers. Accordingly, the assets were transferred to the Low and Moderate Income Housing Asset Fund in FY 2011-12.

Prior to the dissolution of the redevelopment agency, under an agreement with San Mateo County to receive a cumulative \$25 million of the County’s share of tax increment and an agreement with the Legal Aid Society to deposit the first \$11.9 million of the \$25 million into the Low and Moderate Income Housing Fund, the agency had deposited \$10.3 million into the Low and Moderate Income Housing Fund as of June 30, 2011. Pursuant to the agreement with the Legal Aid Society to restrict these funds to housing, after the dissolution of the redevelopment agency these funds were deposited into a new fund, Housing Legal Aid Society Fund, to be used for housing purposes. The State Department of Finance (DOF) has disputed that these funds are restricted for housing, and the City has filed a lawsuit against the State of California on this matter. On October 30, 2013 the Superior Court Judge hearing the lawsuit filed against the State of California Department of Finance concerning the \$10.3 million the City is holding in the Housing Legal Aid Society Fund as part of the dissolution of the former Redevelopment Agency issued a tentative ruling in favor of the State of California. On November 6, 2013 the Judge then issued a “Request for Further Briefing” to be held on November 22, 2013. On January 4, 2014 the Superior Court Judge ruled in favor of the State of California. In April 2014, the City filed an appeal, and as of the date of this report, a ruling on the appeal has not been issued. In December 2015, the City remitted \$10.3 million to the DOF, under protest, in order for the Successor Agency to receive a finding of completion.

NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY (CONTINUED)

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The City’s former Redevelopment Agency had entered into agreements with certain public entities whose jurisdictions were within the territory of the former Redevelopment Agency under which these entities received a specified share of the property tax increment received by the former Redevelopment Agency. Under Assembly Bill X1 26 the responsibility for making these payments has been shifted to the County of San Mateo.

The following is a summary of the capital assets of the Successor Agency:

	Beginning				Ending
	Balance	Additions	Retirements	Transfers	Balance
Capital assets not being depreciated:	\$	\$	\$	\$	\$
Land	3,126,664				3,126,664
Total capital assets not being depreciated	3,126,664				3,126,664
Capital assets being depreciated:					
Improvements other than buildings	13,231,503				13,231,503
Accumulated depreciation	(2,664,719)	(356,054)			(3,020,773)
Traffic Signals	208,691				208,691
Accumulated depreciation	(67,825)	(10,435)			(78,260)
Storm Drains	4,101,302				4,101,302
Accumulated depreciation	(1,179,126)	(102,533)			(1,281,659)
Machinery & Equipment	953,244				953,244
Accumulated depreciation	(411,387)	(48,105)			(459,492)
Net capital assets being depreciated	14,171,683	(517,127)			13,654,556
Total capital assets, net	17,298,347	(517,127)			16,781,220

The following is a summary of the long-term obligations of the Successor Agency.

Tax Increment Bonds:

2003 Tax Allocation Bonds – In October 2003, the former Redevelopment Agency issued \$33,997,448 in bonds to finance various downtown improvements. These bonds consist of current coupon bonds and capital appreciation bonds. The current coupon bonds pay interest-only through January 15, 2010. Principal on the current coupon bonds is paid in annual installments of \$1,225,000 to \$3,045,000 from July 15, 2010 to July 15, 2014. Payments reflecting interest and principal on the capital appreciation bonds are due in annual installments of \$3,505,000 to \$3,510,000 from July 15, 2016 through July 15, 2032. Total principal and interest remaining on the bonds is \$63,029,814. Payments are made from property tax increment generated by the former redevelopment agency fund.

NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY (CONTINUED)

Change in Debt:

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Within One Year
	%	\$	\$	\$	\$	\$
Tax Increment Bonds						
2003 Tax Allocation Bonds	3.50-5.80	23,087,448		3,142,669	19,944,779	1,889,861
Accreted interest payable		17,653,035	1,853,990		19,507,025	
Unamortized Premium		553,888		30,771	523,117	
Total Bonds		<u>41,294,371</u>	<u>1,853,990</u>	<u>3,173,440</u>	<u>39,974,921</u>	<u>1,889,861</u>

Annual Repayment Requirements for Long-Term Debt:

Year End 30-Jun	Tax Increment Bonds	
	Principle	Interest
	\$	\$
2017	1,889,861	1,615,139
2018	1,773,916	1,731,084
2019	1,663,894	1,841,106
2020	1,557,657	1,947,343
2021	1,450,684	2,054,316
2022-2026	5,897,816	11,632,183
2027-2031	4,312,132	13,212,869
2032-2036	1,398,819	5,616,181
	<u>19,944,779</u>	<u>39,650,221</u>

Amounts due to the City of Redwood City

During FY 2004-05, the capital outlay fund advanced \$3,000,000 to the redevelopment agency fund to finance various downtown improvements. During FY 2008-09 the Redevelopment Agency repaid \$115,622 of the advance, during FY 2009-10 the Redevelopment Agency repaid \$238,439, and during FY 2010-11 the Redevelopment Agency repaid \$248,364. During 2011-12 the Redevelopment Agency was dissolved and the advance payable was transferred to the successor agency private purpose trust fund. Prior to the dissolution the Redevelopment Agency repaid \$128,032.

During FY 2009-10, the low and moderate income housing fund advanced \$2,812,838 to the redevelopment agency fund to partially finance the amount taken away from the Redevelopment Agency by the State of California. During FY 2010-11 the Redevelopment Agency repaid \$562,568 to the low and moderate income housing fund. During FY 2011-12 the Redevelopment Agency was dissolved and the advance receivable was transferred to the low and moderate income housing asset fund, and the advance payable was transferred to the successor agency private purpose trust fund. During FY 2011-12 the Successor Agency repaid \$562,567 to the low and moderate income housing asset fund.

NOTE 15 – 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.

The City is involved in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of management and legal counsel, that the resolution of these matters will not have a material adverse effect on the City's financial statements. In the opinion of the City Attorney, the City has adequate legal defenses and/or reserves to cover such liability if it does arise.

The City has received various state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

NOTE 16 – CONSTRUCTION, OTHER SIGNIFICANT COMMITMENTS AND ENCUMBRANCES

As of June 30, 2016, the City has the following significant commitments:

- \$40,577 – Construction services related to the meter system upgrade project
- \$1,894,500 – Construction services related to the Bair Island storm water pump station project
- \$563,960 – Construction services related to the recycled water project
- \$2,708,000 – Construction services related to sewer improvement projects

Purchase orders are issued throughout the fiscal year to encumber the budgets in the governmental funds. Following are the outstanding encumbrances as of June 30, 2016:

Major Funds:	\$
General Fund	981,142
Capital Outlay Fund	<u>1,755,832</u>
Total Major Funds	2,736,974
Non-Major Funds	<u>4,923,024</u>
Total Encumbrances	<u><u>7,659,998</u></u>

NOTE 17 – SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

The 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. 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 Recology 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 debt issued by the SBWMA is not an obligation of any of the member entities. During FY 2009-10, SBWMA issued \$58.5 million in bonds to finance improvements at the solid waste transfer station, and the remaining balance of the 1999 bonds were retired.

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 unaudited financial results for the year- ended June 30, 2016.

	\$
Total assets	76,424,301
Total liabilities	<u>57,590,817</u>
Total net position	<u><u>18,833,484</u></u>

NOTE 18 – RELATED PARTY TRANSACTIONS

In June 2000, the City's former 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 offered 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, 2016, one employee had a loan due to the City in the amount of \$34,664.

NOTE 19 – SUBSEQUENT EVENT

On October 24, 2016, the City Council authorized the selection of a financing team to refund the outstanding Public Financing Authority Water Revenue Bonds, Series 2007A. The refinancing is expected to occur in February 2017.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 – 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 are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, special revenue, and debt service funds. Capital projects funds' budgets are adopted on a project length basis and are not presented here. As the Housing Legal Aid Society Fund was created after the February 1, 2012 dissolution of the former Redevelopment Agency and is currently under litigation, there is no adopted budget for this fund.

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 sub-programs and funds. Any increase or decrease to the total appropriations provided for in the budget must also be carried through by resolution passed by the City Council. The City Manager may authorize the transfer of funds between object categories within a sub-program 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 or appropriations that are encumbered are re-appropriated and carried over in the following year's budget.

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative) \$
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
	\$	\$	\$	
Fund balance, July 1	28,605,356	28,605,356	28,605,356	
Resources (inflows):				
Property taxes/special assessments	43,718,163	43,718,163	47,851,873	4,133,710
Sales and other taxes	43,452,092	43,982,092	44,186,332	204,240
Licenses and permits	1,908,835	2,398,000	2,272,333	(125,667)
Fines, forfeitures and penalties	526,000	636,000	767,857	131,857
Use of money and property	471,000	248,500	569,715	321,215
Intergovernmental	3,517,540	5,416,470	5,475,525	59,055
Charges for current services	14,709,680	15,792,237	16,280,079	487,842
Contributions	392,500	225,000	431,924	206,924
Other	763,920	583,362	599,378	16,016
Amounts available for appropriation	<u>109,459,730</u>	<u>112,999,824</u>	<u>118,435,016</u>	<u>5,435,192</u>
Charges to appropriations (outflows):				
Current Operations:				
City Council:				
City Council	328,875	329,375	325,363	4,012
Human Services Assistance	<u>34,800</u>	<u>34,800</u>	<u>34,800</u>	
Total City Council	<u>363,675</u>	<u>364,175</u>	<u>360,163</u>	<u>4,012</u>
City Manager:				
Management/Policy execution/ Organizational Efficiencies	1,283,516	1,185,516	794,730	390,786
Communications/Community Engagement	587,365	792,867	666,979	125,888
Economic development	<u>424,924</u>	<u>429,284</u>	<u>276,018</u>	<u>153,266</u>
Total City Manager	<u>2,295,805</u>	<u>2,407,667</u>	<u>1,737,727</u>	<u>669,940</u>
City Attorney	<u>1,570,274</u>	<u>2,251,311</u>	<u>2,025,581</u>	<u>225,730</u>
City Clerk:				
City Clerk	698,669	702,777	663,535	39,242
Elections	145,578	176,978	112,291	64,687
Council support	<u>16,585</u>	<u>16,585</u>	<u>37,552</u>	<u>(20,967)</u>
Total City Clerk	<u>860,832</u>	<u>896,340</u>	<u>813,378</u>	<u>82,962</u>

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative) \$
	Original	Final		
	\$	\$		
Community development:				
Planning	1,230,177	1,502,637	1,434,604	68,033
Strategic planning	101,344	465,772	205,272	260,500
Building regulation	1,648,217	2,545,994	2,577,558	(31,564)
Administration	262,414	299,692	882,614	(582,922)
General engineering	303,732	303,732	312,029	(8,297)
Subdivision engineering	512,358	512,358	434,695	77,663
Code enforcement	865,627	852,627	776,281	76,346
Redevelopment	1,693,963	1,863,963	1,707,046	156,917
Total Community Development	6,617,832	8,346,775	8,330,099	16,676
Finance:				
Financial services	1,464,552	1,589,299	1,574,113	15,186
Administrative support services	1,219,356	1,232,660	1,162,123	70,537
Public Financing Authority lease payments	744,679	746,915	742,680	4,235
Total Finance	3,428,587	3,568,874	3,478,916	89,958
Fire:				
Administration	954,397	978,659	879,058	99,601
Operations	16,558,931	17,990,023	18,700,970	(710,947)
San Carlos Fire	6,909,241	6,909,241	6,930,943	(21,702)
Prevention	926,255	971,615	924,221	47,394
Training	244,807	287,140	265,336	21,804
Emergency medical services	27,079	27,079	23,682	3,397
Emergency operations	126,107	141,107	138,798	2,309
Total Fire	25,746,817	27,304,864	27,863,008	(558,144)
Human Resources	1,407,490	1,407,490	1,369,595	37,895
Library:				
Administrative services unit	1,436,409	1,436,409	1,378,705	57,704
Downtown library	3,806,792	3,851,634	3,733,115	118,519
Literacy services unit	1,021,342	1,231,435	1,167,280	64,155
Neighborhood libraries and outreach	1,718,447	1,723,947	1,772,587	(48,640)
Total Library	7,982,990	8,243,425	8,051,687	191,738

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
	\$	\$	\$	Positive (Negative)
				\$
Parks, Recreation and Community Services:				
Human Services	1,332,243	1,478,078	1,489,387	(11,309)
Administration	889,289	924,924	1,001,669	(76,745)
Civic Cultural Commission	58,896	58,896	55,037	3,859
Landscape maintenance	4,600,938	4,600,938	4,696,468	(95,530)
Youth and teen services	2,739,991	2,772,645	2,772,570	75
Sports and aquatics	2,294,540	2,605,391	2,381,027	224,364
Special interest programming/marketing	1,488,668	1,636,623	1,661,164	(24,541)
Community services	1,347,771	1,347,771	1,516,770	(168,999)
Total Parks, Recreation and Community Services	<u>14,752,336</u>	<u>15,425,266</u>	<u>15,574,092</u>	<u>(148,826)</u>
Police:				
Administration	6,775,230	6,775,230	6,703,220	72,010
Records	1,120,288	1,120,288	948,245	172,043
Training	559,452	625,852	621,378	4,474
Property/Evidence	314,332	314,332	302,997	11,335
Police Activities League	127,441	127,441	94,871	32,570
Patrol services	22,354,580	23,456,080	22,336,976	1,119,104
Criminal investigation	4,927,222	5,128,222	5,627,967	(499,745)
Total Police	<u>36,178,545</u>	<u>37,547,445</u>	<u>36,635,654</u>	<u>911,791</u>
Public Works:				
Street system maintenance	287,630	303,752	273,250	30,502
Street cleaning	251,353	251,353	245,121	6,232
Sidewalk maintenance/Replacement	17,497	17,497	17,497	
Street tree maintenance	826,236	905,762	986,866	(81,104)
Downtown/Entry feature maintenance	31,889	31,889	8,213	23,676
Storm water collection/Disposal	25,326	25,326		25,326
Total Public Works	<u>1,439,931</u>	<u>1,535,579</u>	<u>1,530,947</u>	<u>4,632</u>
Reimbursement from Other Funds	<u>(6,086,910)</u>	<u>(6,086,910)</u>	<u>(6,086,908)</u>	<u>(2)</u>
Total charges to appropriations	<u>96,558,204</u>	<u>103,212,301</u>	<u>101,683,939</u>	<u>1,528,362</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	520,993	520,993	527,271	6,278
Transfers (out)	<u>(11,136,223)</u>	<u>(17,711,223)</u>	<u>(17,445,633)</u>	<u>265,590</u>
Total Other Financing Sources (Uses)	<u>(10,615,230)</u>	<u>(17,190,230)</u>	<u>(16,918,362)</u>	<u>271,868</u>
Fund balance, June 30	<u>30,891,652</u>	<u>21,202,649</u>	<u>28,438,071</u>	<u>7,235,422</u>

REQUIRED SUPPLEMENTARY INFORMATION

2. DEFINED BENEFIT PENSION PLANS

A. Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period

Miscellaneous Plan

Measurement Period ⁽¹⁾	2014-15	2013-14
TOTAL PENSION LIABILITY		
Service Cost	\$ 4,787,766	\$ 4,962,237
Interest	19,792,491	18,925,939
Changes of Benefit Terms	-	-
Difference Between Expected and Actual Experience	(546,244)	-
Changes of Assumptions	(4,797,291)	-
Benefit Payments, Including Refunds of Employee Contributions	(12,621,036)	(11,534,695)
Net Change in Total Pension Liability	6,615,686	12,353,481
Total Pension Liability - Beginning	267,985,557	255,632,076
Total Pension Liability - Ending (a)	\$ 274,601,243	\$ 267,985,557
PLAN FIDUCIARY NET POSITION		
Contributions - Employer	\$ 6,882,313	\$ 6,449,302
Contributions - Employee	2,372,657	2,592,457
Net Investment Income ⁽²⁾	4,413,116	29,955,563
Benefit Payments, Including Refunds of Employee Contributions	(12,621,036)	(11,534,695)
Other Changes in Fiduciary Net Position	(205,162)	-
Net Change in Fiduciary Net Position	841,888	27,462,627
Plan Fiduciary Net Position - Beginning	197,591,985	170,129,358
Plan Fiduciary Net Position - Ending (b)	\$ 198,433,873	\$ 197,591,985
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 76,167,370	\$ 70,393,572
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.26%	73.73%
Covered Payroll	\$ 28,944,841	\$ 28,592,551
Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll	263.15%	246.20%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Net of administrative expenses.

2. DEFINED BENEFIT PENSION PLANS, Continued

A. Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period, Continued

Safety Plan

Measurement Period ⁽¹⁾	2014-15	2013-14
TOTAL PENSION LIABILITY		
Service Cost	\$ 7,620,719	\$ 6,630,333
Interest	22,992,406	21,880,004
Changes of Benefit Terms	-	-
Difference Between Expected and Actual Experience	210,529	-
Changes of Assumptions	(5,686,859)	-
Benefit Payments, Including Refunds of Employee Contributions	(15,054,516)	(14,361,985)
Net Change in Total Pension Liability	10,082,279	14,148,352
Total Pension Liability - Beginning	309,747,565	295,599,213
Total Pension Liability - Ending (a)	\$ 319,829,844	\$ 309,747,565
PLAN FIDUCIARY NET POSITION		
Contributions - Employer	\$ 9,993,967	\$ 7,791,669
Contributions - Employee	2,420,787	2,230,065
Net Investment Income ⁽²⁾	4,953,411	32,968,535
Benefit Payments, Including Refunds of Employee Contributions	(15,054,516)	(14,361,985)
Other Changes in Fiduciary Net Position	(245,450)	-
Net Change in Fiduciary Net Position	2,068,199	28,628,284
Plan Fiduciary Net Position - Beginning	215,992,153	187,363,869
Plan Fiduciary Net Position - Ending (b)	\$ 218,060,352	\$ 215,992,153
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 101,769,492	\$ 93,755,412
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.18%	69.73%
Covered Payroll	\$ 25,330,626	\$ 21,679,799
Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll	401.76%	432.46%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Net of administrative expenses.

Notes to Schedules

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Changes of Assumptions: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

2. DEFINED BENEFIT PENSION PLANS, Continued

B. Schedule of Plan Contributions

Miscellaneous Plan

	<u>Fiscal Year 2015-16</u> ⁽¹⁾	<u>Fiscal Year 2014-15</u>
Actuarially determined contribution	\$ 6,923,087	\$ 6,799,358
Contribution in relation to the actuarially determined contributions	<u>(6,923,087)</u>	<u>(6,799,358)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 31,958,739	\$ 28,944,841
Contributions as a percentage of covered payroll	21.66%	23.49%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable

Safety Plan

	<u>Fiscal Year 2015-16</u> ⁽¹⁾	<u>Fiscal Year 2014-15</u>
Actuarially determined contribution	\$ 10,439,692	\$ 9,667,759
Contribution in relation to the actuarially determined contributions	<u>(10,439,692)</u>	<u>(9,667,759)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 26,527,754	\$ 25,330,626
Contributions as a percentage of covered payroll	39.35%	38.17%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable

2. DEFINED BENEFIT PENSION PLANS, Continued

B. Schedule of Plan Contributions, Continued

Notes to Schedules

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2015-16 were from the June 30, 2013 public agency valuations.

	Miscellaneous Plan	Safety Plan
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage of payroll	Level percentage of payroll
Asset valuation method	15-year smoothed market	15-year smoothed market
Inflation	2.75%	2.75%
Salary increases	Varies by Entry Age and Service	Varies by Entry Age and Service
Payroll growth	3.00%	3.00%
Investment rate of return	7.50%, net of pension plan investment expense, including inflation	
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.	
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.	

3. OTHER POST EMPLOYMENT BENEFITS (OPEB)

City of Redwood City

A schedule of funding progress for the past three actuarial valuations is presented below.

Actuarial Valuation Date *	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll **	Unfunded Actuarial Liability as Percentage of Covered Payroll
2011	\$ 4,429,000	\$ 53,083,000	\$ 48,654,000	0.0%	\$ 44,961,408	108.2%
2013	\$ 11,001,000	\$ 56,177,000	\$ 45,176,000	19.6%	\$ 48,399,901	93.3%
2015	\$ 18,382,000	\$ 70,852,000	\$ 52,470,000	25.9%	\$ 51,466,341	102.0%

* Based on the most recent actuarial valuation available

** Annual payroll of active employees covered by the plan

3. OTHER POST EMPLOYMENT BENEFITS (OPEB)

Port of Redwood City

A schedule of funding progress for the past three actuarial valuations is presented below.

Actuarial Valuation Date *	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll **	Unfunded Actuarial Liability as Percentage of Covered Payroll
2013	\$ -	\$ 362,074	\$ 362,074	0.0%	\$ 629,034	57.6%
2014	\$ -	\$ 349,824	\$ 349,824	0.0%	\$ 636,746	54.9%
2015	\$ -	\$ 373,632	\$ 373,632	0.0%	\$ 655,667	57.0%

* Based on the most recent actuarial valuation available

** Annual payroll of active employees covered by the plan



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2016*

GENERAL FUND

The general fund accounts for resources traditionally associated with governments that are not required to be accounted for in another fund. Library operations, whose expenditures must be approved by the Library Board, are accounted for as part of this fund along with the general governmental expenditures not accounted for in other funds.

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
COMPARATIVE BALANCE SHEET
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS	\$	\$
Cash and investments available for operations	35,852,795	31,189,850
Receivables (net of allowance for uncollectibles):		
Taxes and assessments - current	9,141,396	7,441,153
Accounts	1,643,694	1,579,638
Loans	1,205,478	1,371,874
Accrued interest	279,016	172,969
Due from other governmental agencies	3,122,201	2,936,496
Inventory of supplies at cost		421
Prepaid expenditures	86,385	15,597
Total Assets	51,330,965	44,707,998
LIABILITIES		
Accounts payable	3,984,399	2,655,418
Accrued payroll	4,352,304	3,867,082
Deposits payable	7,720,787	6,068,254
Due to other funds	503,870	832,625
Unearned revenue	6,301,397	2,591,166
Accrued sick leave and vacation - current	30,137	88,097
Total Liabilities	22,892,894	16,102,642
FUND BALANCE		
Nonspendable:		
Loans	1,205,478	1,371,874
Inventory		421
Prepaid items	86,385	15,597
Restricted for:		
Other purposes	96,338	1,230
Committed to:		
General plan	837,563	700,783
Assigned to:		
Other purposes	978,967	283,563
Unassigned:		
City Council directed minimum balance	22,644,769	21,152,117
Residual balance	2,588,571	5,079,771
Total Fund Balance	28,438,071	28,605,356
Total Liabilities and Fund Balance	51,330,965	44,707,998

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$
REVENUES						
Property taxes	43,718,163	47,851,873	4,133,710	41,038,566	44,546,153	3,507,587
Sales and other taxes	43,982,092	44,186,332	204,240	40,280,284	43,307,531	3,027,247
Licenses and permits	2,398,000	2,272,333	(125,667)	1,826,000	1,467,378	(358,622)
Fines, forfeitures and penalties	636,000	767,857	131,857	525,000	582,464	57,464
Uses of money and property	248,500	488,369	239,869	468,500	560,947	92,447
Net increases (decreases) in fair value of investments		81,346	81,346		24,976	24,976
Intergovernmental	5,416,470	5,475,525	59,055	3,749,559	4,754,628	1,005,069
Charges for current services	15,792,237	16,280,079	487,842	15,081,181	15,834,725	753,544
Other	808,362	1,031,302	222,940	1,111,898	1,142,883	30,985
Total revenues	112,999,824	118,435,016	5,435,192	104,080,988	112,221,685	8,140,697
EXPENDITURES						
Community development	8,346,775	8,330,099	16,676	7,380,598	7,335,123	45,475
Human services	1,512,878	1,524,187	(11,309)	1,425,687	1,400,276	25,411
Public safety	64,852,309	64,498,662	353,647	60,323,447	61,477,995	(1,154,548)
Transportation	321,249	290,747	30,502	301,523	297,684	3,839
Environmental support and protection	276,679	245,121	31,558	179,309	151,830	27,479
Leisure, cultural, and information services	23,128,264	23,131,471	(3,207)	21,267,180	21,667,885	(400,705)
Policy development and implementation	4,774,147	3,663,652	1,110,495	4,474,267	3,524,919	949,348
Total expenditures	103,212,301	101,683,939	1,528,362	95,352,011	95,855,712	(503,701)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	9,787,523	16,751,077	6,963,554	8,728,977	16,365,973	7,636,996
OTHER FINANCING SOURCES (USES)						
Transfers in	520,993	527,271	6,278	397,500	516,371	118,871
Transfers (out)	(17,711,223)	(17,445,633)	265,590	(12,744,784)	(12,125,830)	618,954
Total Other Financing Sources (Uses)	(17,190,230)	(16,918,362)	271,868	(12,347,284)	(11,609,459)	737,825
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(7,402,707)	(167,285)	7,235,422	(3,618,307)	4,756,514	8,374,821
Fund balance at beginning of fiscal year		28,605,356			23,848,842	
Fund balance at end of fiscal year		28,438,071			28,605,356	

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF REVENUES COMPARED WITH BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2016		Variance with Final Budget Positive (Negative)	2015 Actual
	Budget	Actual		
Property Taxes:	\$	\$	\$	\$
Property taxes - secured and unsecured	43,718,163	47,851,873	4,133,710	44,546,153
Total Property Taxes	<u>43,718,163</u>	<u>47,851,873</u>	<u>4,133,710</u>	<u>44,546,153</u>
Sales and Other Taxes:				
Sales tax	23,005,207	22,778,475	(226,732)	22,372,756
Franchises	1,749,600	1,893,634	144,034	1,799,129
Transient occupancy tax	6,750,731	6,451,477	(299,254)	6,032,354
Property transfer tax	875,000	946,259	71,259	1,404,772
Business license tax	2,240,500	2,483,708	243,208	2,362,517
Utility users tax	9,361,054	9,632,779	271,725	9,336,003
Total Sales and Other Taxes	<u>43,982,092</u>	<u>44,186,332</u>	<u>204,240</u>	<u>43,307,531</u>
Licenses and Permits:				
Building permits	2,380,000	2,268,773	(111,227)	1,454,137
Fire and other permits	18,000	3,560	(14,440)	13,241
Total Licenses and Permits	<u>2,398,000</u>	<u>2,272,333</u>	<u>(125,667)</u>	<u>1,467,378</u>
Fines, Forfeitures and Penalties:				
Parking fines	636,000	767,857	131,857	582,464
Total Fines, Forfeitures and Penalties	<u>636,000</u>	<u>767,857</u>	<u>131,857</u>	<u>582,464</u>
Uses of Money and Property:				
Rent and concessions	190,500	228,567	38,067	464,140
Interest income	58,000	259,802	201,802	96,807
Total Uses of Money and Property	<u>248,500</u>	<u>488,369</u>	<u>239,869</u>	<u>560,947</u>
Net Increase (Decrease) in Fair Value of Investments		<u>81,346</u>	<u>81,346</u>	<u>24,976</u>
Intergovernmental:				
Motor vehicle in lieu tax		33,020	33,020	33,099
Public safety sales tax	755,550	734,945	(20,605)	728,185
Police training allowance	10,000	26,841	16,841	52,834
Homeowners' property tax relief	175,000	178,179	3,179	176,438
State mandated programs grant		150,928	150,928	987,850
Grants - County, State, and Federal	4,083,420	3,944,820	(138,600)	2,370,235
Abandoned vehicle fees				2,670
Port contribution	392,500	406,792	14,292	403,317
Total Intergovernmental	<u>5,416,470</u>	<u>5,475,525</u>	<u>59,055</u>	<u>4,754,628</u>
Charges for Current Services:				
Fire services	7,070,871	6,834,649	(236,222)	6,658,594
Police services	155,000	313,208	158,208	162,012
Plan checking	1,625,000	1,430,244	(194,756)	1,384,832
Garbage collections - net	2,476,645	2,409,618	(67,027)	2,353,062
Engineering services				3,684
Planning services	316,000	591,745	275,745	623,447
Library fees		11,319	11,319	127,691
Recreation programs	2,826,346	3,141,864	315,518	2,564,497
Other current service charges	1,322,375	1,547,432	225,057	1,956,906
Total Charges for Current Services	<u>15,792,237</u>	<u>16,280,079</u>	<u>487,842</u>	<u>15,834,725</u>
Other:				
Contributions	225,000	431,924	206,924	448,226
Miscellaneous	583,362	599,378	16,016	694,657
Total Other	<u>808,362</u>	<u>1,031,302</u>	<u>222,940</u>	<u>1,142,883</u>
Total Revenue	<u>112,999,824</u>	<u>118,435,016</u>	<u>5,435,192</u>	<u>112,221,685</u>

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED WITH BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	2016		Variance with Final Budget Positive (Negative)	2015
	Budget	Actual		Actual
Community Development:	\$	\$	\$	\$
Community planning	1,502,637	1,434,604	68,033	1,378,466
Strategic planning	465,772	205,272	260,500	
Building regulation	2,545,994	2,577,558	(31,564)	2,589,658
Administration	299,692	882,614	(582,922)	292,871
General engineering	303,732	312,029	(8,297)	809,062
Subdivision engineering	512,358	434,695	77,663	
Code enforcement	852,627	776,281	76,346	507,146
Redevelopment	1,863,963	1,707,046	156,917	1,757,920
Total Community Development	8,346,775	8,330,099	16,676	7,335,123
Human Services:				
Human services assistance program	34,800	34,800		34,800
Social services center	1,478,078	1,489,387	(11,309)	1,365,476
Total Human Services	1,512,878	1,524,187	(11,309)	1,400,276
Public Safety:				
Law enforcement	37,547,445	36,635,654	911,791	34,660,964
Fire safety	27,304,864	27,863,008	(558,144)	26,817,031
Total Public Safety	64,852,309	64,498,662	353,647	61,477,995
Transportation:				
Street system/sidewalk maintenance, repair	321,249	290,747	30,502	297,684
Total Transportation	321,249	290,747	30,502	297,684
Environmental Support and Protection:				
Street cleaning/storm water collection, disposal	276,679	245,121	31,558	151,830
Total Environmental Support and Protection	276,679	245,121	31,558	151,830
Leisure, Cultural, and Information Services:				
Parks and recreation	14,884,839	15,079,784	(194,945)	14,004,113
Information services	8,243,425	8,051,687	191,738	7,663,772
Total Leisure, Cultural, and Information Services	23,128,264	23,131,471	(3,207)	21,667,885
Policy Development and Implementation:				
Legislative/policy determination	329,375	325,363	4,012	327,795
Management/policy execution	2,407,667	1,737,727	669,940	2,309,399
Legislative services/records management	896,340	813,378	82,962	727,232
Financial services	1,589,299	1,574,113	15,186	1,390,827
Legal services	2,251,311	2,025,581	225,730	1,545,662
Human Resources	1,407,490	1,369,595	37,895	1,283,762
Other administrative support services	1,979,575	1,904,803	74,772	1,855,321
Less reimbursements from other funds	(6,086,910)	(6,086,908)	(2)	(5,915,079)
Total Policy Development and Implementation	4,774,147	3,663,652	1,110,495	3,524,919
Total Expenditures	103,212,301	101,683,939	1,528,362	95,855,712

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for revenue derived from specific taxes or other dedicated revenue sources (other than for major capital projects) that are restricted by law or administrative action to expenditures for specified purposes.

Special Gas Tax Street Improvement Fund – This fund accounts for revenue received from the State of California derived from gasoline taxes. These funds may only be used for street purposes as specified in the State of California Streets and Highway Code.

Transportation Grants Fund – This fund accounts for grants and developer contributions received for specific transportation projects.

Grants Fund – This fund accounts for grants received for specific purposes. These include funds received under the Housing and Community Development Act.

Traffic Safety Fund – This fund accounts for revenues received from traffic fines and used for traffic safety programs.

Transportation Fund – This fund accounts for the City's share of special sales tax for transportation. Expenditures from this fund may only be incurred on transportation-related programs.

Seaport Landscape Maintenance Fund – This fund accounts for funds to be provided by property owners in the Seaport Boulevard area for maintenance of landscaping on Seaport Boulevard.

Seaport Centre Maintenance Fund – This fund accounts for funds provided by property owners in the Seaport Centre area for the maintenance and repair of drains and sewer lines connecting the Centre facilities to the public facilities.

Redwood Shores Maintenance Fund – This fund accounts for funds collected from property owners in the Redwood Shores area for the maintenance of various public areas.

Redwood Shores Landscape Maintenance Fund – This fund accounts for funds collected from property owners for landscape maintenance of certain areas in Redwood Shores.

Supplemental Law Enforcement Services Fund – This fund accounts for funds from the State of California "Citizens Option for Public Safety" program.

Traffic Mitigation Fees Fund – This fund accounts for developer contributions received for general transportation projects.

Low and Moderate Income Housing Asset Fund – This fund accounts for the restricted and obligated balances (other than the Legal Aid Society balance) of the former redevelopment agency low and moderate income housing fund that were transferred to the City after the dissolution of the redevelopment agency on February 1, 2012.

Planning Cost Recovery Fund – This fund accounts for fees charged for reimbursement of the expenditures associated with processing planning applications related to major projects.

Community Benefits Fund – This fund accounts for funds committed by the City to enhance community programs.

SPECIAL REVENUE FUNDS (CONTINUED)

Housing Legal Aid Society Fund – This fund accounts for revenues previously deposited in the former redevelopment agency low and moderate income housing fund pursuant to an agreement with the Legal Aid Society to set aside general tax increment revenue for housing purposes. After the February 1, 2012 dissolution of the redevelopment agency, this fund was created to account for this accumulated balance.

DEBT SERVICE FUNDS

Debt service funds are used to account for the payment of interest and principal on general debt of the City and related entities.

Public Financing Authority 2013 Refunding Lease Fund – This fund accounts for a lease entered into to refund the 2003 Public Financing Authority bonds. This lease is secured by lease payment from the City.

CAPITAL PROJECTS FUNDS

Capital project funds are established to account for resources used for the acquisition and construction of capital facilities by the City except for those financed by the proprietary funds or special revenue funds. Funding for these projects is provided by the general fund and by special assessment districts. Currently the City has the following funds:

Facilities Fee Construction Fund – This fund derives its revenue from fees collected from the developers in the Redwood Shores area. Funds are used for improvements to roads, drainage, water, traffic lights, canals, etc. in the area.

Parks Impact and In Lieu Fee Fund – This fund accounts for parks impact fees and Quimby Act in lieu fees charged to developers on new development projects, to enable the City to expand and improve its system of parks, parkland, and recreational facilities to provide services to future development.

Shores Transportation Improvement District Fund – This fund accounts for community facility district bonds that were issued and developer contributions that were received by the City to fund various transportation projects in the Redwood Shores area.

One Marina Community Facilities District Fund – This fund accounts for certain public infrastructure improvements within the One Marina district that are financed by community facilities district bonds, and developer contributions.

CITY OF REDWOOD CITY, CALIFORNIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2016

SPECIAL REVENUE FUNDS

	Special Gas Tax Street Improvement Fund \$	Transportation Grants Fund \$	Grants Fund \$	Traffic Safety Fund \$	Transportation Fund \$	Seaport Landscape Maintenance Fund \$
ASSETS						
Cash and investments available for operations	4,288,929	5,414,285	2,316,665	70,939	1,009,772	555,081
Cash and investments, restricted			104,587			
Receivables (net of allowance for uncollectibles)						
Taxes and assessments - current	135,978	303,757			118,804	
Accounts			21,526	4,774		
Loans			2,973,544			
Accrued interest			176,494			
Due from other governmental agencies		1,197,662	322,518	27,946		
Due from other funds						
Advances to RDA successor agency						
Prepaid items					1,500	
Investment in land held for redevelopment			2,410,000			
Total Assets	4,424,907	6,915,704	8,325,334	103,659	1,130,076	555,081
LIABILITIES						
Accounts payable	121,590	394,616	237,514	48,253	110,642	342
Deposits payable						
Due to other funds						
Unearned revenue						
Accrued sick leave and vacation				27,760		
Total Liabilities	121,590	394,616	237,514	76,013	110,642	342
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - interest			176,494			
Total Deferred Inflows of Resources			176,494			
FUND BALANCES						
Nonspendable:						
Prepaid items					1,500	
Restricted for:						
Community development			5,879,400			
Public safety				27,646		
Transportation	20,213	4,833,697			521,221	
Environmental support and protection						553,715
Leisure, cultural and information services			255,061			
Capital projects		1,687,391	863,335		496,713	1,024
Other purposes						
Committed to:						
Capital projects	2,573,833					
Community benefits						
Human services financial assistance			913,530			
Housing purposes						
Assigned to:						
Capital projects	1,709,271					
Total Fund Balances	4,303,317	6,521,088	7,911,326	27,646	1,019,434	554,739
Total Liabilities, Deferred Inflows of Resources and Fund Balances	4,424,907	6,915,704	8,325,334	103,659	1,130,076	555,081

SPECIAL REVENUE FUNDS

Seaport Centre Maintenance Fund	Redwood Shores Maintenance Fund	Redwood Shores Landscape Mtc. Fund	Supplemental Law Enforcement Services Fund	Traffic Mitigation Fees Fund
\$	\$	\$	\$	\$
1,783,596	1,302,038	33,391	104,937	6,100,321 4,346,737
				5,182
<u>1,783,596</u>	<u>1,302,038</u>	<u>33,391</u>	<u>104,937</u>	<u>10,452,240</u>
	36,978	1,766	2,031	106,891 11,088
			34,521	
	<u>36,978</u>	<u>1,766</u>	<u>36,552</u>	<u>117,979</u>
			68,385	4,052,433
1,316,461	510,049	31,625		
467,135	755,011			6,281,828
<u>1,783,596</u>	<u>1,265,060</u>	<u>31,625</u>	<u>68,385</u>	<u>10,334,261</u>
<u>1,783,596</u>	<u>1,302,038</u>	<u>33,391</u>	<u>104,937</u>	<u>10,452,240</u>

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2016

	SPECIAL REVENUE FUNDS				DEBT SERVICE FUNDS
	Low & Moderate Income Housing Asset Fund \$	Planning Cost Recovery Fund \$	Community Benefits Fund \$	Housing Legal Aid Society \$	Public Financing Authority 2013 Refunding Lease Fund \$
ASSETS					
Cash and investments available for operations	2,542,654	55,312	955,756	151,394	
Cash and investments, restricted					
Receivables (net of allowance for uncollectibles)					
Taxes and assessments - current					
Accounts	3,707				
Loans	4,036,235				
Accrued interest	859,468				
Due from other governmental agencies					
Due from other funds	8,607				
Advances to RDA successor agency	1,687,703				
Prepaid items					
Investment in land held for redevelopment	3,331,208				
	<u>12,469,582</u>	<u>55,312</u>	<u>955,756</u>	<u>151,394</u>	
Total Assets					
LIABILITIES					
Accounts payable	500,634	55,312			
Deposits payable					
Due to other funds					
Unearned revenue				32,303	
Accrued sick leave and vacation					
	<u>500,634</u>	<u>55,312</u>		<u>32,303</u>	
Total Liabilities					
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - interest	859,468				
	<u>859,468</u>				
Total Deferred Inflows of Resources					
FUND BALANCES					
Nonspendable:					
Prepaid items				-	
Restricted for:					
Community development	9,410,983			119,091	
Public safety					
Transportation					
Environmental support and protection					
Leisure, cultural and information services					
Capital projects					
Other purposes					
Committed to:					
Capital projects					
Community benefits			955,756		
Human services financial assistance					
Housing purposes	1,698,497				
Assigned to:					
Capital projects					
	<u>11,109,480</u>		<u>955,756</u>	<u>119,091</u>	
Total Fund Balances					
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>12,469,582</u>	<u>55,312</u>	<u>955,756</u>	<u>151,394</u>	

CAPITAL PROJECTS FUNDS

Facilities Fee Construction Fund \$	Parks Impact and In Lieu Fee Fund \$	Shores Transportation Improvement District Fund \$	One Marina Community Facilities District Fund \$	Total Nonmajor Governmental Funds \$
385,865	19,505,797 148,742	603,948	1,224,784	48,405,464 4,600,066
				558,539 30,007 7,009,779 1,041,144 1,548,126 8,607 1,687,703 1,500 5,741,208
<u>385,865</u>	<u>19,654,539</u>	<u>603,948</u>	<u>1,224,784</u>	<u>70,632,143</u>
	343,267			1,959,836 11,088 66,824 27,760
	<u>343,267</u>			<u>2,065,508</u>
				1,035,962
				<u>1,035,962</u>
				1,500 15,409,474 96,031 9,533,184 2,411,850 17,856,259 14,058,832 312,656
73,209 312,656	17,601,198 1,710,074	105,620 498,328	1,224,784	2,573,833 955,756 913,530 1,698,497 1,709,271
<u>385,865</u>	<u>19,311,272</u>	<u>603,948</u>	<u>1,224,784</u>	<u>67,530,673</u>
<u>385,865</u>	<u>19,654,539</u>	<u>603,948</u>	<u>1,224,784</u>	<u>70,632,143</u>

CITY OF REDWOOD CITY, CALIFORNIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

SPECIAL REVENUE FUNDS

	Special Gas Tax Street Improvement Fund \$	Transportation Grants Fund \$	Grants Fund \$	Traffic Safety Fund \$	Transportation Fund \$
REVENUES					
Property taxes/special assessments					
Licenses and permits					
Fines, forfeitures and penalties				215,592	
Use of money and property	(3,298)	48,091	76,879	(5,893)	10,231
Intergovernmental	1,745,953	2,352,518	846,601		1,714,942
Contributions		1,198,742			15,579
Charges for current services	20,316			51,315	
Other			882	9,452	
Total Revenues	1,762,971	3,599,351	924,362	270,466	1,740,752
EXPENDITURES					
Current Operations:					
Community development			964,771		111,229
Human services			100,000		
Public safety					
Transportation	1,859,553	1,081,698		1,624,762	281,553
Environmental support and protection	477,746	303,757	12,290		
Leisure, cultural and information services					
Policy development and implementation					255,559
Capital outlay	1,724,500	952,377	24,870		761,325
Debt service:					
Principal retirement					
Interest and fiscal charges					
Total Expenditures	4,061,799	2,337,832	1,101,931	1,624,762	1,409,666
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,298,828)	1,261,519	(177,569)	(1,354,296)	331,086
OTHER FINANCING SOURCES (USES)					
Transfers in				1,346,444	
Transfers (out)	(276,000)				
Total Other Financing Sources (Uses)	(276,000)			1,346,444	
Net change in fund balances	(2,574,828)	1,261,519	(177,569)	(7,852)	331,086
Fund balances - beginning	6,878,145	5,259,569	8,088,895	35,498	688,348
Fund balances - ending	<u>4,303,317</u>	<u>6,521,088</u>	<u>7,911,326</u>	<u>27,646</u>	<u>1,019,434</u>

SPECIAL REVENUE FUNDS

Seaport Landscape Maintenance Fund	Seaport Centre Maintenance Fund	Redwood Shores Maintenance Fund	Redwood Shores Landscape Maintenance Fund	Supplemental Law Enforcement Services Fund	Traffic Mitigation Fees Fund
\$	\$	\$	\$	\$	\$
212,438	186,948	827,159	234,252		
5,637	18,645	14,146 3,779	72	826 124,378	81,201 915,155
<u>218,075</u>	<u>205,593</u>	<u>845,084</u>	<u>234,324</u>	<u>125,204</u>	<u>996,356</u>
2,213	7,373			104,073	
210,974	76,265	445,215	293,604		438,058
	171,855				374,253
<u>213,187</u>	<u>255,493</u>	<u>445,215</u>	<u>293,604</u>	<u>104,073</u>	<u>812,311</u>
4,888	(49,900)	399,869	(59,280)	21,131	184,045
			32,078		
		(305,993)			
		(305,993)	32,078		
4,888	(49,900)	93,876	(27,202)	21,131	184,045
<u>549,851</u>	<u>1,833,496</u>	<u>1,171,184</u>	<u>58,827</u>	<u>47,254</u>	<u>10,150,216</u>
<u>554,739</u>	<u>1,783,596</u>	<u>1,265,060</u>	<u>31,625</u>	<u>68,385</u>	<u>10,334,261</u>

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	SPECIAL REVENUE FUNDS				DEBT SERVICE FUNDS
	Low & Moderate Income Housing Asset Fund \$	Planning Cost Recovery Fund \$	Community Benefits Fund \$	Housing Legal Aid Society \$	Public Financing Authority 2013 Refunding Lease Fund \$
REVENUES					
Property taxes/special assessments					
Licenses and permits					
Fines, forfeitures and penalties					
Use of money and property	85,138		10,181	52,191	700,053
Intergovernmental					
Contributions					
Charges for current services		515,133			
Other	630				
Total Revenues	85,768	515,133	10,181	52,191	700,053
EXPENDITURES					
Current Operations:					
Community development	114,520	515,133		218	
Human services					
Public safety					
Transportation					
Environmental support and protection					
Leisure, cultural and information services					
Policy development and implementation					
Capital outlay					
Debt service:					
Principal retirement					666,814
Interest and fiscal charges					33,239
Total Expenditures	114,520	515,133		218	700,053
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(28,752)		10,181	51,973	
OTHER FINANCING SOURCES (USES)					
Transfers in	67,621				
Transfers (out)					
Total Other Financing Sources (Uses)	67,621				
Net change in fund balances	38,869		10,181	51,973	
Fund balances - beginning	11,070,611		945,575	67,118	
Fund balances - ending	11,109,480		955,756	119,091	

CAPITAL PROJECTS FUNDS

Facilities Fee Construction Fund \$	Parks Impact and In Lieu Fee Fund \$	Shores Transportation Improvement District Fund \$	One Marina Community Facilities District Fund \$	Total Nonmajor Governmental Funds \$
				1,460,797
	4,871,246			4,871,246
				215,592
4,490	209,118	6,297	10,258	1,324,263
				7,703,326
			213,825	1,428,146
				586,764
				10,964
4,490	5,080,364	6,297	224,083	17,601,098
				1,715,457
				100,000
				104,073
				5,285,624
822				1,527,069
	7,867			301,471
	3,252,694			255,559
				7,261,874
				666,814
				33,239
822	3,260,561			17,251,180
3,668	1,819,803	6,297	224,083	349,918
				1,446,143
				(581,993)
				864,150
3,668	1,819,803	6,297	224,083	1,214,068
382,197	17,491,469	597,651	1,000,701	66,316,605
385,865	19,311,272	603,948	1,224,784	67,530,673

CITY OF REDWOOD CITY, CALIFORNIA
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	SPECIAL GAS TAX			TRANSPORTATION GRANTS FUND		
	STREET IMPROVEMENT FUND		Variance with Final Budget Positive (Negative)	TRANSPORTATION GRANTS FUND		Variance with Final Budget Positive (Negative)
	Budget	Actual		Budget	Actual	
	\$	\$	\$	\$	\$	\$
REVENUES						
Property taxes/special assessments						
Fines, forfeitures and penalties						
Use of money and property		(3,298)	(3,298)	51,000	48,091	(2,909)
Intergovernmental	1,708,376	1,745,953	37,577	7,255,781	2,352,518	(4,903,263)
Contributions				1,198,742	1,198,742	
Charges for current services		20,316	20,316			
Other						
Total Revenues	1,708,376	1,762,971	54,595	8,505,523	3,599,351	(4,906,172)
EXPENDITURES						
Current operations:						
Community development						
Human services						
Public safety						
Transportation	1,943,244	1,859,553	83,691	1,616,016	1,081,698	534,318
Environmental support and protection	575,140	477,746	97,394	272,199	303,757	(31,558)
Leisure, cultural and information services						
Policy development and implementation						
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total Expenditures	2,518,384	2,337,299	181,085	1,888,215	1,385,455	502,760
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(810,008)	(574,328)	235,680	6,617,308	2,213,896	(4,403,412)
OTHER FINANCING SOURCES (USES)						
Transfers in	497,978		(497,978)			
Transfers (out)	(276,000)	(276,000)				
Total Other Financing Sources (Uses)	221,978	(276,000)	(497,978)			
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(588,030)	(850,328)	(262,298)	6,617,308	2,213,896	(4,403,412)
Adjustments to budgetary basis:						
Capital outlay		(1,724,500)			(952,377)	
Funds not budgeted:						
Facilities Fee Construction Fund						
Parks Impact and In Lieu Fee Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Fund balances - beginning		6,878,145			5,259,569	
Fund balances - ending		4,303,317			6,521,088	

There were no material changes between the original and final budgeted amounts.

GRANTS FUND			TRAFFIC SAFETY FUND			TRANSPORTATION FUND		
Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$	\$
			270,000	215,592	(54,408)			
10,000	76,879	66,879		(5,893)	(5,893)	10,000	10,231	231
1,204,790	846,601	(358,189)				1,811,250	1,714,942	(96,308)
							15,579	15,579
	882	882	7,000	51,315	44,315			
				9,452	9,452			
<u>1,214,790</u>	<u>924,362</u>	<u>(290,428)</u>	<u>277,000</u>	<u>270,466</u>	<u>(6,534)</u>	<u>1,821,250</u>	<u>1,740,752</u>	<u>(80,498)</u>
3,086,071	964,771	2,121,300				168,307	111,229	57,078
100,000	100,000							
	12,290	(12,290)	1,647,424	1,624,762	22,662	43,691	281,553	(237,862)
						249,670	255,559	(5,889)
<u>3,186,071</u>	<u>1,077,061</u>	<u>2,109,010</u>	<u>1,647,424</u>	<u>1,624,762</u>	<u>22,662</u>	<u>461,668</u>	<u>648,341</u>	<u>(186,673)</u>
<u>(1,971,281)</u>	<u>(152,699)</u>	<u>1,818,582</u>	<u>(1,370,424)</u>	<u>(1,354,296)</u>	<u>16,128</u>	<u>1,359,582</u>	<u>1,092,411</u>	<u>(267,171)</u>
			1,346,444	1,346,444				
			1,346,444	1,346,444				
<u>(1,971,281)</u>	<u>(152,699)</u>	<u>1,818,582</u>	<u>(23,980)</u>	<u>(7,852)</u>	<u>16,128</u>	<u>1,359,582</u>	<u>1,092,411</u>	<u>(267,171)</u>
	(24,870)						(761,325)	
	8,088,895			35,498			688,348	
	<u>7,911,326</u>			<u>27,646</u>			<u>1,019,434</u>	

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	SEAPORT LANDSCAPE MAINTENANCE FUND			SEAPORT CENTRE MAINTENANCE FUND		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES						
Property taxes/special assessments	212,500	212,438	(62)	187,000	186,948	(52)
Fines, forfeitures and penalties						
Use of money and property	4,000	5,637	1,637	15,000	18,645	3,645
Intergovernmental						
Contributions						
Charges for current services						
Other						
Total Revenues	216,500	218,075	1,575	202,000	205,593	3,593
Current operations:						
Community development	4,166	2,213	1,953	4,166	7,373	(3,207)
Human services						
Public safety						
Transportation						
Environmental support and protection	217,664	210,974	6,690	584,844	76,265	508,579
Leisure, cultural and information services						
Policy development and implementation						
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total Expenditures	221,830	213,187	8,643	589,010	83,638	505,372
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,330)	4,888	10,218	(387,010)	121,955	508,965
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(5,330)	4,888	10,218	(387,010)	121,955	508,965
Adjustments to budgetary basis:						
Capital outlay					(171,855)	
Funds not budgeted:						
Facilities Fee Construction Fund						
Parks Impact and In Lieu Fee Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Fund balances - beginning		549,851			1,833,496	
Fund balances - ending		554,739			1,783,596	

There were no material changes between the original and final budgeted amounts.

REDWOOD SHORES MAINTENANCE FUND			REDWOOD SHORES LANDSCAPE MAINTENANCE FUND			SUPPLEMENTAL LAW ENFORCEMENT SERVICES FUND		
Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$	\$
777,120	827,159	50,039	235,242	234,252	(990)			
10,000	14,146	4,146		72	72		826	826
4,000	3,779	(221)				125,000	124,378	(622)
<u>791,120</u>	<u>845,084</u>	<u>53,964</u>	<u>235,242</u>	<u>234,324</u>	<u>(918)</u>	<u>125,000</u>	<u>125,204</u>	<u>204</u>
						167,807	104,073	63,734
518,848	445,215	73,633	267,320	293,604	(26,284)			
<u>518,848</u>	<u>445,215</u>	<u>73,633</u>	<u>267,320</u>	<u>293,604</u>	<u>(26,284)</u>	<u>167,807</u>	<u>104,073</u>	<u>63,734</u>
272,272	399,869	127,597	(32,078)	(59,280)	(27,202)	(42,807)	21,131	63,938
(305,993)	(305,993)		32,078	32,078				
(305,993)	(305,993)		32,078	32,078				
<u>(33,721)</u>	<u>93,876</u>	<u>127,597</u>		<u>(27,202)</u>	<u>(27,202)</u>	<u>(42,807)</u>	<u>21,131</u>	<u>63,938</u>
	<u>1,171,184</u>			<u>58,827</u>			<u>47,254</u>	
	<u>1,265,060</u>			<u>31,625</u>			<u>68,385</u>	

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	TRAFFIC MITIGATION FEES FUND			LOW AND MODERATE INCOME HOUSING ASSET FUND		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$
REVENUES						
Property taxes/special assessments						
Fines, forfeitures and penalties						
Use of money and property	39,000	81,201	42,201		85,138	85,138
Intergovernmental	700,000	915,155	215,155			
Contributions						
Charges for current services						
Other					630	630
Total Revenues	739,000	996,356	257,356		85,768	85,768
Current operations:						
Community development				94,882	114,520	(19,638)
Human services						
Public safety						
Transportation	996,954	438,058	558,896			
Environmental support and protection						
Leisure, cultural and information services						
Policy development and implementation						
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total Expenditures	996,954	438,058	558,896	94,882	114,520	(19,638)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(257,954)	558,298	816,252	(94,882)	(28,752)	66,130
OTHER FINANCING SOURCES (USES)						
Transfers in				1,688,486	67,621	(1,620,865)
Transfers (out)						
Total Other Financing Sources (Uses)				1,688,486	67,621	(1,620,865)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(257,954)	558,298	816,252	1,593,604	38,869	(1,554,735)
Adjustments to budgetary basis:						
Capital outlay		(374,253)				
Funds not budgeted:						
Facilities Fee Construction Fund						
Parks Impact and In Lieu Fee Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Fund balances - beginning		10,150,216			11,070,611	
Fund balances - ending		10,334,261			11,109,480	

There were no material changes between the original and final budgeted amounts.

PLANNING COST RECOVERY FUND			COMMUNITY BENEFITS FUND			HOUSING LEGAL AID SOCIETY		
Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$	\$
				10,181	10,181		52,191	52,191
1,312,089	515,133	(796,956)						
<u>1,312,089</u>	<u>515,133</u>	<u>(796,956)</u>		<u>10,181</u>	<u>10,181</u>		<u>52,191</u>	<u>52,191</u>
1,312,089	515,133	796,956				80,000	218	79,782
<u>1,312,089</u>	<u>515,133</u>	<u>796,956</u>				<u>80,000</u>	<u>218</u>	<u>79,782</u>
				10,181	10,181	(80,000)	51,973	131,973
			-	-		-	-	
				10,181	10,181	(80,000)	51,973	131,973
				<u>10,181</u>	<u>10,181</u>	<u>(80,000)</u>	<u>51,973</u>	<u>131,973</u>
				945,575			67,118	
				<u>955,756</u>			<u>119,091</u>	

CITY OF REDWOOD CITY, CALIFORNIA
 BUDGETED NON-MAJOR FUNDS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	PUBLIC FINANCING AUTHORITY 2013 REFUNDING LEASE FUND			TOTALS		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$
REVENUES						
Property taxes/special assessments				1,411,862	1,460,797	48,935
Fines, forfeitures and penalties				270,000	215,592	(54,408)
Use of money and property	700,220	700,053	(167)	839,220	1,094,100	254,880
Intergovernmental				12,809,197	7,703,326	(5,105,871)
Contributions				1,198,742	1,214,321	15,579
Charges for current services				1,319,089	586,764	(732,325)
Other					10,964	10,964
Total Revenues	700,220	700,053	(167)	17,848,110	12,285,864	(5,562,246)
Current operations:						
Community development				4,749,681	1,715,457	3,034,224
Human services				100,000	100,000	
Public safety				167,807	104,073	63,734
Transportation				6,247,329	5,285,624	961,705
Environmental support and protection				2,168,695	1,526,247	642,448
Leisure, cultural and information services				267,320	293,604	(26,284)
Policy development and implementation				249,670	255,559	(5,889)
Debt service:						
Principal retirement	666,814	666,814		666,814	666,814	
Interest and fiscal charges	33,406	33,239	167	33,406	33,239	167
Total Expenditures	700,220	700,053	167	14,650,722	9,980,617	4,670,105
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				3,197,388	2,305,247	(892,141)
OTHER FINANCING SOURCES (USES)						
Transfers in				3,564,986	1,446,143	(2,118,843)
Transfers (out)				(581,993)	(581,993)	
Total Other Financing Sources (Uses)				2,982,993	864,150	(2,118,843)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES				6,180,381	3,169,397	(3,010,984)
Adjustments to budgetary basis:						
Capital outlay					(4,009,180)	
Funds not budgeted:						
Facilities Fee Construction Fund					385,865	
Parks Impact and In Lieu Fee Fund					19,311,272	
Shores Transportation Improvement District					603,948	
One Marina Community Facilities District					1,224,784	
Fund balances - beginning					46,844,587	
Fund balances - ending					67,530,673	

(Continued)

There were no material changes between the original and final budgeted amounts.



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2016*

INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods and services provided by one City department to others on a cost reimbursement basis.

Equipment Services Fund – This fund accounts for the costs of operation, maintenance, and replacement of automotive equipment used by other departments. Such costs are billed to the consuming departments at a rate that includes operation, maintenance, and an amount necessary to provide replacement of the equipment at a future date. Additional equipment is budgeted by the consuming department and is then transferred to the equipment services fund after purchase.

Self-Insurance Fund – This fund accounts for the City's total insurance program which includes, but is not limited to, workers' compensation, comprehensive automobile and general liability, marinas, and property and crime insurance. Included are administrative costs and costs associated with self-insurance and the purchase of excess insurance to adequately protect the City. User departments are charged for workers' compensation insurance at rates based on loss experience and on departmental budget size.

Internal Services Fund – This fund accounts for the costs of operation of the City's telephone/communications service, maintenance and repair of buildings, custodial services, and information technology services. The costs are billed to the user departments based on actual use by the departments.

Employee Benefits Fund – This fund is used to account for providing City workers with self-insured dental and vision benefits, unemployment insurance, and health insurance to retired City employees.

CITY OF REDWOOD CITY, CALIFORNIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2016

	Equipment Services Fund	Self Insurance Fund	Internal Services Fund	Employee Benefits Fund	Total
ASSETS	\$	\$	\$	\$	\$
Current assets:					
Cash and investments available for operations:	12,039,220	22,657,313	860,855	797,191	36,354,579
Receivables (net of allowance for uncollectibles)					
Accounts	1,620	223,426			225,046
Accrued interest	5,759				5,759
Due from other governmental agencies	19,897		189,905		209,802
Due from other funds	300,000				300,000
Inventory of supplies at cost	124,323				124,323
Deposits		530,000			530,000
Prepaid items and other assets	1,983		47,982		49,965
Total current assets	<u>12,492,802</u>	<u>23,410,739</u>	<u>1,098,742</u>	<u>797,191</u>	<u>37,799,474</u>
Noncurrent assets:					
Advances to other funds	1,800,000				1,800,000
Capital assets:					
Construction in progress	434,894				434,894
Equipment, net	7,836,138		698,298		8,534,436
Net capital assets	<u>8,271,032</u>		<u>698,298</u>		<u>8,969,330</u>
Total noncurrent assets	<u>10,071,032</u>		<u>698,298</u>		<u>10,769,330</u>
Total assets	<u>22,563,834</u>	<u>23,410,739</u>	<u>1,797,040</u>	<u>797,191</u>	<u>48,568,804</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred pension contributions	<u>274,310</u>	<u>124,418</u>	<u>2,393,903</u>		<u>2,792,631</u>
LIABILITIES					
Current liabilities:					
Accounts payable	120,472	388,144	100,082		608,698
Insurance claims payable - current portion		4,277,299			4,277,299
Accrued sick leave and vacation - current portion	38,518		341,185		379,703
Unearned revenue					
Total current liabilities	<u>158,990</u>	<u>4,665,443</u>	<u>441,267</u>		<u>5,265,700</u>
Noncurrent liabilities:					
Insurance claims payable		18,839,543			18,839,543
Accrued sick leave and vacation	71,490		504,965		576,455
Net OPEB obligation	74,492	25,994	390,836		491,322
Net pension liability	1,477,789	655,297	12,237,024		14,370,110
Total noncurrent liabilities	<u>1,623,771</u>	<u>19,520,834</u>	<u>13,132,825</u>		<u>34,277,430</u>
Total liabilities	<u>1,782,761</u>	<u>24,186,277</u>	<u>13,574,092</u>		<u>39,543,130</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - pension actuarial	<u>271,877</u>	<u>120,046</u>	<u>2,191,592</u>		<u>2,583,515</u>
NET POSITION					
Invested in capital assets	8,271,032		698,298		8,969,330
Unrestricted	<u>12,512,474</u>	<u>(771,166)</u>	<u>(12,273,039)</u>	<u>797,191</u>	<u>265,460</u>
Total net position	<u>20,783,506</u>	<u>(771,166)</u>	<u>(11,574,741)</u>	<u>797,191</u>	<u>9,234,790</u>

CITY OF REDWOOD CITY, CALIFORNIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Equipment Services Fund	Self Insurance Fund	Internal Services Fund	Employee Benefits Fund	Total
	\$	\$	\$	\$	\$
OPERATING REVENUES					
Charges for services	4,573,389	6,380,373	9,591,740	6,518,527	27,064,029
OPERATING EXPENSES					
Employee services	918,842	433,859	8,038,126	2,889,292	12,280,119
Maintenance	25,343	3,845	745,039		774,227
Utilities	23,881	3,650	13,302		40,833
Contractual services	4,400	1,026,790	(437,865)	3,107,716	3,701,041
Supplies and services	1,193,886	355,643	1,085,019		2,634,548
Depreciation	1,110,998		139,776		1,250,774
Insurance and claims	20,601	8,397,996	139,117	841,452	9,399,166
Total operating expenses	3,297,951	10,221,783	9,722,514	6,838,460	30,080,708
Operating Income (Loss)	1,275,438	(3,841,410)	(130,774)	(319,933)	(3,016,679)
NONOPERATING REVENUES (EXPENSES)					
Gain (loss) on disposal of capital assets	18,837		(73,379)		(54,542)
Investment earnings	157,863	206,152	14,536	23,276	401,827
Insurance recovery	7,479				7,479
Net Nonoperating Revenues (Expenses)	184,179	206,152	(58,843)	23,276	354,764
Net Income (Loss) Before Capital Contributions and Transfers	1,459,617	(3,635,258)	(189,617)	(296,657)	(2,661,915)
Capital contributions			60,970		60,970
Transfers in		4,000,000			4,000,000
Transfers (out)			(11,470)		(11,470)
Total Capital Contributions and Transfers		4,000,000	49,500		4,049,500
Change in net position	1,459,617	364,742	(140,117)	(296,657)	1,387,585
Net position - beginning	19,323,889	(1,135,908)	(11,434,624)	1,093,848	7,847,205
Net position - ending	20,783,506	(771,166)	(11,574,741)	797,191	9,234,790

CITY OF REDWOOD CITY, CALIFORNIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Equipment Services Fund	Self Insurance Fund	Internal Services Fund	Employee Benefits Fund	Total
	\$	\$	\$	\$	\$
Cash flows from operating activities:					
Cash received from interfund services provided	4,619,823	6,662,947	9,568,417	6,518,527	27,369,714
Cash payments to suppliers for goods and services	(1,333,369)	(7,587,136)	(1,759,306)	(3,949,168)	(14,628,979)
Cash payments to employees for services	(956,963)	(457,334)	(8,526,280)	(2,889,292)	(12,829,869)
Net cash provided by (used in) operating activities	<u>2,329,491</u>	<u>(1,381,523)</u>	<u>(717,169)</u>	<u>(319,933)</u>	<u>(89,134)</u>
Cash flows from noncapital financing activities					
Insurance recovery	7,479				7,479
Transfers in		4,000,000			4,000,000
Transfers out			(11,470)		(11,470)
Advances to other funds	300,000				300,000
Contributions					
Net cash provided by (used in) non-capital financing activities	<u>307,479</u>	<u>4,000,000</u>	<u>(11,470)</u>		<u>4,296,009</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(1,078,651)		12,407		(1,066,244)
Contributions			60,970		60,970
Proceeds from sale of capital assets	18,837		(73,379)		(54,542)
Net cash used in capital and related financing activities	<u>(1,059,814)</u>		<u>(2)</u>		<u>(1,059,816)</u>
Cash flows from investing activities:					
Interest on investments	155,436	206,152	14,536	23,276	399,400
Net cash provided by investing activities	<u>155,436</u>	<u>206,152</u>	<u>14,536</u>	<u>23,276</u>	<u>399,400</u>
Net increase (decrease) in cash and cash equivalents	1,732,592	2,824,629	(714,105)	(296,657)	3,546,459
Cash and cash equivalents at beginning of year	<u>10,306,628</u>	<u>19,832,684</u>	<u>1,574,960</u>	<u>1,093,848</u>	<u>32,808,120</u>
Cash and cash equivalents at end of year	<u>12,039,220</u>	<u>22,657,313</u>	<u>860,855</u>	<u>797,191</u>	<u>36,354,579</u>
Reconciliation of Net Cash Flow from Operating Activities					
Operating income (loss)	<u>1,275,438</u>	<u>(3,841,410)</u>	<u>(130,774)</u>	<u>(319,933)</u>	<u>(3,016,679)</u>
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:					
Depreciation	1,110,998		139,776		1,250,774
Change in assets and liabilities:					
Decrease (increase) in accounts receivable	(1,620)	282,574			280,954
Decrease (increase) in due from other governmental agencies	48,054		(23,323)		24,731
Decrease (increase) in inventory/prepaid expense/deposits	(6,259)	145,000	(39,238)		99,503
Increase (decrease) in vacation & sick leave payable	13,116		(43,337)		(30,221)
Increase (decrease) in accounts payable	(58,999)	(157,496)	(175,456)		(391,951)
Increase (decrease) in unearned revenue					
Increase (decrease) in net OPEB obligation					
Increase (decrease) in deferred employer contributions	(140,287)	(65,449)	(1,287,750)		(1,493,486)
Increase (decrease) in deferred inflows - pension	(1,986)	(899)	(17,356)		(20,241)
Increase (decrease) in net pension liability	91,036	42,873	860,289		994,198
Increase (decrease) in insurance claims payable		2,213,284			2,213,284
Total adjustments	<u>1,054,053</u>	<u>2,459,887</u>	<u>(586,395)</u>		<u>2,927,545</u>
Net cash provided by (used in) operating activities	<u>2,329,491</u>	<u>(1,381,523)</u>	<u>(717,169)</u>	<u>(319,933)</u>	<u>(89,134)</u>
Noncash investing, capital and financing activities:					
Gain (loss) on disposal of equipment	18,837		(73,379)		(54,542)

AGENCY FUNDS

Agency funds are used to account for assets held by government in a trustee capacity or as an agent for an individual.

Employee Benefit Plans Fund – This fund is used to account for contributions to certain employee benefit categories established by the City under Section 125 of the Internal Revenue Code for the employees and their dependents.

Pacific Shores Community Facilities District Fund – This fund accounts for the Mello-Roos Pacific Shores Project special tax bonds that were issued to fund various transportation system improvements within the City's right-of-way in the Pacific Shores district.

Shores Transportation Improvement District Fund – This fund accounts for the Mello-Roos Shores Transportation Improvement special tax bonds that were issued to fund various transportation projects in the Redwood Shores area.

One Marina Community Facilities District Fund – This fund accounts for the Mello-Roos One Marina Project special tax bonds that were issued to fund certain public infrastructure improvements projects within the One Marina district.

Community Benefit Improvement District Fund – This fund accounts for the assessments collected on behalf of the Downtown Redwood City Community Benefit Improvement District which was established to enhance and support the City's Downtown business district.

CITY OF REDWOOD CITY, CALIFORNIA
 AGENCY FUNDS
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Balance July 1, 2015 \$	Additions \$	Withdrawals \$	Balance June 30, 2016 \$
EMPLOYEE BENEFIT PLANS				
ASSETS				
Cash and Investments, restricted				
Cafeteria Benefits Plan	42,990	32,753	(33,204)	42,539
Deposits	29,505			29,505
Total Assets	<u>72,495</u>	<u>32,753</u>	<u>(33,204)</u>	<u>72,044</u>
LIABILITIES				
Cafeteria Benefits Plan Payable	72,495	32,752	(33,203)	72,044
Total Liabilities	<u>72,495</u>	<u>32,752</u>	<u>(33,203)</u>	<u>72,044</u>
PACIFIC SHORES COMMUNITY FACILITIES DISTRICT				
ASSETS				
Cash and Investments, restricted	2,042,056	1,589	(580,645)	1,463,000
Total Assets	<u>2,042,056</u>	<u>1,589</u>	<u>(580,645)</u>	<u>1,463,000</u>
LIABILITIES				
Due to Bondholders	2,042,056	1,589	(580,645)	1,463,000
Total Liabilities	<u>2,042,056</u>	<u>1,589</u>	<u>(580,645)</u>	<u>1,463,000</u>
SHORES TRANSPORTATION IMPROVEMENT DISTRICT				
ASSETS				
Cash and Investments, restricted	1,337,816	39,410	(27,430)	1,349,796
Total Assets	<u>1,337,816</u>	<u>39,410</u>	<u>(27,430)</u>	<u>1,349,796</u>
LIABILITIES				
Due to Bondholders	1,337,816	39,410	(27,430)	1,349,796
Total Liabilities	<u>1,337,816</u>	<u>39,410</u>	<u>(27,430)</u>	<u>1,349,796</u>
ONE MARINA COMMUNITY FACILITIES DISTRICT				
ASSETS				
Cash and Investments, restricted	839,897	1,435,003	(1,971,952)	302,948
Total Assets	<u>839,897</u>	<u>1,435,003</u>	<u>(1,971,952)</u>	<u>302,948</u>
LIABILITIES				
Accounts payable				
Due to Bondholders	839,897	1,435,003	(1,971,952)	302,948
Total Liabilities	<u>839,897</u>	<u>1,435,003</u>	<u>(1,971,952)</u>	<u>302,948</u>
COMMUNITY BENEFIT IMPROVEMENT DISTRICT				
ASSETS				
Cash and Investments, restricted	214,880	13,201	(140,030)	88,051
Total Assets	<u>214,880</u>	<u>13,201</u>	<u>(140,030)</u>	<u>88,051</u>
LIABILITIES				
Accounts payable	44,399		(44,399)	
Due to Community Benefit Improvement District	170,481	13,201	(95,631)	88,051
Total Liabilities	<u>214,880</u>	<u>13,201</u>	<u>(140,030)</u>	<u>88,051</u>
TOTAL FOR ALL FUNDS				
ASSETS				
Cash and Investments, restricted	4,477,639	1,521,956	(2,753,261)	3,246,334
Deposits	29,505			29,505
Total Assets	<u>4,507,144</u>	<u>1,521,956</u>	<u>(2,753,261)</u>	<u>3,275,839</u>
LIABILITIES				
Accounts payable	44,399		(44,399)	
Due to Bondholders	4,219,769	1,476,002	(2,580,027)	3,115,744
Employee Benefit Plans Payable	72,495	32,753	(33,204)	72,044
Due to Community Benefit Improvement District	170,481	13,201	(95,631)	88,051
Total Liabilities	<u>4,507,144</u>	<u>1,521,956</u>	<u>(2,753,261)</u>	<u>3,275,839</u>



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2016*

Statistical Section

This part of the City of Redwood City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	126-133
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	134-137
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	138-142
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	143-145
Operating Information These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	146-148

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Schedule 1
CITY OF REDWOOD CITY, CALIFORNIA
NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Years				
	2007	2008	2009	2010	2011
	\$	\$	\$	\$	\$
Governmental activities					
Net investment in capital assets	156,907,578	156,560,228	161,627,155	169,093,206	169,197,701
Restricted	54,756,987	50,323,338	52,368,702	54,628,813	48,959,550
Unrestricted	62,441,526	63,104,332	49,292,416	37,166,449	42,990,998
Total governmental activities net position	<u>274,106,091</u>	<u>269,987,898</u>	<u>263,288,273</u>	<u>260,888,468</u>	<u>261,148,249</u>
Business-type activities					
Net investment in capital assets	70,506,885	78,785,990	81,617,178	90,877,809	101,835,656
Restricted	6,139,177	5,785,576	5,548,281	5,660,219	5,838,632
Unrestricted	49,663,838	66,030,719	55,230,314	64,022,824	65,532,636
Total business-type activities net position	<u>126,309,900</u>	<u>150,602,285</u>	<u>142,395,773</u>	<u>160,560,852</u>	<u>173,206,924</u>
Primary government					
Net investment in capital assets	227,414,463	235,346,218	243,244,333	259,971,015	271,033,357
Restricted	60,896,164	56,108,914	57,916,983	60,289,032	54,798,182
Unrestricted	112,105,364	129,135,051	104,522,730	101,189,273	108,523,634
Total primary government net position	<u>400,415,991</u>	<u>420,590,183</u>	<u>405,684,046</u>	<u>421,449,320</u>	<u>434,355,173</u>

Schedule 1 (Continued)
 CITY OF REDWOOD CITY, CALIFORNIA
 NET POSITION BY COMPONENT
 Last Ten Fiscal Years
 (accrual basis of accounting)

Fiscal Years				
2012	2013	2014	2015	2016
\$	\$	\$	\$	\$
185,512,524	190,190,522	184,624,589	184,443,023	191,852,192
39,238,667	43,957,061	49,268,810	57,862,400	60,812,081
<u>48,138,559</u>	<u>48,015,241</u>	<u>60,038,520</u>	<u>(92,052,768)</u>	<u>(92,972,897)</u>
<u>272,889,750</u>	<u>282,162,824</u>	<u>293,931,919</u>	<u>150,252,655</u>	<u>159,691,376</u>
107,036,885	110,901,151	117,927,502	125,259,418	132,569,634
5,868,399	6,637,669	6,553,008	5,741,555	5,662,466
<u>69,695,347</u>	<u>76,506,675</u>	<u>92,340,047</u>	<u>84,191,383</u>	<u>98,141,410</u>
<u>182,600,631</u>	<u>194,045,495</u>	<u>216,820,557</u>	<u>215,192,356</u>	<u>236,373,510</u>
292,549,409	301,091,673	302,552,091	309,702,441	324,421,826
45,107,066	50,594,730	55,821,818	63,603,955	66,474,547
<u>117,833,906</u>	<u>124,521,916</u>	<u>152,378,567</u>	<u>(7,861,385)</u>	<u>5,086,791</u>
<u>455,490,381</u>	<u>476,208,319</u>	<u>510,752,476</u>	<u>365,445,011</u>	<u>396,064,886</u>

Schedule 2
CITY OF REDWOOD CITY, CALIFORNIA
CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2007	2008	2009	2010	2011
	\$	\$	\$	\$	\$
Expenses					
Governmental Activities:					
Community development	13,744,289	16,263,530	15,808,848	18,412,550	17,702,202
Human services	1,351,113	1,518,333	1,623,102	1,554,411	1,582,251
Public safety	42,600,983	45,450,681	48,500,457	46,093,823	46,022,760
Transportation	13,302,505	10,620,489	13,930,238	13,535,438	11,650,032
Environmental support and protection	2,930,603	2,010,545	2,890,119	4,124,316	2,919,735
Leisure, cultural, and information services	19,520,000	20,994,657	23,947,621	22,168,928	21,547,087
Policy development and implementation	2,653,677	2,792,115	4,766,661	4,726,541	5,528,602
Interest on long term debt	3,450,169	3,251,324	2,986,613	2,762,933	2,551,146
Total governmental activities expenses	99,553,339	102,901,674	114,453,659	113,378,940	109,503,815
Business-type activities					
Water utility fund	19,341,678	22,594,685	21,595,698	20,702,048	21,889,834
Sewer utility fund	16,299,485	15,828,257	16,125,292	17,776,510	19,900,464
Parking fund	1,794,044	2,195,805	2,561,896	2,476,991	2,420,716
Port of Redwood City	4,053,686	3,937,037	3,896,043	4,038,336	4,251,855
Docktown Marina					
Total business-type activities expenses	41,488,893	44,555,784	44,178,929	44,993,885	48,462,869
Total primary government expenses	141,042,232	147,457,458	158,632,588	158,372,825	157,966,684
Program Revenues					
Governmental activities:					
Charges for services:					
Community Development	3,981,057	3,777,584	2,760,718	3,996,401	6,503,254
Public Safety	1,741,393	1,861,194	1,807,675	1,995,853	2,345,175
Transportation	250,265	522,453	298,955	304,275	256,929
Environmental support and protection	1,296,745	1,380,110	1,371,562	1,351,354	1,328,009
Leisure, cultural, and information services	3,169,556	2,515,117	2,508,597	2,430,818	2,632,930
Policy development and implementation	609,683	1,604,897	1,534,944	1,626,141	1,656,917
Operating grants and contributions	6,364,633	5,302,686	6,741,821	7,380,584	6,159,842
Capital grants and contributions	10,223,691	12,778,701	6,987,681	7,978,474	6,243,279
Total governmental activities program revenues	27,637,023	29,742,742	24,011,953	27,063,900	27,126,335
Business-type activities:					
Water utility fund	20,879,685	23,318,628	25,578,282	23,255,926	26,038,320
Sewer utility fund	14,104,270	16,818,581	20,259,668	22,241,030	24,156,749
Parking fund	862,328	1,098,340	840,414	1,005,328	1,100,304
Port of Redwood City	5,676,604	5,689,697	6,702,772	6,073,755	7,674,030
Docktown Marina					
Total business-type activities program revenues	41,522,887	46,925,246	53,381,136	52,576,039	58,969,403
Net (Expense)/Revenue					
Governmental activities	(71,916,316)	(73,158,932)	(90,441,706)	(86,315,040)	(82,377,480)
Business-type activities	33,994	2,369,462	9,202,207	7,582,154	10,506,534
Total primary government net expense	(71,882,322)	(70,789,470)	(81,239,499)	(78,732,886)	(71,870,946)
General Revenues and Other Changes in Net Position					
Governmental activities:					
Taxes:					
Property taxes	39,899,711	43,329,876	47,082,041	48,052,021	46,614,369
Sales taxes	19,208,709	18,136,670	15,552,681	15,023,882	15,671,238
Other taxes	17,165,197	18,636,208	18,325,098	18,034,397	18,440,213
Investment Earnings	4,844,480	5,371,665	2,036,661	1,629,298	1,042,032
Other	1,710,333	1,630,933	1,813,256	2,093,288	1,598,452
Gain (loss) on retirement of capital assets					
Transfers	(343,138)	(18,064,613)	(1,067,656)	(917,651)	(729,043)
Total governmental activities	82,485,292	69,040,739	83,742,081	83,915,235	82,637,261
Business-type activities:					
Property taxes	60,688	27,358	28,390	25,904	28,080
Investment Earnings	2,509,321	3,117,508	1,264,220	435,559	327,435
Other	230,215	713,444	27,537	2,885	17,324
Extraordinary item - pollution remediation			(19,796,522)		
Gain (loss) on retirement of capital assets					
Transfers	343,138	18,064,613	1,067,656	917,651	729,043
Total business-type activities	3,143,362	21,922,923	(17,408,719)	1,381,999	1,101,882
Total primary government	85,628,654	90,963,662	66,333,362	85,297,234	83,739,143
Change in Net Position					
Governmental activities	10,568,976	(4,118,193)	(6,699,625)	(2,399,805)	259,781
Business-type activities	3,177,356	24,292,385	(8,206,512)	8,964,153	11,608,416
Total primary government	13,746,332	20,174,192	(14,906,137)	6,564,348	11,868,197

Schedule 2 (Continued)
CITY OF REDWOOD CITY, CALIFORNIA
CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)

		Fiscal Year				
2012	2013	2014	2015	2016		
\$	\$	\$	\$	\$		
22,954,181	9,090,251	8,150,880	9,592,085	10,471,987		
1,495,964	1,562,157	1,462,300	1,485,779	1,673,308		
50,621,439	51,355,424	59,435,400	62,453,649	65,192,296		
11,352,844	11,332,401	11,572,619	12,944,719	13,001,063		
2,327,751	1,996,098	2,746,600	2,722,610	3,524,036		
21,681,720	21,548,736	22,823,528	23,747,419	25,392,603		
4,773,768	6,030,657	5,982,346	7,043,417	6,122,280		
1,616,333	314,022	48,341	38,762	23,269		
<u>116,824,000</u>	<u>103,229,746</u>	<u>112,222,014</u>	<u>120,028,440</u>	<u>125,400,842</u>		
28,680,794	31,123,859	30,591,894	30,937,175	33,505,028		
20,017,426	19,287,430	19,989,758	22,081,105	34,345,565		
2,420,029	2,430,359	2,471,222	2,916,242	3,005,729		
4,739,397	5,628,403	5,091,265	5,231,644	5,179,284		
	243,335	705,388	763,211	826,201		
<u>55,857,646</u>	<u>58,713,386</u>	<u>58,849,527</u>	<u>61,929,377</u>	<u>76,861,807</u>		
<u>172,681,646</u>	<u>161,943,132</u>	<u>171,071,541</u>	<u>181,957,817</u>	<u>202,262,649</u>		
4,852,265	4,651,706	8,553,508	5,171,299	6,340,242		
3,199,818	3,131,805	6,922,702	7,744,775	7,905,079		
404,042	546,820	374,859	282,324			
1,330,208	1,335,544	1,417,353	1,456,889	1,460,797		
2,843,954	2,827,087	3,074,537	3,553,925	3,090,945		
1,817,823	1,780,367	1,871,774	1,736,648	1,775,752		
6,193,090	6,716,207	7,072,772	7,721,851	7,755,830		
8,503,363	12,658,933	9,505,357	17,492,948	12,592,165		
<u>29,144,563</u>	<u>33,648,469</u>	<u>38,792,862</u>	<u>45,160,659</u>	<u>40,920,810</u>		
28,465,337	33,202,194	36,271,106	37,082,113	38,227,757		
26,898,440	28,100,341	25,692,258	29,837,033	45,533,365		
1,267,531	1,366,984	1,503,519	2,019,961	2,401,924		
7,638,585	6,262,660	6,824,474	6,721,955	6,862,662		
	493,262	665,819	681,115	663,658		
<u>64,269,893</u>	<u>69,425,441</u>	<u>70,957,176</u>	<u>76,342,177</u>	<u>93,689,366</u>		
(87,679,437)	(69,581,277)	(73,429,152)	(74,867,781)	(84,480,032)		
8,412,247	10,712,055	12,107,649	14,412,800	16,827,559		
<u>(79,267,190)</u>	<u>(58,869,222)</u>	<u>(61,321,503)</u>	<u>(60,454,981)</u>	<u>(67,652,473)</u>		
42,432,818	38,379,963	41,708,668	44,546,153	48,033,490		
16,998,443	19,240,290	20,781,613	22,372,756	23,513,420		
19,595,982	20,335,928	21,612,376	23,364,156	24,200,427		
579,394	301,171	992,221	1,055,417	1,424,919		
1,260,652	1,069,894	1,205,727	1,277,511	199,510		
		(3,359,063)	1,315,418			
<u>(607,867)</u>	<u>(472,895)</u>	<u>2,314,350</u>	<u>(22,230)</u>	<u>(3,453,013)</u>		
<u>99,420,938</u>	<u>78,854,351</u>	<u>85,255,892</u>	<u>93,909,181</u>	<u>93,918,753</u>		
77,425	104,081	104,814	123,954	157,417		
281,583	151,041	499,586	586,705	742,410		
14,585	4,792	4,132	2,536	755		
		13,700,440				
607,867	472,895	(2,314,350)	22,230	3,453,013		
<u>981,460</u>	<u>732,809</u>	<u>11,994,622</u>	<u>735,425</u>	<u>4,353,595</u>		
<u>100,402,398</u>	<u>79,587,160</u>	<u>97,250,514</u>	<u>94,644,606</u>	<u>98,272,348</u>		
11,741,501	9,273,074	11,826,740	19,041,400	9,438,721		
9,393,707	11,444,864	24,102,271	15,148,225	21,181,154		
<u>21,135,208</u>	<u>20,717,938</u>	<u>35,929,011</u>	<u>34,189,625</u>	<u>30,619,875</u>		

Schedule 3
 CITY OF REDWOOD CITY, CALIFORNIA
 FUND BALANCES - GOVERNMENTAL FUNDS
 Last Ten Fiscal Years
 (modified accrual basis of accounting)

	Fiscal Years			
	2007	2008	2009	2010
	\$	\$	\$	\$
General Fund				
Reserved	4,177,832	5,554,149	4,630,992	3,732,535
Unreserved	40,827,073	40,900,734	34,464,505	20,991,436
Total general fund	<u>45,004,905</u>	<u>46,454,883</u>	<u>39,095,497</u>	<u>24,723,971</u>
All Other Governmental Funds				
Reserved	40,323,695	25,925,282	25,660,144	26,067,203
Unreserved, reported in:				
Special revenue funds	19,220,633	24,369,952	28,419,218	32,706,733
Debt service funds	(41,058)	46,511	78,418	40,589
Capital projects funds	18,892,346	26,565,268	21,189,395	18,520,889
Total all other governmental funds	<u>78,395,616</u>	<u>76,907,013</u>	<u>75,347,175</u>	<u>77,335,414</u>
Total governmental funds	<u><u>123,400,521</u></u>	<u><u>123,361,896</u></u>	<u><u>114,442,672</u></u>	<u><u>102,059,385</u></u>

Notes:

The City began to classify fund balances into specifically defined classifications when it implemented GASB Statement No. 54 in FY 2010/11.

Schedule 3 (Continued)
CITY OF REDWOOD CITY, CALIFORNIA
FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Years					
	2011	2012	2013	2014	2015	2016
	\$	\$	\$	\$	\$	\$
General Fund						
Nonspendable	5,522,056	1,902,685	1,785,184	1,608,733	1,387,892	1,291,863
Restricted					1,230	96,338
Committed	864,057	551,640	370,927	536,108	700,783	837,563
Assigned	775,772	151,178	148,534	223,061	283,563	978,967
Unassigned	17,687,858	17,219,050	19,449,097	21,480,940	26,231,888	25,233,340
Total general fund	<u>24,849,743</u>	<u>19,824,553</u>	<u>21,753,742</u>	<u>23,848,842</u>	<u>28,605,356</u>	<u>28,438,071</u>
All Other Governmental Funds						
Nonspendable	16,740,323					105,702
Restricted	39,829,153	39,468,697	43,969,746	49,268,810	55,913,000	59,678,286
Committed	22,014,259	24,806,534	22,494,438	29,788,888	34,613,371	22,446,882
Assigned	3,064,843	7,424,963	7,817,738	8,128,032	8,060,682	14,270,412
Unassigned	(3,181,518)					
Total all other governmental funds	<u>78,467,060</u>	<u>71,700,194</u>	<u>74,281,922</u>	<u>87,185,730</u>	<u>98,587,053</u>	<u>96,501,282</u>
Total Governmental Funds	<u>103,316,803</u>	<u>91,524,747</u>	<u>96,035,664</u>	<u>111,034,572</u>	<u>127,192,409</u>	<u>124,939,353</u>

Schedule 4
CITY OF REDWOOD CITY, CALIFORNIA
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years

	Fiscal Years				
	2007	2008	2009	2010	2011
	\$	\$	\$	\$	\$
REVENUES					
Property taxes/special assessments	42,495,915	44,573,382	48,371,857	49,351,469	47,906,240
Sales and other taxes	34,234,028	34,567,051	31,674,430	30,964,483	31,575,135
Licenses and permits	1,519,504	1,557,547	902,723	875,019	1,097,906
Fines, forfeitures and penalties	972,557	977,774	921,566	1,216,604	1,404,168
Use of money and property	8,447,097	8,445,701	4,995,104	4,264,447	3,813,336
Intergovernmental	11,068,009	13,523,007	10,397,158	13,711,717	9,126,252
Contributions	736,549	1,190,376	540,186	829,561	1,850,469
Charges for current services	7,431,181	7,843,245	7,326,776	8,395,583	11,227,564
Other	1,281,626	1,166,364	2,173,942	1,608,439	1,028,902
Total Revenues	108,186,466	113,844,447	107,303,742	111,217,322	109,029,972
EXPENDITURES					
Current Operations:					
Community development	13,752,526	15,866,328	15,305,951	18,155,500	17,440,348
Human services	1,287,907	1,433,258	1,511,733	1,465,105	1,504,568
Public safety	40,929,708	44,390,736	46,713,987	45,500,450	45,470,647
Transportation	7,216,139	6,158,706	8,866,814	8,552,901	6,729,077
Environmental support and protection	2,954,547	1,958,690	2,863,738	4,152,609	2,916,577
Leisure, cultural and information services	17,804,190	19,236,180	21,873,848	20,479,455	19,876,261
Policy development and implementation	2,338,164	918,430	2,785,266	3,299,086	3,979,560
Capital outlay	15,600,102	17,326,293	9,894,551	5,025,308	4,902,938
Debt service:					
Principal retirement	4,822,321	4,067,321	3,747,321	14,657,321	3,182,321
Interest and fiscal charges	2,213,040	1,945,514	1,608,310	1,378,637	1,007,650
Bond issuance costs					
Total Expenditures	108,918,644	113,301,456	115,171,519	122,666,372	107,009,947
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(732,178)	542,991	(7,867,777)	(11,449,050)	2,020,025
OTHER FINANCING SOURCES (USES)					
Transfers in	14,819,568	13,557,675	14,275,221	28,655,915	13,288,203
Transfers (out)	(16,236,359)	(14,139,291)	(15,326,668)	(29,590,152)	(14,050,840)
Sale of property					30
Bond proceeds/Refunding Lease					
Sale of capital assets					
Total Other Financing Sources (Uses)	(1,416,791)	(581,616)	(1,051,447)	(934,237)	(762,607)
Extraordinary gain (loss)					
NET CHANGE IN FUND BALANCES	(2,148,969)	(38,625)	(8,919,224)	(12,383,287)	1,257,418
Debt service as a percentage of non-capital expenditures	7.54%	6.26%	5.09%	13.63%	4.10%

Schedule 4 (Continued)
 CITY OF REDWOOD CITY, CALIFORNIA
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 Last Ten Fiscal Years

Fiscal Years				
2012	2013	2014	2015	2016
\$	\$	\$	\$	\$
43,732,410	39,709,199	43,092,377	45,973,909	49,312,670
34,231,492	37,072,870	39,970,312	43,307,531	44,186,332
1,266,183	1,897,584	2,561,642	1,467,814	7,151,286
1,313,826	1,198,611	887,309	878,334	983,449
2,302,262	2,476,647	1,771,829	1,918,899	2,164,743
10,223,281	10,505,927	10,835,761	12,416,110	13,265,046
3,971,547	7,743,498	8,301,860	11,363,481	2,296,073
10,830,462	10,411,028	15,345,006	16,420,416	16,900,849
750,414	557,739	623,242	708,967	621,247
<u>108,621,877</u>	<u>111,573,103</u>	<u>123,389,338</u>	<u>134,455,461</u>	<u>136,881,695</u>
22,125,748	8,595,743	7,864,788	9,479,762	10,320,807
1,389,422	1,462,092	1,347,136	1,400,276	1,624,187
49,175,285	49,368,709	56,115,246	61,713,585	65,020,500
6,472,378	6,452,755	6,714,370	8,685,224	9,099,717
2,260,457	1,959,881	2,601,280	2,525,916	2,360,169
19,585,039	19,778,480	20,789,647	22,013,436	23,537,162
2,617,522	5,470,098	3,598,453	5,202,537	4,259,132
7,665,302	10,502,338	5,310,292	6,162,302	14,730,024
3,275,000	5,880,000	324,742	656,858	666,814
930,487	326,059	31,755	43,348	74,696
	67,252			
<u>115,496,640</u>	<u>109,863,407</u>	<u>104,697,709</u>	<u>117,883,244</u>	<u>131,693,208</u>
<u>(6,874,763)</u>	<u>1,709,696</u>	<u>18,691,629</u>	<u>16,572,217</u>	<u>5,188,487</u>
18,062,351	13,223,617	13,632,786	12,241,110	10,795,891
(18,655,801)	(13,782,396)	(17,325,507)	(14,448,618)	(18,237,434)
	3,360,000			
			1,793,128	
<u>(593,450)</u>	<u>2,801,221</u>	<u>(3,692,721)</u>	<u>(414,380)</u>	<u>(7,441,543)</u>
<u>(4,323,843)</u>				
<u>(11,792,056)</u>	<u>4,510,917</u>	<u>14,998,908</u>	<u>16,157,837</u>	<u>(2,253,056)</u>
3.90%	6.25%	0.36%	0.63%	0.63%

Schedule 5

CITY OF REDWOOD CITY, CALIFORNIA

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

Last Ten Fiscal Years

Fiscal Year	Real Property		Personal Property	Less:	Total Taxable	% Increase/	Effective
	State Assessed	Locally Assessed	Locally Assessed	Tax Exempt Property	Assessed Value	(Decrease) Over Prior Year	Direct Tax Rate*
	\$	\$	\$	\$	\$	%	%
2007	4,342,506	12,521,555,794	579,933,721	441,803,730	12,664,028,291	7.84	0.2420
2008	5,003,014	13,671,991,606	586,031,204	541,024,340	13,722,001,484	8.35	0.2439
2009	5,003,014	14,734,164,661	676,178,812	642,703,087	14,772,643,400	7.66	0.2350
2010	5,003,014	14,885,525,123	757,610,502	664,018,869	14,984,119,770	1.43	0.2397
2011	5,003,014	14,673,871,469	770,364,641	704,940,601	14,744,298,523	(1.60)	0.2373
2012	1,466,946	14,712,120,582	674,899,038	646,459,575	14,742,026,991	(0.02)	0.2030
2013	1,466,946	15,154,966,352	763,901,657	766,118,316	15,154,216,639	2.80	0.2101
2014	1,466,946	16,187,528,735	785,538,767	726,787,642	16,247,746,806	7.22	0.1921
2015	1,466,946	17,089,497,213	816,665,290	791,008,571	17,116,620,878	5.35	0.1920
2016	1,591,555	18,644,533,868	801,908,976	731,483,833	18,716,550,566	9.35	0.1944

Note: In 1978 the voters of the State of California passed Proposition 13 which limited basic property tax to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is the purchase price. The estimated market value of taxable property is not available.

The amount shown above includes assessed value data for both the City and the Successor Agency to the former Redevelopment Agency.

* The direct tax rate calculation does not include the property tax amount that is shifted from local agencies by the State of California to the Educational Revenue Augmentation Fund used to support K-14 education.

Source: San Mateo County Assessor's records

Schedule 6

CITY OF REDWOOD CITY, CALIFORNIA

DIRECT AND OVERLAPPING PROPERTY TAX RATES

Last Ten Fiscal Years

(rate per \$100 of assessed values)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Direct Rates										
City	0.2420	0.2439	0.2350	0.2397	0.2373	0.2030	0.2101	0.1921	0.1920	0.1944
County and All Others*	0.7580	0.7561	0.7650	0.7603	0.7627	0.7970	0.7899	0.8079	0.8080	0.8056
Total Direct Rate	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Overlapping Rates										
MidPeninsula Open Space**										0.0008
Elementary School	0.0265	0.0250	0.0229	0.0238	0.0249	0.0255	0.0256	0.0240	0.0230	0.0158
High School	0.0208	0.0205	0.0282	0.0277	0.0311	0.0358	0.0356	0.0313	0.0433	0.0434
Community College	0.0184	0.0171	0.0165	0.0182	0.0193	0.0199	0.0194	0.0194	0.0190	0.0250
Total Overlapping Rate	0.0657	0.0626	0.0676	0.0697	0.0753	0.0812	0.0806	0.0747	0.0853	0.0850
Total Direct and Overlapping Rate	1.0657	1.0626	1.0676	1.0697	1.0753	1.0812	1.0806	1.0747	1.0853	1.0850

Source: San Mateo County Assessor's records (tax rate area 9-001)

* Elementary School, High School, Community College, MidPeninsula Open Space District, Bay Area Air Pollution, County Harbor District, Mosquito Abatement District, Sequoia Hospital District, and County Education tax.

** MidPeninsula Regional Open Space issued general obligation bonds through voter approved Measure AA in 2015-16.

Schedule 7
 CITY OF REDWOOD CITY, CALIFORNIA
 PRINCIPAL PROPERTY TAX PAYERS
 Current Year and Nine Years Ago

Taxpayer	2016			2007		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
	\$			\$		
Oracle Corporation	590,936,483	1	3.16%	773,465,641	2	6.11%
Google Inc	585,000,000	2	3.13%			
Hudson Shorebreeze LLC	342,264,739	3	1.83%			
Westport Office Park LLC	272,566,675	4	1.46%	418,115,951	3	3.30%
DWF IV Seaport Blvd	259,000,000	5	1.38%			
Slough Redwood City LLC	247,938,318	6	1.32%	184,392,336	7	1.46%
Electronic Arts Inc	210,426,829	7	1.12%			
Informatica Corp.	160,725,808	8	0.86%			
Irvine Co. LLC	137,502,776	9	0.73%	151,058,902	8	1.19%
BRE Properties Inc	129,494,380	10	0.69%			
Pacific Shores Investors LLC				870,060,000	1	6.87%
Selco Service Corporation				346,890,215	4	2.74%
SPK Redwood Shores				254,490,884	5	2.01%
Metropolitan Life Insurance Co.				196,731,311	6	1.55%
Stanford University				130,229,338	9	1.03%
Security Capital Pacific Trust				122,967,143	10	0.97%
	<u>2,935,856,008</u>		<u>15.69%</u>	<u>3,448,401,721</u>		<u>27.23%</u>

Source: San Mateo County Assessor via MuniServices, LLC. and the City's previous audited financials.

Schedule 8
 CITY OF REDWOOD CITY, CALIFORNIA
 PROPERTY TAX LEVIES AND COLLECTIONS
 Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy			Total Collections	
		Amount ¹	Percentage of Levy	Delinquent Tax Collections ²	Amount	Percentage of Levy
					\$	%
2007	21,825,495	21,688,365	99.37	NA	21,688,365	99.37
2008	23,599,098	23,230,333	98.44	NA	23,230,333	98.44
2009	25,185,881	24,732,667	98.20	NA	24,732,667	98.20
2010	25,402,023	25,081,429	98.74	NA	25,081,429	98.74
2011	25,027,079	24,734,718	98.83	NA	24,734,718	98.83
2012	25,004,405	24,713,562	98.84	NA	24,713,562	98.84
2013	25,724,570	25,478,547	99.04	NA	25,478,547	99.04
2014	27,363,041	27,345,209	99.93	NA	27,345,209	99.93
2015	28,944,353	28,862,898	99.72	NA	28,862,898	99.72
2016	31,236,465	31,170,596	99.79	NA	31,170,596	99.79

Source: Audited City financial records - general fund

¹ Amount collected is less than levy as refunds are deducted from the current year tax apportionment and tax roll adjustments are initiated by the County of San Mateo after the levy has been established.

² San Mateo County assesses properties and bills, collects, and distributes property taxes to all taxing entities including the City. Under State law, known as the Teeter Plan, the County remits the entire amount levied for secured property taxes and handles all delinquencies, retaining interest and penalties.

Schedule 9

CITY OF REDWOOD CITY, CALIFORNIA

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

(amounts expressed in thousands, except per capita amount)

	<u>Governmental Activities</u>					<u>Business-Type Activities</u>				
	Revenue Bonds	Refunding Lease	GID Bonds	Tax Increment Bonds*	Loans*	Revenue Bonds	Loans	Total Primary Govt	Per Capita	Debt/ Personal Income
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
2007	24,679		800	45,878	254	84,403	1,928	157,942	2,059	5.35
2008	22,493		170	45,998	212	81,981	1,903	152,757	1,977	4.95
2009	20,228			46,133	169	80,141	1,876	148,547	1,909	4.79
2010	9,807			43,423	127	78,236	1,848	133,441	1,698	4.37
2011	7,892			43,767	85	76,266	1,819	129,829	1,671	4.20
2012	5,882					84,217	1,789	91,888	1,174	2.94
2013		3,360				81,346	1,758	86,464	1,093	2.70
2014		3,035				80,393	424	83,852	1,038	2.51
2015		2,378				77,749		80,127	979	2.35
2016		1,712				74,814		76,526	890	1.72

*Tax Increment Bonds and Loans were transferred from Governmental Funds to a Private Purpose Trust Fund in 2012.

Schedule 10
 CITY OF REDWOOD CITY, CALIFORNIA
 DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 As of June 30, 2016

<u>Governmental Unit</u>	<u>Estimated Percentage Applicable¹</u> %	<u>Estimated Share of Direct and Overlapping Debt</u> \$
City Overlapping Debt		
Debt Repaid with Property Taxes		
San Mateo Community College District	10.583	67,905,189
Sequoia Union High School District	25.113	105,303,832
Belmont-Redwood Shores School District	42.803	29,185,751
Belmont-Redwood Shores School District School Facilities Improvement Distr.	93.230	20,589,846
Redwood City School District	62.037	19,708,042
San Carlos School District	1.321	1,592,605
Midpeninsula Regional Park District	8.335	3,750,750
Redwood City Community Facilities District 2000-1	100.000	1,430,000
Redwood City Redwood Shores Community Facilities District No. 99-1	100.000	8,975,000
Redwood City Community Facilities District 2010-1	100.000	4,350,000
TOTAL DEBT REPAYED WITH PROPERTY TAXES		<u>262,791,015</u>
Other Debt		
San Mateo County General Fund Obligations	10.538	45,562,077
San Mateo County Board of Education Certificates of Participation	10.538	1,042,208
Midpeninsula Regional Park District General Fund Obligations	8.335	10,223,785
Menlo Park Fire Protection District Certificates of Participation	0.022	2,423
TOTAL OTHER DEBT		<u>56,830,493</u>
Total City Overlapping Debt		<u>319,621,508</u>
City Direct Debt		
City of Redwood City General Fund Obligations	100.000	1,711,586
Total City Direct Debt		<u>1,711,586</u>
Total Overlapping and Direct Debt		<u><u>321,333,094</u></u>

Source: California Municipal Statistics and City's Audited Financials

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Redwood City. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

¹ The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.

Schedule 11
 CITY OF REDWOOD CITY, CALIFORNIA
 LEGAL DEBT MARGIN INFORMATION
 Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Debt Limit</u>	<u>Total Net Debt Applicable to Limit</u>	<u>Total Legal Debt Margin</u>	<u>Total Net Debt Applicable to Limit as % of Debt Limit</u>
	\$	\$	\$	%
2006-07	491,468,701		491,468,701	
2007-08	534,863,468		534,863,468	
2008-09	578,075,493		578,075,493	
2009-10	586,805,199		586,805,199	
2010-11	579,346,467		579,346,467	
2011-12	577,068,246		577,068,246	
2012-13	597,012,561		597,012,561	
2013-14	636,545,042		636,545,042	
2014-15	671,536,104		671,536,104	
2015-16	729,301,290		729,301,290	

Legal Debt Margin Calculation for FY 2015-16

Assessed value	18,716,550,566
Add back: exempt real property	731,483,833
Total assessed value	<u>19,448,034,399</u>
Debt limit (3.75% of total assessed value)	729,301,290
Debt applicable to limit:	
General obligation bonds	
Less: Amount set aside for repayment of general obligation debt	
Total net debt applicable to limit	<u>729,301,290</u>
Legal debt margin	<u><u>729,301,290</u></u>

Note: Under state finance law, the city's outstanding general obligation debt should not exceed 15% of total assessed property value. However, the city has established a more conservative internal limit of not more than 3.75%. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

Schedule 12
 CITY OF REDWOOD CITY, CALIFORNIA
 PLEDGED-REVENUE COVERAGE
 Last Ten Fiscal Years

Fiscal Year	Water Revenue Bonds					Coverage Ratio
	Gross Revenue \$	Less: Operating Expenses \$	Net Available Revenue \$	Debt Service		
				Principal \$	Interest \$	
2007	20,879,682	16,216,165	4,663,517	1,325,000	2,207,065	1.32
2008	22,582,850	17,465,038	5,117,812	1,560,000	2,690,956	1.20
2009	23,403,532	17,304,434	6,099,098	1,620,000	2,754,920	1.39
2010	23,063,981	17,421,429	5,642,552	1,675,000	2,938,691	1.22
2011	26,004,880	18,597,779	7,407,101	1,730,000	2,930,765	1.59
2012	28,110,646	22,103,449	6,007,197	1,795,000	2,868,003	1.29
2013	33,167,501	23,321,874	9,845,627	1,865,000	2,802,852	2.11
2014	35,655,559	23,173,261	12,482,298	1,845,000	2,269,566	3.03
2015	35,323,680	25,430,020	9,893,660	1,905,000	2,943,480	2.04
2016	35,508,299	28,248,490	7,259,809	1,995,000	2,214,629	1.72

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, amortization expenses, or noncapitalized project costs.

*For transparency and consistency, schedule 12 has been restated to reflect gross operating revenues and investment earnings per the Proprietary Funds Statements of Revenues, Expenses and Changes in Fund Net Position for all years listed above.

Schedule 12 (Continued)
 CITY OF REDWOOD CITY, CALIFORNIA
 PLEDGED-REVENUE COVERAGE
 Last Ten Fiscal Years

Port Revenue Bonds						
Fiscal Year	Gross	Less:	Net	Debt Service		Coverage
	Revenues	Operating Expenses¹	Available Revenue	Principal	Interest	Ratio²
	\$	\$	\$	\$	\$	
2007	6,443,530	2,505,950	3,937,580	239,292	535,231	5.08
2008	6,188,729	2,529,213	3,659,516	250,385	524,033	4.73
2009	5,967,743	2,516,939	3,450,804	266,528	512,090	4.43
2010	5,729,278	2,648,046	3,081,232	277,721	499,137	3.97
2011	5,820,715	2,561,439	3,259,276	288,969	485,389	4.21
2012	6,159,871	2,746,082	3,413,789	305,273	471,085	4.40
2013	6,262,660	2,703,564	3,559,096	644,144	875,483	2.34
2014	6,824,474	2,786,181	4,038,293	646,186	819,930	2.75
2015	6,721,955	3,033,231	3,688,724	710,341	807,953	2.43
2016	6,779,863	2,417,147	4,362,716	772,130	630,193	3.11

Tax Increment Bonds				
	Property Tax Increment	Debt Service		Coverage Ratio
	\$	Principal	Interest	
	\$	\$	\$	
2007	7,346,699	1,160,000	1,043,515	3.33
2008	8,416,294	1,210,000	988,415	3.83
2009	7,921,159	1,270,000	929,730	3.60
2010 ³	7,953,318	4,195,000	886,687	1.57
2011	7,552,777	1,225,000	632,713	4.07
2012 ⁴		1,265,000	585,975	
2013 ⁴		2,480,000	511,075	
2014 ⁴		2,895,000	385,481	
2015 ⁴		3,045,000	229,556	
2016 ⁴		3,142,669	292,144	

¹ Port operating expenses above exclude \$406,792 subvention to the City and depreciation.

² Debt service coverage is calculated using maximum annual debt service as required for the annual disclosure report.

³ In FY 2009-10, the 1997 Tax Increment Bonds were paid off resulting in additional principal payment of \$2,865,000.

⁴ As a result of the California Supreme Court upholding AB X1 26, Redevelopment Agencies were eliminated as of January 31, 2012. Consequently, all former tax increment revenue is retained by the County of San Mateo Controller's Office and deposited into the "Redevelopment Property Tax Trust Fund" (RPTTF) and is disbursed according to the provisions of AB X1 26 and AB 1484, the clean-up legislation that became law effective June 27, 2012. Under these laws the Successor Agencies to the Redevelopment Agencies now receive funding from the RPTTF to pay these types of debt obligations as the Redevelopment Agency is no longer in existence to receive tax increment revenue.

Schedule 13
 CITY OF REDWOOD CITY, CALIFORNIA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 Last Ten Calendar Years

Calendar Year	Population	Personal Income (\$000)	Per Capita Personal Income	Unemployment Rate	Number of Water System Customers
		\$	\$	%	
2007	76,695	2,951,530	38,484	3.90	23,650
2008	77,269	3,087,824	39,962	5.00	23,710
2009	77,819	3,098,753	39,820	8.90	23,718
2010	78,568	3,052,053	38,846	9.10	23,784
2011	77,712	3,091,772	39,785	8.70	23,972
2012	78,244	3,125,218	39,942	7.10	24,119
2013	79,074	3,204,632	40,527	5.40	24,296
2014	80,768	3,342,018	41,378	4.20	24,347
2015	81,838	3,408,940	41,655	3.00	24,472
2016	85,992	4,459,975	51,865	3.00	24,485

Sources:

Population is provided by the State of California Department of Finance. Population numbers in this schedule reflect the Department of Finance's annual adjustments.

Personal income and per capita personal income is provided by United States Census Data via MuniServices, LLC and is adjusted for inflation.

The unemployment rate for the City of Redwood City is provided by the State of California Employee Development Department and is not seasonally adjusted.

The number of water system customers is provided by the City's utility billing system.

Schedule 14
CITY OF REDWOOD CITY, CALIFORNIA
PRINCIPAL EMPLOYERS
Current and Nine Years Ago

Employer	2016			2007		
	Employees*	Rank	% of Total City Employment	Employees**	Rank	% of Total City Employment
Oracle Corporation	6,781	1	14.37%	8,000	1	20.73%
County of San Mateo	2,745	2	5.82%	2,200	2	5.70%
Electronic Arts	2,367	3	5.01%	1,826	3	4.73%
Sequoia Hospital	936	4	1.98%	1,154	5	2.99%
Box Inc.	855	5	1.81%	1,800	4	4.66%
Redwood City School District	797	6	1.69%	1,050	6	2.72%
Kaiser Foundation Hospitals	773	7	1.64%			
Stanford Hospital & Clinics	750	8	1.59%			
Silver Spring Networks	605	9	1.28%			
Equinix	532	10	1.13%			
Informatica				1,000	7	2.59%
OpenWave Systems				900	8	2.33%
Broad Vision				759	9	1.97%
Sequoia Union High School District				700	10	1.81%

Source: *As of 2015, data from City of Redwood City Business License Database; non-profit organizations' data was via published annual reports or direct inquiry to the organization.

**2007 Data from Redwood City Chamber of Commerce.

Schedule 15
CITY OF REDWOOD CITY, CALIFORNIA
FULL TIME EQUIVALENT EMPLOYEES BY FUNCTION
Last Ten Fiscal Years

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Community Development	71.00	71.63	73.48	72.68	71.53	69.33	62.63	64.76	56.98	64.31
Human Services	7.20	7.20	7.92	7.92	7.82	7.82	7.82	7.82	7.82	7.82
Public Safety*	202.00	203.42	204.32	194.57	178.50	180.34	181.84	207.00	210.00	213.00
Transportation	20.90	22.90	23.10	18.85	17.15	16.05	16.05	16.09	16.09	16.29
Environmental Support/Protection	8.25	8.25	8.25	7.95	5.95	5.85	3.15	3.55	3.71	4.71
Leisure/Cultural/Information Services	131.24	135.16	156.96	142.08	128.65	127.94	124.74	103.80	104.59	106.23
Policy Development/Implementation	62.95	63.57	65.54	63.94	59.52	60.42	59.57	80.90	83.69	87.05
Water	35.90	35.90	35.35	35.45	32.45	30.85	35.05	30.97	34.37	34.77
Sewer	15.20	15.20	16.20	16.20	16.20	15.70	18.40	17.88	18.62	18.92
Parking	5.20	5.47	5.55	5.45	5.35	5.65	5.65	5.65	5.65	5.65
Docktown Marina**									0.13	0.13
Port	9.00	11.00	10.00	10.00	10.00	10.00	10.00	9.00	9.00	8.00
Total	568.84	579.70	606.67	575.09	533.12	529.95	524.90	547.42	550.65	566.88

* Redwood City began providing fire services to the residents of San Carlos in FY 13-14 as a result of a shared services agreement between the two cities.

**The City took over the management of Doctown Marina in FY 2012-13, and began supporting operations with FTE in

Source: Redwood City Adopted Budget

Schedule 16
CITY OF REDWOOD CITY, CALIFORNIA
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Community Development:										
Building permits *	2,366	2,143	2,038	2,003	2,191	1,972	2,320	2,549	2,650	3,493
Building inspections conducted	15,422	14,283	13,122	10,732	13,502	13,391	11,844	16,669	17,547	20,383
Public Safety:										
Police:										
Moving citations (per 1,000 population)	217	217	170	131	114	112	94	97	120	103
Fire:										
Emergency responses - all calls**	6,688	7,073	6,671	6,683	6,733	7,111	7,656	9,096	10,078	10,245
Leisure/Cultural/Information Services:										
Number of items in collection	335,590	336,339	329,296	324,672	295,444	326,251	332,776	299,673	292,781	277,520
Water:										
Average daily consumption (thousands of gallons)	10,879	10,465	9,962	9,193	9,337	9,446	9,402	9,910	10,401	7,507

*The number of permits issued in 2015 was inadvertently overstated by 252 in the 2015 financial report; the amount has been corrected in this year's report.

** Redwood City began providing fire services to the residents of San Carlos in FY 13-14 as a result of a shared services agreement between the two cities.

Sources: Various City departments

Schedule 17
CITY OF REDWOOD CITY, CALIFORNIA
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public Safety:										
Police:										
Number of stations	1	1	1	1	1	1	1	1	1	1
Fire:										
Number of stations*	5	5	5	5	5	5	5	7	7	7
Transportation										
Miles of streets	155	155	155	155	155	155	155	155	155	155
Number of street lights**	8,500	8,500	8,500	8,500	8,500	4,512	4,512	5,035	5,055	5,076
Leisure/Cultural/Information Services										
Number of parks	30	37	23	23	24	24	24	24	25	25
Number of libraries	4	4	4	4	4	4	4	4	4	4
Number of recreation center facilities	8	5	5	5	5	5	5	5	5	5
Water										
Miles of water mains	264	264	264	264	264	264	264	262	262	262
Miles of recycled water system lines***	3	13	15	15	15	15	15	17	17	18
Sewer										
Miles of sanitary sewers	185	185	193	193	193	193	193	196	198	198
Miles of storm sewers	103	103	129	129	129	129	129	130	133	133

Sources: Various city departments

Notes:

* In FY 2013-14 Redwood City entered into a shared services agreement with the City of San Carlos. Redwood City provides fire services to the residents of San Carlos out of the two fire stations located in San Carlos.

**In 2012 the Public Works Services division employed a consultant to create a physical inventory of street lights. Criteria was updated and applied for a more accurate count of the number of street lights in the City's right-of-way. Inventories were refined and lights were added through the LED conversion process in 2014.

***The recycled water system lines were built starting in FY 2006-07.

Schedule 18
 CITY OF REDWOOD CITY, CALIFORNIA
 CONSTRUCTION VALUES
 Last Ten Fiscal Years

Fiscal Year	Residential Construction		All Other Construction		Residences/Additions and Alterations		Other Buildings Additions/Alterations		Total Property Values
	Number of Units	Property Value	Number of Permits Issued	Property Value	Number of Permits Issued	Property Value	Number of Permits Issued	Property Value	
		\$		\$		\$		\$	\$
2007	21	6,466,202	14	20,756,000	1,196	32,351,149	320	113,440,767	173,014,118
2008	33	10,698,818	14	38,772,000	1,002	24,882,578	291	79,925,295	154,278,691
2009	36	17,739,134	2	590,000	1,028	20,000,165	972	36,405,222	74,734,521
2010	39	15,495,398	5	6,048,354	1,098	21,065,615	861	26,436,017	69,045,384
2011	47	25,629,952	5	1,078,000	1,088	25,554,042	1,051	35,938,801	88,200,795
2012	200	40,914,805	22	402,509	912	21,119,778	1,011	64,738,238	127,175,330
2013	605	126,141,306	3	19,333,650	1,226	28,200,872	1,041	56,330,964	230,006,792
2014	426	82,816,188	5	94,930,847	1,270	30,617,300	1,213	73,184,001	281,548,336
2015	86	194,571,550	8	36,583,115	1,485	37,474,855	1,071	119,773,839	388,403,359
2016	120	133,448,208	14	44,186,444	1,762	51,966,358	1,597	116,225,763	345,826,773

Source: Redwood City's Community Development Department

APPENDIX C
CITY INVESTMENT POLICY

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City of Redwood City – Investment Policy

Adopted by Council on 6/27/16

PURPOSE: The purpose of this policy is to provide guidelines for investment of the City’s funds.

I. Policy

The City shall invest public funds in such a manner as to comply with state and local laws; ensure prudent money management; provide for daily cash flow requirements; and meet the objectives of the Policy, in priority order of safety, liquidity, and return on investment.

II. Scope

- A. Investments for all the funds in the custody of the City, including funds belonging to other agencies and entities, such as the Port and Redevelopment Successor Agency, for which the City acts as fiscal agent will be made on a pooled basis. These funds are normally accounted for in the City’s Comprehensive Annual Financial Report (CAFR), which includes the annual independent audit report, under the following categories:
 - 1. General Fund
 - 2. Special Revenue Funds
 - 3. Capital Project Funds
 - 4. Debt Service Funds
 - 5. Enterprise Funds
 - 6. Internal Service Funds
 - 7. Agency Funds
- B. The City Council may, on the recommendation of the City Manager and the Treasurer, expressly authorize exceptions to this policy.
- C. If, at the time this policy is adopted, the portfolio holds investments which were made in the past and in accordance with previous policies and existing State law but do not meet the provisions of this policy, such past investments are grandfathered as permissible investments. The City may choose to hold such investments until maturity; however, their maturity cannot be extended without the express authorization of the City Council.
- D. Funds excluded from this policy:
 - 1. Bond Proceeds – Proceeds of debt issuance shall be invested in accordance with the City’s general investment philosophy as set forth in this policy. The overriding policy for the investment of bond proceeds will be dictated by the bond documents governing such funds as long as the documents are approved by the City Council or related governing board.
 - 2. Deferred Compensation, Retirement, and Post Retirement Benefit Plans – Investments related to these plans are not subject to this policy since third-party administrators or trustees manage the funds and either the individual plan participants or trustees direct investment selection.

III. Investment Philosophy

- A. The City’s investment philosophy is based on the Prudent Investor Standard as set forth in California Government Code 53600.3:

City of Redwood City – Investment Policy

Adopted by Council on 6/27/16

“...all governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

- B. The investment securities are purchased with the intention to hold until maturity. Sale of securities prior to maturity is permitted where it serves the City’s investment objectives.

IV. **Objectives**

- A. The City’s investment philosophy sets the tone for the policies, practices, procedures and objectives that control the investment function. The investment of funds will be guided by the primary objectives of safety, liquidity, and a reasonable market rate of return, in this order of priority.
 - 1. Safety – Safety of principal is the foremost objective of the investment program. The City will undertake investments in a manner that ensures the preservation of capital in the portfolio taken as a whole. To ensure the safety of principal, the City will seek to minimize credit risk (defined as the risk of default on the part of the issuer of a security) by diversification and by investing in high quality investments and also to minimize market risk (defined as the risk of fluctuations in the market value of securities) by limiting the weighted average maturity of the investment portfolio to 3 years.
 - 2. Liquidity – The City will maintain sufficient cash and short-term investment instruments which, together with projected revenues, will provide sufficient liquidity to meet all cash flow requirements which might be reasonably anticipated including contingencies for six months.
 - 3. Return on Investment (Yield) – The City’s investment portfolio will be designed with the objective to attain a market rate of return throughout economic cycles, commensurate with the City’s investment risk constraints and the cash flow characteristics of the portfolio.
- B. The investment function will have the ongoing objectives of assuring compliance with Federal, State and local laws governing the investment of public funds, providing for short term and long term cash flow needs, and establishing appropriate standards and limits for the type of investments made and the issuers of such investments.

V. **Delegation of Authority**

- A. The City of Redwood City Municipal Code Section 2.33.1 specifies that the City Council will appoint the City Treasurer (Finance Director). The Treasurer serves as the chief investment officer for the City and is authorized to invest or deposit the City’s funds in accordance with this policy, California

City of Redwood City – Investment Policy

Adopted by Council on 6/27/16

Government Code Sections 53600 and 53630 et seq. and all other related Federal and State laws. In the absence of the City Treasurer, and unless otherwise delegated, the Deputy Treasurer will serve as the acting Treasurer. The City Treasurer may appoint the Deputy Treasurer to act on behalf of the City. The City Treasurer will provide written authorization in delegating any of his/her authority.

- B. The City Manager will provide periodic oversight to the investment function which includes but is not limited to reviewing monthly investment reports issued by the City Treasurer.
- C. The City Council's primary responsibilities over the investment function include approving the Investment Policy, annually reviewing such policy, reviewing quarterly investment reports issued by the Treasurer, authorizing bond documents and other unique financing transactions, and authorizing any deviations from the City's investment policies.
- D. The Finance Sub-Committee of the City Council will provide oversight to the investment function through the periodic review of the investment report and policy.
- E. The City may engage the services of one or more external investment managers/advisors to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

VI. Ethics and Conflict of Interest

- A. All officials, staff members and consultants, involved in the investment functions will refrain from personal business activity that could conflict with the performance of the investment function or which may impair their ability to make impartial investment decisions. All investment personnel shall comply with reporting requirements of applicable State laws including annual filing of a Statement of Economic Interest. The Treasurer and staff shall avoid any transaction that might impair public confidence in the City.
- B. Officials, staff members and consultants shall further disclose any personal financial positions that could be related to the City's cash and investment portfolio.
- C. All bond issue participants, including but not limited to, underwriters, bond counsels, disclosure counsels, financial advisors, brokers and dealers will disclose any fee sharing arrangements or fee splitting to the Treasurer prior to the execution of any transactions. The providers must disclose the percentage and approximate dollar amount of their share to the City prior to the execution of any transactions.

VII. Investment Controls

- A. The City Manager shall oversee and ensure that the City Treasurer implements and maintains a system of internal investment controls and segregated responsibilities of the investment function in order to prevent fraud, theft, loss of principal, loss of control over funds, inaccurate reporting, negligence, and over-reliance on a single employee for investment decisions.

City of Redwood City – Investment Policy
Adopted by Council on 6/27/16

- B. Internal controls should include but are not limited to:
 - 1. Segregation of duties (e.g., the purchaser of investments is different than the person recording the transaction)
 - 2. Reconciliation of investment report and cash balances
 - 3. Authorization of transactions
- C. The external City auditor will review the investment program annually in order to provide reasonable assurance that the policy and procedures are complied with.

VIII. Authorized Financial Dealers and Institutions

- A. The City Treasurer or designee will obtain financial information from qualified institutions to determine if the institution markets in securities appropriate to the City's needs, can assign qualified sales representatives, and can provide written agreement to abide by the conditions set forth in the this Policy.
- B. The City Treasurer will maintain a list of financial institutions and broker/dealers authorized to provide investment services to the City. An eligible designation does not guarantee that the City will do business with the firm or institution.
- C. The following criteria will be used in determining investment providers:
 - 1. Broker/Dealers: The purchase by the City of any investment other than those purchased directly from the issuer shall be purchased from a broker/dealer firm designated as a Primary Government Dealer by the Federal Reserve Bank of New York or a regional dealer that qualifies under SEC Rule 15C3-1 (uniform net capital rule).
 - 2. Banks: The City shall purchase securities from banks which meet all of the following criteria:
 - a. Nationally or State chartered banks
 - b. Registered as investment securities dealers with the Securities and Exchange Commission
 - c. Independently rated "A" or higher by two nationally recognized statistical rating organizations
 - 3. Investment Bankers, Underwriters and Financial Advisors: The purchase by the City of any investments from these providers in the course of completing a bond transaction must be expressly authorized by the City Council after such a provider discloses their commission, spread or fee in approximate dollar amount. Otherwise, the acquisition of such investments must be procured from the broker/dealers customarily used by the City.
 - 4. The Federal Reserve Bank: Direct purchases of Treasury bills, notes and bonds from the U.S. Federal Reserve Banks branches are allowed and are exempt from quality requirements of section VIII of this policy.
- D. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must provide the following information to the City Treasurer:
 - 1. A completed City of Redwood Broker/Dealer Questionnaire
 - 2. Audited financial statements
 - 3. Proof of Financial Industry Regulatory Authority (FINRA) certification
 - 4. Proof of state registration

City of Redwood City – Investment Policy

Adopted by Council on 6/27/16

5. Certification of having read and willingness to comply with City's investment policy.
- E. The City Treasurer will conduct an annual review of the financial condition and registrations of brokers/dealers on the City's approved list.
- F. A current audited financial statement is required to be on file for each financial institution and broker/dealer with which the City invests.
- G. Certificates of deposit will not be placed with an institution once it has received a Cease and Desist order from any bank regulatory agency.

IX. Authorized Investments (with limitation and quality guidelines)

The California Government Code sections 53600 et seq. governs the allowable investments into which a local government agency can enter. These Government Code sections also stipulate as to the portfolio percentage limits and investment quality standards for some but not all permitted investments. The Government Code sections provide a starting point for establishing the City quality standards, percentage limits and maturity levels. Should the Government Code become more restrictive than this policy, the Government Code restrictions shall prevail.

Whenever a maximum allowable percentage of the portfolio is stipulated for any type of security as detailed below, the limit or maximum allowable is determined by the portfolio size or composition at the close of the date on which the security is purchased.

Additional requirements related to some investment types are detailed in the following sections of this policy.

A. United States Treasury Obligations – No Maximum

United States Treasury bills, notes, bonds, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation on the percentage of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.

B. Federal Agency or Government Sponsored Enterprises (GSEs) – Maximum of 70%

Securities issued by the following only: Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB) and Federal Home Loan Mortgage Corporation (FHLMC). The aggregate investment in such securities shall not exceed 70% of the City's total portfolio and the securities of any one Federal Instrumentality shall not exceed 35% of the City's total portfolio.

C. LOCAL AGENCY INVESTMENT FUND (LAIF) – Maximum \$65M per account (current State rules)

The City may invest in the LAIF established by the State Treasurer for the benefit of local agencies up to the maximum permitted under its rules. The aggregate investment in such securities shall not exceed \$65 million per account.

D. SAN MATEO COUNTY POOL – Maximum \$50M

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Adopted by Council on 6/27/16

The City may invest in the San Mateo County Pool established by the San Mateo County Treasurer for the benefit of local agencies (as established in California Code Section 53684). The aggregate investment in such securities shall not exceed \$50 million.

E. State and Local Agency Bonds – Maximum 20%

The City may invest in the bonds and notes issued by California state and local agencies with a rating of “AA” or better (or its equivalent). No more than 2% of the portfolio may be invested in a single issuer. The aggregate investment in such securities shall not exceed 20% of the City’s total portfolio.

F. Money Market and Mutual Funds – Maximum 20%

The City may invest in money market and mutual funds that are registered under the Investment Company Act of 1940 that (1) are “no-load” (no commission or fee shall be charged on purchases or sales of shares); (2) have a constant daily net asset value per share of \$1.00; (3) invest only in the securities and obligations authorized in this Policy; and (4) have a rating of at least AAA, or the equivalent, by at least 2 Nationally Recognized Statistical Rating Organizations (NRSRO). No more than 5% of the City’s total portfolio shall be invested in any one issuer and the aggregate investment in money market or mutual funds shall not exceed 20% of the City’s total portfolio.

G. Medium-Term Notes Issued by US Corporations – Maximum of 20%

The City may invest in medium term notes with up to 3 years to maturity and rated at least “A” or the equivalent, by an NRSRO. No more than 2% of the City’s portfolio may be invested in the medium-term notes of any one issuer or its affiliates. The aggregate investment in such securities shall not exceed 20% of the City’s total portfolio.

H. Certificates of Deposit – Maximum of 10%

The City may invest in certificates of deposit with a maturity not exceeding three years, in state or nationally chartered banks or savings banks that are insured by the FDIC, subject to the limitations of California Government Code Section 53638. Amounts in excess of FDIC insurance coverage shall be secured in accordance with California Government Code Section 53652. The City may use CD Placement Service for ease of administration to benefit from FDIC insured deposits without dealing with many banks. No more than 2% of the City’s portfolio may be invested in any one institution. The aggregate investment in such securities shall not exceed 10% of the City’s total portfolio.

I. Prime Commercial Paper – Maximum of 10%

The City may invest in prime commercial papers with a maturity not exceeding 270 days from the date of trade settlement with the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph 1 or sub-paragraph 2 below:

1. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of \$500,000,000 and (3) have debt other than commercial paper, if any, that is rated at least, A or the equivalent, by a NRSRO.
2. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program-wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond; and (3) have commercial paper that is rated at least A-1, or the equivalent, by a NRSRO.

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No more than 2% of the City's total portfolio shall be invested in the commercial paper of any one issuer, and the aggregate investment in commercial paper shall not exceed 10% of the City's total portfolio.

J. Bankers' Acceptances – Maximum of 10%

The City may invest in Banker's Acceptances with a maturity not exceeding 180 days from the date of trade settlement, rated at least A-1, or the equivalent, by a NRSRO, drawn on or accepted by a commercial bank with combined capital and surplus of at least \$250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated at least A, or the equivalent, by a NRSRO at the time of purchase. No more than 2% of the City's total portfolio shall be invested in bankers' acceptances of any one issuer, and the aggregate investment in bankers' acceptances shall not exceed 10% of the City's total portfolio.

K. Repurchase Agreements – Maximum 10%

The City may invest in Repurchase Agreements with a final termination date not exceeding 90 days collateralized by U.S. Treasury obligations listed in A above and with the maturity of the collateral not exceeding 10 years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the funds borrowed. Collateral shall be held in the City's custodian bank, as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.

Repurchase Agreements shall be entered into only with broker/dealers recognized as a primary dealer by the Federal Reserve Bank of New York, or with financial firms that have a primary dealer within their holding company structure. Approved Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1, or the equivalent, and a long-term credit rating of at least A, or the equivalent, by a NRSRO. Repurchase agreement counterparties shall execute a City approved Master Repurchase Agreement with the City. The Finance Director/City Treasurer shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of broker/dealers who have executed same. No more than 2% of the City's total portfolio shall be invested in repurchase agreements with any one counterparty, and the aggregate investment in repurchase agreements shall not exceed 10% of the City's total portfolio.

L. Prohibited Investment Transactions and Derivatives:

1. The Government Code specifically prohibits certain types of investment instruments for municipalities. In addition to those prohibitions, investments not listed under Paragraph IX are not permitted, including, without limitation, the following investments:
 - a. Reverse Repurchase Agreements
 - b. Financial futures or financial option contracts
 - c. Bank Time Deposits
 - d. Security lending
2. Additionally the City shall not invest in any security that could result in zero interest accrual if held to maturity.
3. Due to the complexity of the securities market and ever-changing market conditions, it

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is difficult to define derivatives and specifically prohibit their acquisition. Therefore, the City desires to limit the potential risk of derivatives by specifically prohibiting the most common types of derivatives with certain market exposures. These prohibited derivatives include but are not limited to: inverse floaters, interest only securities derived from mortgages, residual securities, structured notes, forward based derivatives, forward contracts, forward rate agreements, futures contracts, interest rate futures contracts, foreign currency futures contracts, option based derivatives, option contracts, interest rate caps, interest rate floors, swap contracts, interest rate swaps, interest rate collars, foreign currency swaps, cross currency exchange agreements, fixed rate currency swaps, basis swaps, equity swaps, fixed rate equity swaps, floating rate equity swaps and commodity swaps.

4. Leveraging
 - a. The City may not purchase investments on a margin or through a margin account.
 - b. The General Portfolio may not be leveraged by more than 30% through the issuance of tax and revenue anticipation notes (TRANS). The proceeds of any TRANS issue are to be invested in accordance with the guidelines in this policy, with investment maturities not to exceed the life of the TRANS.
 - c. The City may not leverage its investments through the use of reverse repurchase agreements.

X. Review of Investment Portfolio

The securities held by the City must be in compliance with the authorized investments in this policy at the time of purchase. Because some securities may not comply with this policy subsequent to the date of purchase, the Treasurer shall at least quarterly review the portfolio to identify those securities that do not comply. The Treasurer shall establish procedures to report to the City Council and or the Finance Committee major and critical incidences of noncompliance identified through the review of the portfolio.

XI. Investment Pools

- A. A thorough investigation of the pool is required prior to investing, and on a continual basis. There shall be a questionnaire developed which will answer the following general requests for information:
 1. A description of eligible investment securities, and a written statement of investment policy and objectives.
 2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
 3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
 4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
 5. A schedule for receiving statements and portfolio listings.
 6. Whether reserves, retained earnings, etc. are utilized by the pool.
 7. A fee schedule, and when and how is it assessed.
 8. Whether the pool is eligible for bond proceeds and/or whether it will accept such proceeds.

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XII. Collateralization

- A. Bank Deposits: Under provisions of Best Practices, California banks and savings and loan associations are recommended to secure the City's deposits by pledging government securities with a value of 110% of principal and accrued interest or secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total deposits.
- B. Certificates of Deposit:
 - 1. The market value of securities that underlay certificates of deposit shall be valued at 110% of the market value of principal and accrued interest.
 - 2. The City Treasurer, at his/her discretion may waive the collateral requirement for deposits up to the maximum dollar amount which are covered by the Federal Deposit Insurance Corporation.
- C. Repurchase Agreements
 - 1. The market value of securities that collateralize the investment shall be valued at 102% of the market value of principal and accrued interest.
 - 2. The value shall be adjusted no less than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back to 102% no later than the next business day.
- D. A clearly marked evidence of ownership, safekeeping receipt, must be supplied to the City and retained.
- E. The City chooses to limit collateral to US Treasuries.
- F. Collateral will always be held by an independent third-party with whom the entity has a current written custodial agreement.
- G. The right of collateral substitution is granted based on the approval of the City Treasurer.

XIII. Safekeeping, Custody and Competitive Bids

- A. Third-party safekeeping is required for all investments. Securities may be maintained by a banking institution or a broker/dealer firm for safekeeping as long as the securities are held in the City's name.
- B. Third-party safekeeping arrangements will be approved by the City Treasurer and will be corroborated by a written custodial agreement.
- C. All investment transactions of the City will be conducted using standard delivery vs. payment (DVP) procedures.
- D. All securities held by the safekeeping custodian on behalf of the City shall have the City of Redwood City as the registered owner, and all interest and principal payments and withdrawals shall indicate the City of Redwood City as the payee.

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- E. All bank deposits will be FDIC insured or deposited with institutions that comply with the State collateral requirements for public funds.
- F. Securities used as collateral for repurchase agreements with a maturity from one to seven days can be held in safekeeping by a third-party bank trust department or by the broker/dealer's safekeeping institution, acting as the agent for the City, under the terms of a custody agreement executed by the selling institution and by the City specifying the City's right to the collateral.
- G. All investment transactions shall be conducted on a competitive basis with quotes from a minimum of two brokers or financial institutions when possible.

XIV. Diversification and Credit Risk Management

- A. Investments contained within the portfolio will be diversified by security type, institution and maturity.
- B. The diversification requirements included in Section IX are designed to mitigate credit risk in the portfolio.
- C. No more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities. For some investment types, a more restrictive limit is specified in the policy.
- D. The City may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or City's risk preferences.
- E. If securities owned by the City are downgraded by any nationally recognized statistical ratings organization to a level below the quality required by this Investment Policy, it shall be the City's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
 - 1. If a security is downgraded, the City Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the economic outlook for the issuer, and other relevant factors.
 - 2. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and highlighted in the monthly investment report.

XV. Maximum Maturities

- A. The City Treasurer will maintain sufficient liquidity in cash and short-term investments, which together with projected revenue receipts will meet the cash flow requirements of the City for the upcoming six months.
- B. The City will not directly invest in securities maturing more than five years away from the settlement date. In any case, where a cash flow is matched with an investment which exceeds the five year limit, the investment must be approved by the City Council.

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- C. The weighted average maturity of the general portfolio shall not exceed three years. The general portfolio does not include bond proceeds or deferred compensation funds.
- D. To the extent possible, longer-term investment maturities will be spaced so that a portion of such investments mature each year to cover unanticipated emergencies.

XVI. Performance Standards

- A. The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints.
- B. The investment performance objective for the portfolio shall be to earn a total rate of return over a market cycle which is approximately equal to the return on a market benchmark index of similar securities, as determined by the City Treasurer.
- C. Market Return (Benchmark): The basis used by the Treasurer to determine whether market return is being achieved shall be to identify a benchmark which reflects a portfolio structure that is comparable to the City's portfolio (An example as it pertains to the long term portion of the portfolio would be the Bank of America Merrill Lynch Index of 1 to 5 Year Government securities).

XVII. Investment Procedures

- A. The City Treasurer shall establish internal procedures for the operation of the investment program consistent with this policy. These procedures shall include, but are not limited to, the following items:
 - 1. Safekeeping
 - 2. Master repurchase agreements
 - 3. Wire transfer agreements
 - 4. Collateral/Depository agreements
 - 5. Broker/Dealer relationships
 - 6. Cash handling, cash management, and accounting practices
- B. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Treasurer.
- C. Allocation of Pool Interest
 - 1. All interest earnings related to the investment pool will be allocated to the General Fund unless specifically directed by Federal or State statute, City Council directive, or contractual agreement.
 - 2. The allocation methodology will be maintained by the City Treasurer.

XVIII. Reporting

- A. The City Treasurer will provide a quarterly report to the City Manager and City Council which

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will include the following information by security, as applicable, held at the end of the reporting period:

1. Investment Type/Description
2. Issuer
3. Purchase Date
4. Maturity and Call Dates
5. Book Value/Purchase Price
6. Par Value
7. Market Value
8. Yield by Security and Weighted Average
9. Source of Market Valuation
10. Weighted Average Maturity
11. Portfolio Benchmarks
12. Funds, investments and loans, if any, that are under the management of contracted parties
13. Un-invested cash balances
14. A description of the compliance with the statement of investment policy, or an explanation of any non-compliance.
15. A statement denoting the ability of the City to meet cash flow requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

XIX. Investment Policy Adoption

The City’s investment policy shall be adopted by motion of the City Council, who shall also review the policy annually and approve any modification thereto.

XX. Indemnification of Investment Officials

Investment officers acting in accordance with this Policy and written procedures, and reporting and taking appropriate action regarding any adverse developments in a timely manner, will not be held personally liable for any investment losses.

XXI. Glossary of Common Treasury Terminology

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ASKED: The price at which securities are offered.

BANKERS’ ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio’s investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

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CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report of the City. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only by the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount. **DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value (*e.g., U.S. Treasury Bills.*)

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

DURATION: A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, *e.g.,* S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per entity.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

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FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Charter Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes. **LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

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PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15(C)3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

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TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

APPENDIX D

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

DEFINITIONS

“Accountant’s Report” means a report signed by an Independent Certified Public Accountant.

“Acquisition,” “Acquire” or “Acquired” means, with respect to the Project, the acquisition or perfection of an ownership or capacity interest in the Project, or the construction, refinancing or ownership of the Project.

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

“Additional Revenues” means, with respect to the issuance of any Parity Obligations, an allowance for Net Revenues (i) arising from any increase in the charges made for service from the Enterprise adopted prior to the incurring of such Parity Obligations and effective within eighteen (18) months following the date of incurring such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, and (ii) arising from any increase in service connections to the Enterprise prior to the incurring of such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such connections had been in existence during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, all as shown by the certificate or opinion of an Independent Municipal Finance Consultant.

“Bond Counsel” means Jones Hall, A Professional Law Corporation, and any other attorney or firm of attorneys acceptable to the Authority and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

“Bond Year” means the period from the Closing Date through February 1, 2018, and thereafter the twelve-month period commencing on February 2 of each year through and including February 1 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 Principal Office is authorized to be closed.

“Certificate of the Authority” means an instrument in writing signed by an Authorized Officer.

“Code” means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

“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 and Parity Obligations coming due and payable by their terms in such period (except to the extent that such principal has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the principal to which such amounts are pledged);

(b) The minimum principal amount of all Outstanding term Bonds and Parity Obligations scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon (except to the extent that such principal has been fully

capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the principal to which such amounts are pledged); and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds and Parity Obligations which would be Outstanding in such period if the Bonds or Parity Obligations are retired as scheduled (except to the extent that such interest has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the interest to which such amounts are pledged), but deducting and excluding from such aggregate amount the amount of Bonds and Parity Obligations no longer Outstanding; provided that, whenever interest as described herein accrues at other than a fixed rate, such interest shall be assumed to be a rate equal to the greater of (i) the actual rate on the date of calculation, or if the Parity Obligation is not yet outstanding, the initial rate (if established and binding), (ii) if the Parity Obligation has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Parity Obligation is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published The Bond Buyer Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (y) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities, plus fifty (50) basis points.

“Engineer’s Report” means a report signed by an Independent Engineer.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the Authority and related parties do not own more than a 10% beneficial interest therein if the return paid by the fund is without regard to the source of the investment. To the extent required by the applicable regulations under the Code, the term “investment” will include a hedge.

“Federal Securities” means (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of the interest and principal by the United States of America, (c) obligations of any agency or instrumentality of the United States of America as to which the timely payment of the interest on and the principal of such obligations is backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

“Finance Director” means the chief financial officer of the Authority.

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures prescribed by the California State Controller or his successor for municipalities 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.

“Governmental Loan” means a loan from the State or the United States of America, acting through any of its agencies, to finance improvements to the Enterprise, and the obligation of the City to make payments to the State or the United States of America under the loan agreement memorializing said loan on a parity basis with the payment of Installment Payments.

“Gross Revenues” means all gross income and revenue received or receivable by the City from the ownership and operation of the Enterprise, calculated in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including connection fees) received by the City for Water Service and all other income and revenue howsoever derived by the City from the Enterprise or arising from the Enterprise; provided, however, that (i) any specific charges levied for the express purpose of reimbursing others for all or a portion of the cost of the acquisition or construction of specific facilities, or (ii) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City, are not Gross Revenues and are not subject to the lien of the Installment Purchase Contract. Gross Revenues shall also include interest with respect to any Parity Obligations reimbursed to or on behalf of the District by the United States of America.

“Gross Revenues” for a Fiscal Year includes moneys received or collected by the City in that Fiscal Year that would otherwise meet the definition of Gross Revenues that the City transfers from the Revenue Fund to the Rate Stabilization Fund and, except as provided in the following sentence, it includes amounts that are transferred in that Fiscal Year from the Rate Stabilization Fund to the Revenue Fund. “Gross Revenues” for a Fiscal Year does not include moneys received or collected by the City in that Fiscal Year that would otherwise meet the definition of Gross Revenues for that Fiscal Year that are transferred from the Revenue Fund to the Rate Stabilization Fund and transferred back from the Rate Stabilization Fund to the Revenue Fund in that same Fiscal Year. For the avoidance of doubt, moneys that the City received or collected in a Fiscal Year (“Year 1”) may be included in Gross Revenues for a subsequent Fiscal Year (“Year 2”) when they are transferred from the Rate Stabilization Fund to the Revenue Fund even if they were transferred from the Revenue Fund to the Rate Stabilization Fund in Year 2 as long as they were not otherwise included in Gross Revenues for Year 2.

“Independent Certified Public Accountant” means any certified public accountant or firm of certified public accountants duly licensed and entitled to practice and practicing as such under the laws of the State of California, appointed and paid by the City, and each of whom--

1. is in fact independent and not under the control of the City;
2. does not have a substantial financial interest, direct or indirect, in the operations of the City; and
3. is not connected with the City as a board member, officer or employee of the City, but may be regularly retained to audit the accounting records of and make reports thereon to the City.

“Independent Engineer” means any registered engineer or firm of engineers of national reputation generally recognized to be well qualified in engineering matters relating to systems similar to the Enterprise, appointed and paid by the City, and who or each of whom--

1. is in fact independent and not under the control of the City;
2. does not have a substantial financial interest, direct or indirect, in the City; and
3. is not connected with the City as a council member, officer or employee of the City, but may be regularly retained to make reports to the City.

“Independent Municipal Finance Consultant” means any municipal finance consultant or firm of such consultants of national reputation registered with the Municipal Securities Rulemaking Board and the Securities and Exchange Commission generally recognized to be well qualified in financial matters relating to systems similar to the Enterprise, appointed and paid by the City, and who, or each of whom--

1. is in fact independent and not under the control of the City;

2. does not have a substantial financial interest, direct or indirect, in the City; and
3. is not connected with the City as a council member, officer or employee of the City, but may be regularly retained to make reports to the City.

“Installment Payment Date” means the date three (3) Business Days prior to each August 1 and February 1.

“Installment Payments” means the installment payments of principal and interest scheduled to be paid by the City under the Installment Purchase Contract.

“Insurance Consultant” means any nationally recognized independent actuary, insurance company or broker who has actuarial personnel knowledgeable with respect to insurance carried by, required for and available to municipalities operating facilities similar to the Enterprise, including a pooled self-insurance program in which premiums are established on the basis of the recommendation of an actuary of national reputation.

“Interest Payment Date” means February 1 and August 1.

“Maintenance and Operation Costs” of the Enterprise means the reasonable and necessary costs and expenses paid by the City (excluding Installment Payments or other payments in the nature of debt service on obligations secured by Net Revenues) for maintaining and operating the Enterprise, as determined in accordance with Generally Accepted Accounting Principles, including but not limited to (a) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, (b) the cost of wholesale water purchases from the San Francisco Public Utilities Commission and any surcharges related thereto, and (c) administrative costs of the City attributable to the Enterprise and the financing thereof; Maintenance and Operation Costs exclude (x) depreciation, replacement and obsolescence charges or reserves therefore, (y) in any Fiscal Year prior to setting aside an amount equal to the Installment Payments for such Fiscal Year, capital expenditures other than as set forth in subsection (a) above, and (z) amortization of intangibles or other bookkeeping entries or a similar nature.

“Maximum Annual Debt Service” means, as of the date of any calculation, the maximum sum obtained for the current or any future Bond Year so long as any of the Bonds remain Outstanding by totaling the following amounts for such Bond Year:

(a) the principal amount of the Bonds and Parity Obligations coming due and payable by their terms in such Bond Year, including the principal amount of any term Bonds and term Parity Obligations which are subject to mandatory sinking fund redemption in such Bond Year; and

(b) the amount of interest which would be due during such Bond Year on the aggregate principal amount of the Bonds and Parity Obligations which would be Outstanding in such Bond Year if such Bonds and Parity Obligations are retired as scheduled.

“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.

“Net Revenues” means, for any period, all of the Gross Revenues during such period less all of the Maintenance and Operation Costs during such period.

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

1. Bonds canceled by the Trustee;

2. Bonds paid or deemed to have been paid within the meaning of the Indenture; 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.

“Parity Obligations” means the 2013 Installment Purchase Contract, the 2015 Installment Purchase Contract and all bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the City, payable from and secured by a pledge of and lien upon any of the Net Revenues incurred on a parity with the payment of the Installment Payments.

“Permitted Investments” means any of the following, but only to the extent that the same are acquired at Fair Market Value, which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein (the Trustee is entitled to conclusively rely upon any direction of the City or the Authority as a certification that such investment constitutes a Permitted Investment and is a legal investment under the laws of the State of California):

1. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, but excluding CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

2. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

Farmers Home Administration (FmHA)
Certificates of beneficial ownership

Federal Housing Administration Debentures (FHA)

General Services Administration
Participation certificates

Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA — guaranteed mortgage-backed bonds
GNMA — guaranteed pass-through obligations (participation certificates)
(not acceptable for certain cash-flow sensitive issues.)

U.S. Maritime Administration
Guaranteed Title XI financing

U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local District Bonds
New Communities Debentures — U.S. Government guaranteed debentures
U.S. Public Housing Notes and Bonds — U.S. Government guaranteed public housing notes and bonds

3. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

Federal Home Loan Bank Enterprise
Senior debt obligations

Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
Participation certificates
Senior debt obligations

Federal National Mortgage Association (FNMA or "Fannie Mae")
Mortgage-backed securities and senior debt obligations

Resolution Funding Corp. (REFCORP) obligations

Farm Credit Enterprise
Consolidated system-wide bonds and notes

Federal Agriculture Mortgage Association

Tennessee Valley District

4. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G," "AAA-m," or "AA-m" and if rated by Moody's rated "Aaa," "AA1" or "Aa2," including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

5. U.S. dollar denominated deposit accounts, federal funds and banker's 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 "P-1" by Moody's and "A-1" or "A1+" by S&P and maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank.

6. Investment agreements, guaranteed investment contracts, funding agreements, or any other form of corporate note which represents the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution which has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, "AA" and "Aa2", respectively, by S&P and Moody's, provided that (1) such agreement shall require that if during its term the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3," respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Authority, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" category rating in an "A" category rated structured financing (with a market value approach); or (ii) at the sole expense of the provider, the provider shall obtain the unconditional assumption of their remaining obligations under the same terms and conditions of the investment agreement from an eligible replacement provider whose ratings are at least "AA-" and "Aa3" by S&P and Moody's, respectively; (2) if the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3," respectively, the provider must, at the direction of the City, the Authority or the Trustee, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Authority; (3) in the event that the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the City, the Authority or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or the Trustee, as appropriate; and (4) should the provider become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or the Trustee, as appropriate. For purposes of this definition, a rating category includes any rating with the same letter, regardless of the modifier. For purposes of illustration, "A", "A+" and "A-" are in the "A" rating category.

7. Commercial paper rated, at the time of purchase, "Prime -1" by Moody's and "A-1" or better by S&P.

8. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

9. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime -1" or "A3" or better by Moody's and "A-1+" by S&P.

10. Repurchase agreements for 30 days or less must provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

11. Medium-term Notes: Corporate notes issued by corporations organized and operating within the United States with a rating of "AAA" or higher at the time of purchase by a nationally recognized rating service and with a maximum remaining maturity of no more than three (3) years after the date of purchase.

12. The Local Agency Investment Fund created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

13. The San Mateo County Pooled Investment Fund.

14. Investment Trust of California, doing business as CalTRUST.

15. Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of California, as it may be amended.

"Principal Office" means the corporate trust office of the Trustee set forth in the Indenture (except for payment, surrender and exchanges of the Bonds which shall be the corporate trust office of the Trustee in St. Paul, Minnesota), or such other or additional offices as may be designated by the Trustee.

"Rate Stabilization Fund" means the Rate Stabilization Fund of the City.

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

"Refunding Fund" means the fund of that name established by the Trustee pursuant to the Indenture.

"Revenue Fund" means the "Water Utility Fund" currently maintained by the City, or such other fund of the City into which it deposits Gross Revenues.

"Revenues" means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Installment Purchase Contract, including, without limiting the generality of the foregoing, all of the Installment Payments (including both timely and delinquent payments and any late charges), prepayments of Installment Payments, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund, (b) amounts deposited in the Payment Fund, and (c) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture (except the Rebate Fund).

"Water Service" means the service made available or provided by the Enterprise.

THE INDENTURE

Transfer and Exchange of Bonds

Subject to the provisions of the Indenture 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 Principal 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. 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.

Deposit of Installment Payments

All Installment Payments received by the Authority shall be paid to the Trustee on the applicable installment 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.

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 specified in the Indenture, 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.

Acquisition, Disposition, and Valuation of Investments

Except as otherwise provided in the Indenture, the Authority covenants that all investments of amounts deposited in any fund or account created by or pursuant to this Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of section 148 of the Code) will be acquired, disposed of, and valued (as of the date that valuation is required by this Indenture or the Code) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Code will be valued at their present value (within the meaning of section 148 of the Code).

Pledge of Revenues

All of the Revenues are 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 and thereof.

Receipt and Deposit of Revenues

The Authority 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 Installment Purchase Contract (except for certain rights to indemnification set forth therein). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. Although all 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 Installment 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.

Refunding Fund

The Trustee will establish and hold a fund entitled the Refunding Fund. On the Closing Date, the Trustee will deposit the amounts specified in the Indenture into the Refunding Fund and, immediately thereafter, transfer such amounts to the Prior Trustee for deposit in the Bond Service Fund created pursuant to the 2007 Indenture.

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 hereof 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 lien on the Revenues 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 and will indemnify and save the Trustee and every Owner harmless from all cost, damage, expense or loss, including attorneys' fees, which they or any of them may incur by reason of any such cloud, defect, action, suit or other proceeding.

Against Encumbrances

The Authority 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. Nothing shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Tax Covenants

(a) Private Activity Bond Limitation. The Authority will assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

(b) Federal Guarantee Prohibition. The Authority will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

(c) Rebate Requirement. The Authority will take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

(d) No Arbitrage. The Authority will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code.

(e) Maintenance of Tax-Exemption. The Authority will take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

(f) Record Retention. The Authority will retain its records of all accounting and monitoring it carries out with respect to the Bonds for at least 3 years after the Bonds mature or are redeemed (whichever is earlier); however, if the Bonds are redeemed and refunded, the Authority will retain its records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the Bonds.

(g) Compliance with Tax Certificate. The Authority will comply with the provisions of the Tax Certificate and the Use of Proceeds Certificate with respect to the Bonds, which are incorporated herein as if fully set forth herein. The covenants of this Section will survive payment in full or defeasance of the Bonds.

Power to Issue Bonds and Make Pledge and Assignment

The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively,

under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

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 ensure that written notice is given promptly to the Trustee. The Authority agrees to deposit with the Trustee, promptly upon the receipt of any calculations made, the amount of Excess Investment Earnings so calculated. 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

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 Installment Purchase Contract. Said books shall, upon prior request, be subject to the inspection of the Trustee (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.

Installment Purchase Contract

The Trustee shall promptly collect all amounts due from the City pursuant to the Installment Purchase Contract and shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City thereunder.

Continuing Disclosure to Owners

Pursuant to the Installment Purchase Contract, 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.

Continued Existence of the Authority

The Authority will take or cause to be taken all actions reasonably necessary to continue its existence until such time as the Bonds have been paid in full, including but not limited to the addition or substitution of one or more new members.

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 herein 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;

(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 any Additional Bonds; or

(e) an event of default shall have occurred under the Installment Purchase Contract.

The Trustee shall notify the Authority promptly of any default under (a) above. Upon the occurrence of an Event of Default under the Indenture, the Trustee may 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, 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 or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Trustee 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, 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

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 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 or the Owners by law or by this Article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee. Any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or the Owners, the Trustee, 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 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 of or 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 Owner's 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 Installment Purchase Contract, or for the appointment of a receiver or trustee or for any other remedy hereunder, 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 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.

It being understood and intended that no one or more Owners shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the lien of the Indenture or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under the Indenture, except in the manner herein provided and for the equal and ratable benefit of all Bonds. Notwithstanding the foregoing, the Owner of any Bond shall have the right which is absolute and unconditional to receive payment of interest on such Bond when due in accordance with the terms thereof and of the Indenture and the principal of such Bond at the stated maturity thereof and to institute suit for the enforcement of any such payment in accordance with the provisions of the Indenture and such rights shall not be impaired without the consent of such Owner.

Application of Funds Upon Default

All monies received by the Trustee or by any receiver pursuant to any right given or action taken shall, after payment of the reasonable costs and fees of, and the reasonable fees, expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Payment Account and all moneys so deposited during the continuance of an Event of Default, together with all moneys in the funds and accounts maintained by the Trustee under the Indenture, 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; and

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.

(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.

The Trustee

The Authority or 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 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;

provided, however, that in the event that the Authority does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may petition at the expense of the Authority an appropriate court having jurisdiction to appoint a successor Trustee or to resign.

The Trustee may execute any of the trusts or powers hereof 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; provided that unless the Authority is in default hereunder, the Trustee shall first obtain the prior written consent of the Authority.

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 Installment Payments when due) until a Responsible Officer has actual knowledge thereof, or until notified in writing of such Event of Default.

No provision of the Indenture or any other document related thereto shall require the Trustee to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights under the Indenture. 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 herein) in aggregate principal amount of Bonds outstanding relating to the exercise of any right, power or remedy available to the Trustee. The permissive right of the Trustee to do things enumerated in the Indenture shall not be construed as a duty.

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 terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes (by employees other than employees of the Trustee), 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 with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture; provided, that no such consent of the Owners shall be required in connection with an amendment or supplement executed with respect to the issuance of Additional Bonds as authorized in the Indenture. 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 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 hereof 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.

Disqualified 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, and the Trustee may adopt appropriate regulations to require each Owner, before his or her consent provided for in the Indenture shall be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified.

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 any such Bonds Outstanding, including all principal, interest and redemption premiums; or

(c) by irrevocably depositing with the Trustee, in trust, non-callable Federal Securities in such amount (i) will, together with amounts then on deposit in the funds and accounts established pursuant to the Indenture (except amounts on deposit in the Rebate Fund and the Project Fund) be sufficient to pay and discharge the indebtedness on all Bonds (including the principal interest and premium, if any, thereon) at or before their respective maturity dates, or (ii) 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 any such Bonds Outstanding (including all principal, interest and redemption premiums) at or before their respective maturity dates; 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 this 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.

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 and the obligation of the Authority to indemnify and pay the Trustee in accordance with the Indenture.

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 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.

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 or the City may from time to time provide to the Trustee.

Valuation shall occur not less often than immediately prior to each Interest Payment Date. 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.

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 INSTALLMENT PURCHASE CONTRACT

Purchase and Sale of the Project

The City represents and warrants that it is the owner of certain interests in the Project. The Authority purchases from the City, and the City sells to the Authority, the Project in accordance with the provisions of the Installment Purchase Contract. All right, title and interest in the Project shall immediately vest in the Authority on the Closing Date without further action on the part of the Authority or the City. The City purchases from the Authority, and the Authority sells to the City, the Project in accordance with the provisions of the Installment Purchase Contract. Upon the Closing Date, all of the Authority's remaining interest in the Project, if any, shall be transferred to and vest in the City, without the necessity of any additional document or transfer. Nothing in the Installment Purchase Contract shall require the Authority to perform any obligations of any purchaser with respect to any contract or purchase order with respect to the Project.

Payment of the Installment Payments

Each Installment Payment shall be payable to the Authority in accordance with the terms of the Installment Purchase Contract and at the times required by the Installment Purchase Contract in lawful money of the United States of America. In the event the City fails to make any of the payments required to be made by it, such payment shall continue as an obligation of the City until such amount shall have been fully paid and the City agrees to pay the same as set forth in the Installment Purchase Contract. In the event an Installment Payment is insufficient to make the payments of principal and interest represented by the Bonds on the next succeeding Interest Payment Date, due to investment losses incurred while on deposit in the Payment Fund or for any other reason, the City shall immediately pay to the Trustee upon notice therefrom additional amounts to cure such insufficiency.

The obligation of the City to make the Installment Payments from Net Revenues is absolute and unconditional, whether or not the Project shall be acquired, and until such time as all Installment Payments shall have been fully paid and the Bonds are no longer Outstanding (or provision for the payment thereof shall have been made pursuant to Article IX of the Indenture), the City will not, under any circumstances, discontinue, abate or suspend any Installment Payments required to be made by it under the Installment Purchase Contract when due, whether or not the Enterprise or any part thereof is operating or operable or has been completed, or whether or not the Enterprise is condemned, damaged, destroyed or seized or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments from Net Revenues shall not be subject to reduction whether by offset, counterclaim, defense, recoupment, abatement, suspension, deferment or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or covenant contained in the Installment Purchase Contract for any cause whatsoever.

Interest Component of the Installment Payments

The Installment Payments include interest from the date of the respective series of Bonds until the payment of the principal thereof and the prepayment premiums, if any, thereon, shall have been made or provided for in accordance with the provisions of Article IX of the Indenture, whether at maturity, upon prepayment or otherwise. The interest component of the Installment Payments accrued from the date of the respective series of Bonds and from each Interest Payment Date to, but not including, the next succeeding Interest Payment Date shall be paid on each such succeeding Interest Payment Date and shall be computed on the basis of a year of 360 days and twelve 30-day months.

Certain Necessary Transfers

The parties to the Installment Purchase Contract acknowledge that although all Parity Obligations are secured equally and ratably by Net Revenues, debt service and other funds 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 Installment Purchase Contract, and the Installment Purchase Contract and the Indenture impose no obligations upon the Trustee with respect to such other obligations. The Finance Officer is hereby authorized to make such transfers from the Revenue Fund necessary to effectuate such Parity Obligations' parity claim on the Net Revenues contemplated hereby.

Deposits to Payment Fund

On the Installment Payment Date next preceding each Interest Payment Date, the City shall deposit with the Trustee, for deposit in the Payment Fund, from amounts legally available therefor on deposit in the Revenue Fund, a sum equal to the amount of interest becoming due under the Installment Purchase Contract in the next Interest Payment Date plus the amount of principal becoming due under the Installment Purchase Contract on such Interest Payment Date. The City shall be entitled to receive as a credit against Installment Payments an amount equal to the amount of any balance contained in the Payment Fund prior to the Installment Payment Date for such Installment Payments (excluding money designated for the prepayment of Bonds). All money in the Payment Fund shall be used and withdrawn by the Trustee in accordance with the Indenture.

No Reserve Fund

The City is not causing a debt service reserve fund to be established for the Installment Payments or the Bonds.

Compliance with Installment Purchase Contract

The City will punctually pay the Installment Payments in strict conformity with the terms of the Installment Purchase Contract, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Contract required to be observed and performed by it, and will not terminate the Installment Purchase Contract for any cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, condemnation of the Project by any governmental entity, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term required to be observed and performed by it contained in the Installment Purchase Contract, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Purchase Contract.

Against Encumbrances

The City covenants that, subject to the Indenture, there is no pledge of or lien on Net Revenues senior to the pledge and lien securing the Installment Payments. The City will not make any further pledge of or place any lien on the Net Revenues, provided that the City may at any time, or from time to time, pledge or encumber the Net Revenues in connection with the issuance or execution of Parity Obligations or other obligations permitted by the Installment Purchase Contract, or subordinate to the pledge of Net Revenues in the Installment Purchase Contract.

Against Sale or Other Disposition of Property

The City will not sell, lease, encumber or otherwise dispose of the Enterprise or any part thereof in excess of one-half of one percent of the book value of the Enterprise in any Fiscal Year, unless a Finance Officer certifies that such sale, lease, encumbrance or disposition will not materially adversely affect the operation of the Enterprise or the Net Revenues; provided however, any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Enterprise, or any material or equipment which has become worn out, may be sold or exchanged at not less than the fair market value thereof and the proceeds (if any) of such sale or exchange shall be deposited in the Revenue Fund. The City will not enter into any agreement or lease which would impair the ability of the City to meet the covenant set forth in the Installment Purchase Contract or which would otherwise impair the rights of the Bond Owners or the operation of the Enterprise.

Against Competitive Facilities

The City will not, to the extent permitted by law, acquire, maintain or operate and will not, to the extent permitted by law and its current contractual rights and obligations and within the reasonable scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, maintain or operate within the City any utility system competitive with the Enterprise, which utility system has a materially adverse impact on Revenues.

Tax Covenants

(a) Private Activity Bond Limitation. The City will assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

(b) Federal Guarantee Prohibition. The City will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

(c) Rebate Requirement. The City will take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

(d) No Arbitrage. The City will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

(e) Maintenance of Tax-Exemption. The City will take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

(f) Record Retention. The City will retain its records of all accounting and monitoring it carries out with respect to the Bonds for at least 3 years after the Bonds mature or are redeemed (whichever is earlier); however, if the Bonds are redeemed and refunded, the City will retain its records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the Bonds.

(g) Compliance with Tax Certificate. The City will comply with the provisions of the Certificate as to Arbitrage and the Use of Proceeds Certificate with respect to the Bonds, which are incorporated herein as if fully set forth herein. The covenants of this Section will survive payment in full or defeasance of the Bonds.

Maintenance and Operation of the Enterprise; Budgets

The City will maintain and preserve the Enterprise in good repair and working order at all times and will operate the Enterprise in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Enterprise as they become due and payable.

Payment of Claims

The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Revenues or any part thereof or on any funds in the control of the City or the Trustee prior or superior to the lien of the Installment Payments or which might impair the security of the Installment Payments.

Compliance with Contracts

The City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, expressed or implied, required to be performed by it contained in all contracts for the use of the Enterprise and all other contracts affecting or involving the Enterprise to the extent that the City is a party thereto.

Insurance

The City will procure and maintain insurance on the Enterprise with commercial insurers or through participation in a joint powers insurance authority, in such amounts, with such deductibles and against such risks (including accident to or destruction of the Enterprise) as are usually insurable in connection with similar enterprises in the region. In the event of any damage to or destruction of the Enterprise caused by the perils covered by such insurance, the proceeds of such insurance shall be applied to the repair, reconstruction or replacement of the damaged or destroyed portion of the Enterprise. The City shall cause such repair, reconstruction or replacement to begin promptly after such damage or destruction shall occur and to continue and to be properly completed as expeditiously as possible, and shall pay out of the proceeds of such insurance all costs and expenses in connection with such repair, reconstruction or replacement so that the same shall be completed and the Enterprise shall be free and clear of all liens and claims. If the proceeds received by reason of any such loss shall exceed the costs of such repair, reconstruction or replacement, the excess shall be applied to the prepayment of Installment Payments and payments on any Parity Obligations as provided in the Installment Purchase Contract.

Alternatively, if the proceeds of such insurance are sufficient to enable the City to retire all outstanding Parity Obligations and the Installment Payments and all other amounts due under the Installment Purchase Contract and under the Indenture, the City may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Enterprise, and thereupon such proceeds shall be applied to the prepayment of the Installment Payments as provided in the Installment Purchase Contract and to the payment of all other amounts due under the Installment Purchase Contract and under the Indenture, and as otherwise required by the documents pursuant to which such Parity Obligations were issued.

In lieu of obtaining insurance coverage as required, such coverage may be maintained by the City in the form of self-insurance so long as Insurance Consultant certifies annually to the Trustee and the Authority that the City's general insurance reserves are actuarially sound and are adequate to provide the necessary coverage and that such reserves are held in a separate trust fund by an independent trustee. Such certification, and the requirement that funds be held in a trust fund, shall not be required unless the City is fully self-insured with respect to such coverage.

Books and Accounts

The City will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee or of the Owners of not less than ten percent (10%) of the principal amount of a series of Bonds then Outstanding or their representatives authorized in writing.

The City will prepare annually not more than two hundred seventy (270) days after the close of each Fiscal Year a summary statement showing the amount of the Gross Revenues and the disbursements from the Gross Revenues, and the Maintenance and Operation Costs, in reasonable detail, for the preceding Fiscal Year, and a general statement of the financial and physical condition of the Enterprise.

Protection of Security and Rights of Authority

The City will preserve and protect the security and the rights of the Authority to the Installment Payments under the Installment Purchase Contract and will warrant and defend such rights against all claims and demands of all persons.

Payment of Taxes and Compliance with Governmental Regulations

The City will pay and discharge all taxes, assessments and other governmental charges, if any, which may hereafter be lawfully imposed upon the Enterprise or any part thereof or upon the Gross Revenues when the same shall become due. The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Enterprise or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Operation of Enterprise; Collection of Rates and Charges

The City will, so long as the Bonds are Outstanding, continue to operate the Enterprise and shall have in effect at all times rules and regulations requiring all users of the Enterprise provided by the City that is provided or made available to pay the rates, fees and charges applicable to the Enterprise provided or made available to such users, and providing for the billing thereof and for a due date and a delinquency date for each bill. Except in connection with the receipt of federal or State funding, or as required as a condition to the acquisition or operation of the Project, the City will not permit any part of either Enterprise, or any facility thereof, to be used, or taken advantage of, free of charge by any person, firm or corporation, or by any public agency (including the United States of America, the State of California and any public corporation, political subdivision, city, county, district or agency of any thereof), excepting only that the City may without charge use the services and facilities of the Enterprise.

Eminent Domain Proceeds

If all or any part of the Enterprise shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If (1) the City prepares a report showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the City by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Enterprise proposed to be acquired by the City from any Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) on the basis of such certificate, the City determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the City to meet its obligations hereunder will not be substantially impaired (which determination shall be final and conclusive); then the City shall promptly proceed with the acquisition of such additions, betterments, extensions or improvements substantially in accordance with such report and such Net Proceeds shall be applied for the payment of the costs of such acquisition, and any balance of such Net Proceeds not required by the City for such purpose shall be applied to prepay the Installment Payments pursuant to the Installment Purchase Contract, and any Parity Obligations, on a pro rata basis in the manner provided in the Installment Purchase Contract and in the instruments authorizing such Parity Obligations.

(b) If the foregoing conditions are not met, then such Net Proceeds shall be applied to the prepayment of Installment Payments.

Further Assurances

The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Authority of the rights and benefits provided to it in the Installment Purchase Contract.

Continuing Disclosure

The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement of the City, dated as of the Closing Date. Notwithstanding any other provision of the Installment Purchase Contract, failure of the City to comply with the Continuing

Disclosure Agreement shall not be considered an Event of Default; however, the Authority may (and, at the request of any participating underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, after receiving indemnification to its satisfaction) or any Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations.

Security Deposit

Notwithstanding any other provision of the Installment Purchase Contract, the City may secure the payment of all or a portion of Installment Payments by a deposit with the Trustee, as escrow holder under an escrow deposit and trust agreement as referenced in and in conformance with the Indenture, of either (i) cash in an amount which, together with available amounts on deposit in the Payment Fund or reserve fund established with respect to Parity Obligations, is sufficient to pay such unpaid Installment Payments, including the principal and interest components thereof, in accordance with the Installment Payment schedule set forth in Exhibit B attached to the Installment Purchase Contract, or (ii) non-callable Federal Securities (as defined in the Indenture) or pre-refunded non-callable municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, together with cash if required, in such amount as will, in the opinion of nationally-recognized bond counsel and of an independent certified public accountant (which opinion shall be addressed to the Trustee, together with interest to accrue thereon and, if required, all or a portion of moneys or non-callable Federal Securities then on deposit in the Payment Fund or reserve fund established with respect to Parity Obligations, be fully sufficient to pay such unpaid Installment Payments on their payment dates so that such Installment Payments shall be defeased as provided for in the Indenture; or

In the event of a deposit, and provided that all other amounts payable by the City have been paid in full, all obligations of the City under the Installment Purchase Contract shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, all Installment Payments from the deposit made by City and the obligation to pay amounts due the Trustee. Said deposit shall be deemed to be and shall constitute a special fund for the payment of Installment Payments in accordance with the provisions of the Installment Purchase Contract.

Events of Default and Events of Mandatory Acceleration; Acceleration of Maturities

If one or more of the following Events of Default shall happen:

(a) default shall be made in the due and punctual payment by the City of any Installment Payment when and as the same shall become due and payable;

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

(c) the City 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 City 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 City or of the whole or any substantial part of its property; or

(d) an event of default shall have occurred with respect to any Parity Obligations;

then and in each and every such case during the continuance of such Event of Default the Authority may, by notice in writing to the City declare the principal amount of the unpaid Installment Payments to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the Installment Purchase Contract to the contrary notwithstanding.

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 principal amount of the unpaid Installment Payments 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 City shall deposit with the Trustee a sum sufficient to pay such unpaid principal amount of the Installment Payments due prior to such date, with any interest due on such overdue installments, and the reasonable expenses of the Authority and the Trustee, and any and all other defaults known to the Authority (other than in the payment of such principal amount of the unpaid Installment Payments due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor, then and in every such case the Authority, by written notice to the City, 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.

Application of Funds upon Acceleration

All moneys and investments in the funds and accounts held under the Installment Purchase Contract and under the Indenture (other than the Rebate Fund, if any) upon the date of the declaration of acceleration and all Gross Revenues thereafter received shall be applied as provided for in the Indenture; provided, however, that the Gross Revenues thereafter received shall be applied to the Installment Payments and any Parity Obligations without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

Other Remedies of the Authority

The Authority may--

(a) by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the City, or any board member, officer or employee thereof, and compel the City or any such board member, officer or employee to perform and carry out its or his duties under applicable law and the agreements and covenants contained in the Installment Purchase Contract 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 Authority;

(c) by suit in equity upon the happening of an Event of Default require the City and its board members, officers and employees to account as the trustee of an express trust; or

(d) by suit in equity, to seek the appointment of a receiver or other third party to operate the Enterprise and collect the Gross Revenues.

Non-Waiver

Nothing in any provision of the Installment Purchase Contract shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Installment Payments to the Authority at the respective due dates or upon prepayment from the Gross Revenues, or, except as expressly provided in the Installment Purchase Contract, shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Purchase Contract

A waiver of any default or breach of duty or contract by the Authority 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 Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy 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 Authority by applicable law may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority. If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the

City 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 Installment Purchase Contract conferred upon or reserved to the Authority 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 hereunder 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.

Liability of City Limited

Notwithstanding anything contained in the Installment Purchase Contract, the City shall not be required to advance any moneys derived from any source of income other than the Net Revenues legally available therefor in the Revenue Fund, and the other funds provided in the Installment Purchase Contract and in the Indenture for the payment of the Installment Payments or for the performance of any agreements or covenants contained in the Installment Purchase Contract required to be performed by it. The City 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 City for such purpose. The obligation of the City to make the Installment Payments and the other amounts due under the Installment Purchase Contract is a special obligation of the City payable solely from the moneys legally available therefor under the Installment Purchase Contract and under the Indenture, including but not limited to the Net Revenues and such other funds, but excluding the proceeds of any taxes, and does not constitute a debt or pledge of the faith and credit of the City or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Waiver of Personal Liability

No board member, officer or employee of the City shall be individually or personally liable for the payment of the Installment Payments, but nothing contained in the Installment Purchase Contract shall relieve any board member, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Contract.

Assignment

The Installment Purchase Contract and any rights thereunder shall be assigned by the Authority, in accordance with the Indenture, to the Trustee or any successor in interest to the Trustee, without the necessity of obtaining the prior consent of the City. The City may not assign any of its rights under the Installment Purchase Contract.

Amendments

The Installment Purchase Contract may be amended in writing as may be mutually agreed by the City and the Authority, with the written consent of the Owners of a majority of the aggregate principal evidenced by the Bonds then Outstanding; provided, however, that no such amendment shall (i) extend the payment date of any Installment Payment or reduce the amount of any Installment Payment, or the interest rate applicable thereto, without the prior written consent of the Owner of each Bond so affected, (ii) reduce the percentage of Owners whose consent is required for any amendment thereof without the prior written consent of the Owners of all Bonds then Outstanding, or (iii) amend the requirements for an amendment without the prior written consent of the Owners of all Bonds then Outstanding. The Installment Purchase Contract and the rights and obligations of the City and the Authority thereunder may also be amended or supplemented at any time by an amendment or supplement which shall become binding upon execution by the City and the Authority, without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes -

- (i) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed therein or other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or

power reserved therein to or conferred herein on the Authority or the City, and which in either case shall not materially adversely affect the interests of the Owners;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained therein or in regard to questions arising thereunder which the Authority or the City may deem desirable or necessary and not inconsistent herewith, and which shall not materially adversely affect the interests of the Owners;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion of interest from federal or State income taxes;

(iv) to provide for the issuance of Parity Obligations or the issuance of Additional Bonds as provided for in the Indenture;

(v) to make such other changes therein or modifications hereto as the Authority or the City may deem desirable or necessary, and which shall not materially adversely affect the interests of the Owners.

Any amendment made in violation shall be a nullity and void.

Net Contract

The Installment Purchase Contract shall be deemed and construed to be a net-net-net contract, and the City shall pay absolutely net during the term thereof the Installment Payments and all other payments required thereunder free of any deductions and without abatement, diminution or set-off whatsoever.

California Law

The Installment Purchase Contract shall be construed and governed in accordance with the laws of the State of California.

APPENDIX E

FORM OF FINAL OPINION OF BOND COUNSEL

[Letterhead of Jones Hall, A Professional Law Corporation]

[Closing Date]

City of Redwood City Public Financing Authority
1017 Middlefield Road
Redwood City, CA 94063

OPINION: \$6,300,000 City of Redwood City Public Financing Authority Water Revenue
Refunding Bonds, Series 2017

Ladies and Gentlemen:

We have acted as bond counsel to the City of Redwood City Public Financing Authority (the "Authority") in connection with the issuance by the Authority of the captioned bonds dated the date hereof (the "Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Bond Law"), the Indenture of Trust, dated as of February 1, 2017 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and a resolution (the "Resolution") of the Authority adopted January 23, 2017. Under the Indenture, the Authority has pledged certain revenues (the "Revenues") for the payment of principal, premium (if any), and interest on the Bonds when due, including installment payments made by the City of Redwood City (the "City") under an Installment Purchase Contract, dated as of February 1, 2017 (the "Installment Purchase Agreement") between the Authority and the City.

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

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

1. The Authority is a duly created and validly existing joint exercise of powers authority with the power to adopt the Resolution, enter into the Indenture and perform the agreements on its part contained therein, and issue the Bonds.
2. The City is a duly created and validly existing chartered city with the power to enter into the Installment Purchase Agreement and perform the agreements on its part contained therein.
3. The Indenture has been duly authorized, executed and delivered by the Authority, and constitutes a valid and binding obligation of the Authority, enforceable against the Authority.
4. The Installment Purchase Agreement has been duly authorized, executed and delivered by the Authority and the City, and constitutes a valid and binding obligation of the Authority and the City, enforceable against the Authority and the City.

5. The Indenture creates a valid lien on the Revenues and other funds pledged by the Indenture for the security of the Bonds, on a parity with other bonds (if any) issued or to be issued under the Indenture.

6. The Bonds have been duly authorized and executed by the Authority, and are valid and binding limited obligations of the Authority, payable solely from the Revenues and other funds provided therefor in the Indenture.

7. Interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the delivery of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the City have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

8. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

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

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

Respectfully submitted,

A Professional Law Corporation

APPENDIX F

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 of by the City of Redwood City Public Financing Authority (the "Authority") of its \$6,300,000 City of Redwood City Public Financing Authority (San Mateo County, California) Water Revenue Refunding Bonds, Series 2017 (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of February 1, 2017 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds shall be secured by a pledge, charge and lien upon Net Revenues (as such term is defined in the Indenture). Pursuant to Section 5.21 of that certain Installment Purchase Contract, dated as of February 1, 2017, by and between the Authority and the City, the Agency covenants and agrees as follows:

Section 1. 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 1, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

"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.

"Beneficial Owner" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. In the absence of such a designation, the City shall act as the Dissemination Agent.

"EMMA" or *"Electronic Municipal Market Access"* means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"Listed Events" shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

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

"Participating Underwriter" shall mean any original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for the 2016-17 Fiscal Year, which is due not later than March 31, 2017, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-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 they are not available by that date. The filing with EMMA of the official statement prepared for the Bonds will satisfy the 2017 filing requirement.

(b) *Change of Fiscal Year.* 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), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance.* If the City is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the City shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the City is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

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

(a) *Financial Statements.* Audited financial statements of the City for the preceding fiscal year, prepared in accordance generally accepted accounting principles. 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) *Other Annual Information.* To the extent not included in the audited final statements of the City, financial information and operating data with respect to the City and the Enterprise for the preceding fiscal year, substantially as set forth in Exhibit B hereto.

(c) *Cross References.* Any or all of the items listed in Exhibit B may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on EMMA. The City shall clearly identify each such other document so included by reference.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, 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.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The City shall, or shall cause the Dissemination Agent (if not the City) to, give notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

Note: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) *Material Reportable Events.* 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) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.
- (5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
- (6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* The City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of Any Listed Event. Notwithstanding the

foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Indenture.

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

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the 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 8. Dissemination Agent.

(a) *Appointment of 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. If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the City. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bond owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the City shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the City.

(b) *Compensation of Dissemination Agent*. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the City or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent*. In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the City to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the City under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances*. If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), 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 the type of business conducted.

(b) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Bond owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bond owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the City shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Certificate owner or Beneficial Owner 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. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, 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 and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Indenture. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: [Closing Date]

CITY OF REDWOOD CITY

By _____
Name _____
Title _____

ACKNOWLEDGED:

U.S. BANK NATIONAL ASSOCIATION, as
Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: City of Redwood City

Name of Issue: City of Redwood City Public Financing Authority (San Mateo County, California) Water Revenue Refunding Bonds, Series 2017

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the Obligor in connection with the Issue. The Obligor anticipates that the Annual Report will be filed by _____.

Date: _____

U.S. BANK NATIONAL ASSOCIATION,
Dissemination Agent

By _____
Authorized Officer

EXHIBIT B

FORM OF ANNUAL REPORT

\$6,300,000
CITY OF REDWOOD CITY PUBLIC FINANCING AUTHORITY,
WATER REVENUE REFUNDING BONDS,
SERIES 2017

Date of this Annual Report: _____

For Fiscal Year: _____

This Annual Report is hereby submitted under Section 4 of the Continuing Disclosure Certificate (the "Disclosure Certificate") dated March 1, 2017, executed by the undersigned (the "City") for and on behalf of itself and the City of Redwood City Public Financing Authority (the "Authority") in connection with the issuance of the above-captioned bonds by the Authority.

Capitalized terms used in this Annual Report but not otherwise defined have the meanings given to them in the Disclosure Certificate.

Any or all of the items listed below 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 through its *Electronic Municipal Market Access* ("EMMA") the centralized on-line repository. The City shall clearly identify each such other document so included by reference.

I. Audited Financial Statements

Attached are audited financial statements of the City, which include financial statements of the City's municipal water system enterprise (the "Enterprise") 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.

II. Existing Water Supply and Demand

The table below sets forth the average daily demand and maximum daily demand on the Enterprise for the prior Fiscal Year.

	Average Daily Demand (MGD)	Maximum Daily Demand (MGD)
Current Demand		
Current Supply Regional Water System		
Current Supply Recycled Water		
Current Capacity Surplus		

III. Enterprise Revenues

The table below sets forth Enterprise revenues by customer type for the prior Fiscal Year.

Enterprise Revenues by Customer Type					
	<u>Number of Accounts</u>	<u>Consumption (CCF)</u>	<u>Percent of Total Consumption</u>	<u>Total Revenues</u>	<u>Percent of Total Revenue</u>
Single-family					
Multifamily					
Irrigation-Residential					
Subtotal					
Commercial					
Irrigation-Commercial					
Subtotal					
Recycled					
Total					

IV. Debt Service Coverage

The table below sets forth Enterprise revenues and expenses, debt service on the Bonds, and the resulting debt service coverage ratio for the prior Fiscal Year.

Revenues, Expenses and Debt Service Coverage

GROSS REVENUES
Charges for services
Non-operating Income
TOTAL GROSS REVENUES
MAINTENANCE AND OPERATION COSTS
NET REVENUES AVAILABLE FOR DEBT SERVICE
2013 Installment Payments
2015 Installment Payments
2017 Installment Payments
TOTAL DEBT SERVICE
DEBT SERVICE COVERAGE

V. No Default Certificate

A certified statement of the City to the effect that no Event of Default (as defined in that certain Installment Purchase Contract, dated as of March 1, 2017, by and between the Authority and the City (the "Installment Purchase Contract") has occurred, or if an Event of Default has occurred, specifying the nature thereof and, if the City has a right to cure pursuant to Section 7.01 of the Installment Purchase Contract, stating in reasonable detail the measures, if any, being undertaken by the City to cure such Event of Default.

VI. Insurance Compliance

A certified statement of the City to the effect that all insurance required by the Installment Purchase Contract to be carried by the City with respect to the Enterprise is in full force and effect and complies with the terms of the Installment Purchase Contract.

VII. Application of Gross Revenues

A summary statement showing the amount of the Gross Revenues and the disbursements from the Gross Revenues, and the Maintenance and Operation Costs, in reasonable detail, for the preceding Fiscal Year, and a general statement of the financial and physical condition of the Enterprise.

CITY OF REDWOOD CITY

By _____
Director of Finance

APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, redemption premium, if any, and interest with respect to the Bonds to The Depository Trust Company (“DTC”), New York, NY, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the Authority of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its 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 its Participants, as the case may be. The City, the Authority, the Trustee and the Underwriter understand that the current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and that the current “Procedures” of DTC to be followed in dealing with Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a rating from Standard & Poor’s of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 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 Trust Agreement. 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 a maturity are being redeemed. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each 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 MMI 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 on 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 City, the Authority 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, the Trustee, the City or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal of, premium, if any, and interest on the Bonds by Cede & Co (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The Authority 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.

The foregoing information concerning DTC and DTC's book-entry system has been provided by DTC, and neither the Authority nor the Trustee takes any responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

Neither the Authority nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

In the event that the book-entry system is discontinued as described above, the requirements of the Trust Agreement will apply.

The City, the Authority and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

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