

NOTICE OF PENDING LITIGATION

Name of Issuer: City of Redwood City
Purpose: Disclosure about pending litigation
Date: December 16, 2015

Names of Affected Issue:

\$20,235,000
City of Redwood City Public Financing Authority
Water Revenue Refunding Bonds, Series 2015

\$26,870,000
City of Redwood City Public Financing Authority
Water Revenue Bonds, Series 2013

\$15,150,000
City of Redwood City Public Financing Authority
Water Revenue Bonds, Series 2007A

Introduction. The City of Redwood City (the “City”) provides notice of certain pending litigation (the “Litigation”) and the potential impact of the Litigation on the above-referenced bonds (the “Bonds”). The City is providing this notice because it provided similar disclosure about the Litigation in connection with the issuance by Silicon Valley Clean Water on November 24, 2015 of its \$70,200,000 initial principal amount 2015 Wastewater Revenue Bonds.

Disclaimer. The City has no responsibility to provide further information about the Litigation except as required to comply with its continuing disclosure undertakings relating to the Bonds and applicable law.

Summary of the Litigation. On November 9, 2015, a Petition for Writ of Mandamus and Complaint for Declaratory and Injunctive Relief (the “Complaint”) was filed in the Superior Court of the State of California in and for the County of San Mateo (the “Court”), against the City, entitled Citizens for the Public Trust and Ted J. Hannig v. City of Redwood City, CIV 536168.

Approximately 60 years ago, the State of California granted to the City certain rights to certain tidelands, marshes, submerged lands and other lands held by the State in trust for the People of California under the Public Trust Doctrine (the “Public Lands”). Docktown Marina (“Docktown”), owned and operated by the City, is located on the Public Lands. A number of so-called “floating homes” are berthed at Docktown. The City provides sewer service to approximately four of the floating homes. The City provides water service to the Docktown facility that is used by the boats and floating homes.

The Complaint asserts that the floating homes constitute a private residential use of Docktown that is impermissible under the Public Trust Doctrine and violates the terms of the State’s grant of the Public Lands to the City. It claims, therefore, that all revenues from the lease of space at Docktown for floating homes have been improperly “embezzled” by the City, to

the detriment of the People of California. The Complaint further asserts that the floating homes improperly dispose of their wastewater, and for this and other reasons are causing Docktown to be operated in a manner that contaminates and causes environmental damage to public lands and waters, including a nearby federally protected wildlife refuge. The Complaint additionally asserts that Docktown's users are being exposed to highly contaminated mud, and that the City has violated statutory obligations to give notice of such contamination to San Mateo County and to Docktown lessees.

Some of the remedies sought by the petitioners in the Complaint include: (i) that the Court appoint a Special Master, (ii) that the Court establish a constructive trust over the City's entire general fund surplus, and (iii) that the Court "compel [the City] to comply with the Public Trust Doctrine, to account separately for all revenue and expenses purportedly connected to the Public Trust Land underlying Docktown since receiving the Public Trust Land from the State, and to comply with Orders of the Court and requests and instructions of the Special Master."

Each series of the Bonds is payable from Revenues, which consists of installment payments made by the City (the "Installment Payments") under a related installment payment contract. The City's obligation to make the Installment Payments is secured by a pledge of Net Revenues (as defined in the Official Statements for the Bonds) from the City's water system. In general, Net Revenues of the City's water system are defined as Gross Revenues of the City's water system less Maintenance and Operation Costs of the City's water system. Maintenance and Operation Costs include the reasonable and necessary costs paid or incurred by the City for maintaining and operating its water system, determined in accordance with generally accepted accounting principles, but do not include capital expenditures, if any, that might arise from an adverse judgment in the pending litigation. Neither the Bonds nor the City's installment payment obligations are secured by or payable from the City's general fund.

Because the Complaint was only recently served on the City, and although the Complaint appears to focus its prayer for relief on the City's general fund, the City is unable at this time to determine what, if any, impact the Complaint and any ensuing litigation may have on its water system, the Net Revenues generated by its water system or the sufficiency of Net Revenues from its water system to pay the Installment Payments. The City also cannot predict whether the Complaint will be amended in the future in a way that might adversely affect the sufficiency of Net Revenues from its water system to pay the Installment Payments.

[End of Notice]