

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Special Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, the interest with respect to the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the interest due with respect to the Certificates is exempt from State of California personal income tax. See "TAX MATTERS" herein.*

**\$128,300,000**  
**CITY OF RIVERSIDE, CALIFORNIA**  
**Variable Rate Refunding Certificates of Participation**  
**(Riverside Renaissance Projects)**  
**Series 2008**

**Dated: Date of Delivery**                      **Price: 100%**                      **CUSIP: 768861 GA8**                      **Due: March 1, 2037**

The Certificates are being executed and delivered pursuant to the Trust Agreement, dated as of April 1, 2008, by and among the City of Riverside (the "City"), the Riverside Public Financing Authority (the "Authority"), and U.S. Bank National Association, as trustee thereunder (the "Trustee"), for the principal purpose of refinancing certain previously executed and delivered certificates of participation of the City, to fund a reserve fund, to provide additional capitalized interest and to pay certain costs of issuance, all as further provided herein.

The Certificates evidence and represent undivided proportionate interests in the right to receive certain Base Rental Payments (which include principal and interest components) to be made by the City for the right to the use of certain real property and improvements (the "Property") pursuant to that certain Lease Agreement, dated as of April 1, 2008 (the "Lease Agreement"), by and between the City, as lessee, and the Authority, as lessor. The City has covenanted in the Lease Agreement to make the Base Rental Payments for the Property, to include all such Base Rental Payments in each of its budgets and to make the necessary annual appropriations for all such Base Rental Payments. The Base Rental Payments are subject to abatement, however. See "SECURITY FOR THE CERTIFICATES" and "RISK FACTORS" herein.

The Certificates may evidence interest in the Daily Mode, Weekly Mode, Flexible Mode, Term Rate Mode, ARS Mode or Fixed Rate Mode, as described in the Trust Agreement. **This Official Statement is not intended to describe the Certificates while evidencing interest in another Mode other than the Weekly Mode.**

The Certificates will initially evidence interest in the Weekly Mode. While in the Weekly Mode, interest due with respect to the Certificates will be payable on the first business day of each month, commencing on May 1, 2008. The Certificates are to be delivered as fully-registered certificates in the denomination of \$100,000 and any integral multiple of \$5,000 in excess thereof. Principal with respect to the Certificates is payable upon surrender of the Certificates at maturity or earlier prepayment at the principal corporate trust office of the Trustee.

The Certificates are subject to mandatory tender as described herein. While the Certificates represent interest in the Weekly Mode, they are subject to purchase upon the demand of the Owners thereof on any business day upon seven days' notice at a purchase price of principal amount, plus accrued interest, all as further described herein. See "THE CERTIFICATES - Optional and Mandatory Tender for Purchase" herein.

While in the Weekly Mode, the payment of the principal and interest with respect to the Certificates, the prepayment price, and the purchase price of tendered Certificates (to the extent not paid from the proceeds of remarketing thereof, or, to the extent that remarketing proceeds are insufficient or not available therefore) will be from the proceeds of draws under that certain irrevocable direct-pay Letter of Credit to be issued in favor of the Trustee for the benefit of the registered owners of the Certificates on the date of delivery thereof by Bank of America, N.A. (the "Bank"). See "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT" herein.



**The Certificates are subject to optional, extraordinary and mandatory sinking fund prepayment, all as described herein.**

The Certificates are being executed and delivered in book-entry form only and when executed and delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchasers of the Certificates will not receive certificates representing their beneficial ownership in the Certificates but will receive credit balances on the books of their respective nominees. The principal and interest evidenced by the Certificates are payable by the Trustee to Cede & Co., and such interest and principal payments are to be disbursed to the beneficial owners of the Certificates through their nominees.

THE CITY'S OBLIGATION TO MAKE BASE RENTAL PAYMENTS IS AN OBLIGATION PAYABLE FROM THE CITY'S GENERAL FUND OR ANY OTHER SOURCE OF FUNDS LEGALLY AVAILABLE TO THE CITY TO MAKE BASE RENTAL PAYMENTS. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS CONSTITUTES A DEBT OF THE CITY OF RIVERSIDE OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION OR ANY OBLIGATION FOR WHICH THE CITY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

*THIS COVER PAGE CONTAINS INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THE SECURITY OR TERMS OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SECTION ENTITLED "RISK FACTORS," FOR A DISCUSSION OF SPECIAL FACTORS WHICH SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH HEREIN, IN CONSIDERING THE INVESTMENT QUALITY OF THE CERTIFICATES.*

The Certificates are offered when, as and if sold, executed and delivered, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel. Certain legal matters will be passed upon for the City by the City Attorney, for the Authority by Stradling Yocca Carlson & Rauth, a Professional Corporation, for the Bank by White & Case LLP, Los Angeles, California, and for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. It is anticipated that the Certificates in book-entry form, will be available for delivery through the facilities of DTC in New York, New York, on or about April 17, 2008.

**Banc of America Securities LLC**

**CITY OF RIVERSIDE, CALIFORNIA**

**CITY COUNCIL**

Ronald O. Loveridge, Mayor  
Steve Adams, Councilmember  
Rusty Bailey, Councilmember  
Mike Gardner, Councilmember  
Nancy Hart, Councilmember  
Chris Mac Arthur, Councilmember  
Andy Melendrez, Councilmember  
Frank Schiavone, Councilmember

**CITY STAFF**

Bradley J. Hudson, City Manager  
Paul C. Sundeen, Assistant City Manager, Chief Financial Officer  
Michael J. Beck, Assistant City Manager  
Tom DeSantis, Assistant City Manager  
Colleen J. Nicol, City Clerk  
Brent A. Mason, Assistant Director of Finance  
Gregory P. Priamos, City Attorney

---

**SPECIAL SERVICES**

**Special Counsel**

Stradling Yocca Carlson & Rauth, a Professional Corporation  
Newport Beach, California

**Trustee**

U.S. Bank National Association  
Los Angeles, California

**Underwriter and Remarketing Agent**

Banc of America Securities LLC

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Certificates other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Certificates will, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described in this Official Statement. All references to and summaries of the Trust Agreement, the Lease Agreement or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

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 responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The issuance and sale of the Certificates have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Certificates to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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. WHILE THE CITY HAS AGREED TO PROVIDE CERTAIN ON-GOING FINANCIAL AND OPERATING DATA (SEE “CONTINUING DISCLOSURE” AND APPENDIX G HERETO), IT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED CHANGE.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**TABLE OF CONTENTS**

	Page
INTRODUCTION .....	1
General .....	1
The City .....	1
Purpose .....	2
Security for the Certificates .....	2
The Letter of Credit and the Reimbursement Agreement .....	2
Reserve Fund .....	3
Abatement .....	3
Prepayment .....	3
Limited Obligations .....	3
Summaries Not Definitive .....	3
THE PROJECT AND THE PROPERTY .....	4
The Project .....	4
The Property .....	5
Release of Property; Substitution .....	7
ESTIMATED SOURCES AND USES OF FUNDS .....	7
PLAN OF REFUNDING .....	8
Refunding of the 2007 Certificates .....	8
2008 Swap Agreement .....	8
THE CERTIFICATES .....	8
General .....	9
Interest Rate Provisions .....	10
Daily Mode, Term Rate Mode, Flexible Mode, ARS Mode and Fixed Rate Mode .....	11
Changes in Interest Rate Mode .....	11
Optional and Mandatory Tender for Purchase .....	12
Prepayment .....	14
Remarketing Agent .....	16
Special Considerations Relating to Remarketing of the Certificates .....	16
SECURITY FOR THE CERTIFICATES .....	17
General .....	17
Base Rental Payments .....	18
Appropriation; Use of Property .....	19
Reserve Fund .....	19
Assignment; Recourse on Default .....	19
Insurance .....	20
Additional Rental Payments .....	21
2008 Swap Agreement .....	21
Abatement Due to Damage or Destruction .....	22
Special Taxes Not Available as Security .....	22
Additional Certificates .....	22
THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT .....	23
The Letter of Credit .....	23
The Reimbursement Agreement .....	24
The Bank .....	31
RISK FACTORS .....	32
No Tax Pledge .....	32
Appropriation of Rental Payments .....	33
Abatement .....	34
Limitation on Enforcement of Remedies; No Acceleration .....	35
Geologic, Topographic and Climatic Conditions .....	36
Hazardous Substances .....	37
Impact of State Budget .....	37
Vehicle License Fees .....	42
Impact of Sales and Use Tax Redirection .....	43
Declining State Economy .....	43
Limitations on Remedies Available; Bankruptcy .....	44
Self-Insurance .....	44
State Law Limitations on Appropriations .....	44
Change in Law .....	44

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS .....	45
Article XIII A of the State Constitution.....	45
Article XIII B of the State Constitution.....	45
Article XIII C and XIII D of the State Constitution.....	46
Future Initiatives.....	47
THE AUTHORITY .....	47
TAX MATTERS .....	47
New Information Reporting Requirements.....	49
CERTAIN LEGAL MATTERS.....	49
NO LITIGATION.....	49
FINANCIAL STATEMENTS .....	49
RATINGS.....	50
UNDERWRITING .....	50
Relationship Among Certain Parties.....	50
VERIFICATION .....	51
VOLUNTARY CONTINUING DISCLOSURE .....	51
MISCELLANEOUS .....	51
APPENDIX A - CITY OF RIVERSIDE - OPERATING AND FINANCIAL INFORMATION.....	A-1
APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2006-07 .....	B-1
APPENDIX C - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS .....	C-1
APPENDIX D - CITY AND COUNTY OF RIVERSIDE - ECONOMIC AND DEMOGRAPHIC INFORMATION .....	D-1
APPENDIX E - PROPOSED FORM OF FINAL OPINION .....	E-1
APPENDIX F - BOOK ENTRY PROVISIONS .....	F-1
APPENDIX G - FORM OF CONTINUING DISCLOSURE CERTIFICATE .....	G-1

## OFFICIAL STATEMENT

**\$128,300,000**  
**CITY OF RIVERSIDE, CALIFORNIA**  
**Variable Rate Refunding Certificates of Participation**  
**(Riverside Renaissance Projects)**  
**Series 2008**

### INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Certificates being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. Capitalized terms used in this Introduction and not otherwise defined herein shall have the respective meanings assigned to them elsewhere in this Official Statement, including in Appendix C - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto.

#### General

The purpose of this Official Statement (which includes the cover page and the Appendices attached hereto) is to provide information concerning the execution and delivery of \$128,300,000 in aggregate principal amount of the City of Riverside's Variable Rate Refunding Certificates of Participation (Riverside Renaissance Projects) Series 2008 (the "Certificates"). The Certificates are being executed and delivered pursuant to the provisions of a Trust Agreement, dated as of April 1, 2008 (the "Trust Agreement"), by and among the City of Riverside (the "City"), the Riverside Public Financing Authority (the "Authority") and U.S. Bank National Association, as trustee (the "Trustee").

The Certificates will be initially executed and delivered in the aggregate principal amount of \$128,300,000. The Certificates will be dated the date of their initial execution and delivery and will mature on the Maturity Date set forth on the cover page of this Official Statement, subject to earlier prepayment. Interest with respect to the Certificates will be payable from their date of delivery, initially calculated in the Weekly Mode as described herein, payable on the first Business Day of each month, commencing May 1, 2008 (each, an "Interest Payment Date"). The Certificates will be executed and delivered in fully registered form, without coupons, in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof. See "THE CERTIFICATES" for additional information.

#### The City

The City was incorporated in 1883 and operates under a charter adopted in 1953. The City operates under a council-manager form of government, and is governed by a seven-member City Council elected with four-year staggered terms. The Mayor is elected at large for a four-year term. The positions of City Clerk, City Manager and City Attorney are filled by appointment of the City Council.

The City encompasses approximately 80.1 square miles in the western portion of Riverside County (the "County"), approximately 60 miles east of downtown Los Angeles and 90 miles north of San Diego. The City is the county seat of the County. The current population of the City is approximately 291,398. For other selected information concerning the City, see Appendix A — "CITY OF RIVERSIDE

- OPERATING AND FINANCIAL INFORMATION” hereto. See also Appendix D - “CITY AND COUNTY OF RIVERSIDE - ECONOMIC AND DEMOGRAPHIC INFORMATION” hereto.

### **Purpose**

The proceeds of the sale of the Certificates, together with certain other available amounts, will be used (i) to refund on current basis certain previously executed and delivered certificates of participation, (ii) to fund the Reserve Fund, (iii) to provide capitalized interest with respect to the Certificates through April 1, 2010, and (iv) to pay certain costs of issuance of the Certificates. See “THE PROJECT AND THE PROPERTY” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

### **Security for the Certificates**

The Certificates evidence and represent undivided proportionate interest in the right to receive certain Base Rental Payments and prepayments thereof. Base Rental Payments (as described below) will be made by the City to the Authority for the right to the use and occupancy of certain real property and improvements thereon, which are included as components of the Project (the “Property”). See “THE PROJECT AND THE PROPERTY — The Property” below. The Property will be leased by the City from the Authority pursuant to a Lease Agreement, dated as of April 1, 2008 (the “Lease Agreement”), between the City, as lessee, and the Authority, as lessor. The City will lease the Property to the Authority pursuant to the Site and Facilities Lease, dated as of April 1, 2008 (the “Site Lease”), by and between the City and the Authority.

In accordance with the Lease Agreement, the City is required to pay to the Trustee specified Base Rental Payments for the Property which are designed to be sufficient to pay the principal and interest with respect to the Certificates. The Base Rental Payments are payable by the City from its General Fund for the right to the use and possession by the City of the Property. The City has covenanted in the Lease Agreement to take all such actions as may be necessary to include all Base Rental Payments in each of its annual budgets for the General Fund during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Base Rental Payments and Additional Rental Payments. The covenants of the City constitute duties imposed by law. In addition, the City has covenanted to maintain, or cause to be maintained, insurance on the Property. See “SECURITY FOR THE CERTIFICATES” herein. However, the Base Rental Payments are subject to abatement in certain circumstances. See “RISK FACTORS — Abatement” herein.

Pursuant to the Trust Agreement, the Authority has assigned to the Trustee for the benefit of the Owners of the Certificates (i) its right to receive Base Rental Payments from the City under the Lease Agreement, (ii) all estate, right, title and interest of the Authority in and to and all duties and obligations of the Authority under the Lease Agreement and (iii) all the moneys and securities deposited or required to be deposited with the Trustee pursuant to the Trust Agreement not expressly held for the benefit of the City.

### **The Letter of Credit and the Reimbursement Agreement**

The payment of the principal and interest with respect to the Certificates, the prepayment price and the purchase price of any tendered Certificates (to the extent not paid from the proceeds of remarketing thereof, or, to the extent that remarketing proceeds are insufficient or not available therefor) will be paid from drawings made under that certain irrevocable direct-pay letter of credit (the “Letter of Credit”) to be issued by Bank of America, N.A. (the “Bank”), in favor of the Trustee for the benefit of the Owners of the Certificates on the date of delivery thereof. The Letter of Credit has a scheduled termination date of April 16, 2010. The City and the Authority will enter into that certain Reimbursement



Agreement, dated as of April 1, 2008 (the “Reimbursement Agreement”), pursuant to which the Bank will issue the Letter of Credit. For additional information, see “THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT” herein.

### **Reserve Fund**

A Reserve Fund is established under the Trust Agreement. The Reserve Fund will initially be funded at the Reserve Requirement, which is an amount equal to the least of: (i) ten percent (10%) of the proceeds of sale of the issue within the meaning of Section 148 of the Code; (ii) the maximum amount of Base Rental Payments coming due in any one year; or (iii) 125% of the average Base Rental Payments coming due in each year; provided, however, that for purposes of calculating the Reserve Requirement, the interest component of Base Rental Payments evidenced by Certificates while in the Weekly Mode will be deemed to accrue at a rate per annum of 3.396%, all as further described in “PLAN OF REFUNDING” herein. See also “SECURITY FOR THE CERTIFICATES - Reserve Fund” herein.

### **Abatement**

The amount of Base Rental Payments due under the Lease Agreement and, correspondingly, the amount available to pay the principal and interest with respect to the Certificates, will be subject to complete or partial abatement during any period in which, by reason of damage or destruction or eminent domain, there is substantial interference with the use and possession by the City of the Property. The amount of the abatement will be determined by the City so that the resulting Base Rental Payments represent fair consideration for the use and occupancy of the portions of the Property not damaged or destroyed. See “RISK FACTORS - Abatement” herein.

Amounts on deposit in the Base Rental Payment Fund and the Reserve Fund, and proceeds from any insurance or eminent domain award, constitute a special fund for payment of Base Rental Payments, and will be available to pay Base Rental Payments in the event there is substantial interference with the use and possession of the Property.

### **Prepayment**

The Certificates are subject to optional, extraordinary and mandatory sinking fund prepayment as described herein. See “THE CERTIFICATES — Prepayment” herein.

### **Limited Obligations**

The Obligation of the City to make Base Rental Payments is an obligation payable each year from the City’s General Fund or any source of funds legally available for the payment of Base Rental Payments, but does not constitute a debt of the City or of the State of California or of any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction, or an obligation for which the City or the State of California is obligated to levy or pledge any form of taxation or for which the City or the State of California has levied or pledged any form of taxation.

### **Summaries Not Definitive**

The summaries and references of documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report, or instrument. The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such

agreement or document. See Appendix C - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for summaries of certain of such definitions.

Copies of the documents described herein will be available at the Director of Finance's office, City of Riverside, 3900 Main St. 4th Floor, Riverside, CA 92501.

### **THE PROJECT AND THE PROPERTY**

In March 2007, the City caused the execution and delivery of certain auction rate certificates of participation (the "2007 Certificates") to finance the cost of the capital improvement projects further described below. Certain components of the Project described below will also be the assets being leased under the Lease Agreement, all as further described under "- The Property" below.

#### **The Project**

A portion of the proceeds of the 2007 Certificates were deposited in the Acquisition and Construction Fund established pursuant to the Trust Agreement securing the 2007 Certificates (the "2007 Trust Agreement") to finance the costs of the following public improvements identified by the City (the "Project"). The components of the Project described below as "Lease Securing Project Components" will be the components of the Property that secure the payment of Base Rental Payments. The market value shown for each of the Lease Securing Project Components includes the project costs to be provided by the 2007 Certificate proceeds. The remaining components of the Project described under "Non-Lease Securing Project Components" will be also financed with the 2007 Certificate proceeds but will not be included in the Property components that secure Base Rental Payments. The 2007 Certificate proceeds held by the Trustee under the 2007 Trust Agreement will be transferred to the Acquisition and Construction Fund established under the Trust Agreement and used to complete the Project components described below.

#### **Lease Securing Project Components**

<b>Description</b>	<b>Project Cost</b>	<b>Market Value</b>
Ab Brown Soccer Expansion	\$5,500,000	\$23,295,000
Andulka Park (Phases I, II & III)	9,800,000	30,720,000
Fairmount Park and Golf Course	4,000,000	21,674,000
Riverside Youth Sports Complex	12,100,000	14,104,000
Orange Terrace Field and Park Expansion	6,000,000	18,326,000
Orange Terrace Community Center/Gymnasium	11,000,000	16,378,000
Orange Terrace Library	<u>2,000,000</u>	<u>6,000,000</u>
 Total	 <u>\$50,400,000</u>	 <u>\$130,497,000</u>

### Non-Lease Securing Project Components

Description	Project Cost
Aquatic Center	\$3,000,000
Bobby Bonds Soccer Field	350,000
Bordwell-Stratton Senior Center	1,100,000
Parkways and Medians	4,000,000
Magnolia / UP Grade Separation	2,000,000
Third Street / BNSF Grade Separation	2,000,000
Quiet Zone	6,500,000
Fire Station #1	2,000,000
Main Library Expansion / Improvements	7,000,000
Municipal Museum Seismic Retrofit	5,000,000
911 Dispatch and Data Center	2,250,000
Public Safety Administration Center	10,000,000
Arlington Library Expansion	1,000,000
Convention Center Expansion / Improvements	4,000,000
Downtown Beautification Project	10,000,000
Municipal Auditorium Seismic Retrofit	<u>1,200,000</u>
Total Cost of Non-Lease Securing Project Components	<u>\$ 61,400,000</u>
TOTAL PROJECT COST	<u>\$111,800,000</u>

### The Property

Under the Lease Agreement, upon completion of the acquisition, construction and installation of the Lease Securing Project Components, the City will deliver to the Trustee a Completion Certificate for such components. The City and the Authority expect that all components of the Project will be substantially completed on or prior to January 1, 2010. In addition to the 2007 Certificate proceeds, a portion of the Certificate proceeds will also be applied to provide capitalized interest to April 1, 2010 with respect to Certificates. See "RISK FACTORS - Abatement" herein for additional information. See also "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Property securing the Lease Agreement consists of each of the Lease Securing Project Components, as further described below.

### Lease Securing Project Components of the Property

- Ab Brown Soccer Expansion. This project is located on the 3700 block of Valencia Avenue between Orange Street and Main Street in the City. This facility consists of approximately 58 acres of land with 16 soccer fields, two of which are lighted for night time use. The 2007 Certificate proceeds are expected to finance additions to existing facilities and provide additional soccer fields, sports lighting systems for increased flexibility in facility uses, add restroom and concession facilities, provide parking lot improvements and other site improvements. The City expects to complete this project in 2009. An appraisal as of February 15, 2007 estimated the market value of the existing facilities and the expected improvements at \$23,295,000.
- Andulka Park (Phases I, II & III). The park is located at 5079 Chicago Avenue at the intersection of Chicago and Central Avenues in the City. Currently, this park consists of approximately 37

acres of land. The 2007 Certificate proceeds are expected to finance additional facilities consisting of two lighted baseball fields, each with a football / soccer overlay, open meadow space for field sport practice, a children's playground, picnic shelters, a tennis complex with a total of 10 tennis courts, two restroom / concession facilities, a tennis pro shop, and on-site parking facilities, together with an approximately 5 acre wildlife habitat reserve. The City expects to begin construction in Spring 2008 and complete this project in 2009. An appraisal as of February 15, 2007 estimated the market value of the current parcel and the expected improvements at \$30,720,000.

- Fairmount Park and Golf Course. This facility is located at 2681 Dexter Drive in the City. Currently, the facility consists of approximately 54.5 acres of land that includes a historic core of the park consisting of a band shell and a boathouse at the lake and a municipal 9-hole golf course with a small driving range. The golf course currently has approximately 100 parking stalls, a 1,500 square foot club house, a sales office and temporary trailers. The 2007 Certificate proceeds are expected to finance the amphitheater conversion of the band shell, improvements to enhance access for emergency vehicles and the disabled to the existing boathouse and the lake shores, and the placement of additional lighting, gates and cameras at the park. The City expects to complete this project within 12 months. An appraisal as of February 15, 2007 estimated the market value of the existing facilities and the expected improvements at \$21,674,000.
- Arlington Heights Sports Complex, formerly Riverside Youth Sports Complex. This facility is located at 9374 Victoria Avenue in the City and consists of over 13.6 acres of land. The City acquired legal title to an additional 20.9 acres of adjacent land and, on the combined site, the City expects to install lighted baseball and soccer fields, basketball courts, 297 parking stalls, restroom facilities, a maintenance building and other park amenities, such as a playground and picnic facilities with the 2007 Certificate proceeds. This project is currently in the design phase and the City expects the construction to begin this summer. An appraisal as of February 15, 2007 estimated the market value of the currently owned land and the expected improvements on the currently owned land at \$14,104,000.
- Orange Terrace Field & Park Expansion. The park is located at 20010 Orange Terrace Parkway at the intersection of Orange Terrace Parkway and Barton Street in the City. This facility consists of over 28 acres of land with an existing 1,500 square foot restroom / concession facilities. The 2007 Certificate proceeds financed improvements on approximately 12 acres at the easterly end along Abrahms Street and install two lighted Little League Ballfields each with football / soccer overlays, a restroom / concession building, a lighted football / soccer field that will double as a field sports practice area, over 300 additional stalls for on-site parking, a children's playground, picnic shelters, two lighted basketball courts and other site improvements. This component, together with the Orange Terrace Community Center / Gymnasium component and the Orange Terrace Library improvements described below will complete the new community park complex. This project has been completed and the City held a dedication ceremony in February 2007. An appraisal as of February 15, 2007 estimated the market value of the existing facilities and the expected improvements of this component at \$18,326,000.
- Orange Terrace Community Center/Gymnasium. This center is located at the intersection of Orange Terrace Parkway and Abrahms Drive in the City. This facility is located within the Orange Terrace Field & Park facility described above and the 2007 Certificate proceeds are expected to finance the construction and installment of approximately 26,000 square feet facility available for indoor recreational activities including basketball, fitness programs, community meetings, special events rentals and other similar recreation activities. This project is under

construction and the City expects its completion in 2008. An appraisal as of February 15, 2007 estimated the market value of the land and the expected improvements at \$16,378,000.

- Orange Terrace Library. The library is also located at the intersection of Orange Terrace Parkway and Barton Street in the City and is sited on the same site as the Orange Terrace Field & Park described above. The 2007 Certificate proceeds are expected to finance the construction of approximately 13,000 square feet library at the site. This project is currently under construction and the City expects completion in 2008. An appraisal as of February 15, 2007 estimated the market value of this facility at \$6,000,000.

**Release of Property; Substitution**

Under the Lease Agreement, the City has the option to substitute other real property for any portion of the Property or to release a portion of the Property from the lien of the Lease Agreement, provided that the City satisfies all of the requirements set forth in the Lease Agreement, including a prior written consent of the Bank, if required under the Reimbursement Agreement. The City is not entitled to any reduction, diminution, extension or other modification of the Base Rental Payments whatsoever as a result of such substitution or release. See Appendix C - “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Lease Agreement - Substitution or Release of the Property” for additional information.

**ESTIMATED SOURCES AND USES OF FUNDS**

The proceeds to be received from the sale of the Certificates are anticipated to be applied as follows:

SOURCES:	
Principal Amount of Certificates	\$128,300,000.00
Total Sources <sup>(1)</sup> :	<u>\$128,300,000.00</u>
USES:	
Escrow Fund	\$119,252,627.79
Costs of Issuance <sup>(2)</sup>	308,378.63
Reserve Fund	7,422,802.00
Net Capitalized Interest <sup>(3)</sup>	1,034,906.83
Underwriter’s Discount	<u>281,284.75</u>
Total Uses:	<u>\$128,300,000.00</u>

<sup>(1)</sup> Does not reflect available amounts held under the funds and accounts established under the 2007 Trust Agreement;

<sup>(2)</sup> Includes legal fees and expenses, rating agency fees, fees and expenses of the Trustee and printing and other miscellaneous expenses.

<sup>(3)</sup> Represents net capitalized interest on the Certificates through April 1, 2010. An amount equal to \$7,548,246.29 as of April 11, 2008, together with additional investment earnings to the delivery date, will be transferred from the account established under the 2007 Trust Agreement.

## **PLAN OF REFUNDING**

### **Refunding of the 2007 Certificates**

A portion of the net proceeds of the Certificates (the “Refunding Proceeds”) will be applied to prepay \$118,975,000 in outstanding principal amount of the City’s 2007 Certificates, previously executed and delivered as auction rate certificates of participation, at a prepayment price equal to the principal amount thereof, plus accrued interest thereon. The 2007 Certificates were executed and delivered in two series, consisting of \$59,475,000 in aggregate principal amount of Series 2007A Certificates and \$59,500,000 in aggregate principal amount of Series 2007B Certificates. The City’s plan of refunding is intended to reduce the City’s exposure to certain market factors for bonds bearing interest at auction rates due to the volatility, uncertainty and disruption in such markets. Upon execution and delivery of the Certificates, the City expects to no longer have any auction rate certificates of participation evidencing interest in lease payments payable from the City’s general fund.

The City will deposit the Refunding Proceeds, together with other available moneys, in an irrevocable trust (the “Escrow Fund”), to be held by U.S. Bank National Association, as escrow agent, as security solely for the 2007 Certificates. The amount deposited in the Escrow Fund will provide sufficient moneys to pay the prepayment price of the Series 2007A Certificates on April 23, 2008 and evidenced by the Series 2007B Certificates on April 25, 2008. See “VERIFICATION.”

As requested by the City, the Trustee for the 2007 Certificates mailed a conditional prepayment notice on March 20, 2008. Accordingly, upon the execution and delivery of the Certificates, adequate and complete provision will be made for the full and timely payment of the prepayment price of and interest on the 2007 Certificates, and the 2007 Certificates will be payable solely from the amount deposited in the Escrow Fund and will no longer be deemed to be Outstanding under the 2007 Trust Agreement. The amount on deposit in the Escrow Fund will not be available to pay principal of, premium, if any, or interest evidenced by the Certificates or any other obligations of the City other than the 2007 Certificates.

### **2008 Swap Agreement**

The City expects to enter into an interest rate swap agreement in the form of an International Swaps and Derivatives Association, Inc. (“ISDA”) Master Agreement and Schedule and related Transaction thereto (the “2008 Swap Agreement”) with Bank of America, N.A. (the “Swap Provider”) concurrently with the execution and delivery of the Certificates for the purpose of converting the floating rate interest payments evidenced by principal amount of the Certificates into substantially fixed rate payments.

The 2008 Swap Agreement is expected to have a term equal to the final maturity of the Certificates. Pursuant to the Transaction under the 2008 Swap Agreement, the City pays a fixed rate of interest on an initial notional amount equal to the principal amount of the Certificates. In return, the Swap Provider pays a variable rate of interest equal to a percentage of the London Interbank Offered Rate (“LIBOR”) on a like notional amount. See “SECURITY FOR THE CERTIFICATES – 2008 Swap Agreement” herein for additional information.

## **THE CERTIFICATES**

*This Official Statement is not intended to describe the terms of the Certificates after any adjustment to the Daily Mode, ARS Mode, Flexible Mode, Term Rate Mode or Fixed Rate Mode. The City anticipates that if it elects to change the Mode for the Certificates to any of such other Mode, an offering document will be distributed describing such new Mode.*

## General

The Certificates represent the proportionate, undivided interests of the owners in the Base Rental Payments, as further described herein. The Certificates will be dated the date of their initial execution and delivery and will mature on the Maturity Date set forth on the cover page of this Official Statement, subject to earlier prepayment. The Certificates will be issuable in fully registered form, without coupons, and while they accrue interest in the Weekly Mode, in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof.

The Certificates may evidence interest in the Daily Mode, Weekly Mode, Flexible Mode, Term Rate Mode, ARS Mode or Fixed Rate Mode (each, a “Mode”), as provided in the Trust Agreement. Initially, the Certificates will evidence interest in the Weekly Mode, until the City changes the Mode for the Certificates or until such Certificates mature or are prepaid as further described herein. Certain terms of the Certificates while evidencing interest in the Weekly Mode are summarized in the following sections.

While in the Weekly Mode, interest shall accrue from and including the commencement date of such Interest Period through and including the last day thereof. The interest rate determined by the Remarketing Agent or otherwise determined as provided in the Trust Agreement and contained in the records of the Trustee will be conclusive and binding on the Authority, the City, the other Notice Parties (as defined in the Trust Agreement) and the Owners, absent manifest error.

Interest evidenced by the Certificates shall be payable on each Interest Payment Date to the Owner of record on the applicable Record Date (i) by check mailed by the Trustee to the registered Owner at such Owner’s address as it appears on the books of registry required to be kept by the Registrar pursuant to the Trust Agreement or (ii) by wire transfer to the Owner of at least \$1,000,000 in aggregate principal amount of the Certificates in a written direction received by the Trustee at its office designated for such purpose on or prior to a Record Date (described below).

Any Certificate may be transferred upon the registration books kept by the Trustee by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of the Certificate for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed.

Certificates may be exchanged at the corporate trust office of the Trustee for a like aggregate principal amount of the Certificates. The Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee is not required to register the transfer or exchange of any Certificate during the period the Trustee is selecting Certificates for prepayment or any certificate selected for prepayment.

Upon delivery, the Certificates 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 Certificates. Ownership interests in the Certificates may be purchased in book-entry form only. So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Certificates, all payments on the Certificates will be made directly to DTC, and disbursement of such payments to the DTC “Participants” will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Participants, as more fully described in Appendix F — “BOOK ENTRY PROVISIONS” herein.

As long as Cede & Co. is the registered owner of the Certificates, references herein to the Owners of the Certificates shall refer to Cede & Co. and not to the beneficial owners of the Certificates under the

DTC system (“Beneficial Owners”). Neither the Authority nor the City gives any assurance that DTC, its Participants nor others will distribute payments with respect to the Certificates nor notices concerning the Certificates to the Beneficial Owners thereof or that DTC will otherwise serve and act in the manner described in this Official Statement. See Appendix F — “BOOK ENTRY PROVISIONS” for a further description of DTC and its book-entry system. The information presented therein is based solely on information provided by DTC.

### **Interest Rate Provisions**

***Weekly Rate Periods.*** While in the Weekly Mode, the Certificates will evidence interest at a Weekly Rate, for a period of seven calendar days commencing on Thursday of each week to and including Wednesday of the following week, except that the first Weekly Rate Period which shall be from the delivery date of the Certificates or a Mode Change Date to and including the Wednesday of the following week and the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to and including the day next preceding the Mode Change Date. The Certificates will evidence interest at a Weekly Rate until the City changes the interest to a different Mode, or until earlier prepayment or maturity. See “ – Changes in Interest Rate Mode” below.

***Weekly Rate Determination Method.*** By 4:00 p.m., New York City time, on each Wednesday or, if Wednesday is not a business day, then the next business day (the “Rate Determination Date”), the Remarketing Agent shall determine the Weekly Rate that is to be effective for such Weekly Rate Period. The Remarketing Agent shall make the Weekly Rate available no later than 5:00 p.m. New York City time on the Business Day following the Rate Determination Date by telephone or Electronic Means (as defined in the Trust Agreement) to the City, each other Notice Party and any Beneficial Owner requesting such rate. While in the Weekly Mode, the Remarketing Agent shall determine the rate of interest per annum on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of the Certificates in the Weekly Rate Period at a price equal to 100% of the principal amount thereof. If for any reason the Remarketing Agent fails or is unable to determine the Weekly Rate on a Rate Determination Date, (as further provided in the Trust Agreement) the Certificates shall evidence interest during each subsequent Interest Period at a rate per annum equal to the Alternate Rate in effect on the first day of such Interest Period.

The term “Alternate Rate” refers to a rate per annum equal to (a) the SIFMA Index most recently available as of the date of determination, or (b) if such index is no longer available, or if the SIFMA Index is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions), or (c) if neither the SIFMA Index nor the Kenny Index is published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by The Bond Market Association to determine the SIFMA Index just prior to when The Bond Market Association stopped publishing the SIFMA Index.

***Interest Calculation Method.*** While in a Weekly Mode, interest evidenced by the Certificates shall be calculated on the basis of a 365 day or 366-day year, as applicable, for the actual number of days elapsed.

***Interest Payment Dates; Record Date.*** Interest evidenced by the Certificates during a Weekly Mode is payable on the first business day of each calendar month, commencing May 1, 2008. The “Record Date” during a Weekly Mode is the last business day before each Interest Payment Date.



## **Daily Mode, Term Rate Mode, Flexible Mode, ARS Mode and Fixed Rate Mode**

Pursuant to the Trust Agreement, the Interest Period of the Certificates may be changed to the Daily Mode, Term Rate Mode, Flexible Mode, ARS Mode or Fixed Rate Mode upon a mandatory tender for purchase. **This Official Statement is not intended to describe the Certificates at any time during a Daily Mode, a Term Rate Mode, a Flexible Mode, an ARS Mode or a Fixed Rate Mode.**

### **Changes in Interest Rate Mode**

Subject to compliance with the provisions set forth in the Trust Agreement, the City may elect to effect, a change in Mode with respect the Certificates. All Certificates shall be in or be converted to the same Mode. At the option of the City, the Certificates, other than the Certificates being changed to or from an ARS Mode, and other than the Certificates, including the Certificates in an ARS Mode, being changed to a Fixed Rate Mode, may be changed from one Mode to another Mode as set forth below. For provisions related to such other Mode conversions, see Appendix C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” attached hereto.

***Notice by City.*** At least five (5) business days (or such shorter time as may be agreed to by the City, the Trustee and the Remarketing Agent) prior to the date that notice of the proposed Mode Change Date is required to be given to the Owners by the Trustee as specified below, the City shall give written notice to each of the Notice Parties of its intention to effect a change in the Mode from the Mode then prevailing (for purposes of this Section, the “Current Mode”) to another Mode (for purposes of this discussion, the “New Mode”) which shall be specified in such written notice.

***Notice to Owners.*** Notice of the proposed change in Mode, unless otherwise specified in the Trust Agreement, shall be given by the Trustee to the Owners of the Certificates not less than the fifteenth (15th) day next preceding the applicable Mode Change Date. Such notice shall state the Mode to which the conversion will be made and the proposed Mode Change Date and, if applicable, shall be combined with the notice of mandatory purchase required to be delivered by the Trustee, all as provided in the Trust Agreement.

***Determination of Interest Rates and Interest Periods.*** The New Mode shall commence on the Mode Change Date and the interest rate(s), and, in the case of a change to the Flexible Mode, together with the Interest Period or Interest Period(s), as applicable, shall be determined by the Remarketing Agent (or the City in the case of the Interest Period for the Certificates being converted to a Term Rate Mode), all as further provided in the Trust Agreement. The Mode Change Date shall be, in the case of a change from a Weekly Mode, any business day.

***Mandatory Tender for Purchase.*** If the City changes the Interest Period for the Certificates, the Certificates will be subject to mandatory tender for purchase on the Mode Change Date, which shall be, while in a Weekly Mode, any business day. Owners will have no right to retain their Certificates upon a mandatory tender for purchase. See “THE CERTIFICATES – Optional and Mandatory Tender for Purchase.”

***Conditions Precedent to Changes in Interest Rate Modes.*** The Interest Period for the Certificates shall not be changed unless the conditions specified in the Trust Agreement are satisfied, including, in the case of a change from any Mode, a Favorable Opinion of Special Counsel dated the Mode Change Date; if there is to be a Credit Facility delivered in connection with such change, the items required as further provided in the Trust Agreement; and a notice from the Rating Agencies of the rating(s) to be assigned to the Certificates on such Mode Change Date.

***Rescission of Election and Failed Interest Rate Mode Changes.*** If any condition to a change in the Interest Period has not been satisfied, the City may rescind any election by it to change a Mode by giving written notice thereof to the Notice Parties prior to such Mode Change Date. If the Trustee receives notice from the City of rescission of a Mode change after the Trustee has given notice thereof to the Owners, then if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date shall continue to be a Mandatory Purchase Date.

### **Optional and Mandatory Tender for Purchase**

***Optional Tender for Purchase in Weekly Mode.*** During the Weekly Mode for the Certificates, any Certificate or portion thereof in a principal amount equal to an Authorized Denomination shall be purchased on any business day at a price equal to the Purchase Price, upon delivery of a Tender Notice to the Trustee by 5:00 pm, New York City time on the business day not less than seven (7) days prior to the applicable Purchase Date (a “Tender Notice”). Immediately upon receipt of a Tender Notice, the Trustee shall notify the Remarketing Agent and provide the Remarketing Agent with a copy of such Tender Notice.

***Mandatory Tender for Purchase.*** The Certificates shall be subject to mandatory purchase on each Mandatory Purchase Date applicable to the Certificates. The Trustee shall give notice of each such mandatory purchase, such notice to be given by mail to the Owners of the Certificates subject to mandatory purchase no less than fifteen (15) days prior to the applicable Mandatory Purchase Date. While in the Weekly Mode, the Certificates are subject to mandatory purchase on the following “Mandatory Purchase Dates”:

- (i) Mode Change Date, which refers to the day on which another Mode for the Certificates begins, and includes and includes an ARS Rate Conversion Date and a Conversion Date;
- (ii) the fifth (5th) business day prior to a Substitution Date, which refers to the date on which an Alternate Credit Facility is substituted for the Credit Facility then in effect;
- (iii) the fifth (5th) business day prior to an Expiration Date of a Credit Facility, initially being the Letter of Credit;
- (iv) the mandatory purchase date specified by the Trustee following its receipt of a written notice from the Credit Facility Provider stating that the Letter of Credit will terminate ten (10) days after the Trustee's receipt of such written notice and directing the Trustee to purchase all outstanding Certificates and present the Trustee's final drawing under the Letter of Credit as a result of the occurrence of an “Event of Default” under the Reimbursement Agreement, which mandatory purchase date shall be a Business Day prior to the expiration of such ten (10) day period; and
- (v) while in a Weekly Mode, any business day specified by the City in a notice delivered to the Trustee, which Mandatory Purchase Date shall be not less than twenty (20) days after the Trustee's receipt of such notice from the City.

***Payment of Purchase Price.*** On each date on which Certificates in a Weekly Mode are to be purchased, the Remarketing Agent shall (i) notify the Trustee and the Authority by 11:15 a.m. New York City time of the principal amount of such tendered Certificates it has remarketed and of the principal amount of such tendered Certificates it has not remarketed, such notice to be provided by Electronic Means; (ii) cause the proceeds of the remarketing by the Remarketing Agent of such tendered Certificates to be paid to the Trustee in immediately available funds not later than 12:15 p.m., New York City time,

on the Purchase Date for such tendered Certificates; (iii) shall notify the Trustee by Electronic Means not later than 11:15 a.m. New York City time of such information as may be necessary to register and deliver such remarketed Certificates, such notice to be provided by Electronic Means; and (iv) if the affected Certificates are no longer in the Book-Entry System, the Trustee shall execute new Certificates for the respective purchasers thereof which shall be available for pick-up by the Remarketing Agent not later than 2:30 p.m. New York City time.

On each date on which a Certificate is to be purchased, (i) if the Remarketing Agent shall have given notice to the Trustee pursuant to the clause (i) in the above paragraph that it has been unable to remarket all or any portion of any tendered Certificates or (ii) if the Trustee shall not have received any notice from the Remarketing Agent pursuant to clause (i) in the above paragraph, then the Trustee shall draw on the Credit Facility, if any, by 4 p.m. New York City time on a business day prior to the Mandatory Purchase Date in an amount equal to the Purchase Price of all such Certificates that have not been successfully remarketed for payment by 1 p.m. New York City time on the Mandatory Purchase Date; provided, however, that if the draw is in connection with a Mandatory Purchase Date resulting from a Substitution Date, the draw shall be made on the existing Credit Facility that is being replaced. In no event shall the Trustee draw on a Credit Facility to pay the Purchase Price of any Certificate not covered by such Credit Facility or to pay the Purchase Price of a Certificate owned by the Authority or the City.

If the Trustee is notified in writing by a Credit Facility Provider that an Automatic Termination Event or Automatic Suspension Event has occurred, with respect to its Credit Facility, then the Trustee shall provide prompt written notice thereof to the Owners of the Certificates to which such Credit Facility relates and shall provide copy of such notice to each of the Notice Parties (as described in the Trust Agreement).

If the Trustee does not have funds in the Remarketing Proceeds Account and the Credit Facility Purchase Account sufficient to pay the Purchase Price of such Certificates on any Purchase Date, the Trustee shall give the Authority notice of such insufficiency by 2:45 p.m. New York City time on such Purchase Date.

***Sources of Funds to Pay Purchase Price.*** By 3:30 p.m. New York City time on the date on which a Certificate in a Weekly Mode is to be purchased, the Trustee shall purchase tendered Certificates from the tendering Owners at the applicable Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and neither the Trustee nor the Remarketing Agent shall be obligated to provide funds from any other source:

- immediately available funds on deposit in the Remarketing Proceeds Account;
- immediately available funds on deposit in the Credit Facility Drawings Account, if any; and
- in the Authority's sole discretion, moneys provided by the Authority that may lawfully be used for such purpose.

***Possible Limitations of Book-Entry System.*** No representation is made herein as to the timely exercise by DTC or any of its Participants of any direction with respect to an election to tender beneficial interests in the Certificates, nor is any representation made herein as to the timely payment of principal and interest upon a tender of beneficial interests in the Certificates under the book-entry system. Tenders of beneficial interests in the Certificates under the book-entry system will be governed by the procedures of DTC and its Participants in effect from time to time. See Appendix F – "BOOK ENTRY PROVISIONS."

## Prepayment

**Optional Prepayment.** While in a Weekly Mode, the Certificates are subject to prepayment at the option of the Authority, in whole or in part, in Authorized Denominations, on any business day, at a prepayment price equal to 100% of the principal amount thereof, plus, accrued interest, if any, to the Prepayment Date, without premium.

**Mandatory Sinking Fund Prepayment.** The Certificates are subject to mandatory sinking fund prepayment from Sinking Fund Payments prior to their Maturity Date, in part by lot, on the Mandatory Sinking Account Payment Dates set forth in the schedule set forth below, upon notice as provided in the Trust Agreement, from and in the amount of the principal component of the Base Rental Payments made under the Lease Agreement, due and payable on such dates, at a prepayment price equal to the principal amount thereof, without premium, together with accrued interest to the date of prepayment. If any Certificates have been optionally prepaid, the amounts of such Mandatory Sinking Fund Payments shall be reduced as directed by the City, or if not so directed, proportionally in increments of Authorized Denominations, by the principal amount evidenced and represented by all such Certificates so optionally prepaid.

<u>Payment Date</u> <u>(March 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Payment Date</u> <u>(March 1)</u>	<u>Principal</u> <u>Amount</u>
2011	\$2,900,000	2025	\$4,700,000
2012	3,000,000	2026	4,900,000
2013	3,100,000	2027	5,100,000
2014	3,200,000	2028	5,300,000
2015	3,300,000	2029	5,400,000
2016	3,500,000	2030	5,600,000
2017	3,600,000	2031	5,900,000
2018	3,700,000	2032	6,100,000
2019	3,800,000	2033	6,300,000
2020	4,000,000	2034	6,500,000
2021	4,200,000	2035	6,700,000
2022	4,300,000	2036	7,000,000
2023	4,400,000	2037*	7,200,000
2024	4,600,000		

\* Maturity.

On each Sinking Fund Payment Date, the Trustee shall apply the Sinking Fund Payment required on such date to the mandatory prepayment or payment of Term Certificates, upon the notice and in the manner provided in the Trust Agreement; provided that, at any time prior to giving notice of such prepayment, the Trustee may apply moneys in the Prepayment Fund to the purchase of the Certificates at public or private sale, as and when and at such prices (including brokerage and other charges) as directed in writing by the City, except that the purchase price shall not exceed the prepayment price that would be payable for Certificates upon prepayment by application of such Sinking Fund Payment.

**Extraordinary Prepayment.** The Certificates are subject to prepayment on any date prior to their stated principal payment date, in whole or in part, in Authorized Denominations, from and to the extent of any Net Proceeds (defined in the Trust Agreement) received with respect to all or a portion of the Property, deposited by the Trustee in the Prepayment Fund and not used to repair or replace said Property, at a prepayment price equal to the principal evidenced thereby, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium. In the event that the City has Parity Obligations that are payable from Rental Payments on a parity with the principal and interest with respect to the Certificates

that include (i) payments to a Credit Facility Provider, initially the Bank, and (ii) regularly scheduled payment under the 2008 Swap Agreement, excluding termination payments thereunder, then the City shall apply such funds from the insurance proceeds and other legally available funds from the sources identified in the Lease Agreement to the prepayment, as subject to extraordinary prepayment, shall be applied in full of all the Outstanding Certificates or all of those Outstanding Certificates which would have been payable from that portion of the Base Rental Payments which are abated as a result of the damage or destruction and to the prepayment of Parity Obligations on a pro rata basis.

***Mandatory Prepayment of Bank Certificates.*** Any Bank Certificates from time to time Outstanding shall be subject to mandatory prepayment in the amounts and at the times and at the prepayment prices specified therefor in the Credit Facility or the related Reimbursement Agreement with the Credit Facility Provider.

***Corresponding Reduction of any Related Swap.*** Notwithstanding anything to the contrary in the Trust Agreement, no amount of Certificates may be prepaid (other than pursuant to mandatory sinking fund prepayment) unless a proportionate amount of the 2008 Swap Agreement is terminated or reduced so that following such prepayment the remaining notional amount of the 2008 Swap Agreement is not greater than the remaining principal amount of the Certificates. The City has agreed not to exercise any such prepayment and reduction in the 2008 Swap Agreement if such prepayment and reduction shall cause the occurrence of any event of default under the Trust Agreement or an event of default or termination event under the 2008 Swap Agreement.

***Selection of Certificates for Prepayment.*** If less than all of the Outstanding Certificates are to be prepaid at any one time, the City shall designate the Certificate Payment Dates or portions thereof of the Certificates to be prepaid. If less than all Outstanding Certificates are to be prepaid at any one time, the Trustee shall select the Certificates of such Certificate Payment Date to be prepaid by lot, except that if any Certificate or portion thereof to be prepaid is a Term Certificate, the City may specify in a Written Request of the City filed with the Trustee, the particular Sinking Fund Payments for such Term Certificate to be prepaid. For purposes of such selection, Certificates of each Certificate Payment Date shall be deemed to be composed of Authorized Denominations and any such Authorized Denomination may be separately prepaid. If the City elects to optionally prepay Certificates, it will notify the Trustee of the prepayment date and the principal amount evidenced and represented by the Certificates to be prepaid on such prepayment date at least 45 days prior to such prepayment date; provided, that the Trustee may, at its option, waive any such notice or accept any notice received at a later date. Notwithstanding anything to the contrary contained in the Trust Agreement, so long as Bank Certificates are outstanding, Bank Certificates shall be prepaid prior to all other Certificates.

***Notice of Prepayment.*** Except in the case of prepayment of Bank Certificates, which prepayment shall be governed by the terms of the Credit Facility or the Reimbursement Agreement, the Trustee will give notice of the prepayment specifying the date of such notice, the prepayment price, the place of prepayment (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the Certificates to be prepaid, and, if less than all of the Certificates maturing on any one Certificate Payment Date are to be prepaid, the distinctive certificate numbers of the Certificates of such Certificate Payment Date to be prepaid and, in the case of Certificates to be prepaid in part only, the respective portions of the principal amount evidenced and represented thereby to be prepaid. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such prepayment. Such notice of prepayment shall further state that on the specified date there shall become due and payable upon each Certificate or portion thereof being prepaid the prepayment price and that from and after such date interest evidenced thereby shall cease to accrue and be payable.

Notice of prepayment shall be mailed by first class postage prepaid to the Securities Depositories and to one or more of the Information Services, and to the respective Owners of Certificates designated for prepayment at their addresses appearing on the Certificate registration books at least 30 days but not more than 60 days prior to the prepayment date.

### **Remarketing Agent**

Banc of America Securities LLC has been appointed to serve as the initial Remarketing Agent (the “Remarketing Agent”) for the Certificates pursuant to the Trust Agreement and pursuant to a Remarketing Agreement, by and between the City and the Remarketing Agent. The Remarketing Agent may resign or be removed and a successor Remarketing Agent may be appointed in accordance with the Trust Agreement; provided, however, that the City has covenanted in the Reimbursement Agreement not to dismiss, replace or permit the resignation of the Remarketing Agent unless it has appointed a new remarketing agent which shall have been confirmed in writing by the Bank as satisfactory to it in its sole discretion.

### **Special Considerations Relating to Remarketing of the Certificates**

*The Remarketing Agent is Paid by the City.* The Remarketing Agent’s responsibilities include determining the interest rate from time to time and remarketing the Certificates that are subject to optional or mandatory tender (subject to the terms of the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of the Certificates.

*The Remarketing Agent May Purchase Certificates for its Own Account.* The Remarketing Agent act as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchase such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Certificates for its own account and, in its sole discretion, may acquire tendered Certificates for which it acts as the Remarketing Agent to achieve a successful remarketing of the Certificates (i.e., because there otherwise are not enough buyers to purchase such Certificates) or for other reasons. However, the Remarketing Agent is not obligated to purchase the Certificates, and may cease doing so at any time without notice. If a Remarketing Agent ceases to purchase the Certificates, it may be necessary for the Trustee to draw on the Letter of Credit or subsequent Liquidity Facility, if any. The Remarketing Agent may also make a market in the Certificates by purchasing and selling such Certificates other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales must be at fair market value, and sales of such Certificates may be at or below par. However, the Remarketing Agent is not required to make a market in the Certificates. The Remarketing Agent may also sell any Certificates it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Certificates. The purchase of the Certificates by the Remarketing Agent, as described above, may create the appearance that there is greater third party demand for the Certificates in the market than is actually the case. The practices described above also may result in fewer Certificates being tendered in a remarketing.

*Certificates May be Offered at Different Prices on Any Date Including a Rate Determination Date.* Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the rate of interest that, in its judgment, is the minimum interest rate necessary to be borne by any Certificates for the relevant Interest Period to enable the Remarketing Agent to remarket such Certificate at a price (without regard to accrued interest) equal to the principal amount thereof; provided, however, that in no event shall any rate so determined exceed the Maximum Rate. At the time the new rate becomes

effective, the Remarketing Agent is required to use its best efforts to remarket the Certificates at par. The interest rate will reflect, among other factors, the level of market demand for the Certificates (including whether the Remarketing Agent is willing to purchase such Certificates for its own account). There may or may not be any Certificates tendered and remarketed on a rate determination date, the Remarketing Agent may or may not be able to remarket any such Certificates tendered for purchase on such date at par and the Remarketing Agent may sell such Certificates at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if they do not have third party buyers for all of the Certificates at the remarketing price. In the event the Remarketing Agent owns any Certificates for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Certificates on any date, including a rate determination date, at a discount to par to some investors.

***The Ability to Sell the Certificates other than through Tender Process May Be Limited.*** The Remarketing Agent may buy and sell the Certificates other than through the tender process. However, the Remarketing Agent is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender the Certificates to tender such Certificates through the Tender Agent with appropriate notice. Thus, investors who purchase the Certificates, whether in a remarketing or otherwise, should not assume that they will be able to sell their Certificates other than by tendering the Certificates in accordance with the tender process described herein.

***Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Certificates.*** Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, subject to the terms of the Remarketing Agreement. Under the terms of the Reimbursement Agreement, the City has agreed not to dismiss, replace or permit the resignation of the Remarketing Agent unless it has appointed a new remarketing agent which has been confirmed in writing by the Bank.

## **SECURITY FOR THE CERTIFICATES**

### **General**

The Certificates evidence and represent proportionate and undivided interests in the Base Rental Payments payable under the Lease Agreement. In the Lease Agreement, the City agrees to pay the Base Rental Payments as rental for the use and occupancy of the Property. In addition, the City also agrees to pay Additional Rental Payments under the Lease Agreement. Base Rental Payments and the Additional Rental Payments are collectively referred to as “Rental Payments.”

The City will covenant in the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments in its annual budgets and to make the necessary annual appropriations for all such Base Rental Payments and Additional Rental Payments (to the extent not payable from the proceeds of the Certificates). However, the obligation of the City to make Base Rental Payments (other than to the extent that funds to make Base Rental Payments are available in the Base Rental Payment Fund or Reserve Fund, or otherwise available from an insurance or eminent domain award) may be abated in whole or in part if the City does not have use and possession of all or part of the Property.

The Authority, pursuant to the Assignment Agreement, has assigned all of its right, title and interest in the Site Lease and the Lease Agreement including its right to receive Base Rental Payments and its remedies under the Lease Agreement, to the Trustee for the benefit of the Owners of the Certificates.

## **Base Rental Payments**

In consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoy thereof during each Rental Period, the City will make Rental Payments, consisting of Base Rental Payments and Additional Rental Payments. Each installment of Base Rental Payments is to be deposited with the Trustee no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. While the Certificates evidence interest in the Weekly Mode, Base Rental Deposit Date refers to the second business day next preceding each Interest Payment Date. Amounts required to be deposited by the City with the Trustee under the Lease Agreement will be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund established under the Trust Agreement.

To secure the City's obligations under the Trust Agreement in respect of Parity Obligations, and under the Lease Agreement, the Authority and the City make an irrevocable pledge under the Trust Agreement to the Trustee, for the benefit of the Owners and all holders of Parity Obligations, all of their right, title and interest, if any, in and to all amounts on deposit from time to time in all funds and accounts established under the Trust Agreement (other than the Purchase Fund and the Rebate Fund), which will be used for the payment of the interest components and principal components of the Certificates and the payment of Parity Obligation. This pledge shall constitute a first lien on the funds and accounts established under the Trust Agreement in accordance with the terms thereof.

Under the Trust Agreement, neither the Authority nor the City shall have any right, title or interest in or to the amounts on deposit from time to time in the funds and accounts established under the Trust Agreement. All Base Rental Payments paid by the City will be deposited by the Trustee in the Base Rental Payment Fund established under the Trust Agreement. Moneys deposited in the Base Rental Payment Fund will be held in trust by the Trustee for the benefit of the Owners and the holders of Parity Obligations and will be disbursed only for the purposes and uses authorized under the Trust Agreement. All prepayments of Base Rental Payments made under the Lease Agreement will be applied to the prepayment of the Certificates, all as further provided in the Trust Agreement.

Pursuant to the Trust Agreement, the Trustee will withdraw from the Base Rental Payment Fund, at the times and in the manner provided in the Trust Agreement, such amount of the Base Rental Payment and will apply such amounts to make principal and interest payments due with respect to the Certificates.

Except as provided in the Trust Agreement, all amounts in the Base Rental Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest with respect to the Certificates and Parity Obligations as the same shall become due and payable, subject to the requirement that certain investment earnings may be transferred to the Rebate Fund, all as further provided in the Trust Agreement. The moneys in the Base Rental Payment Fund shall be held in trust by the Trustee for the benefit of the Owners and holders of Parity Obligations and shall be disbursed only for the purposes and uses authorized in the Trust Agreement. The Credit Facility shall be held by the Trustee and shall be deemed to be held in the Base Rental Payment Fund. Any Net Proceeds of rental interruption insurance received with respect to the Property shall be deposited in the Base Rental Payment Fund.

Moneys received from drawings on the Credit Facility to pay interest with respect to the Certificates shall be deposited in a separate account and shall never be commingled with moneys from any other source. Moneys in the Interest Fund and the Payment Fund will be applied to pay interest or principal with respect to the Certificates and the Parity Obligation all as further provided in the Trust Agreement.



Under the Lease Agreement, the City has agreed to make all Rental Payments when due without deduction or offset of any kind and will not withhold any Rental Payments pending the final resolution of any dispute between the Authority and the City. See Appendix C - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto for additional information and a discussion related to Excess Amount.

THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL PAYMENTS IS AN OBLIGATION PAYABLE EACH YEAR FROM THE CITY'S GENERAL FUND OR ANY SOURCE OF FUNDS LEGALLY AVAILABLE FOR THE PAYMENT OF BASE RENTAL PAYMENTS, BUT DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY STATUTORY OR CONSTITUTIONAL DEBT LIMITATION OR RESTRICTION, OR AN OBLIGATION FOR WHICH THE CITY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

### **Appropriation; Use of Property**

The City covenants in the Lease Agreement to take such action as may be necessary to include all Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The Lease Agreement provides that this covenant shall be deemed to be and shall be construed to be a duty imposed by law, and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the budget and appropriation covenant.

The Lease Agreement provides that the obligation of the City to pay Rental Payments constitutes a current expense of the City and shall not in any way be construed to be a debt of the City in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the City, and that nothing in the Lease Agreement constitutes a pledge of the general tax revenues, funds or moneys of the City. Rental Payments, including Base Rental Payments, are payable only from current funds which are budgeted and appropriated, or otherwise legally available, for the purpose of paying Rental Payments as consideration for use of the Property during the fiscal year of the City for which such funds were budgeted and appropriated or otherwise made legally available for such purpose. The Lease Agreement does not create an immediate indebtedness for any aggregate payments which may become due thereunder.

### **Reserve Fund**

A Reserve Fund is established under the Trust Agreement. The Reserve Fund will be funded at the Reserve Requirement initially with a cash deposit. If the City reduces the amount of Certificates Outstanding through optional or mandatory sinking fund prepayment, the amounts in the Reserve Fund may, at the direction of the City decrease proportionately.

### **Assignment; Recourse on Default**

Pursuant to the Trust Agreement, the Authority assigns to the Trustee for the benefit of the Owners of the Certificates its rights and remedies under the Lease Agreement, including its rights to receive amounts payable by the City under the Lease Agreement.

If the City defaults on its obligations under the Lease Agreement, the Trustee, as assignee of the Authority, with the prior written consent of the Bank, may exercise any and all remedies authorized by law or granted to the Authority pursuant to the Lease Agreement. The Lease Agreement expressly authorizes the Trustee, as assignee of the Authority, to re-enter the Property for the purpose of removing persons and personal property and of re-letting the Property and, at its option, to terminate the Lease Agreement. In the event the Trustee, as assignee of the Authority, does not elect to terminate the Lease Agreement, it may enforce the Lease Agreement and hold the City liable for all Base Rental Payments and the performance of all conditions under the Lease Agreement. Any re-entry and re-letting will not effect a surrender of the Lease Agreement. The City, in the event of default, waives all rights to any rentals received by the Trustee through re-letting of the Lease Agreement. The City agrees to pay any and all costs, loss or damage, howsoever occurring, as a result of any re-entry or re-letting. See “RISK FACTORS — Limitation on Enforcement of Remedies; No Acceleration” herein for a discussion of factors potentially limiting the available remedies in the event of a default.

The City may not mortgage, pledge, assign or transfer its interest in the Lease Agreement except as specifically provided in the Lease Agreement. The Lease Agreement authorizes the City to sublease a portion of the Property in the circumstances described in Appendix C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS”.

### **Insurance**

Under the Lease Agreement, the City will covenant to maintain certain insurance requirements, including a standard comprehensive general public liability and property damage insurance policy or policies in protection of the City, the Authority and their respective officers, agents and employees, with minimum liability limits of \$1,000,000 for personal injury or death of each person in each accident or event and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$500,000 for damage to property (subject to a deductible clause of not to exceed \$250,000 or such higher amount as is consented to by the Bank) resulting from a single accident or event. In the alternative, the public liability and property damage insurance may be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. The liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in the form of self-insurance or a risk pooling arrangement by the City.

In addition, the Lease Agreement requires the City to maintain workers’ compensation insurance against liability for compensation under the Workers Compensation Insurance and Safety Act of California or any similar law. The Lease Agreement also requires the City to maintain casualty insurance against loss or damage by fire, lightning, vandalism, malicious mischief and such perils ordinarily defined as “extended coverage” (excluding earthquake and flood) to the full insurable value of the property; provided, however, that a flood and earthquake rider shall be purchased if the City in its reasonable discretion, determines that such coverage is available from reputable insurers at commercially reasonable rates. Currently, the City maintains \$15 million coverage for both earthquake and flood coverage but no assurances can be made that the City will continue to maintain such coverage. The Lease Agreement requires the City to maintain rental interruption insurance in an amount sufficient to pay two times the maximum Base Rental Payments payable in any Rental Period.

The Net Proceeds of the rental interruption insurance will be paid to the Trustee and deposited in the Base Rental Payment Fund, and will be credited towards the payment of the Base Rental Payments in the order in which such Base Rental Payments come due and payable.

Upon the execution and delivery of the Certificates the City will provide one or more ALTA owner’s title insurance policies in the aggregate amount of not less than the initial principal amount of the

Certificates with respect to the City's leasehold interest in the Property. All Net Proceeds received under the title insurance policy will be deposited with the Trustee in the Base Rental Payment Fund and shall be credited towards the prepayment of the remaining Base Rental Payments. See Appendix C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto.

### **Additional Rental Payments**

The City is responsible for all improvement, repair and maintenance of the Property, for the payment of all utility services supplied to the Property, and for the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or lessee thereof. The City will also pay all taxes and assessments of any type or nature payable during the Term of the Lease Agreement, as well as all reasonable administrative costs of the Authority relating to the Property as provided in the Lease Agreement. Such payments will include insurance premiums for all insurance required under the Lease Agreement, any scheduled payment due to the Swap Provider pursuant to the terms of the 2008 Swap Agreement or the Bank pursuant to the terms of its Reimbursement Agreement, but excluding amounts paid as Base Rental Payments and other payments required to be made by the City related to the Certificates. See "-2008 Swap Agreement" below for a discussion of certain payments to the Swap Provider that are to be on a subordinate basis. The City has also agreed in the Lease Agreement to pay all amounts required to restore amounts on deposit in the Reserve Fund to the Reserve Requirement. See "RISK FACTORS — Abatement" below.

### **2008 Swap Agreement**

As described under "PLAN OF REFUNDING - 2008 Swap Agreement," the City expects to enter into the 2008 Swap Agreement with the Swap Provider. Pursuant to the 2008 Swap Agreement, the City will make periodic payments to the Swap Provider calculated on the basis of a fixed rate of interest on a notional amount equal to the principal amount represented by the Certificates. In return, the Swap Provider will make periodic payments to the City calculated on the basis of a variable rate of interest equal to a percentage of LIBOR on the same notional amount. The amounts payable by each party pursuant to the 2008 Swap Agreement are netted against the payments to be received by such party thereunder.

The City's obligations under the 2008 Swap Agreement to make scheduled payments are payable from the City's General Fund on a parity with other Parity Obligations from Rental Payments, as further provided in the Trust Agreement and the Lease Agreement; provided, however, that any termination payment due under the 2008 Swap Agreement will be paid on a subordinate basis to other Parity Obligations, as further described below. No arrangements made in respect of the 2008 Swap Agreement will alter the City's obligation to make the Base Rental Payments.

Both the City and the Swap Provider have the right to terminate the 2008 Swap Agreement prior to its stated termination date under certain conditions. Any such termination could result in an obligation on the part of the City or the Swap Provider to make termination payments to the other party, and the amount of such termination payments could be substantial. Any obligation on the part of the City to make such a termination payment will not be on a parity with other Parity Obligations from Rental Payments and will be subordinate to the City's liabilities with respect to Base Rental Payments and other items to be paid as Additional Rental Payments. In the event of early termination of the 2008 Swap Agreement, there can be no assurance that (i) the City will receive any termination payment payable to the City by the Swap Provider, (ii) the City will have sufficient amounts to pay termination payment payable by it to the Swap Provider, or (iii) the City will be able to obtain a replacement swap agreement with comparable terms. Neither the Trustee nor the Owners will have any rights under the 2008 Swap

Agreement or against the Swap Provider. See “UNDERWRITING - Relationship Among Certain Parties” herein for additional information.

### **Abatement Due to Damage or Destruction**

Base Rental Payments and Additional Rental Payments due under the Lease Agreement will be abated during any period in which by reason of any material damage or destruction (other than by condemnation which is described in the following paragraph) there is substantial interference with the use of the Property by the City to the extent the Property rendered unusable reduces the fair rental value of the Property below the amount of Base Rental Payments and Additional Rental Payments during any Rental Period. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement will continue in full force and effect. Notwithstanding the foregoing, to the extent that moneys are available for the payment of Base Rental Payments in any of the funds and accounts established under the Trust Agreement, Base Rental Payments will not be abated as described above but, rather, will be payable by the City as a special obligation payable solely from said funds and accounts.

### **Special Taxes Not Available as Security**

Pursuant to the Mello-Roos Community Facilities Act of 1982, and for the purpose of providing for reimbursement of a portion of the Base Rental Payments made by the City, the City has formed Community Facilities District No. 2004-1 (Galleria at Tyler) of the City of Riverside, County of Riverside, State of California (the “CFD”). Neither the City’s obligation to make Base Rental Payments nor the Certificates are secured by proceeds of special taxes levied and collected by the City from property owners in the CFD or proceeds of foreclosure of delinquent parcels in the CFD.

### **Additional Certificates**

In addition to the Certificates, the City, the Authority and the Trustee may by execution of a supplemental Trust Agreement, without the consent of the Owners, but with prior written consent of the Swap Provider and, if required by any Credit Facility Provider, the prior written consent of such Credit Facility Provider, as long as such Credit Facility Provider is not in default in its obligations thereunder, provide for the execution and delivery of Additional Certificates evidencing additional Base Rental Payments. The Trustee may execute and deliver to or upon the request of the City, such Additional Certificates upon compliance by the City with provisions of the Trust Agreement, including the requirement that the Site Lease shall have been amended, to the extent necessary, and the Lease Agreement shall have been amended so as to increase the Base Rental Payments payable by the City by an aggregate amount equal to the principal and interest evidenced by such Additional Certificates.

Any Additional Certificates shall be on a parity with the Certificates and each Owner thereof shall have the same rights upon an Event of Default as the Owner of any other Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the supplemental Trust Agreement under which Additional Certificates are executed and delivered.

## THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT

### The Letter of Credit

*The following is a brief description of certain provisions of the Letter of Credit and is not to be considered as a full statement of the provisions thereof. This Summary is qualified by reference to and is subject to the Letter of Credit.*

**General.** The payment of the principal of, interest on, prepayment price of, and Purchase Price of, the Certificates will initially be paid from proceeds drawn under an irrevocable direct-pay letter of credit (the "Letter of Credit") issued by Bank of America, N.A. ("Bank"). The Bank will pay from its own funds all drawings made under the Letter of Credit.

**Stated Amount; Term.** The Letter of Credit will have an initial stated amount equal to the aggregate principal amount of the Certificates (the "Principal Portion") plus interest thereon (the "Interest Portion") at an assumed rate of 11% per annum for 37 days, calculated on the basis of a 365-day year and actual days elapsed (such method of calculating interest on any principal amount of Certificates, the "Interest Coverage Amount"). The scheduled expiration date of the Letter of Credit is the two-year anniversary of the date of issuance, provided that if such day is not a business day, the scheduled expiration date will be the business preceding the two-year anniversary of the date of issuance (the "Stated Expiration Date"). The Letter of Credit will be issued on the date the Certificates are issued. The Letter of Credit will support Certificates while they bear interest at the Daily Rate or the Weekly Rate. The Trustee will be the beneficiary of the Letter of Credit. No person other than the Trustee shall be permitted to present drawings under the Letter of Credit. The Letter of Credit may be transferred to a successor Trustee.

**Termination.** The Letter of Credit will terminate on the earliest to occur of the following:

- (1) The Stated Expiration Date or such later date or dates as the Bank shall specify from time to time in a written notice to the Trustee;
- (2) The date on which the Bank honors payment of a drawing in respect of the payment of the principal of the Certificates secured thereby in which the Trustee certifies that no such Certificates secured thereby will remain "outstanding" after the application of the proceeds of such drawing;
- (3) The date on which the Bank honors payment of a drawing in respect of the payment of the prepayment price of the Certificates secured thereby in which the Trustee certifies that no such Certificates secured thereby will remain "outstanding" after the application of the proceeds of such drawing;
- (4) The date on which the Bank honors payment of a mandatory tender drawing in connection with (a) the substitution of the Letter of Credit with an alternate credit facility, (b) a conversion of all of the Certificates secured thereby to an interest rate mode other than a Daily Rate or a Weekly Rate, (c) the occurrence of the Stated Expiration Date for the Letter of Credit or (d) the receipt by the Trustee of a Default Notice (as defined below) from the Bank;
- (5) Ten days after the Trustee receives written notice from the Bank (a) of the occurrence of an "Event of Default" under the Reimbursement Agreement (see "The Reimbursement Agreement - Events of Default" below for a description of these events), and (b) instructing the Trustee to make its final drawing under the Letter of Credit (a "Default Notice"); or

(6) The date on which the Letter of Credit is surrendered by the Trustee to the Bank accompanied by a certificate in the form prescribed by the Letter of Credit.

Following the termination of the Letter of Credit, the Bank shall have no further obligation to honor drawings made (or attempted to be made) under the Letter of Credit by the Trustee.

***Reduction and Reinstatement of Stated Amount.*** After the Bank honors payment of a drawing in respect of the payment of regularly scheduled interest on the Certificates secured by the Letter of Credit, the Interest Portion of the stated amount of the Letter of Credit shall be reduced by the amount of such drawing. Immediately thereafter, the Interest Portion shall be reinstated by the amount of such drawing.

After the Bank honors payment of a drawing in respect of the payment of the principal or prepayment price of the Certificates secured by the Letter of Credit, the stated amount shall be automatically and permanently reduced as follows: (1) the Principal Portion shall be reduced by the amount so drawn with respect to the payment of principal or prepayment price of the Certificates and (2) the Interest Portion shall be reduced by the Interest Coverage Amount calculated with respect to such principal amount.

After the Bank honors payment of a drawing (other than a final drawing) in respect of the payment of the Purchase Price of Certificates in connection with the tender for purchase thereof at the request of the owner or in connection with a mandatory tender for purchase of all Certificates (each, a "Purchase Drawing"), the stated amount shall be automatically reduced as follows: (1) the Principal Portion shall be reduced by the amount so drawn with respect to the payment of principal of the Certificates and (2) the Interest Portion shall be reduced by the Interest Coverage Amount calculated with respect to such principal amount. Following a Purchase Drawing and the Bank's receipt of a certificate from the Trustee requesting reinstatement of the Letter of Credit and stating that reimbursement of such Purchase Drawing has been made to the Bank, the stated amount of the Letter of Credit shall automatically be reinstated as follows: (a) the Principal Portion shall be reinstated by an amount equal to the principal amount of Certificates that have been remarketed and (b) the Interest Portion shall be reinstated by an amount equal to the Interest Coverage Amount calculated with respect to such principal amount.

After the Bank honors payment of the Trustee's final drawing under the Letter of Credit, the stated amount, the Principal Portion and the Interest Portion of the Letter of Credit shall be automatically and permanently be reduced to zero and the Letter of Credit will terminate.

### **The Reimbursement Agreement**

The following is a brief description of certain provisions of the Reimbursement Agreement as well as the defined terms necessary for a complete understanding thereof and is not to be considered as a full statement of the provisions thereof. This Summary is qualified by reference to and is subject to the Reimbursement Agreement.

***Defined Terms.*** "Business Day" means a day other than (i) Saturday or Sunday, (ii) a day on which banking institutions in the city or cities in which the principal office of the Trustee is located or the principal office of the Remarketing Agent is located, are authorized or required by law to be closed, (iii) a day on which the New York Stock Exchange is authorized or obligated by law or executive order to be closed, (iv) a day on which the office of the Bank at which draws or Liquidity Advances will be paid is required or authorized to be closed (initially Los Angeles, California) or (v) a day on which The New York Stock Exchange is closed.

“Debt” means for any person or entity (without duplication) (i) all indebtedness created, assumed or incurred in any manner by such person or entity representing money borrowed (including by the issuance of debt securities), (ii) all obligations of such person or entity for the deferred purchase price of property or services (other than trade accounts payable arising in the ordinary course of business), (iii) all obligations secured by any lien upon property of such person or entity, whether or not such person or entity has assumed or become liable for the payment of such indebtedness, (iv) all obligations of such person or entity as lessee under any lease of property which in accordance with generally accepted accounting principles would be required to be capitalized on the balance sheet of such person or entity, (v) all obligations of such person or entity on or with respect to letters of credit, banker’s acceptances and other evidences of indebtedness representing extensions of credit whether or not representing obligations for borrowed money, (vi) certificates of participation evidencing an undivided ownership interest in payments made by such person or entity (A) as lessee under any lease of property which in accordance with generally accepted accounting principles would be required to be capitalized on the balance sheet of such person or entity, (B) as purchaser under an installment sale agreement or (C) otherwise as an obligor in connection therewith, and (vii) all “Debt” of any other person or entity of the kind referred to in clauses (i) through (vi) above which is guaranteed (regardless of form) directly or indirectly in any manner by such person or entity.

“Default” means any condition or event which with the giving of notice or lapse of time or both could reasonably be expected to, unless cured or waived, become an Event of Default.

“Drawing” means a drawing made or permitted to be made pursuant to the terms of the Letter of Credit.

“Liquidity Drawing” means a Drawing made for the purpose of purchasing Certificates tendered for purchase at the option of the owner thereof and not remarketed.

“Obligations” means, with respect a Reimbursement Agreement, the City’s obligation to reimburse all Drawings, to repay all Liquidity Advances (as defined below under the caption – “Reimbursement of Drawings under Letter of Credit”) and Term Loans (as defined below under the caption – “Reimbursement of Drawings under Letter of Credit”) made or deemed made pursuant to the Reimbursement Agreement, to pay debt service on the Bank Certificates purchased with the proceeds of a Drawing, to pay the principal, interest, fees, expenses, costs and other amounts owed to the Bank or the Bank’s parent pursuant to the terms of the Reimbursement Agreement, any Related Document or any other document, instrument or agreement entered into by the City with or in favor of the Bank in connection herewith or therewith, together with all guaranties, covenants and duties owing by the City to the Bank of any kind or description, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising.

“Related Documents” means the Trust Agreement, the Certificates, the Assignment Agreement, the Lease Agreement, the Site Lease, the Remarketing Agreement, the certificate purchase agreement relating to the Certificates, the Custodian Agreement and the 2008 Swap Agreement.

“Termination Drawing” means a drawing made under the Letter of Credit for the purpose of purchasing Certificates secured thereby tendered or deemed tendered for purchase as a result of (i) the conversion of the interest rate mode of such Certificates to a mode other than a Daily Mode or a Weekly Mode; (ii) the substitution of the Letter of Credit with an alternate credit facility; (iii) the expiration of the Letter of Credit; or (iv) the delivery to the Trustee of a Default Notice.

***Reimbursement of Drawings under Letter of Credit.*** If the Bank honors a Drawing, the City shall, or shall cause the Trustee to, reimburse the aggregate amount of such drawing to the Bank on the

Business Day on which such drawing is honored; provided, however, under the circumstances described below, the Bank may make Liquidity Advances or term loans to the City, the proceeds of which will be deemed to reimburse unpaid Liquidity Drawings and the Termination Drawing made under the Bank's Letter of Credit.

Unless the commitment of the Bank to make Liquidity Advances to the City has terminated (see “- The Reimbursement Agreement – Rights and Remedies” below), if the Bank honors payment of any Liquidity Drawing and if the City does not reimburse the full amount of such drawing on the same Business Day, then, subject to the continued correctness of the representations and warranties of the City made in the Reimbursement Agreement with the Bank and so long as no event has occurred and is continuing, or would result from the making of an Liquidity Advance to the City on such date in the amount of such drawing, which constitutes an Event of Default or a Default, the City shall be deemed to have requested, and the Bank shall be deemed to have made, an Liquidity Advance to the City on the date and in the amount of such drawing (each, an “Liquidity Advance”). Each Liquidity Advance made by the Bank shall mature and the outstanding principal amount of such Liquidity Advance shall be due and payable on the earliest to occur of (the “Liquidity Advance Maturity Date”) (i) the date on which any Certificates purchased with funds disbursed under the Letter of Credit in connection with such Liquidity Drawing are redeemed, prepaid or cancelled pursuant to the Trust Agreement; (ii) the date on which any Certificates purchased with funds disbursed under the Letter of Credit are remarketed pursuant to the Trust Agreement; (iii) the date on which the Letter of Credit is replaced by a substitute letter of credit pursuant to the terms of the Trust Agreement; (iv) the date on which the Letter of Credit issued by the Bank terminates in accordance with its terms; and (v) the ninetieth (90th) day following the date of the Liquidity Drawing that gave rise to such Liquidity Advance. Interest shall accrue on each Liquidity Advance from the date made to but excluding the Liquidity Advance Maturity Date, at the rate(s) set forth in the Reimbursement Agreement, and shall be payable on the first Business Day of each calendar month, on the Liquidity Advance Maturity Date for such Liquidity Advance and, following the Liquidity Advance Maturity Date for such Liquidity Advance, on demand.

Unless the commitment of the Bank to make term loans to the City has terminated (see “- The Reimbursement Agreement – Rights and Remedies” below) or unless the City has given prior notice to the Bank that it intends to pay in full an Liquidity Advance made by the Bank on the Liquidity Advance Maturity Date therefor, subject to the continued correctness of the representations and warranties of the City made in the Reimbursement Agreement with the Bank and so long as no event has occurred and is continuing, or would result from the making of a term loan to the City on such Liquidity Advance Maturity Date in the amount of the Liquidity Advance (or portion thereof) to be repaid, which constitutes an Event of Default or a Default, on the Liquidity Advance Maturity Date the City shall be deemed to have requested, and the Bank shall be deemed to have made, a term loan to the City on the date and in the amount of the Liquidity Advance maturing on such date (each, an “Liquidity Term Loan”), which Liquidity Term Loan shall be deemed used to pay the maturing Liquidity Advance.

Unless the commitment of the Bank to make term loans to the City has terminated (see “The Reimbursement Agreement – Rights and Remedies” below) or unless the City has given prior notice to the Bank that it intends to pay in full the Termination Drawing on the date the Bank honors payment thereof, subject to the continued correctness of the representations and warranties of the City made in the Reimbursement Agreement with the Bank and so long as no event has occurred and is continuing, or would result from the making of a term loan to the City on the date and in the amount of the Termination Drawing, which constitutes an Event of Default or a Default, on the date the Bank honors payment of the Termination Drawing the City shall be deemed to have requested, and the Bank shall be deemed to have made, a term loan to the City on the date and in the amount of the Expiration Date (the “Expiration Term Loan”); the Expiration Term Loan and each Liquidity Term Loan are hereinafter referred to as a “Term



Loan”), which Expiration Term Loan shall be deemed used to pay the unreimbursed Termination Drawing.

Unless the obligation of the City to pay all outstanding Term Loans made pursuant to a Reimbursement Agreement has been accelerated (see “The Reimbursement Agreement – Rights and Remedies”), payment of the principal of each Term Loan made thereunder shall, subject to the abatement and fair rental value provisions of the Lease Agreement, be made in ten equal semi-annual installments, commencing on the six month anniversary of the date on which a Term Loan is extended and continuing on each six month anniversary thereafter or, if any six month anniversary is not a Business Day, the next succeeding Business Day (each a “Term Loan Payment Date”). Interest shall accrue on each Term Loan from the date of incurrence thereof to and excluding each Term Loan Payment Date, at the rate(s) set forth in the Reimbursement Agreement, and shall be payable on the first Business Day of each calendar month, on each Term Loan Payment Date, on each date of prepayment and, following the last Term Loan Payment Date, on demand.

Remarketing proceeds, prepayment price and other payments, if any, received by the Bank in respect of Bank Certificates purchased with the proceeds of a drawing made under the Letter of Credit shall be applied against the Liquidity Advance or Term Loan derived from such drawing.

***Payment of Other Amounts.*** Pursuant to the Reimbursement Agreement, the City has agreed to pay certain fees to the Bank, to pay increased costs and compensate the Bank for loss of return in the event of certain changes in law and to indemnify to the Bank and certain other persons in certain circumstances. The City has also agreed to pay, in the manner set forth in the Reimbursement Agreement, interest (or, if interest is already accruing, interest at a higher interest rate) on amounts that are not paid when due.

***Obligations Secured on a Parity with Certificates.*** Pursuant to the terms of the Reimbursement Agreement, the City has granted the Bank a security interest in, and has pledged, the Base Rental Payments and the amounts on deposit in the applicable Base Rental Payment funds and accounts established pursuant to the Trust Agreement (“Trust Amounts”) to secure the Obligations, which security interest is on a parity with the security interest of the Trustee over the Rental Payments that is contained in the Trust Agreement. See “SECURITY FOR THE CERTIFICATES - Base Rental Payments.”

***Representations and Warranties of the City.*** In connection with the execution and delivery of the Reimbursement Agreement, the City will make a number of representations and warranties, including, without limitation: the scope of its power and authority; the fact that no violation of law or agreement will result from the transactions contemplated by the Reimbursement Agreement; that all consents and authorizations necessary to enter into and perform the transactions contemplated by the Reimbursement Agreement have been obtained; the compliance by the City with certain statutes and orders; the enforceability of certain agreements; the absence of certain litigation; the fair presentation of certain financial information; the absence of certain material adverse changes; the absence of certain liabilities and obligations; the continued accuracy of certain disclosures made by the City to the Bank; as to environmental matters; as to certain employee benefit matters; as to margin regulations; as to tax-exempt status; the accuracy of certain representations that are incorporated by reference into the Reimbursement Agreement; as to the uses of the proceeds of the Certificates; that the obligations of the City under the Reimbursement Agreement are “Parity Obligations” and, as such, are on a parity with the Certificates; that the lien over Base Rental Payments and amounts on deposit from time to time in the funds and accounts established under the Trust Agreement is a valid and enforceable pledge; that the Base Rental Payments and Trust Amounts have been validly assigned by the Authority to the Trustee pursuant to the Assignment Agreement; that amounts payable from Rental Payments do not exceed the fair rental value

of the Property; as to the City's title to the Property; its lack of awareness of certain changes in law; and that the City is not immune from actions brought in contract.

***Covenants and Agreements of the City.*** In connection with the execution and delivery of the Reimbursement Agreement, the City will covenant to do or not to do certain things, including, without limitation: to provide certain information to the Bank ("Information Covenant"); to provide access to its books and records; to maintain its existence ("Existence Covenant"); to comply with laws, regulations and orders of governmental authorities; to comply with the provisions of the Reimbursement Agreement, the Related Documents and the Financial Documents entered into by the City; to comply with the provisions of certain covenants that are incorporated by reference into the Reimbursement Agreement and not to amend or modify those incorporated covenants without first obtaining certain consents (the "Incorporated Provisions"); not seek the release, substitution or replacement of any Property that is subject to the Lease Agreement without the prior written consent of the Bank ("Property Covenant"); subject to certain exceptions, not to amend, modify, supplement or terminate the Related Documents ("Key Documents Covenant"); not to dismiss, replace or permit the resignation of the Trustee, the Tender Agent or the Remarketing Agent ("Agent Covenant"); as condition to the substitution of the Letter of Credit with an alternate credit facility, that the City or the issuer of the alternate credit facility provide funds on the date of substitution, which funds will be sufficient to insure the payment of all Obligations due to the Bank ("Substitution Covenant"); to use its best efforts to secure an alternate credit facility for the Certificates, convert the Certificates to a mode of interest that does not require credit enhancement, prepay the Certificates or defease the Certificates, in any case prior to the expiration of the Letter of Credit, in the event that the City does not request an extension of the stated expiration date of the Letter of Credit or the Bank denies or fails to respond to a request to extend the stated expiration date of the Letter of Credit; to cause the Trustee to return the Letter of Credit issued pursuant to the Reimbursement Agreement following a final drawing thereunder; not to change any reference to the Bank in any disclosure document related to the Certificates without first obtaining the consent of the Bank ("Disclosure Covenant"); to use the proceeds of the Certificates solely as permitted by the Trust Agreement ("Proceeds Covenant"); not to take any action that would result in the Obligations not ranking at least pari passu in right of payment with all obligations of the City to the other creditors that are secured by Base Rental Payments ("Ranking Covenant"); not to invest proceeds of the Certificates or Base Rental Payments in investment agreements without Bank consent, not invest in inverse floaters and certain repurchase Agreements, not leverage its investment portfolio by more than 25%, not to encumber its cash position in a manner that would impede its cash flow needs, not to enter into a new swap agreement and not to permit the exercise of remedies without first obtaining the consent of the Bank ("Investment Covenant"); not to take action that would adversely affect the exclusion of interest on the Certificates from gross income for federal tax purposes or the exemption of such interest from California personal income taxes ("Tax Exemption Covenant"); to comply with applicable law relating to benefit plans and to maintains such plans; and to execute other documents and take other actions reasonably necessary to effectuate the transactions contemplated by the Reimbursement Agreement and to better assure and confirm to the Bank its rights, powers and remedies under the Reimbursement Agreement and the Related Documents.

***Events of Default.*** The occurrence or existence of any of the following specified events shall each constitute an "Event of Default" under the Reimbursement Agreement:

(1) The City shall fail to pay when due (i) the amount of any Drawing; (ii) the principal of any Liquidity Advance or any Term Loan; (iii) the interest on any Liquidity Advance or any Term Loan, and such default shall continue unremedied for 2 Business Days, or (iv) any other amount payable hereunder, and such default shall continue unremedied for 5 days; or

(2) The City shall (i) default in the due performance or observance by it of any Incorporated Provision or Existence Covenant, Property Covenant, Key Documents Covenant, Agent Covenant, Substitution Covenant, Disclosure Covenant, Proceeds Covenant, Ranking Covenant, Investment Covenant, Tax Exemption Covenant or certain provisions of the Information Covenant; (ii) default in the due performance or observance by it of certain provisions of the Information Covenant and such default shall continue unremedied for a period of 5 days; or (iii) default in the due performance or observance by it of any other term, covenant or agreement contained in the Reimbursement Agreement (other than those referred to in paragraph (1) above or clauses (i) or (ii) of this paragraph (2)) and such default shall continue unremedied for a period of 30 days after written notice to the City by the Bank; or

(3) The Authority shall (i) default in the due performance or observance by it of any Existence Covenant or Substitution Covenant; or (ii) default in the due performance or observance by it of any other term, covenant or agreement contained in the Reimbursement Agreement (other than those referred to in clauses (i) or (ii) of this paragraph (3)) and such default shall continue unremedied for a period of 30 days after written notice to the Authority by the Bank; or

(4) Any representation, warranty, certification or statement made or deemed made by the City or the Authority in the Reimbursement Agreement, any Related Document or in any certificate, financial statement or other document delivered pursuant to the Reimbursement Agreement shall prove when made or deemed made, in the reasonable judgment of the Bank, to have been inaccurate and misleading in any material respect; or

(5) The City shall (i) default in any payment of any Debt payable from the City's general fund which, individually or in the aggregate, exceeds \$10,000,000 ("Material Debt") beyond the period of grace (not to exceed 30 days), if any, provided in the instrument or agreement under which such Material Debt was created, or (ii) default in the observance or performance of any agreement or condition relating to any Material Debt contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of any Material Debt (or a trustee or agent on behalf of such holder or holders) to cause, with the giving of notice if required, such Material Debt to become due prior to its stated maturity; or (iii) any Material Debt shall be declared to be due and payable, or required to be prepaid other than by a regularly scheduled required prepayment, prior to the stated maturity thereof; or

(6) The City shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of itself or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally, or in the reasonable judgment of the Bank be unable, to pay its debts as they become due, or shall take any action to authorize any of the foregoing; or

(7) An involuntary case or other proceeding shall be commenced against the City seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property and such case or proceeding is not controverted within 30 days and dismissed within 60 days; or an order for relief shall be entered against the City under the federal bankruptcy laws; or

(8) A court of competent jurisdiction shall enter a final and non-appealable judgment, order or decree declaring any (i) obligation of the City contained in the Reimbursement Agreement or any

Related Document or (ii) Related Document to which the City is a party, in either case to be invalid, not binding or unenforceable against the City; or

(9) A moratorium shall have been declared or announced by a governmental authority (whether or not in writing) with respect to any Debt of the City; or

(10) Dissolution or termination of the existence of the City; or

(11) A judgment or order for the payment of money in excess of \$5,000,000 and for which insurance proceeds shall not be available shall be rendered against the City and such judgment or order shall continue unstayed, unbonded or unsatisfied for a period of 60 days; or

(12) Any of the funds or accounts established pursuant to the Trust Agreement or any funds or accounts on deposit, or otherwise to the credit of, such funds or accounts shall become subject to any stay, writ, judgment, warrant of attachment, execution or similar process by any of the creditors of the City and such stay, writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or stayed within fifteen (15) days after its issue or levy; or

(13) Any pledge or security interest created by the Reimbursement Agreement or any Related Document to secure any amount due by the City under the Reimbursement Agreement or with respect to the Certificates shall fail to be fully enforceable with the priority required under Reimbursement Agreement or any Related Document; or

(14) Any event which materially and adversely affects the financial condition of the City or the ability of the City to observe and perform its obligations under the Reimbursement Agreement and the Related Documents to which it is a party shall have occurred and be continuing; or

(15) (i) The withdrawal or suspension for credit-related reasons by any rating agency that is at the time rating any long-term unenhanced Debt of the City payable from general funds of the City that is senior in right of payment to, or on a parity with, the Certificates of its long-term rating with respect to such Debt; or (ii) the downgrade by any such rating agency of its long-term rating with respect to any such Debt to a level below “BBB-” (or its equivalent) in the case of Fitch, “BBB-” (or its equivalent) in the case of S&P or “Baa3” (or its equivalent) in the case of Moody’s; or

(16) There shall have been rendered a determination that interest on any of the Certificates is includable in the gross income of the owners thereof for Federal income tax purposes, as a result of the entry of any decree or judgment by a court of competent jurisdiction, or the taking of any official action by the Internal Revenue Service, or delivery to the City, the Bank and the Trustee of an opinion of nationally recognized bond counsel selected by the Bank and reasonably acceptable to the City and the Trustee to the effect that the interest borne by the Certificates is includable in the gross income of the recipients thereof generally for Federal income tax purposes; or

(17) An “event of default” shall have occurred under any of the Related Documents.

***Rights and Remedies.*** Upon the occurrence of an Event of Default under a Reimbursement Agreement the Bank, in its sole discretion, may do any, none or all of the following:

(1) Deliver a written notice to the Trustee requiring the Trustee to (i) cause a mandatory purchase of all Outstanding Certificates pursuant to the Trust Agreement and (ii) submit a final Drawing under the Letter of Credit to pay the purchase price of such Certificates upon their mandatory purchase; or

(2) The Bank may by written notice to the City take any or all of the following actions, without prejudice to the rights of the Bank to enforce its claims against the City (provided, that, if an Event of Default specified in paragraph (6) or paragraph (7) under the caption “- The Reimbursement Agreement – Events of Default” shall occur, the result which would occur upon the giving of written notice by the Bank to the City as specified in clauses (i) and (ii) below shall occur automatically without the giving of any such notice): (i) declare the commitment of the Bank to make Liquidity Advances and Term Loans terminated, whereupon such commitment shall forthwith terminate immediately; and (ii) declare the principal of and any accrued interest in respect of all Liquidity Advances, all Term Loans and all other Obligations (other than the payment of the principal of and interest on Bank Certificates) owing under the Reimbursement Agreement to be, whereupon the same shall become, forthwith due and payable without presentment, demand, protest or other notice of any kind, all of which are waived by the City in the Reimbursement Agreement; or

(3) The Bank may, but shall not be obligated to, take such action as may be necessary to cure such Event of Default on behalf of and for the account of the City; or

(4) Exercise any rights and remedies available to the Bank at law, equity or under any Related Document.

### **The Bank**

Bank of America, N.A. (the “Bank”) is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the “Corporation”) and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of December 31, 2007, the Bank had consolidated assets of \$1,312,794,218,000, consolidated deposits of \$793,571,969,000 and stockholder’s equity of \$108,480,218,000 based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, together with any subsequent documents it filed with the Securities and Exchange Commission (the “SEC”) pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Additional information regarding the foregoing is available from the filings made by the Corporation with the SEC, which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation and the Bank contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Letter of Credit has been issued by the Bank. Moody’s Investors Service, Inc. (“Moody’s”) currently rates the Bank’s long-term debt as “Aaa” and short-term debt as “P-1.” The outlook is stable. Standard & Poor’s rates the Bank’s long-term debt as “AA+” and its short-term debt as “A-1+.” The outlook is stable. Fitch Ratings, Inc. (“Fitch”) rates long-term debt of the Bank as “AA” and short-term

debt as “F1+.” The outlook is negative. Further information with respect to such ratings may be obtained from Moody’s, Standard & Poor’s and Fitch, respectively. No assurances can be given that the current ratings of the Bank’s instruments will be maintained.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the SEC pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications  
100 North Tryon Street, 18th Floor  
Charlotte, North Carolina 28255  
Attention: Corporate Communications

PAYMENTS OF PRINCIPAL AND INTEREST EVIDENCED BY THE CERTIFICATES WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT. PAYMENTS OF THE PURCHASE PRICE OF THE CERTIFICATES WILL BE MADE FROM DRAWINGS UNDER THE LETTER OF CREDIT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE LETTER OF CREDIT IS A BINDING OBLIGATION OF THE BANK, THE CERTIFICATES ARE NOT DEPOSITS OR OBLIGATIONS OF THE CORPORATION OR ANY OF ITS AFFILIATED BANKS AND ARE NOT GUARANTEED BY ANY OF THESE ENTITIES. THE CERTIFICATES ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.

The delivery hereof shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date hereof, or that the information contained or referred to under this caption is correct as of any time subsequent to its date.

## **RISK FACTORS**

*The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the Certificates. However, the following does not purport to be an exhaustive listing of risk factors and other considerations which may be relevant to an investment in the Certificates. Additionally, there can be no assurance that other risk factors will not become evident at any future time.*

### **No Tax Pledge**

The obligation of the City to pay the Base Rental Payments does not constitute an obligation of the City, the Authority or the State for which the City, the Authority or the State has levied or pledged any form of taxation. The obligation of the City to pay Base Rental Payments does not constitute a debt or indebtedness of the City, the Authority, the State of California or any of its political subdivisions, within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement, so long as the Property is available for its use and possession, to pay Base Rental Payments from any source of legally available funds (subject to

certain exceptions) and has covenanted in the Lease Agreement that, for so long as the Property is available for its use, it will make the necessary annual appropriations within its budget for all Base Rental Payments.

However, the City may incur obligations payable from general revenues which have a priority over the Base Rental Payments, and the Lease Agreement does not prohibit the City from incurring additional obligations payable from general revenues on a parity with the Base Rental Payments. In addition, the City has previously delivered other obligations which are payable from the general revenues, all as further described in Appendix A - "CITY OF RIVERSIDE - OPERATING AND FINANCIAL INFORMATION" herein and the financial statements attached as Appendix B hereto.

In the event the City's revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Base Rental Payments and other payments due under the Lease Agreement. The City's ability to collect, budget and appropriate various revenues is subject to current and future State laws and constitutional provisions, and it is possible that the interpretation and application of these provisions could result in an inability of the City to pay Base Rental Payments when due. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

### **Appropriation of Rental Payments**

The obligation of the City to make Rental Payments, when due, is a General Fund obligation of the City and does not constitute a debt of the City for which the City is obligated to pledge or levy any form of taxation or for which the City has levied or pledged any form of taxation. Rental Payments will be made from amounts included in the City's annual budget and appropriated therefore except to the extent payments are made from rental interruption insurance, the net proceeds of insurance or condemnation awards, or certain other accounts, funds or moneys held under the Trust Agreement, including the Reserve Fund established under the Trust Agreement. The obligation of the City to make Rental Payments is in consideration of the right of the City to the continued beneficial use and possession of the Property. In the event of failure of such beneficial use and possession, the obligation of the City may be abated in whole or in part as described in this Official Statement.

A portion of the 2007 Certificate proceeds previously deposited in the Capitalized Interest and Fees Subaccount within the Interest Fund established under the 2007 Trust Agreement, together with certain additional amounts from the Certificate proceeds, will be applied to make Base Rental Payments through April 10, 2010 with respect to the Certificates. Thereafter, the City plans to budget and appropriate Base Rental Payments and Additional Rental Payments based on an assumed rate based on anticipated market conditions, all as further provided in the Lease Agreement. As a result, the amount initially budgeted and appropriated in any fiscal year may be less than the amount actually required to make the Base Rental Payments and Additional Rental Payments in such fiscal year as a result of subsequent market conditions and events. Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay the Base Rental Payments and Additional Rental Payments from any source of legally available funds and the City has covenanted in the Lease Agreement that, for so long as the Property is available for its use, it will make the necessary annual appropriations within its budget for the Base Rental Payments and Additional Rental Payments.

Finally, the City is currently liable and may become liable on other obligations payable from its General Fund, some of which may have a priority over the Base Rental Payments. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental Payments may be decreased. The same result could occur if, because of State constitutional and statutory limits on

expenditures, the City is not permitted to appropriate and spend all of its collected taxes. The City relies on a number of revenue sources that are dependent on economic conditions and that could be reduced or eliminated by State legislation, including, among others, sales and use taxes, property taxes, and motor vehicle license fees. There can be no assurance that the State will not adopt legislation to reduce or eliminate one or more of these revenue sources. See “- Impact of State Budget” and “-Impact of Sales and Use Tax Redirection” below. See also Appendix A - “CITY OF RIVERSIDE - OPERATING AND FINANCIAL INFORMATION” attached hereto.

### **Abatement**

The obligation of the City under the Lease Agreement to make Base Rental Payments is in consideration for the beneficial use and possession of the Property. The obligation of the City to make Base Rental Payments (other than to the extent that funds are available in the Base Rental Payment Fund, the Reserve Fund or from the proceeds of rental interruption insurance, if available) may be abated in whole or in part if the City does not have full use and possession of the Property. For additional information, see Appendix C - “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Lease Agreement - Abatement” attached hereto.

*In the Event of Non-Delivery.* The Base Rental Payments are subject to abatement if the components of the Property are not completed prior to the time through which interest has been capitalized on the Certificates. The amount of the abatement would be determined by the City so that the resulting Base Rental Payments represent fair consideration for the use and occupancy of the portions of the Property that are available for use. The City expects construction of the Property to be complete by January 1, 2010 and interest has been capitalized with respect to the Certificates through April 1, 2010.

The City believes that the Property components can be constructed within the estimated project schedule and within the estimated project cost. See “THE PROJECT AND THE PROPERTY” for a description of the expected completion dates of the Property components. Under the Lease Agreement, the completion date may be extended for an additional period of the City, or any contractor or contractors, are delayed by: (i) litigation brought against the City or the Authority which enjoins the construction of the Project; (ii) any act of God which the Authority or the City could not have reasonably foreseen and provided for; (iii) any strikes, boycotts, or similar obstructive actions by employee or labor organizations which are beyond the control of the Authority or the City and which the Authority or the City cannot overcome with reasonable effort and could not have reasonably foreseen and provided for; (iv) any war or declaration of the state of national emergency; or (v) the imposition by government action or authority of restrictions upon the procurement of labor or materials necessary for the completion of the Project. At the time of delivery of the Certificates, the City and the Authority will deliver certificates that no litigation is pending that seek to restrain or enjoin the execution, sale or delivery of the Certificates, in addition to other conditions. No assurances can be made, however, that other events would not occur that would allow the extension of the construction period of the Property components.

No assurance can be given that the Property will be completed as expected, or at all. If the Property components are not completed prior to the time through which interest has been capitalized on the Certificates, the Base Rental Payments may be subject to abatement and, as a result, the Base Rental Payments could be insufficient to pay principal and interest with respect to the Certificates. As provided in the Lease Agreement, the amount of Base Rental Payments and Additional Rental Payments due under the Lease Agreement could be abated during any period in which by reason of delay in the completion of the Property beyond the completion date there is substantial interference with the City’s use and occupancy of the Property components. The amount of such abatement shall be such that the resulting Base Rental Payments and Additional Rental Payments do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the City, who may not be an employee of the City) for



the use and occupancy of the Property. Such abatement shall continue until the substantial completion of the Property. Notwithstanding the foregoing, the City will remain obligated to make Base Rental Payments and Additional Rental Payments under the Lease Agreement to the extent there are proceeds of any completion or performance bonds or moneys paid to the City by the contractors or any other person as liquidated damages as a result of any defect or delay in completion of the Property components or to the extent that amounts in the Reserve Fund or the Capitalized Interest Account within the Interest Fund are available to pay Base Rental Payments which would otherwise be abated under the Lease Agreement. Any amounts received by the City as liquidated damages shall be deposited by the City immediately upon receipt in the Base Rental Payment Fund.

***In the Event of Damage, Destruction, Condemnation or Title Defect.*** The abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of damage or destruction, the Lease Agreement will continue in full force and effect and, in the Lease Agreement, the City waives any right to terminate the Lease Agreement by virtue of any such damage or destruction. The amount of the abatement will be determined by the City so that the resulting Base Rental Payments represent fair consideration for the use and occupancy of the portions of the Property not damaged or destroyed. The failure to make such payments of principal and interest would not under such circumstances constitute a default under the Trust Agreement, the Lease Agreement or the Certificates.

There will be no abatement of Base Rental Payments as a result of damage or destruction in the event and to the extent that the net proceeds of rental interruption insurance are available to pay Base Rental Payments and to the extent that amounts in the Reserve Fund are available. See “SECURITY FOR THE CERTIFICATES - Insurance” herein for additional information on rental interruption insurance.

If all of the Property is taken permanently under the power of eminent domain, the term of the Lease Agreement will cease as of the day possession is taken. If less than all of the Property is taken permanently, or if all of the Property or any part thereof is taken temporarily, under the power of eminent domain, (1) the Lease Agreement will continue in full force and effect, and (2) there will be a partial abatement of Base Rental Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Base Rental Payments, but in no event will the resulting Base Rental Payments be less than the amount required for the payment of the principal and interest with respect to outstanding Certificates as the same become due and payable.

#### **Limitation on Enforcement of Remedies; No Acceleration**

The enforcement of any remedies provided in the Lease Agreement and Trust Agreement could prove both expensive and time consuming. Although the Lease Agreement provides that the Trustee may take possession of the Property and lease it if there is a default by the City, and the Lease Agreement provides that the Trustee may have such rights of access to the Property as may be necessary to exercise any remedies, portions of such Property may not be easily recoverable and could be of little value to others. Furthermore, depending upon whether the Property is considered to serve an essential governmental function, it is not certain whether a court would permit the exercise of the remedies of repossession and leasing with respect thereto. See “THE PROJECT AND THE PROPERTY” herein.

IN THE EVENT OF A DEFAULT UNDER THE LEASE AGREEMENT, THERE IS NO AVAILABLE REMEDY OF ACCELERATION OF THE TOTAL BASE RENTAL PAYMENTS DUE OVER THE TERM OF THE LEASE AGREEMENT. THE CITY WILL ONLY BE LIABLE FOR BASE RENTAL PAYMENTS ON AN ANNUAL BASIS AS THEY COME DUE, AND THE TRUSTEE WOULD BE REQUIRED TO SEEK SEPARATE JUDGMENTS FOR THE BASE RENTAL

PAYMENTS AS THEY COME DUE. IN ADDITION, ANY SUCH SUIT FOR MONEY DAMAGES COULD BE SUBJECT TO LIMITATIONS ON LEGAL REMEDIES AGAINST PUBLIC AGENCIES IN CALIFORNIA, INCLUDING A LIMITATION ON ENFORCEMENT OF JUDGMENTS AGAINST FUNDS NEEDED TO SERVE THE PUBLIC WELFARE AND INTEREST AND A LIMITATION ON ENFORCEMENT OF JUDGMENTS AGAINST FUNDS OF A FISCAL YEAR OTHER THAN THE FISCAL YEAR IN WHICH THE BASE RENTAL PAYMENTS WERE DUE.

### **Geologic, Topographic and Climatic Conditions**

The value of the Property, and the financial stability of the City, can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements and floods), climatic conditions (such as droughts) and fires.

The area encompassed by the City, like that in much of California, may be subject to unpredictable seismic activity. The City is located within a regional network of several active and potentially active faults. The San Jacinto Fault, the Glen Helen Fault, the San Andreas Fault and the Lytle Creek Fault are all located within the vicinity of the City. Although the City believes that no active or inactive fault lines pass through the City, if there were to be an occurrence of severe seismic activity in the City, there could be an abatement or adverse impact on the City's ability to pay the Base Rental Payments. The City is not obligated to maintain earthquake insurance with respect to the Property.

Based on information available to the City, portions of the City, including Ab Brown Soccer Expansion component and Andulka Park components of the Property, are located in a 100-year flood plain. No flood insurance is required under the Lease Agreement; however, the City currently maintains a \$15 million coverage for both earthquake and flood events but no assurances can be made that the City will continue to maintain such coverage. See "- Abatement" above.

Recently there have been fires in the forests of Southern California. Fires have occurred in the Pacific Coast Range in San Bernardino County, in Idyllwild, and in the Cleveland National Forest. The City believes that the components of the Property are not in danger of forest fire damage.

Building codes require that some of these factors be taken into account, to a limited extent, in the design of improvements, including improvements of the Property. Some of these factors may also be taken into account, to a limited extent, in the design of other infrastructure and public improvements neither designed nor subject to design approval by the City. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously-designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance at the time of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Conditions may occur and may result in damage to improvements of varying seriousness, such that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the actual value of the Property, as well as public and private improvements within the City in general, may well depreciate or disappear, notwithstanding the establishment of design criteria for any such condition.

## **Hazardous Substances**

Discovery of hazardous substances on parcels within the City could impact the City's ability to pay debt service with respect to the Certificates.

In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act" is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has any thing to do with creating or handling the hazardous substance.

The effect, therefore, should the Property or any substantial amount of property within the City be affected by a hazardous substance, would be to reduce the marketability and value of the property by the costs of, and any liability incurred by, remedying the condition, since the purchaser, upon becoming an owner, will become obligated to remedy the condition just as is the seller. Such reduction in the value of the Property could adversely impact the fair rental value of the Property and potentially result in abatement of the Base Rental Payments. In addition, reduction in the value of property in the City as a whole could reduce property tax revenues received by the City and deposited in the general fund, which could significantly and adversely affect the ability of the City to make Base Rental Payments.

## **Impact of State Budget**

The State of California is likely to continue to face significant budget issues for the foreseeable future. Through the State budget process, the State can enact legislation that significantly impacts the source, amount and timing of the receipt of revenues by local agencies, including the City. As in recent years, State budget deficits can result in legislation that adversely impacts local agency budgets.

*The following information concerning the State's budgets has been obtained from publicly available information which the City believes to be reliable; however, neither the City nor the Underwriter takes responsibility as to the accuracy or completeness thereof and has not independently verified such information.*

***The State Budget Process.*** The State's fiscal year begins on July 1 and ends on June 30. Pursuant to the State Constitution, the Governor of the State is required to propose a budget for the next fiscal year (the "Governor's Budget") to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a two-thirds vote of each house of the State Legislature. The budget becomes law upon the signature of the Governor. The State's final budget has been adopted after beginning of the new fiscal year on July 1. The State's final budget for Fiscal Year 2007-08 was adopted on August 21, 2007 by the State Legislature.

Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the State Legislature takes up the proposal. Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the State Legislature and signed by the Governor. The Budget Act must be approved by a two-thirds majority vote of each House of the State Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the State Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the State Legislature and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution. Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt. However, delays in the adoption of a final State budget in any fiscal year may affect payments of State funds during such budget impasse.

***Fiscal Year 2006-07 State Budget.*** The 2006-07 Budget Act (the “2006-07 Budget Act”) was passed by the State Legislature on June 27, 2006 and signed by the Governor on June 30, 2006. The 2006-07 Budget Act authorized \$127.9 billion in spending, of which \$ 10 1.3 billion was from the General Fund and \$26.6 billion was from special funds, and reflected an improving State fiscal outlook resulting from continued stronger-than-expected growth in General Fund revenues.

Fiscal Year 2005-06 began with a prior-year balance of \$9.5 billion, which amount included past budgetary borrowing. General Fund revenues, including transfers, were estimated to total \$92.7 billion in Fiscal Year 2005-06 and \$94.4 billion in Fiscal Year 2006-07. The 2006-07 Budget Act included projected expenditures of approximately \$92.7 billion in Fiscal Year 2005-06 and approximately \$101.3 billion in Fiscal Year 2006-07. The approximately \$6.9 billion excess of expenditures over revenues in Fiscal Year 2006-07 was projected to decrease the General Fund reserve to approximately \$2.1 billion by the end of Fiscal year 2006-07. The projected General Fund reserve amount does not yet include the fiscal impacts of future collective bargaining contracts approved by the State Legislature.

Based on the Legislative Analyst’s projections of revenues and expenditures, presuming a continuation of the policies set forth under the 2006-07 Budget Act, the State could continue to face operating shortfalls in the range of \$4.5 billion to \$5 billion in each of Fiscal Years 2007-08 and 2008-09. The carryover reserve from Fiscal Year 2006-07 would be available to offset a portion of the projected shortfall in Fiscal Year 2007-08.

***Fiscal Year 2007-08 State Budget.*** The 2007-08 Budget Act (the “2007-08 Budget Act”) was adopted by the Legislature on August 21, 2007, along with a number of implementing measures, and signed by the Governor on August 24, 2007. While the Governor's Budget from May 2007 (the “May Revision”) proposed a total reserve of \$2.2 billion, there was a shortfall in revenue collections that was revealed in June which, in addition to the State’s continuing structural deficit and other potential threats, prompted the Legislature to take actions to reduce spending and increase available funds. Consequently, total reserves were increased to \$3.4 billion. The Governor further reduced spending by vetoing \$943 million in appropriations from General Fund, special funds, and bond funds (including \$703 million in General Fund appropriations), raising the total reserve to \$4.1 billion. General Fund spending growth in the 2007-08 Budget Act is held to \$0.6 billion, or 0.6 percent.

The 2007-08 Budget Act assumes that the State ended the 2006-07 Fiscal Year with \$4.1 billion in reserves. The 2007-08 Budget Act projects \$102.3 billion in budget-year revenues, representing a 6.5 percent increase from the 2006-07 Fiscal Year projected General Fund revenues and transfers at \$102.3 billion. The 2007-08 Budget Act also authorizes expenditures of an equal amount, representing a 0.6 percent increase from Fiscal Year 2006-07. The 2007-08 Budget Act leaves the General Fund with a \$4.1 billion reserve, similar to the estimated June 30, 2007 reserve. The reserve consists of two components: (i) \$2.6 billion in the State's traditional reserve known as the Special Fund for Economic Uncertainties, and (ii) \$1.5 billion in the Budget Stabilization Account established pursuant to Proposition 58, which was approved in March 2004. The 2007-08 Budget Act authorizes the State to transfer these funds to the General Fund during the 2007-08 Fiscal Year if necessary.

The 2007-08 Budget Act proposes the following solutions to address the State's operating shortfalls:

The Governor's May Revision revenue forecast results in a higher Proposition 98 guarantee for Fiscal Year 2006-07 than what was provided in the 2006-07 Budget Act. Due to uncertainty regarding this revenue projection (particularly as it relates to final Fiscal Year 2006-07 revenues), the 2006-07 Budget Act does not provide \$411 million in Fiscal Year 2006-07 Proposition 98 "settle-up" funds. The 2007-08 Budget Act also assumes the 2007-08 minimum guarantee to be lower by \$427 million, generating additional General Fund savings.

The 2007-08 Budget Act uses almost \$1.3 billion in Public Transportation Account funds to reduce General Fund expenditures. The 2007-08 Budget Act assumes \$596 million in General Fund benefit for Fiscal Year 2008-09.

The 2007-08 Budget Act assumes \$ 1 billion in one-time revenues from the sale of the EdFund, the State's student loan guarantee agency, to a private entity. The 2007-08 Budget Act also assumes \$293 million in new General Fund revenues from amended tribal gambling compacts. The 2007-08 Budget Act also accelerates the transfer of \$600 million in tobacco securitization funds to the General Fund. These tobacco funds were originally scheduled to be transferred in 2008-09 and 2009-10.

The 2007-08 Budget Act achieves ongoing savings of about \$247 million from suspending CalWORKS cost-of-living-adjustment ("COLA") for one year and permanently delaying the Supplemental Security Income/State Supplementary Payment Program ("SSI/SSP") COLA for five months.

The Governor vetoed \$703 million in General Fund expenditures from the budget passed by the Legislature. The largest veto involved a \$332 million reduction to the state's Medi-Cal Program based on the State's evaluation that earlier estimates were too high. Another significant veto was a \$72 million reduction in the amount provided for higher state employee compensation costs. The State expects departments to pay for these higher costs from existing funds.

***Legislative Analyst's Office Analysis of the 2007-08 Budget Act; Projections - 2007-08 Through 2012-13.*** On August 31, 2007, the Legislative Analyst's Office (the "LAO") released a report entitled "Major Features of the 2007 California Budget" (the "LAO Budget Overview"). The LAO is a non-partisan body which advises the State Legislature on a variety of public policy matters, including State finance. The LAO Budget Overview observed that while expenditures do not exceed revenues in the 2007-08 Budget Act, the one-time nature of many of the budget solutions would result in operating shortfalls of more than \$5 billion in both Fiscal Year 2008-09 and Fiscal Year 2009-10. On November 14, 2007, the LAO released a report entitled "California's Fiscal Outlook: LAO Projections 2007-08 Through 2012-13." The LAO forecasts that, absent corrective action, the State will end Fiscal Year 2007-08 with a \$ 1.9 billion deficit, rather than the reserve of \$4.1 billion projected in the 2007-08 Budget Act and face an \$8 billion operating shortfall in 2008-09. The LAO attributes the increase in its projection of the State's deficit in Fiscal Year 2008-09 to, among other things, slow growth in the State's economy due to a declining real estate market, high energy and gas prices, lower property taxes and a reduction in the State's anticipated revenues and states that, in order to balance the Fiscal Year 2008-09 State Budget, the State will have to adopt nearly \$10 billion in solutions. According to the LAO, while various factors have changed since the adoption of the 2007-08 Budget Act, Proposition 98 funding for Fiscal Year 2007-08 will remain relatively unchanged. The LAO cautions that Proposition 98 funding in Fiscal Year 2008-09 will fall almost \$ 1.5 billion short of covering baseline costs if the State does not address the projected operating shortfall in Fiscal Year 2008-09.

***Governor's Proposed Fiscal Year 2008-09 State Budget.*** On January 10, 2008, the Governor released his proposed budget for Fiscal Year 2008-09 (the "2008-09 Governor's Budget"). The 2008-09 Governor's Budget projects an estimated \$14.5 billion budget shortfall by the end of Fiscal Year 2008-09, in the absence of any changes to State law or policy to reduce spending, which the Governor proposes to address with more than \$17 billion in correction actions. In particular, the 2008-09 Governor's Budget projects State General Fund revenues and transfers for Fiscal Year 2008-09 of \$102.9 billion, an increase of approximately 2.1 percent above the anticipated revenues and transfers for Fiscal Year 2007-2008, and State General Fund expenditures of \$101.0 billion, a decrease of approximately 2.3 percent below the anticipated expenditures for Fiscal Year 2007-08. With proposed expenditures of \$2.6 billion more than revenues, the 2008-09 Governor's Budget projects ending Fiscal Year 2007-08 with a State General Fund balance of \$1.76 billion, of which \$885 will be reserved for the liquidation of encumbrances and \$872 will be deposited in a reserve for economic uncertainties, and ending Fiscal Year 2008-09 with a State General Fund balance of \$3.67 billion, of which \$885 million will be reserved for the liquidation of encumbrances and \$2.78 billion will be deposited in a reserve for economic uncertainties, provided various budget-balancing proposals are approved.

The Governor's revised economic forecasts for the State reflects weaker economic performance than was previously forecast. State personal income growth (considered the broadest single measure available of the State's overall economic activity) is predicted to slow from 5.6 percent in 2007, to 4.8 percent in 2008, and then increase to 5.2 percent in 2009. Job growth within the State is expected to drop from 0.8 percent for 2007, to 0.7 percent for 2008, and then increase to 1 percent for 2009. New housing permits in the State are expected to be 95,000 in 2008, compared to an average of more than 160,000 annually for the past ten years.

The Governor has declared a fiscal emergency under the State Constitution and called the Legislature into special session to, among other things, consider the Governor's proposals for balancing the State budget, which includes issuing approximately \$3.3 billion in deficit financing bonds, suspending a \$1.5 billion supplementary payment on outstanding deficit financing bonds, accruing in Fiscal Year 2008-09 \$2 billion in tax revenues that are currently reflected as Fiscal Year 2009-10 revenues, reducing K-14 education spending in the current year by \$400 million, suspending the Proposition 98 minimum guarantee in the amount of \$4 billion in Fiscal Year 2008-09, saving approximately \$758 million by Fiscal Year 2009-10 by releasing certain nonviolent prisoners and no longer actively supervising nonviolent offenders on parole, and making 10 percent across-the-board reductions (aggregating to approximately \$5 billion in savings) in most other State programs, excepting only program reductions that are deemed to be in conflict with the State Constitution or impractical.

In addition, the Governor proposes that a constitutional amendment be put before the State's voters, which amendment would provide for a creation of a third State reserve fund to receive revenues from the General Fund of any amount over the average long-term trend of revenue growth rate (which amounts would be transferred back to the General Fund in any year in which revenue growth was below the average) and provide the Governor with the power to make program reductions when he predicts the State to be in a budget deficit. The Governor also seeks legislation that would allow him to make reductions to the services of statutory entitlement programs.

Features of the 2008-09 Governor's Budget include the following:

1. The 2008-09 Governor's Budget proposes to fully fund the Proposition 1A loan repayment for Fiscal Year 2008-09 and the approximately \$1.5 billion Proposition 42 transfer, which is proposed to be allocated as follows: \$82.7 million to the Traffic Congestion Relief Fund, \$594.2 million to the State Transportation Improvement Program, \$297.1 million to the Public Transportation Account and \$594.2 million to cities and counties for local streets and roads maintenance.

2. The 2008-09 Governor's Budget includes the elimination of \$75 million in estimated reimbursement claims but does not subject unreimbursed pre-2004 mandate reimbursements to the proposed 10 percent reductions.

3. The 2008-09 Governor's Budget includes changes to CalWORKs that are expected to result in net savings of \$74 million in 2007-08 and \$389 million in 2008-09, including the increase of economic sanctions for families with adults who do not comply with program requirements and the elimination of the children's safety net grant unless their parent(s) meeting federal work participation requirements.

4. The 2008-09 Governor's Budget provides for the July 2008 CalWORKs COLA in the amount of \$ 131 million but proposes the deletion of the June 2008 State COLA for SSI / SSP recipients, which is expected to result in savings of \$23 million in Fiscal Year 2007-08 and \$271 million in Fiscal Year 2008-09.

5. The 2008-09 Governor's Budget proposes reducing provider rates for Medi-Cal to generate Fiscal Year 2007-08 State General Fund savings of \$33 million and Fiscal Year 2008-09 savings of \$602 million, which savings would be achieved through a 10 percent provider payment reduction to most fee-for-service providers (generally physicians). The 2008-09 Governor's Budget also proposes to change from a weekly reimbursement schedule to an annual reimbursement schedule for a one-time State General Fund savings of \$ 165 million.

***Legislative Analyst's Office Analysis of the 2008-09 Governor's Budget.*** On January 14, 2008, the LAO released a report entitled "Overview of the Governor's Budget" (the "LAO Proposed Budget Overview"), which provides an analysis by the LAO of the 2008-09 Governor's Budget. The LAO Proposed Budget Overview is available on the LAO website at [www.lao.ca.gov](http://www.lao.ca.gov). Information on the website is not incorporated herein by reference.

In the LAO Proposed Budget Overview, the LAO states that the 2008-09 Governor's Budget's revenue forecast is generally reasonable (although recent cash trends and continued negative economic reports may cause actual results to be lower than forecasted) and its spending proposals are built upon solid assumptions about caseload and program requirements. However, the LAO states that, in the context of the amount of corrective actions that are proposed, the ongoing revenue-raising proposals set forth in the 2008-09 Governor's Budget are minimal, indicated that the proposed across-the-board reductions may cause many programs to operate in a less than optimal manner thus providing lower quality services to the public, and questioned whether certain proposed accruals comply with generally accepted accounting principles. The LAO recommends that the Legislature, among other things, focus on early decisions that will allow State programs to achieve desired savings in the current year, identify additional revenue solutions, balance the budget proposals set forth in the 2008-09 Governor's Budget against the programmatic impacts from delaying payments to school districts and local governments. In addition, the LAO stated that the reforms included in the 2008-09 Governor's Budget represent a "serious diminution of the Legislature's appropriation authority" and "limit future policy makers' options to craft budgets" and suggests the exploration of other budgetary options.

The Fiscal Year 2008-09 State Budget ("Fiscal Year 2008-09 State Budget") is expected to be subject to significant negotiation and revision prior to its ultimate adoption. There can be no assurances that the final Fiscal Year 2008-09 State Budget will not place additional burdens on local governments, including cities, or will not significantly reduce revenues to such local governments. The Fiscal Year 2008-09 State Budget is subject to approval by the State Legislature, and the City cannot predict the ultimate impact of the final approved Fiscal Year 2008-09 State Budget on the City's financial situation. In the event the final Fiscal Year 2008-09 State Budget includes decreases in City revenues or increases in required City expenditures from the levels assumed by the City, the City will be required to generate

additional revenues, curtail programs and/or services, or spend down its reserves to ensure a balanced budget.

***Future State Budgets.*** No prediction can be made by the City as to whether the State will encounter budgetary problems in this or in any future Fiscal Years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations, the outcome or impact of future ballot measures and legislation, or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decrease in such revenues may have an adverse impact on the City's ability to pay Base Rental Payments.

Certain information about the State budgeting process and the State Budget is available through several State of California sources. The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the City and is not incorporated herein by reference.

The California State Treasurer's Internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading "Financial Information," posts the State's audited financial statements. In addition, the "Financial Information" section includes the State's Rule 15c2-12 filings for State bond issues. The "Financial Information" section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current Official Statement, which discusses the State budget. The California Department of Finance's Internet home page at [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget," includes the text of proposed and adopted State Budgets. The State Legislative Analyst's Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at [www.lao.ca.gov](http://www.lao.ca.gov) under the heading "Products."

## **Vehicle License Fees**

Vehicle license fees ("VLF") imposed for the operation of vehicles on state highways are collected by the State Department of Motor Vehicles. VLFs were historically assessed in the amount of two percent of a vehicle's depreciated market value for the privilege of operating a vehicle on the State's public highways. Beginning in 1999, the VLF paid by vehicle owners was offset (or reduced) to the effective rate of 0.65 percent. In connection with the offset of the VLF, the State Legislature authorized appropriations from the State General Fund to "backfill" the offset so that local governments, which receive all of the vehicle license fee revenues, would not experience any loss of revenues. The legislation that established the VLF offset program also provided that if there were insufficient State General Fund moneys to fully "backfill" the VLF offset, the percentage offset would be reduced proportionately (i.e., the license fee payable by drivers would be increased) to assure that local governments would not be underfunded.

In June 2003, the State Director of Finance ordered the suspension of VLF offsets due to a determination that insufficient State General Fund moneys would be available for this purpose, and, beginning in October 2003, the VLF paid by vehicle owners were restored to the two percent level. However, the offset suspension was rescinded by the Governor on November 17, 2003, and State offset payments to local governments resumed. Local governments received "backfill" payments totaling \$3.80



billion in Fiscal Year 2002-03. “Backfill” payments totaling \$2.65 billion were paid to local governments in Fiscal Year 2003-04.

As part of the 2004 Budget Act negotiations, an agreement was made between the State and local government officials (the “State-local agreement”) under which the VLF rate was permanently reduced from two percent to 0.65 percent. In order to protect local governments, the reduction in VLF revenue to cities and counties from this rate change was replaced by an increase in the amount of property tax they receive. Under the State-local agreement, for Fiscal Years 2004-05 and 2005-06 only, the replacement property taxes that cities and counties receive were reduced by \$700 million. Commencing in Fiscal Year 2004-05, local governments began to receive their full share of replacement property taxes, and those replacement property taxes now enjoy constitutional protection against certain transfers by the State due to the approval of Proposition 1A at the November 2004 election. In Fiscal Year 2006-07, the City received \$1,839,093 in VLF revenues and \$20,841,101 in replacement property taxes from the State. For Fiscal Year 2007-08, the City expects to receive \$2,000,000 in VLF revenues and \$23,755,000 in replacement property taxes from the State.

### **Impact of Sales and Use Tax Redirection**

The State will temporarily redirect local sales and use taxes to the State, including 0.25% that would otherwise be available to the City, to pay debt service on its “economic recovery” bonds. The State will increase local governments’ share of local property tax by a corresponding amount.

However, it should be noted that certain features and consequences of this redirection could impact the availability of revenues to pay Base Rental Payments. First, there may be a timing issue associated with the “backfill” of redirected sales and use taxes with property tax revenue: while sales and uses taxes are distributed by the State Board of Equalization on a monthly basis, the County would only backfill with property taxes on a semi-annual basis. This timing issue would not only impact the City’s cash flow, but would cause the City to lose investment earnings on the sales and uses taxes it otherwise would have received on a monthly basis.

Second, it is possible that the fees charged by the County for property tax administration, which are subtracted from property tax revenue collected by the County before it is allocated to the City, could increase as a result of the various tasks required of the County by the redirection. In addition, the State Board of Equalization administration fee is likely to increase as a percentage of local sales and use tax received by the City unless the State Board of Equalization reduces its fee, which it is unlikely to do because the cost of collecting the sales and use taxes on a per-transaction basis will not go down.

Third, the redirection of sale and use taxes by the State reflects the vulnerability of local government to the State budget process. If, in the future, the State elects to further reallocate sales and use taxes or property tax revenue, or any other source of revenue used by the City to make Base Rental Payments, such redirecting may adversely impact the City’s finances and reduce the amount of revenue available to pay Base Rental Payments

### **Declining State Economy**

The slow growth in the State’s economy has been attributed to a declining real estate market, including lower property tax collection, and high energy and gas prices and a reduction in the State’s receipt of anticipated revenues. See “- Impact of State Budget - Legislative Analyst’s Office Analysis of the 2007-08 Budget Act; Projections - 2007-09 Through 2012-13” above. See Appendix A - “CITY OF RIVERSIDE OPERATING AND FINANCIAL INFORMATION - Budgetary Process and Administration” for a discussion of the City’s assumptions related to its budgeted revenues.

## **Limitations on Remedies Available; Bankruptcy**

The enforceability of the rights and remedies of the Owners and the obligations of the City may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose.

The opinions of counsel, including Special Counsel, delivered in connection with the execution and delivery of the Certificates will be so qualified. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

## **Self-Insurance**

The City may self-insure for all insurance with the exception of rental interruption and title insurance. Should the City self-insure, no assurance can be given that such self-insurance at the time of any casualty or loss will be adequate to cover any claims that may arise. For a discussion of (i) the insurance requirements for the Property, and (ii) the conditions under which the City is permitted to self-insure, see "SECURITY FOR THE CERTIFICATES — Insurance". For a general description of the District's insurance and risk management programs, see Appendix B — "AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2006-07."

## **State Law Limitations on Appropriations**

Article XIII B of the California Constitution limits the amount that local governments can appropriate annually. The ability of the City to make Base Rental Payments may be affected if the City should exceed its appropriations limit. The State may increase the appropriation limit of cities in the State by decreasing the State's own appropriation limit. The City does not anticipate exceeding its appropriations limit. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS - Article XIII B of the State Constitution" below.

## **Change in Law**

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives, or that the State Legislature will not enact legislation that will amend the laws of the State, or that the City Council (with voter approval) will not enact amendments to the City's Charter, in a manner that could result in a reduction of the City's revenues and therefore a reduction of the funds legally available to the City to make Base Rental Payments. See, for example, "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS - Article XIII C and Article XIII D of the State Constitution."

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

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

Article XIII A of the State Constitution, known as Proposition 13, was approved by the voters in June 1978 and has been amended on occasions, including most recently on November 7, 2000 to reduce the voting percentage required for the passage of school bonds. Section 1(a) of Article XIII A limits the maximum ad valorem tax on real property to 1% of “full cash value,” and provides that such tax shall be collected by the counties and apportioned according to State statutes. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes levied to pay interest or redemption charges on any (1) indebtedness approved by the voters prior to July 1, 1978, (2) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition and (3) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters voting on the proposition.

Section 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the 1975-76 Fiscal Year tax bill, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. See “Litigation Relating to Two Percent Limitation” below. Legislation implementing Article XIII A provides that, notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A, which is \$1.00 per \$100 of assessed market value.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when it is purchased, newly constructed or undergoes a change in ownership. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Both the State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

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

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual “appropriations limit” imposed by Article XIII B which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, approved by the voters in July 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the

cost reasonably borne by such entity in providing the regulation, product or service. "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds. Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services.

Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years.

For Fiscal Year 2006-07 the City's appropriations limit was \$211,512,644, and its actual appropriations in Fiscal Year 2006-07, subject to the limit, were approximately \$155,849,400. The City's appropriations limit for Fiscal Year 2007-08 of approximately \$220,883,501 is subject to and is operating in conformity with Article XIII B.

### **Article XIII C and XIII D of the State Constitution**

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 adds Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed below, and it is not possible at this time to predict with certainty the outcome of such determination.

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. The voter approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet increased expenditure needs.

Article XIII D also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a "special benefit," as defined in Article XIII D, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition

against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

With the exception of assessments levied in Street Lighting District No. 1 of the City, as further described in Appendix A - "CITY OF RIVERSIDE - OPERATING AND FINANCIAL INFORMATION - Taxes and Other Revenue - Special Assessments", none of the property-related fees or assessments currently collected by the City is deposited in the General Fund. If the City is unable to continue to collect these revenues, the services and programs funded with these revenues would have to be curtailed and/or the City General Fund might have to be used to support them. The City is unable to predict whether or not in the future it will be able to continue all existing services and programs funded by the fees, charges and assessments in light of Proposition 218 or, if these services and programs are continued, which amounts (if any) would be used from the City's General Fund to continue to support these activities.

Article XIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund. If such repeal or reduction occurs, the City's ability to pay Base Rental Payments could be adversely affected.

### **Future Initiatives**

Articles XIIA, XIIB, XIIC and XIID were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues.

## **THE AUTHORITY**

The Authority was established pursuant to the provisions of Section 6500 *et seq.* of the California Government Code and a Joint Exercise of Powers Agreement, dated December 15, 1987, by and between the City and the Redevelopment Agency of the City of Riverside (the "Agency"). The Authority was established for the purpose of financing the acquisition, construction, improvement and equipping of public capital improvements for the City and the Agency. The governing board of the Authority consists of seven (7) Directors, initially consisting of the members of the City Council of the City. Subsequent vacancies are filled and new Directors are appointed by majority vote of the Board in accordance with the Bylaws of the Authority.

## **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and compliance with certain covenants and requirements described herein, interest due with respect to the Certificates is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, interest due with respect to the Certificates is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, interest due with respect to the Certificates may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

Special Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest due with respect to the Certificates is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City and the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portion of each Base Rental Payment constituting interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest due with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The City and the Authority have covenanted to comply with all such requirements applicable to each, respectively.

The IRS has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Certificates will be selected for audit by the IRS. It is also possible that the market value of the Certificates might be affected as a result of such an audit of the Certificates (or by an audit of similar securities).

It is possible that subsequent to the issuance of the Certificates there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Certificates or the market value of the Certificates. No assurance can be given that subsequent to the executed delivery of the Certificates such changes or interpretations will not occur. On November 5, 2007, the U.S. Supreme Court heard oral arguments in connection with its review of a Kentucky state court decision, in the matter of *Kentucky v. Davis*, on the issue of whether the U.S. Constitution commerce clause precludes states from giving more favorable tax treatment to state and local government bonds issued within that state than the tax treatment given bonds issued outside that state. The outcome of this or any similar case cannot be predicted, but the ultimate result could be a change in the treatment for state tax purposes of interest on the Certificates. If the *Kentucky v. Davis* decision is affirmed by the United States Supreme Court, states such as California may be required to eliminate the disparity between the income tax treatment of out-of-state tax-exempt obligations and the income tax treatment of in-state tax-exempt obligations, such as the Certificates. The impact of such a United States Supreme Court decision may also affect the market price for, or the marketability of the Certificates. Prospective purchasers of the Certificates should consult their tax advisors regarding this matter.

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement, the Lease Agreement, and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. Special Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest due with respect to any Certificate if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Special Counsel has rendered an opinion that the interest due with respect to the Certificates is excluded from gross income for federal income tax purposes provided that the City and the Authority continue to comply with certain requirements of the Code, the ownership of the Certificates and the accrual or receipt of interest with respect to the Certificates may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Certificates.

The form of Special Counsel's Opinion with respect to the Certificates is attached hereto as Appendix E.

### **New Information Reporting Requirements**

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 (the "Act"). Under Section 6049 of the Internal Revenue Code of 1986, as amended by the Act, interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date for this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligations were issued. The purpose of this change was to assist in relevant information gathering for the IRS relating to other applicable tax provisions. The Act provides that backup withholding may apply to such interest payments made after March 31, 2007 to any bondholder who fails to file an accurate Form W-9 or who meets certain other criteria. The information reporting and backup withholding requirements of the Act do not affect the excludability of such interest from gross income for federal income tax purposes.

### **CERTAIN LEGAL MATTERS**

Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, will render an opinion substantially in the form of Appendix E hereto with respect to the validity and enforceability of the City's obligations under the Lease Agreement and the validity of the Certificates. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of the Official Statement.

Certain matters will be passed upon for the City by the City Attorney, for the Authority by Stradling Yocca Carlson & Rauth, a Professional Corporation, for the Bank by White & Case LLP, Los Angeles, California, and for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. Fees payable to Special Counsel, Underwriter's Counsel and the Underwriter are contingent upon execution and delivery of the Certificates.

### **NO LITIGATION**

At the time of delivery and payment for the Certificates, appropriate officers of the City and the Authority will certify that there is no litigation pending, or, to the knowledge of the City or the Authority, threatened, against the District or the Authority in any material respect (i) restraining or enjoying the sale of delivery of any of the Certificates, (ii) questioning the corporate existence of the City, or the title of the officers of the City to their respective offices, (iii) questioning the validity of the Certificates, (iv) questioning or affecting the validity or enforceability of the Lease Agreement or Trust Agreement or the power and authority of the City to cause the execution and delivery of the Certificates or (v) contesting the completeness or accuracy of this Official Statement or any amendment or supplement hereto or which would adversely affect the exclusion from gross income for federal income tax purposes of interest payable with respect to the Certificates or the exemption of such interest from State of California personal income taxation.

### **FINANCIAL STATEMENTS**

The balance sheets of the City of Riverside as of and for the years ended June 30, 2007 included in Appendix B to this Official Statement have been audited by Mayer Hoffman McCann P.C., independent accountants (the "Auditor"), as stated in its report appearing in Appendix B. The City has not requested, nor has the Auditor given, the Auditor's consent to the inclusion in Appendix B of its

report on such 2006–07 financial statements. The Auditor’s review in connection with such 2006–07 audited financial statements included in Appendix B included events only as of June 30, 2007 and no review or investigation with respect to subsequent events has been undertaken in connection with such financial statements by the Auditor.

## **RATINGS**

Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc. (“S&P”) and Fitch Ratings (“Fitch”) have assigned the Certificates a rating of “AA+ / A-1+” and “AA / F 1+”, respectively, based on the understanding that the Bank will deliver the Letter of Credit, simultaneously with the execution and delivery of the Certificates.

These ratings reflect only the views of the rating agencies referred to in the previous paragraph. Explanations of the significance of such ratings must be obtained from the rating agencies. There is no assurance that such ratings will continue for any given period of time or will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

## **UNDERWRITING**

The Certificates are being purchased for reoffering by Banc of America Securities LLC (the “Underwriter”). The Underwriter has agreed to purchase the Certificates from the City at a discount of \$281,284.75 from the initial public offering price pursuant to a certificate purchase agreement with the City. The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Certificates if any Certificates are purchased. The Underwriter intends to offer the Certificates to the public initially at the price set forth on the cover page of this Official Statement, which prices or yields may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Certificates to the public. The Underwriter may offer and sell Certificates to certain dealers (including dealers depositing Certificates into investment trusts) at prices lower than the public offering prices, and such dealers may reallocate any such discounts on sales to other dealers. In reoffering Certificates to the public, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices for Certificates at levels above those which might otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

### **Relationship Among Certain Parties**

Banc of America Securities LLC, the Underwriter and Remarketing Agent, and Bank of America, N.A. are affiliates, both being subsidiaries of Bank of America Corporation. As described herein, Bank of America, N.A. is the Swap Provider of the 2008 Swap Agreement to be entered into with respect to the Certificates. In addition, Bank of America, N.A., in the course of its normal lending activities, also entered into a certain Standby Bond Purchase Agreement related to certain revenue bonds of the City’s Water System and is the issuer of certain Letters of Credit related to certain revenue bonds of the City’s Electric System.



## VERIFICATION

Grant Thornton LLP, certified public accountants (the "Verification Agent"), will deliver a report stating that the firm has verified the accuracy of mathematical computations concerning the adequacy of the maturing principal amount of and interest earned on the Defeasance Securities initially deposited in the Escrow Fund to provide for the payment on the appropriate prepayment date the prepayment price thereof of the Series 2007A Certificates and the Series 2007B Certificates.

## VOLUNTARY CONTINUING DISCLOSURE

Although the City is not required under Rule 15c2-12 promulgated by the Securities and Exchange Commission to provide continuing disclosure with respect to the Certificates during the Weekly Mode, the City has elected to do so and will execute and deliver a continuing disclosure certificate at closing. As such, certain financial information and operating data relating to the City will be provided by not later than nine months after the end of the City's Fiscal Year (presently June 30) in each year commencing with its report for fiscal year 2007-08 to be delivered not later than April 1, 2009 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report or the notices of material events by the City is contained in Appendix G — "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The City failed to include certain statistical information in its annual reports required under a continuing disclosure obligation undertaken in connection with certificates of participation executed and delivered in 1999. The City has since filed all required material and is now current on all filings required pursuant to its previous continuing disclosure undertakings.

## MISCELLANEOUS

All of the descriptions of applicable law, the Lease Agreement, the Trust Agreement, the Property, the Project, the City, the Authority, agreements and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

This Official Statement does not constitute a contract with the purchasers of the Certificates. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will realize.

The execution and delivery of this Official Statement has been duly authorized by the City Council of the City.

CITY OF RIVERSIDE, CALIFORNIA

By:           /s/ Paul C. Sundeen            
Assistant City Manager, Chief Financial Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX A

### CITY OF RIVERSIDE FINANCIAL INFORMATION

#### General

The City was incorporated in 1883 and is a charter city that operates under a council-manager form of government with a seven-member council being elected for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the council, but does not have a vote except in case of a tie. The position of City Manager is filled by appointment of the council to serve as administrator of the staff and to carry out the policies of the council.

The City is the county seat of Riverside County and is located in the western portion of the County, approximately 60 miles east of downtown Los Angeles and 90 miles north of San Diego. The City is situated in close proximity to the metropolitan centers of Los Angeles and Orange Counties.

Functions of the City government are carried out by close to 2,850 full and part-time personnel. The City operates and maintains a sewer, water and electrical system. Other City services include diversified recreation programs, police, fire, airport, parks, a museum and libraries.

#### Services and Facilities

*Public Safety and Welfare.* The City provides law enforcement and fire protection services. As of June 30, 2007, the Police Department employed 402 sworn officers and the Fire Department employed 230 sworn fire fighters operating out of 14 fire stations. Other services provided by the City include emergency medical aid, traffic safety maintenance, and building safety regulation and inspection.

*Public Services.* The City provides electric, water, sewer, refuse and transportation service to the City residents through municipal enterprises. The City also owns and operates a general aviation airport.

*Public Works.* Additional services include parkway and median maintenance improvements, refuse management, sewer and storm drain maintenance, zoning and development administration, environmental review, code enforcement and street tree maintenance.

*Leisure and Community Services.* Among the City's cultural institutions and activities are a convention center, the Riverside Art Museum, a metropolitan museum, a number of libraries, an auditorium, the opera society and the symphony society. There are three major hospitals in the City: Parkview Community; Riverside Community; and Kaiser Permanente.

#### Accounting Policies and Financial Reporting

The accounts of the City are organized into separate funds to account for different activities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. The City's General Fund and other governmental fund types use the modified accrual basis of accounting. All of the City's other funds, including proprietary fund types and fiduciary fund types, use the accrual basis of accounting. The basis of accounting for all funds is more fully explained in the "Notes to the Basic Financial Statements" appended as Appendix B hereto.

The City Council employs, at the beginning of each fiscal year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, and at such other times as he or she shall determine, examines the combined financial statements of the City in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary. As soon as practicable after the end of the fiscal year, a final audit and report is submitted by such accountant to the City Council and a copy of the financial statements as of the close of the fiscal year is published.

The City's current auditor (the "Auditor") is the firm of Mayer Hoffman McCann P.C., Irvine, California. The audited financial statements of the City for Fiscal Year 2006-07 are attached hereto as Appendix B. The City's financial statements are public documents and are included within this Official Statement without the prior approval of the Auditor. Accordingly, the Auditor has not performed any post-audit of the financial condition of the City.

The City General Fund finances the legally authorized activities of the City not provided for in other restricted funds. General Fund revenues are derived from such sources as taxes; licenses and permits, fines, forfeits and penalties; use of money and property; aid from other governmental agencies; charges for current services; and other revenue. General Fund expenditures are classified by the functions of general government, public safety, highways and streets, culture and recreation and community development.

## City Financial Data

The following tables provide a five-year history of the City's Comparative Balance Sheet, General Fund revenues, expenditures, transfers, and ending fund balances.

**Table 1**  
**CITY OF RIVERSIDE**  
**GENERAL FUND BALANCE SHEET**  
**(Fiscal Year Ending June 30)**  
**(Dollars in Thousands)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>ASSETS:</b>					
Cash and investments	\$ 85,232	\$ 103,622	\$ 78,366	\$ 92,004	\$ 82,012
Cash and investments at fiscal agent <sup>(1)</sup>	0	43,937	63,165	38,271	15,778
Receivables (net)					
Interest	975	961	922	1,080	955
Property taxes	8,139	8,018	8,436	9,714	16,080
Sales taxes	8,011	9,162	9,103	10,664	10,221
Utilities billed	492	525	552	582	706
Accounts	3,304	7,880	3,110	3,611	4,140
Intergovernmental	2,416	4,838	5,066	4,012	6,585
Notes	33	30	70	70	70
Prepaid items	190	216	176	265	691
Due from other funds	8,860	9,970	6,921	8,266	7,435
Advances to other funds <sup>(2)</sup>	3,715	3,519	33,715	33,494	31,626
Land and Improvements Held for Resale	0	0	0	0	2,593
Total Assets	<u>\$121,367</u>	<u>\$192,678</u>	<u>\$209,602</u>	<u>\$202,033</u>	<u>\$178,892</u>
<b>LIABILITIES:</b>					
Accounts Payable	\$ 2,726	\$ 4,294	\$ 4,234	\$ 7,507	\$ 8,064
Accrued payroll	5,652	4,942	7,908	9,609	11,457
Retainage payable	169	91	382	303	164
Intergovernmental	128	219	138	155	163
Deferred revenue	9,991	16,899	12,427	8,543	15,208 <sup>(4)</sup>
Deposits	18,012	20,468	28,564	33,226	30,727
Due to other funds	50	8,799	50	50	50
Advances from other funds	<u>2,901</u>	<u>2,439</u>	<u>2,146</u>	<u>13,743</u>	<u>18,293<sup>(3)</sup></u>
Total Liabilities	<u>\$ 36,629</u>	<u>\$ 58,151</u>	<u>\$ 55,849</u>	<u>\$ 73,136</u>	<u>\$ 84,126</u>
<b>FUND BALANCE:</b>					
Reserved:					
Reserved for:					
Capital Assets	--	--	--	--	\$2,593
Encumbrances	\$ 10,424	\$ 13,503	\$ 8,918	\$ 24,170	13,803
Interfund receivable	3,715	3,519	33,715	33,493	31,627
Prepaid items	190	216	176	265	691
Notes receivable	33	30	70	70	70
Police Asset Forfeiture	0	0	523	486	0
Fire Bond	0	0	1,085	1,446	1,847
Unreserved, designated for economic contingencies	22,500	23,500	27,000	30,000	34,000
Unreserved, designated for future operations	25,434	71,666 <sup>(2)</sup>	59,593 <sup>(2)</sup>	35,487	7,288
Unreserved, designated for insurance	6,400	6,400	6,400	--	--
Unreserved, undesignated: General Fund	<u>13,042</u>	<u>15,693</u>	<u>16,273</u>	<u>3,480</u>	<u>2,847</u>
Total fund balances	<u>81,738</u>	<u>134,527</u>	<u>153,753</u>	<u>128,897</u>	<u>94,766</u>
Total Liabilities and Fund Balances	<u>\$121,367</u>	<u>\$192,678</u>	<u>\$209,602</u>	<u>\$202,033</u>	<u>\$178,892</u>

<sup>(1)</sup> Proceeds of outstanding certificates of participation that are designated for specific purposes. See "--Long-Term Obligations".

<sup>(2)</sup> Increase in this item in fiscal year 2004-05 is attributable to the issuance of a pension obligation bond on behalf of Miscellaneous employees. The portion of the proceeds that was not applicable to the General Fund was treated as advanced to other City funds, which will repay the advance in connection with payment of debt service on the pension obligation bonds.

<sup>(3)</sup> The increase in advances from other funds in fiscal year 2006-07 is attributable to new borrowing to finance an expansion of the City's fiber optic network, repaving of the parking lot at the City's Corporation Yard, and acquisition of a parking lot for the City's Homeless Shelter.

<sup>(4)</sup> The increase in deferred revenue in fiscal year 2006-07 is primarily attributable to an increase in unpaid property taxes.

Source: Audited Financial Statements of the City (except as noted).

**Table 2**  
**CITY OF RIVERSIDE**  
**STATEMENT OF GENERAL FUND**  
**REVENUES, EXPENDITURES AND FUND BALANCES**  
**(Fiscal Year Ending June 30)**  
**(Dollars in Thousands)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>REVENUES:</b>					
Taxes	\$ 82,062	\$ 91,343	\$116,018	\$129,824	\$135,390
Licenses and permits	7,243	6,538	7,374	8,370	7,821
Intergovernmental	19,897	17,691	15,366	14,315	12,069
Charges for services	8,872	10,035	11,291	11,526	11,903
Fines and forfeitures	1,903	1,982	1,783	1,908	2,559
Special assessments	3,906	4,101	4,118	3,969	3,963
Rental and investment income	3,478	1,713	4,251	5,528	6,827
Miscellaneous	<u>1,926</u>	<u>2,221</u>	<u>4,749</u>	<u>1,732</u>	<u>3,184</u>
Total Revenues	<u>\$129,287</u>	<u>\$135,624</u>	<u>\$164,950</u>	<u>\$177,172</u>	<u>\$183,716</u>
<b>EXPENDITURES</b>					
<b>Current:</b>					
General government	\$ 15,555	\$ 28,147 <sup>(1)</sup>	\$ 21,351	\$ 39,713	\$ 32,883
Public safety	96,487	107,637	119,036	131,688	153,226
Highways and streets	12,034	12,124	13,446	12,171	20,760
Culture and recreation	21,087	18,969	26,198	25,312	27,090
Debt service; principal	0	0	3,522 <sup>(4)</sup>	4,895	5,826
Debt service; interest	0	0	8,337 <sup>(4)</sup>	11,282	11,786
Bond issuance costs	<u>0</u>	<u>0</u>	<u>487<sup>(4)</sup></u>	<u>--</u>	<u>--</u>
Total Expenditures	<u>\$145,163</u>	<u>\$166,877</u>	<u>\$192,377</u>	<u>\$225,061</u>	<u>\$251,571</u>
Revenues over (under) expenditures	<u>(15,876)</u>	<u>(31,253)</u>	<u>(27,427)</u>	<u>(47,889)</u>	<u>(67,855)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	20,215	19,529	22,846	26,232	32,656
Transfers out	(3,466)	(15,905)	(8,076)	(3,304)	(1,922)
Proceeds from issuance of long-term debt <sup>(2)</sup>	0	168,574	60,000	--	--
Sales of capital assets	1,311	144	92	105	397
Advances from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>--</u>	<u>--</u>
Total other financing sources (uses)	<u>18,060</u>	<u>172,342</u>	<u>74,862</u>	<u>23,033</u>	<u>31,131</u>
Special item-pension contribution <sup>(3)</sup>	0	(88,300)	(28,213)	0	0
Net change in fund balances	2,184	52,789	19,222	(24,856)	(36,724)
Fund balances, July 1	<u>79,554</u>	<u>81,738</u>	<u>134,527</u>	<u>153,753</u>	<u>131,490</u>
Fund balances, June 30	<u>\$ 81,738</u>	<u>\$134,527</u>	<u>\$153,749</u>	<u>\$128,897</u>	<u>\$ 94,766</u>

(1) Increase in fiscal year 2003-04 reflects expenditure of a portion of proceeds of certificates of participation.

(2) Proceeds of outstanding certificates of participation, general obligation bonds and pension obligation bonds that are designated for specific purposes. See “-Long-Term Obligations”.

(3) City’s pension bonds deposited with CalPERS. See “-Long-Term Obligations”.

(4) Increases in fiscal year 2004-05 reflect a revised presentation of the General Fund’s debt service costs. In previous years, amounts were less material and were combined within the functional category of “General Government.”

Source: Audited Financial Statements of the City.

**Budgetary Process and Administration**

During the period December through February of each fiscal year, department heads prepare estimates of required appropriations for the following fiscal year. These estimates are compiled into a proposed operating budget which includes a summary of proposed revenue and expenditures and historical data for the two preceding fiscal years. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings. The City Manager is legally

authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund. Budgets for the funds are adopted on a basis consistent with generally accepted accounting principles.

Table 3 summarizes the final adopted 2007-08 General Fund budget.

**Table 3**  
**CITY OF RIVERSIDE**  
**SUMMARY OF GENERAL FUND BUDGET**  
**(Dollars in Thousands)**

	2007-08 <u>Final Budget</u>
<b>REVENUES:</b>	
Taxes	\$ 151,762
Transfers from Other Funds	31,626
Intergovernmental	3,370
Charges for Services	12,200
Misc. Revenues	12,063
Licenses and Permits	8,637
Fines and Forfeitures	<u>6,857</u>
Total Revenues	<u>226,515</u>
<b>EXPENDITURES:</b>	
General Government	\$ 50,836
Community Development	12,957
Police	83,805
Fire	40,466
Public Works	32,651
Park and recreation	17,618
Museum	1,736
Transfers Out	--
Library	8,010
Development	6,057
Managed Savings	<u>(12,164)</u>
Total Expenditures	<u>226,515</u>
Revenues Less Expenditures	<u>0</u>
Opening Reserves	\$46,238,726
Ending Reserves	<u>\$46,238,726<sup>(1)</sup></u>

<sup>(1)</sup> Includes Economic Contingency Reserve in the amount of \$34,000,000 at June 30, 2007 and Other Reserves of \$12,238,726.

Source: City of Riverside.

The City's total General Fund revenue increased between fiscal year 2005-06 and 2006-07 by over 3.6%. Revenues were projected at the time the budget was adopted to be approximately 11% higher in fiscal year 2007-08. These increases were principally attributable to the Library Department moving from a Special Revenue Fund to the General Fund, implementation of a red light violation photo enforcement program, continued significant levels of development activity and continued growth in both property and sales tax revenues. As the year progresses, the economic challenges facing the US are also occurring in the local region, resulting in revenues not materializing as planned. Property taxes are growing, but at a much slower pace than planned (approximately 4% vs. 10% planned), reflecting

challenges to the housing market throughout California. Additionally, sales taxes are actually decreasing in the current year by approximately 8% based on sales data provided to the City for the first two quarters of the fiscal year.

In response to this situation, a \$12 million spending reduction plan was presented to the City Council in February 2008. The planned reductions will preserve the level of reserves with which the City opened the fiscal year. The City’s management and Council remain committed to balancing each year’s budget and responding, as necessary, to adjustments in the level of projected revenues, including fiscal year 2008-09.

As anticipated, the fiscal year 2007-08 budget was approved by the City Council as balanced, driven largely by the continued strong growth in revenues. The City is able to continue to meet its policy of maintaining a 15% level of contingency reserves, and actually has a 20.4% level of available reserves to address unplanned adjustments to its revenues.

**General Fund Reserves**

The following chart illustrates the General Fund reserves of the City for fiscal years 1997-98 through 2006-07 and as budgeted for fiscal year 2007-08.

**Table 4  
CITY OF RIVERSIDE  
GENERAL FUND RESERVES**

<u>Fiscal Year</u>	<u>Ending Fund Balance (Dollars in Thousands)</u>	<u>Change</u>
1997-98	20,769	--
1998-99	19,882	(4.2)%
1999-00	24,130	21.4
2000-01	32,469	34.5
2001-02	45,170	39.1
2002-03	53,700	18.9
2003-04	50,503	(6.0)
2004-05	55,650	10.2
2005-06	46,626	(16.2)
2006-07	46,239 <sup>(1)</sup>	(0.83)
2007-08	46,239 <sup>(1)</sup>	0

<sup>(1)</sup> The projected available fund balance of \$46,238,726 at June 30, 2007 included the following: “Unreserved, designated for economic contingencies” (\$34,000,000), and “Unreserved: General Fund” (\$12,238,726).  
Source: City of Riverside annual budgets.



## Taxes and Other Revenue

The City receives the following local taxes and revenue. Each of these sources of local tax revenue is described in greater detail in subsequent sections.

**Table 5**  
**CITY OF RIVERSIDE**  
**TAX REVENUES BY SOURCE<sup>(1)</sup>**  
**(Dollars in Thousands)**

	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Sales Tax	\$ 41,691	\$ 46,624	\$ 53,348	\$ 57,522	\$ 55,666
Property Tax <sup>(2)</sup>	33,584	35,911	61,553	80,934	106,114
Utility Users Tax	19,928	21,362	22,133	23,502	25,384
Franchise Tax	3,811	4,261	4,481	4,813	5,031
Other Taxes	<u>2,967</u>	<u>3,213</u>	<u>1,795</u>	<u>4,372</u>	<u>3,581</u>
Total Taxes	<u>\$101,981</u>	<u>\$111,371</u>	<u>\$143,310</u>	<u>\$171,143</u>	<u>\$195,776</u>
Non-General Fund Amounts	<u>(19,919)</u>	<u>(20,028)</u>	<u>(27,292)</u>	<u>(41,319)</u>	<u>(60,386)</u>
General Fund Tax Revenues	<u>\$ 82,062</u>	<u>\$ 91,343</u>	<u>\$116,018</u>	<u>\$129,824</u>	<u>\$135,390</u>

<sup>(1)</sup> Information reported on an accrual basis.

<sup>(2)</sup> Includes property taxes received in lieu of vehicle license fees, fire bond special taxes and all delinquent taxes.

Source: City of Riverside Annual Financial Reports.

**Sales Taxes.** Sales and use taxes represent the largest source of General Fund tax revenue to the City. This section describes the current system for levying, collecting and distributing sales and use tax revenues in the State. However, the State budget situation has resulted in a temporary redirection of sales tax revenues from the City to the State. See “ – Impact of State Budget” below for additional information.

*Sales Tax Rates.* The City’s sales tax revenue represents the City’s one percent share of the sales and use tax imposed on taxable transactions occurring within the City’s boundaries. The sales tax is governed by the Bradley-Burns Uniform Local Sales and Use Tax Law (the “Sales Tax Law”).

Currently, taxable transactions in the City are subject to the following sales and use tax, of which the City’s share is only a portion. The State collects and administers the tax, and makes distributions on taxes collected within the City, as follows:

**Table 6**  
**CITY OF RIVERSIDE**  
**Sales Tax Rates**  
**Fiscal Year 2007-08**

State (General Fund)	5.50%
City	1.00
State (Local Public Safety Fund)	0.50
State (County transportation funds)	0.25
Total State-wide Tax	7.25
Riverside County Transportation Commission	<u>0.50</u>
Total	<u>7.75%</u>

Source: The City.

Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State. The use tax is imposed on the purchase, for storage, use or other consumption in the State of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State where the use will occur within the State. The sales tax is imposed upon the same transactions and items as the statewide sales tax and the statewide use tax. Certain transactions are exempt from the State sales tax, including sales of the following products:

- food products for home consumption;
- prescription medicine;
- newspapers and periodicals;
- edible livestock and their feed;
- seed and fertilizer used in raising food for human consumption; and
- gas, electricity and water when delivered to consumers through mains, lines and pipes.

This is not an exhaustive list of exempt transactions. A comprehensive list can be found in the State Board of Equalization's January 2007 publication entitled "Sales and Use Taxes: Exemptions and Exclusions," which can be found on the State Board of Equalization's website at <http://www.boe.ca.gov/>. See also "RISK FACTORS – Impact of Sales and Use Tax Redirection" in the body of this Official Statement.

*Sales Tax Collection Procedures.* Collection of the sales and use tax is administered by the California State Board of Equalization. According to the State Board of Equalization, it distributes quarterly tax revenues to cities, counties and special districts using the following method:

Using the prior year's like quarterly tax allocation as a starting point, the Board first eliminates nonrecurring transactions such as fund transfers, audit payments and refunds, and then adjusts for growth, in order to establish the estimated base amount. The State Board of Equalization disburses 90% to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter's actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax collections (such as earthquakes, fire or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances and the current advance are provided with each quarterly clean-up payment.

Under the Sales and Use Tax Law, all sales and use taxes collected by the State Board of Equalization under a contract with any city, city and county, redevelopment agency, or county are required to be transmitted by the Board of Equalization to such city, city and county, redevelopment agency, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

Under its procedures, the State Board of Equalization projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the State Board of Equalization's quarterly projection. During the last month of each quarter, the State Board of Equalization adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

The Board of Equalization receives an administrative fee based on the cost of services provided by the Board to the City in administering the City's sales tax, which is deducted from revenue generated

by the sales and use tax before it is distributed to the City. The State will temporarily redirect local sales and use taxes to the State, including 0.25% that would otherwise be available to the City, to pay debt service on its “economic recovery” bonds. The State will increase local governments’ share of local property tax by a like amount. It should be noted that certain features and consequences of this redirection could impact the availability of revenues to pay Base Rental Payments. See “RISK FACTORS — Impact of Sales and Use Tax Redirection” in the body of the Official Statement for additional information.

*History of Taxable Transactions.* A summary of historic taxable sales within the City for calendar years 2002 through 2006 is shown in the following table.

**Table 7**  
**CITY OF RIVERSIDE**  
**TAXABLE TRANSACTIONS**  
**For Calendar Years 2002 Through 2006**  
**(Dollars in Thousands)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Apparel stores	\$ 105,476	\$ 124,223	\$ 145,023	\$ 160,138	\$ 174,662
General merchandise stores	510,038	536,795	597,030	625,500	606,351
Food stores	136,076	145,308	154,562	168,015	176,052
Eating & drinking places	257,711	276,757	300,858	330,249	350,911
Home furnishings & appliances	81,844	93,977	102,243	108,873	119,217
Building materials & farm implements	346,277	395,175	517,865	584,760	573,736
Auto dealers and auto supplies	864,486	987,372	1,172,792	1,245,340	1,219,784
Service stations	192,914	222,575	266,658	306,008	342,810
Other retail stores	396,808	427,978	461,968	491,080	519,454
Retail Stores Totals	2,891,630	3,210,160	3,718,999	4,019,963	4,082,977
All other outlets	<u>769,277</u>	<u>764,423</u>	<u>884,770</u>	<u>930,291</u>	<u>951,095</u>
Total all outlets	<u>\$3,660,907</u>	<u>\$3,974,583</u>	<u>\$4,603,769</u>	<u>\$4,950,254</u>	<u>\$5,034,072</u>

Source: California State Board of Equalization.

**Ad Valorem Property Taxes.** *General.* In California, property which is subject to ad valorem taxes is classified as “secured” or “unsecured.” Secured and unsecured property are entered on separate parts of the assessment roll maintained by the county assessor. The secured classification includes property on which any property tax levied by the County becomes a lien on that property sufficient, in the opinion of the County assessor, to secure payment of the taxes. Every tax which becomes a lien on secured property has priority over other liens (except certain federal claims) on the secured property, regardless of the time of the creation of other liens. A tax levied on unsecured property does not become a lien against the taxes on unsecured property, but may become a lien on certain other property owned by the taxpayer.

Property taxes on the secured roll are due in two installments, on November 1 and March 1. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. If such taxes remain unpaid as of June 30 of the fiscal year in which the taxes are levied, the property securing the taxes may only be redeemed by a payment of the delinquent taxes and the delinquency penalty, plus costs and a redemption penalty of 1-1/2% per month from the original June 30th date to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted properties are thereafter subject to sale by the county tax collector as provided by law.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent if unpaid by August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1-1/2% per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing of a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) secure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

*Historic Secured Property Tax Revenues.* Section 4701 through Section 4717 of the California Revenue and Taxation Code permit counties to use a method of apportioning taxes (commonly referred to as the "Teeter Plan") whereby local agencies receive from the County 100% of their respective shares of the amount of secured ad valorem taxes levied, without regard to actual collections of taxes. Due to this allocation method, the cities in the County receive no adjustments for redemption payments on delinquent collections. The unsecured taxes are allocated based on actual unsecured tax collections.

The County of Riverside adopted this method of distributing taxes; however, the City has elected not to participate in the Teeter Plan. Consequently, property tax collections allocated to the City reflect actual collections.

The following table sets forth historical secured property tax levies and collections for the City for Fiscal Years 1997-98 through 2006-07.

**Table 8**  
**CITY OF RIVERSIDE**  
**HISTORICAL SECURED PROPERTY TAX REVENUES<sup>(1)</sup>**  
**(Dollars in Thousands)**

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>% of Current Taxes Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Tax Collections</u>	<u>Ratio of Total Tax Collections to Total Tax Levy</u>	<u>Outstanding Delinquent Taxes<sup>(2)</sup></u>
1997-98	\$22,429	\$21,055	93.9%	\$584	\$21,639	96.5%	\$ 9,810
1998-99	23,113	21,888	94.7	537	22,425	97.0	10,497
1999-00	24,241	23,431	96.7	626	24,057	99.2	9,994
2000-01	25,205	24,436	96.9	370	24,806	98.4	11,081
2001-02	25,237	23,098	91.5	513	23,611	93.6	12,707
2002-03	26,050	25,186	96.7	603	25,789	99.0	11,715
2003-04	31,954	31,092	97.3	966	32,058	100.3	11,612
2004-05	37,144	36,004	96.9	706	36,710	98.8	12,046
2005-06	53,680	51,503	95.9	746	52,249	97.3	13,477
2006-07	74,305	66,751	89.8	934	67,685	91.1	20,097

<sup>(1)</sup> Includes collection of property tax revenue allocated to the City's Redevelopment Agency and reported on cash basis.

<sup>(2)</sup> Includes late fees and penalties.

Source: Riverside County Auditor Controller's Office.

*Taxable Property and Assessed Valuation.* The following table sets forth the assessed valuation for secured and unsecured property within the City for the ten most recent fiscal years.

**Table 9**  
**CITY OF RIVERSIDE**  
**GROSS ASSESSED VALUE OF ALL TAXABLE PROPERTY**  
**(Dollars in Thousands)**

<u>Fiscal Year</u>	<u>Secured</u>	<u>Unsecured</u>	<u>Total</u>
1998-99	\$10,158,747	\$ 576,029	\$10,734,776
1999-00	10,557,523	632,940	11,190,463
2000-01	11,269,877	686,215	11,956,092
2001-02	12,103,179	799,323	12,902,502
2002-03	13,071,416	980,529	14,051,944
2003-04	14,188,658	845,858	15,034,516
2004-05	15,540,982	951,211	16,492,193
2005-06	17,557,341	1,058,995	18,616,336
2006-07	20,672,126	1,140,891	21,813,017
2007-08	23,630,110	1,291,972	24,922,082

Source: County of Riverside Assessor's Office.

The California Community Redevelopment Law authorizes the redevelopment agency of any city or county to receive an allocation of tax revenues resulting from increases in assessed values of properties within designated redevelopment project areas (the "incremental value") occurring after the year the project area is formed. In effect, local taxing authorities, such as the City, realize tax revenues only on the assessed value of such property at the time the redevelopment project is created for the duration of such redevelopment project. Seven redevelopment project areas have been formed in the City. The following table sets forth total assessed valuations, homeowners' and other miscellaneous exemptions and redevelopment agency incremental values for the nine most recent fiscal years.

**Table 10**  
**CITY OF RIVERSIDE**  
**TOTAL AND NET PROPERTY TAX VALUATIONS**  
**(Dollars in Thousands)**

<u>Fiscal Year</u>	<u>Gross Assessed Value</u>	<u>Homeowners' and Other Exemptions<sup>(1)</sup></u>	<u>Redevelopment Agency Incremental Value</u>	<u>Net Value</u>
1999-00	\$11,190,463	\$710,971	\$1,188,654	\$ 9,290,838
2000-01	11,956,092	753,859	1,263,684	9,938,549
2001-02	12,902,502	699,429	1,429,686	10,773,389
2002-03	14,051,944	768,037	1,638,924	11,644,983
2003-04	15,034,516	819,536	1,706,967	12,508,013
2004-05	16,492,193	851,695	1,900,149	13,770,349
2005-06	18,616,336	929,544	3,072,633	14,614,159
2006-07	21,813,017	954,324	4,463,064	16,395,629
2007-08	24,922,082	1,036,591	5,924,075	17,961,416

<sup>(1)</sup> Includes homeowner, governmental and non-profit exemptions.

Source: City of Riverside.

*Largest Taxpayers.* The 10 largest secured property taxpayers for fiscal year 2006-07 are as follows:

**Table 11**  
**CITY OF RIVERSIDE**  
**LARGEST SECURED TAXPAYERS FOR FISCAL YEAR 2006-07**  
**(Dollars in Thousands)**

<u>Taxpayer</u>	<u>Land Use</u>	<u>Assessed Valuation</u>	<u>Percent of Total</u>
Tyler Mall Limited Partnership	Regional shopping center	\$154,056	0.7%
BRE Prop. Inc.	Realty Investment	147,691	0.7
La Sierra University	Higher Education	112,207	0.5
Riverside Healthcare System	Healthcare	103,978	0.5
State Street Bank <sup>(1)</sup>	Realty Investment	81,756	0.4
Centex Homes	Developer	78,112	0.4
Rohr/Goodrich	Manufacturer	66,894	0.3
La Sierra College	Higher Education	64,230	0.3
Riverside Plaza	Shopping Center	63,553	0.3
Press Enterprise	Newspaper	<u>61,540</u>	<u>0.3</u>
Total		<u>\$934,017</u>	<u>4.5%</u>

<sup>(1)</sup> State Street Bank owns 81.22 acres of land featuring a grocery warehouse, distribution center and creamery consisting of more than one million square feet which was constructed in 1995 and leased to Smith's Foods. The property is subleased to Ralph's Grocery Company, which along with Smith's Foods, operates more than 800 stores, mostly in the western United States. Ralph's Foods added an additional 100,000 square feet to the facility in 1999.

Source: County of Riverside Assessor's Office.

*State Legislative Shift of Property Tax Allocation.* See "RISK FACTORS — Impact of State Budget" in the body of this Official Statement for a discussion of circumstances which will adversely impact certain of the City's receipts. Briefly, however, the State of California faced severe budget issues in the past several years. As a result, in the past, the State Legislature enacted legislation, that among other things, reallocated a portion of funds from redevelopment agencies to school districts by shifting each agency's tax increment, net of amounts due to other taxing agencies, to school districts ("ERAF" shifts).

The fiscal year 2004-05 and 2005-06 State Budgets included a transfer by California cities to the applicable ERAFs. The City's share of the ERAF shift for Fiscal Years 2004-05 and 2005-06 is approximately \$2.7 million in each fiscal year. The State's electorate adopted a proposition at the November 2004 election that purports to limit future transfers of this type after fiscal year 2005-06, subject to certain exceptions. The fiscal year 2007-08 State Budget does not include an ERAF transfer. See "RISK FACTORS – Impact of State Budget" herein for additional information.

**Other Taxes.** *Franchise Taxes.* The City levies a franchise tax on its cable television, trash collection, utility franchises, taxi cabs, natural gas piping and ambulance service.

*Business License Taxes.* The City levies a business license tax based principally on gross receipts and on number of employees.

*Transient Occupancy Taxes.* The City levies a 11% transient occupancy tax on hotel and motel bills.

*Utility Users Taxes.* The City levies a tax equal to 6% of utility bills, which is collected by the companies providing the services and remitted monthly to the City.

*Property Transfer Taxes.* A documentary stamp tax is assessed for recordation of real property transfers.

**Special Assessments.** On an annual basis, the City deposits into the General Fund assessments levied and collected in Street Lighting District No. 1. Street Lighting District No. 1 was formed in 1988 for installation, construction and maintenance of public lighting and related facilities. The City uses the assessments to pay for a portion of the costs incurred by the City for the authorized public lighting and related facilities. These assessments are not available for Lease Payments and, in turn the principal and interest evidenced by the Certificates.

**In-Lieu Payments.** Historically, a significant revenue source of the City has been State of California payments and other payments in-lieu of taxes. The City receives a portion of Department of Motor Vehicles fees collected statewide. Payment of State assistance depends on the adoption by the State of its budget, including the appropriations therein providing for local assistance. These revenues are shown in Table 3 and in the accompanying financial statements appended to this Official Statement as Appendix B as “intergovernmental revenues.”

**Table 12**  
**CITY OF RIVERSIDE**  
**IN-LIEU PAYMENTS (VEHICLE LICENSE FEES)**

<u>Fiscal Year</u>	<u>In-Lieu Payment</u>
2000-01	\$13,772,065
2001-02	14,848,312
2002-03	15,533,453
2003-04	12,527,520
2004-05	1,795,358
2005-06	1,747,027
2006-07	1,839,093
2007-08 <sup>(1)</sup>	2,000,000

<sup>(1)</sup> Estimated.  
Source: City of Riverside.

The decline in in-lieu payments for fiscal years 2004-05 through 2007-08 is primarily due to the State’s swapping of property tax revenue for vehicle license fees.

**Short-Term Obligations**

The City currently has no outstanding short-term obligations.

**Long-Term Obligations**

Set forth below is a summary of the City’s outstanding general obligation bonds and General Fund obligations.

*General Obligation Debt.* On November 4, 2003, the voters in the City approved the issuance of up to \$20 million principal amount of general obligation bonds to finance fire facilities. As of June 30, 2007, the outstanding obligation with respect to the general obligation bonds was \$19,331,000 (including \$256,000 of unamortized initial issue premium).

*Pension Obligation Bonds.* In fiscal year 2003-04, the City issued Taxable Pension Obligation Bonds in the amount of \$89,540,000 to fund the unfunded actuarial accrued liability for public safety employees (which, as of June 30, 2004, was \$88,300,000). Proceeds from the bonds were deposited with CalPERS and are reflected as a net pension asset of \$88,300,000 for governmental activities in the Government-wide Statement of Net Assets in the City's audited financial statements for fiscal year 2003-04. As of June 30, 2007, the City had \$85,765,000 in principal amount of such Pension Obligation Bonds outstanding.

In fiscal year 2004-05, the City issued Taxable Pension Obligation Bonds in the amount of \$60,000,000 to partially fund unfunded actuarial accrued liabilities for non-safety employees (which as of June 30, 2005 was \$73,400,000). Proceeds from the bonds in the amount of \$59,434,000 were deposited with CalPERS and are recorded as a special item in the Government-wide Statement of Net Assets in the City's audited financial statements for fiscal year 2004-05. As of June 30, 2007, the City had \$58,685,000 in principal amount of such Pension Obligation Bonds outstanding.

A total of \$147,521,000 of net pension assets (including the 2004 Pension Obligation Bonds proceeds) are included as a deferred charge in the Government-wide Statement of Net Assets. The deferred charge relating to the net pension assets will be amortized over 19 years in accordance with the method used by CalPERS for calculating actuarial gains and losses. See Note 14 of the audited financial statements attached hereto as Appendix B for additional information. As of June 30, 2007, \$144,450,000 in aggregate principal amount of Pension Obligation Bonds remained outstanding.

*Certificates of Participation.* The City has made use of various lease arrangements with the Riverside Parking Authority, the Riverside Civic Center Authority and the Riverside Municipal Improvements Corporation to finance capital projects through the issuance of certificates of participation and lease revenue bonds. The items noted as 2007A Certificates of Participation and 2007B Certificates of Participation are being refunded with the proceeds of the Certificates and, upon execution and delivery of the Certificates, will no longer be outstanding.

As of June 30, 2007, the outstanding certificates of participation and their outstanding principal balance were as set forth in the following table:

**Table 13**  
**CITY OF RIVERSIDE**  
**SUMMARY OF LONG-TERM GENERAL FUND OBLIGATIONS**

	<u>Original Issue</u>	<u>Outstanding Principal</u>
1999 Certificates of Participation	\$ 6,360,000	\$ 2,280,000
2003 Certificates of Participation	53,185,000	50,200,000
2006 Certificates of Participation	19,945,000	19,945,000
2007A Certificates of Participation*	59,475,000	59,475,000
2007B Certificates of Participation*	59,500,000	59,500,000
Plus unamortized bond premium		<u>1,474,000</u>
Total		<u>\$192,874,000</u>

\* To be refunded with the proceeds of the Certificates.

*Capital Lease Obligations.* The City leases various equipment through capital leasing arrangements. The minimum lease obligations payable by the City as of June 30, 2007 are identified in Note 7 to the City's June 30, 2007 audited financial statements attached as Appendix B hereto.



The City also leases various equipment through capital leasing arrangements payable from the General Fund or enterprise funds. The future minimum lease obligations as of June 30, 2007 were as follows.

**Table 14**  
**CITY OF RIVERSIDE**  
**CAPITAL LEASES**  
**(Dollars in Thousands)**

<u>Years Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-type Activity</u>
2008	\$1,749	\$ 92
2009	1,520	75
2010	848	51
2011	809	51
2012	<u>474</u>	<u>0</u>
Total minimum lease payments	<u>5,400</u>	<u>269</u>
Less: Amount representing interest (rates ranging from 2.5% to 9%)	<u>(471)</u>	<u>(16)</u>
Total capital lease payable	<u>\$4,929</u>	<u>\$253</u>

**Direct and Overlapping Bonded Debt**

The ability of land owners within the City to pay property tax installments as they come due could be affected by the existence of other taxes and assessments imposed upon the land.

The statement of direct and overlapping debt (the “Debt Report”) set forth below was prepared by California Municipal Statistics, Inc. as of March 1, 2008. The Debt Report includes only such information as has been reported to California Municipal Statistics, Inc. by the issuers of the debt described therein and by others. The Debt Report is included for general information purposes only. The City takes no responsibility for its completeness or accuracy.

**Table 15**  
**CITY OF RIVERSIDE**  
**DIRECT AND OVERLAPPING BONDED DEBT**  
**(As of March 1, 2008)**

2007-08 Assessed Valuation: \$24,091,825,141  
 Redevelopment Incremental Valuation: 5,937,377,717  
 Adjusted Assessed Valuation: \$18,154,447,424

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/08</u>
Metropolitan Water District	1.023%	\$ 3,347,410
Riverside City Community College District	27.014	40,141,753
Alvord Unified School District	61.632	27,833,011
Riverside Unified School District	82.813	94,738,072
Corona-Norco Unified School District	0.002	2,496
Jurupa Unified School District	0.008	4,429
Moreno Valley Unified School District	4.002	1,969,525
<b>City of Riverside</b>	<b>100.</b>	<b>18,530,000</b>
Alvord Unified School District Community Facilities District No. 2006-1	68.691	6,127,237
Riverside Unified School District Community Facilities Districts	96.650 -100.	90,661,425
City of Riverside Community Facilities Districts	100.	46,570,000
City of Riverside 1915 Act Bonds	100.	<u>39,210,000</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$369,135,358</b>

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	10.449%	\$ 74,568,794
Riverside County Pension Obligations	10.449	40,541,598
Riverside County Board of Education Certificates of Participation	10.449	969,145
Alvord Unified School District Certificates of Participation	61.632	14,218,502
Corona Norco Unified School District Certificates of Participation	0.002	2,098
Jurupa Unified School District Certificates of Participation	0.008	613
Moreno Valley Unified School District Certificates of Participation	4.002	981,090
Riverside Unified School District General Fund Obligations	82.813	19,560,431
City of Riverside General Fund Obligations	100.	190,235,000
<b>City of Riverside Pension Obligations</b>	<b>100.</b>	<b><u>144,450,000</u></b>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$485,527,271</b>
Less: Riverside County self-supporting obligations		<u>1,886,232</u>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$483,641,039</b>

GROSS COMBINED TOTAL DEBT \$854,662,629 <sup>(1)</sup>  
 NET COMBINED TOTAL DEBT \$852,776,397

<sup>(1)</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2007-08 Assessed Valuation:  
**Direct Debt (\$18,530,000)** ..... **0.08%**  
 Total Direct and Overlapping Tax and Assessment Debt..... 1.53%

Ratios to Adjusted Assessed Valuation:  
**Combined Direct Debt (\$353,215,000)**..... **1.95%**  
 Gross Combined Total Debt..... 4.71%  
 Net Combined Total Debt ..... 4.70%

Source: California Municipal Statistics, Inc.

**Retirement Programs**

The City contributes to the California Public Employee’s Retirement System (“CalPERS”), an agent multiple-employer public employee retirement system that acts as a common investment and, administrative agent for participating public entities within the State of California.

All permanent and temporary employees who work more than 1,000 hours are eligible to participate in the CalPERS. Benefits vest after 5 years of service. Benefits for employees vary based upon final yearly compensation, safety or non-safety status, length of service and age at retirement. CalPERS also provides death and disability benefits.

City employees' contribution rates are 8% (9% for public safety employees) of their annual covered salary. The City currently pays the employees' contribution to CalPERS for both miscellaneous and safety employees. The City's actuarially determined contribution rates for fiscal year 2006-07 were 13.181% for non-safety employees and 19.015% for safety employees. The City is required to contribute amounts necessary to fund the benefits for its members using the actuarial basis recommended by CalPERS. The contribution to CalPERS for fiscal year 2006-07 was approximately \$35,053,000 (equal to its required contributions of \$34,226,000 less the effect of amortization of the net pension asset of \$826,000). The City has budgeted a contribution of \$43,120,193 for fiscal year 2007-08 from the General Fund and other revenue sources.

Three-year trend information for CalPERS funding is set forth in the following table:

Fiscal Year Ending <u>June 30</u>	Actual Pension Cost <u>(APC)</u>	Percentage of APC <u>Contributed</u>	Net Pension Obligation <u>(Asset)</u>
2005	\$28,948,000	305%	\$(147,842,000)
2006	30,684,000	100	(147,546,000)
2007	35,053,000	100	(147,521,000)

A total of \$147,521,000 of net pension assets are included as a deferred charge in the Government-wide statement of Net Assets. The City is amortizing its CalPERS unfunded actuarial accrued liability, as set forth in the following table, as a level percentage of projected payroll on a closed basis over 19 years. The following table, excerpted from the City's audited financial statements for fiscal year 2006-07, describes the schedule of funding for CalPERS (unaudited and dollars shown in thousands):

<u>Plan</u>	<u>Actuarial Valuation Date</u>	<u>Entry Age Normal Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Actuarial Accrued Liability (UAAL)</u>	<u>% Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
Misc.	6/30/03	\$568,712	\$511,281	\$57,431	89.9%	\$75,838	75.7%
Safety	6/30/03	413,125	329,673	83,452	79.8	44,611	187.1
Misc.	6/30/04	611,841	537,352	74,489	87.8	77,960	95.5
Safety	6/30/04	454,795	440,172	14,623	96.8	48,635	30.1
Misc.	6/30/05	665,642	634,694	30,948	96.8	84,290	24.9
Safety	6/30/05	486,880	468,652	18,228	96.3	50,368	36.2

See "— Long Term Obligations" above for a discussion of the issuance of pension obligation bonds by the City and the reflection of the deposit of such bond proceeds in the City's audited financial statements. See also the audited financial statements attached as Appendix B hereto for additional information.

### **Employee Relations and Collective Bargaining**

City employees are represented by nine labor union associations, the principal one being the Service Employees International Union General Unit, which represents approximately 40% (exclusive of Refuse Unit) of City full-time employees. Currently 68% all City employees are covered by negotiated

agreements. Since 1979, the City has not had an employee work stoppage. Negotiated agreements have the following expiration dates as of March 7, 2008.

**Table 16**  
**CITY OF RIVERSIDE**  
**NEGOTIATED EMPLOYEE AGREEMENTS**

<u>Bargaining Unit</u>	<u>Contract Expiration Date</u>	<u>Number of Employees<sup>(1)</sup></u>
Service Employees International Union - General Unit	7/30/10	1038
Riverside Police Officers Assoc.	6/30/10	301
Riverside Police Officers Association - Supervisory	6/30/09	54
Riverside Police Administrators Association	6/30/09	30
International Brotherhood of Electrical Workers	9/30/10	184
International Brotherhood of Electrical Workers - Supervisory	9/30/10	27
Riverside City Firefighters Assoc.	6/30/10	218
Riverside City Fire Management	6/30/10	12
Service Employees Int. Union -- Refuse Unit	6/30/11	42

<sup>(1)</sup> Includes vacancies.  
Source: City of Riverside.

### **Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. Internal service funds have been established to account for and finance the uninsured risks of loss of public liability claims and worker's compensation.

Property insurance coverage has a limit of \$100 million, with a \$50,000 deductible. Earthquake and flood insurance currently have a \$15 million limit, with a deductible of 5% for earthquake and 2% for flood. Workers' compensation insurance coverage has a limit of \$25 million with a deductible of \$3 million per occurrence. On July 1, 2007, the City carried commercial insurance up to \$23 million for general and auto liability claims greater than \$3 million per occurrence. There were no claims settled during fiscal years 2000 through 2007 above the covered amount.

The following table summarizes the reserved balances in the Self-Insurance Fund for fiscal years 2002-03 through 2006-07.

**Table 17**  
**CITY OF RIVERSIDE**  
**SELF-INSURANCE FUND**  
**(Dollars in Thousands)**

<u>Fund</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Worker's Compensation	\$13,801	\$11,117	\$11,147	\$13,734	\$19,687
Public Liability	6,899	6,091	6,326	6,174	8,226

Source: City of Riverside.

## City Investment Policy and Portfolio

The City administers a pooled investment program, except for those funds which are managed separately by trustees appointed under bond indentures. This program enables the City to combine available cash from all funds and to invest cash that exceeds current needs. The most recently revised Investment Policy for the City was adopted on January 22, 2008 by the City Council.

In accordance with the Government Code, the City requires certain collateralization for public deposits in banks and savings and loans, and has long-established safekeeping and custody procedures. The City Treasurer submits a monthly report to the City Council that contains a statement that the City's portfolio is invested in conformance with state law and the Investment Policy, and that there is sufficient liquidity to meet estimated expenditures.

The City's pooled investment portfolio as of January 31, 2008, had a market value of \$351,146,938. The following table illustrates the investments as of January 31, 2008:

**Table 18**  
**CITY OF RIVERSIDE**  
**INVESTMENT PORTFOLIO**  
**(As of January 31, 2008)**

<u>Type</u>	<u>Market Value</u>	<u>Cost Basis</u>	<u>% of Portfolio<sup>(2)</sup></u>
Money Market Accounts <sup>(1)</sup>	\$ 85,190,664	\$ 85,190,664	24.30%
Bonds, Debentures and Notes	265,901,274	272,939,403	75.70
Cash	<u>55,000</u>	<u>55,000</u>	<u>0.00</u>
Total	<u>\$351,146,938</u>	<u>\$358,185,067</u>	<u>100.00%</u>

<sup>(1)</sup> Includes \$43,800,000 in the State of California Local Agency Investment Fund.

<sup>(2)</sup> Based on market value as of January 31, 2008.

Source: City of Riverside.

As of January 31, 2008, the average life of the City's investment portfolio was 646 days.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2006-07**

[THIS PAGE INTENTIONALLY LEFT BLANK]





The City of Riverside, CA



# Comprehensive Annual Financial Report

## Year Ended June 30, 2007

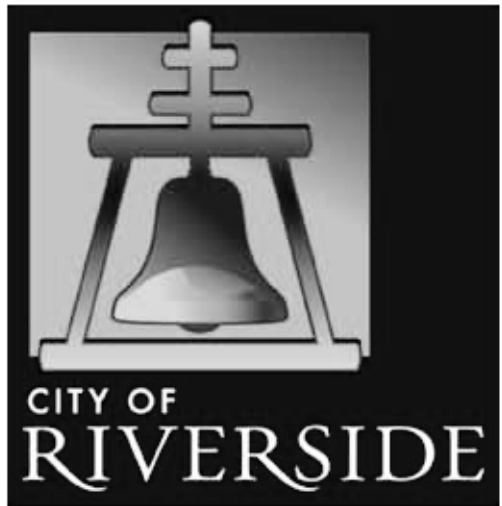
**CITY OF RIVERSIDE, CALIFORNIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR FISCAL YEAR ENDED JUNE 30, 2007**

---

**Prepared by the City Manager's Office – Finance Division  
Paul C. Sundeen, Assistant City Manager/Chief Financial Officer**

**3900 Main Street, Riverside, California 92522 (951) 826-5660**

This report was printed on recycled stock



**CITY OF RIVERSIDE  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 YEAR ENDED JUNE 30, 2007**

**TABLE OF CONTENTS**

<b>INTRODUCTORY SECTION</b>	<b>Page</b>
Letter of Transmittal.....	v
GFOA Certificate of Achievement.....	ix
Legislative and City Officials.....	x
Organization Chart.....	x
<b>FINANCIAL SECTION</b>	
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	21
Statement of Activities.....	22
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	23
Reconciliation of the Balance Sheet of Governmental Funds to Statement of Net Assets.....	24
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	26
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.....	27
Statement of Net Assets – Proprietary Funds.....	28
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds.....	30
Statement of Cash Flows – Proprietary Funds.....	31
Statement of Fiduciary Net Assets – Fiduciary Fund – Agency Fund.....	33
Notes to Financial Statements.....	34
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds.....	61
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	63
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Nonmajor Governmental Funds.....	65
Combining Statement of Net Assets – Nonmajor Enterprise Funds.....	69
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds.....	71

**CITY OF RIVERSIDE  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 YEAR ENDED JUNE 30, 2007**

**TABLE OF CONTENTS**

**FINANCIAL SECTION (CONT.)**

Combining Statement of Cash Flows – Nonmajor Enterprise Funds.....	72
Combining Statement of Net Assets – Internal Service Funds.....	75
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Funds.....	76
Combining Statement of Cash Flows – Internal Service Funds.....	77
Combining Statement of Changes in Assets and Liabilities – Fiduciary Fund.....	79
Capital Assets Used in the Operation of Governmental Funds:	
Schedule by Source.....	81
Schedule by Function and Activity.....	82
Schedule of Changes by Function and Activity.....	83

**STATISTICAL SECTION**

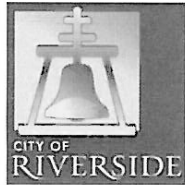
Table

1	Net Assets by Component – Last Seven Fiscal Years.....	86
2	Changes in Net Assets – Last Seven Fiscal Years.....	87
3	Fund Balances of Governmental Funds – Last Ten Fiscal Years.....	89
4	Changes in Fund Balances of Governmental Funds – Last Ten Fiscal Years.....	90
5	Business-Type Activities Electricity Revenues By Source – Last Seven Fiscal Years.....	92
6	Governmental Activities Tax Revenues By Source – Last Seven Fiscal Years.....	93
7	Assessed Value and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years.....	94
8	Direct and Overlapping Property Tax Rates – Last Ten Fiscal Years.....	95
9	Principal Property Taxpayers.....	96
10	Property Tax Levies and Collections – Last Ten Fiscal Years.....	97
11	Electricity Sold by Type of Customer – Last Ten Fiscal Years.....	98
12	Electricity Rates – Last Ten Fiscal Years.....	99
13	Top 10 Electricity Customers – Current Year and Nine Years Ago.....	100
14	Ratios of Outstanding Debt by Type – Last Ten Fiscal Years.....	101
15	Ratios of General Bonded Debt Outstanding – Last Ten Fiscal Years.....	102
16	Direct and Overlapping Debt.....	103
17	Legal Debt Margin Information – Last Ten Fiscal Years.....	105
18	Pledged-Revenue Coverage Governmental Activity Debt – Last Ten Fiscal Years.....	106
19	Pledged-Revenue Coverage Business Type Activity Debt – Last Ten Fiscal Years.....	107
20	Demographic and Economic Statistics – Last Ten Fiscal Years.....	108
21	Principal Employers – Current Year and Nine Years Ago.....	109
22	Full-Time Equivalent City Government Employees by Function – Last Ten Fiscal Years.....	110

**CITY OF RIVERSIDE  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2007**

**TABLE OF CONTENTS**

<b>STATISTICAL SECTION (CONT.)</b>		<b>Page</b>
<u>Table</u>		
23	Operating Indicators by Function – Last Ten Fiscal Years.....	111
24	Capital Asset Statistics by Function – Last Ten Fiscal Years.....	112
25	Cash Debt Reserves Tax Allocation Bonds – Last Ten Fiscal Years.....	113



October 12, 2007

To the Honorable Mayor, Members of the City Council and Citizens of the City of Riverside:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Riverside (the City) for the fiscal year ended June 30, 2007.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the City'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 accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, internal controls have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Mayer Hoffman McCann P.C., a firm of certified public accountants. The independent auditor concluded, based on the audit, that there was a reasonable basis for rendering an unqualified opinion on the City's financial statements for the fiscal year ended June 30, 2007. The independent auditor's report is presented as the first component of the financial section of this CAFR.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on internal controls and compliance with legal requirements, with emphasis on those involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

Management has provided an overall analysis of the financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the City of Riverside**

The City of Riverside, incorporated on October 11, 1883, is located in the western portion of Riverside County about 60 miles east of Los Angeles. The City currently occupies a land area of 80.962 square miles.

The City operates under the council-manager form of government, with a seven-member council elected by ward for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the Council, but does not have a vote except in the case of a tie. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager, City Attorney and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of various departments. The Council is elected on a non-partisan basis.

The City provides a full range of services which include general government, public safety (police, fire, disaster preparedness and building inspection), construction and maintenance of highways and streets, economic development, culture and recreation, electric, water, airport, refuse, sewer, and senior citizen/handicap transportation. In addition to general City activities, the Council is financially accountable for the Riverside Redevelopment Agency, Riverside Public Financing Authority and the Riverside Municipal Improvements Corporation; therefore, these entities are included as an integral part of the City's financial statements. Additional information on these legally separate entities can be found in Note 1 in the notes to the financial statements.

The annual budget serves as the foundation for the City's financial planning and control. The City Manager presents the proposed budget to the City Council for review at least thirty-five calendar days prior to the beginning of each fiscal year. The Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than June 30, which is the close of the City's fiscal year. The appropriated budget is prepared by fund and department. Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the approval of the Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 27 as part of the basic financial statements for the governmental funds. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which begins on page 65.

**Local economy.** The City is located in the Inland Empire, which consists of Riverside and San Bernardino Counties. The population of the Inland Empire at 4.15 million people is larger than 24 states. The City leads the Inland Empire in most measures of economic power, including population, income, employment, bank deposits, assessed valuation, office space and college enrollment. The population of the City is 295,730 which places the City as the seventh largest in Southern California.



The Inland Empire has a very strong economic environment, as does the City. This area is expected to add about 49,000 jobs during the calendar year 2007. The City owned electric utility gives it a competitive advantage at this time when energy costs and reliability are issues. Riverside's challenges include a lack of available space for manufacturing and industrial development within its current boundaries.

**Priorities for the future:** A Citywide Strategic Planning document has been developed through a series of meetings, workshops, and surveys with the community, elected officials, and City employees. The plan, as updated, sets forth four goals as follows:

- **Economic Development**
- **Growth and Annexation**
- **Transportation**
- **Liveable Communities and Neighborhoods**

**Long-term financial planning.** Annually, the City updates a five (5) year Capital Improvement Program (CIP). Planned capital expenditures during fiscal years 2007/08 - 2011/12 total \$909 million. The level of capital improvements is significantly greater than the historical level. The projects encompass all seven Council wards and enhance the life of all residents. Funding comes from multiple sources, including existing funds; General Fund certificates of participation; Redevelopment Agency tax allocation bonds; regional, state and federal funds; and, the proposed sale of property deemed to be surplus. In addition to routine electric, water, sewer and transportation-related projects, the CIP includes improvements to all parks in the City; railroad grade separations; library, museum, convention center and Municipal Auditorium improvements/expansions/rehabilitations; and, public safety projects.

**Cash management policies and practices.** Cash temporarily idle during the year was invested principally in federal agency securities, money market funds and medium term notes. The maturities of the investments do not exceed five (5) years, with the average maturity not exceeding three (3) years. All securities are held in third party safekeeping by Union Bank of California as agent for the City. All transactions originated and authorized by the City are transacted on a delivery versus payment (DVP) basis in order to perfect delivery. The average yield on the investments was 4.2% for the fiscal year.

**Risk management.** Risk exposures to the assets of the City are managed through a combination of self-insured retention and insurance coverage. The City believes it has current assets adequate to cover the actuarially determined liability for general liability and workers' compensation claims, including estimated claims incurred but not reported, as they become payable. The City maintains excess liability insurance to provide coverage beyond a self-insured retention of \$3,000,000 per occurrence for both general liability and workers' compensation.

**Pension benefits.** The City provides pension benefits for all employees through a statewide plan managed by the California Public Employees Retirement System (CalPERS). The City has no obligation in connection with employee benefits offered through this plan beyond its annual contractual payment to CalPERS. Additional information on the plan can be found in Note 13 in the notes to the financial statements.

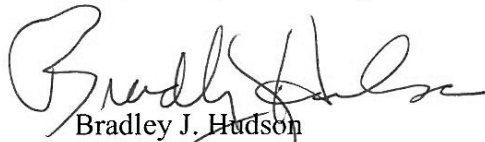
**Awards and Acknowledgements**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Riverside for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2006. This was the twentieth consecutive year that the City has received this prestigious award. The City received this award for publishing an easily readable and efficiently organized CAFR that satisfied both GAAP and applicable legal requirements.

This award is valid for a period of one year only. We believe that our current CAFR continues to meet the Program’s requirements and we are submitting it to the GFOA again this year.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Division, particularly the leadership of Terri Willoughby, Controller. We would like to express our appreciation to all members of the Division who assisted and contributed to its preparation. Credit also must be given to the Mayor and the City Council for their unflinching support for maintaining the highest standards of professionalism in the management of the City’s finances.

Respectfully submitted,

  
Bradley J. Hudson  
City Manager

  
Paul C. Sundeen  
Assistant City Manager/CFO/Treasurer

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

City of Riverside  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "Thomas J. Blum".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Enos".

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Riverside for our Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such reports 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 our current report continues to conform to Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

## LEGISLATIVE OFFICIALS

Ronald O. Loveridge.....Mayor  
 Dom Betro.....Councilmember – Ward 1  
 Andy Melendrez.....Councilmember – Ward 2  
 Art Gage.....Councilmember – Ward 3  
 Frank Schiavone.....Councilmember – Ward 4  
 Ed Adkison.....Councilmember – Ward 5  
 Nancy Hart.....Councilmember – Ward 6  
 Steve Adams.....Councilmember – Ward 7

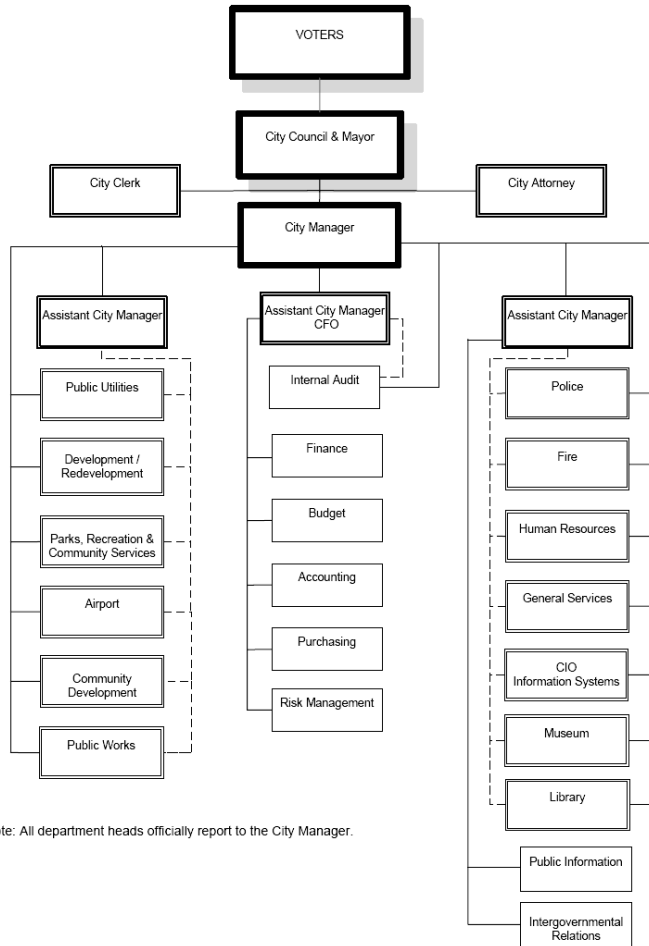
## CITY OFFICIALS

Bradley J. Hudson..... City Manager\*  
 Michael Beck.....Assistant City Manager  
 Tom DeSantis.....Assistant City Manager  
 Paul C. Sundeen.....Assistant City Manager/CFO

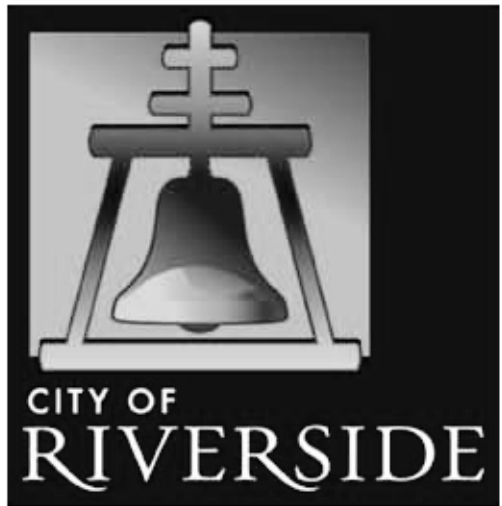
Mark S. Ripley.....Airport Director  
 Colleen J. Nicol.....City Clerk\*  
 Gregory P. Priamos.....City Attorney\*  
 Tom Boyd.....City Engineer  
 Russ Leach.....Chief of Police  
 Steve Reneker.....Chief Information Officer  
 Scott Barber.....Community Development Director  
 Belinda Graham.....Development Director  
 Tedd Laycock.....Fire Chief  
 Kris Martinez..... General Services Director  
 Rhonda Strout..... Human Resources Director  
 Barbara Custen.....Library Director  
 Ennette Nusbaum.....Museum Director  
 Ralph Nuñez.....Park and Recreation Director  
 David Wright.....Public Utilities Director  
 Siobhan Foster.....Public Works Director

\*Appointed by City Council

ORGANIZATION CHART



Note: All department heads officially report to the City Manager.





**Mayer Hoffman McCann P.C.**  
An Independent CPA Firm  
**Conrad Government Services Division**  
2301 Dupont Drive, Suite 200  
Irvine, California 92612  
949-474-2020 ph  
949-263-5520 fx  
www.mhm-pc.com

Honorable Mayor and Members of the City Council  
City of Riverside  
Riverside, California

### **INDEPENDENT AUDITORS' REPORT**

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 Riverside, California, (the City) as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 of Riverside, California, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the general fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Honorable Mayor and Members of the City Council  
City of Riverside  
Page Two

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman McCann P.C.*

Irvine, California  
October 12, 2007

## Management's Discussion and Analysis

As management of the City of Riverside, we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on page v of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains certain supplementary information.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the excess of assets over liabilities reported as net assets. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business type activities*). The governmental activities of the City include general government, public safety, highways and streets, and culture and recreation. The business type activities of the City include Electric, Water, Sewer, Refuse, Public Parking, Airport and Transportation services.



The government-wide financial statements include the City and its component units. The City's component units are the Riverside Redevelopment Agency, Riverside Public Financing Authority, and the Riverside Municipal Improvements Corporation. Although legally separate, these entities function for all practical purposes as departments of the City and therefore have been blended as part of the primary government.

Both the Governmental Activities and the Business Type Activities are presented on the accrual basis of accounting, a basis of accounting that differs from the modified accrual basis of accounting used in presenting governmental fund financial statements. Note 1 of the Notes to the Basic Financial Statements fully describe these bases of accounting. Proprietary funds, discussed below, also follow the accrual basis of accounting.

The government-wide financial statements can be found on pages 21-22 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, 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 can be divided into three categories: governmental, proprietary, and fiduciary.

**Governmental funds.** *Governmental funds* are used to account for the same functions reported as *governmental activities* in the government-wide financial statements. However, 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.

It is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Reconciliations to facilitate this comparison are provided for both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances. The major reconciling items relate to capital assets and debt. In the Governmental Funds, acquisitions of capital assets are treated as "expenditures" because upon purchase of a capital asset, cash used for the acquisition is no longer available for other purposes. The issuance of debt provides cash, which is now available for specified purposes. Accordingly, at the end of the fiscal year, the unreserved fund balances of the Governmental Funds reflect spendable resources available for appropriation by the City Council. Spendable balances are not presented on the face of the government-wide financial statements.

The City maintains seventeen 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, the Redevelopment Agency Debt Service Fund, the Capital Outlay Fund, and the Redevelopment Capital Project Fund all of which are major funds. Data from the other thirteen 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* and can be found on pages 61-68 in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 23-27 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds, enterprise and internal service funds. 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 Electric, Water, Sewer, Refuse, Parking, Airport and Transportation services. *Internal service* funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for self-insured insurance programs, central stores and its fleet of vehicles. Because these services predominantly benefit governmental rather than business type functions, they have been included within *governmental activities* in the government-wide financial statements. Internal service funds are presented as proprietary funds because both enterprise and internal service funds follow the accrual basis of accounting.

Proprietary funds provide the same type of information as the government-wide financial statements (*business type activities*), only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water and Sewer operations, all of which are considered to be major funds of the City. The four remaining proprietary funds noted above are combined into a single, aggregated presentation. All internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds and the internal service funds is provided in the form of *combining statements* and can be found on pages 69-78 in this report.

The basic proprietary fund financial statements can be found on pages 28-32 of this report.

**Agency funds.** Agency funds are used to account for situations where the City's role is purely custodial. Agency funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All assets reported in agency funds are offset by a liability; the accrual basis of accounting is used to recognize receivables and payables.

The agency fund financial statement can be found on page 33 of this report, and the combining statement can be found on page 79.

**Notes to the financial statements.** The notes 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 begin on page 34 of this report.

## Government-wide Financial Analysis

The following table presents a summarization of the City's assets, liabilities and net assets for its governmental and business type activities. As noted earlier, a government's net asset position may serve over time as a useful indicator of its financial position.

	Governmental Activities		Business type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 814,979	\$ 569,741	\$ 454,149	\$ 481,914	\$ 1,269,128	\$ 1,051,655
Capital assets, net	<u>792,536</u>	<u>660,194</u>	<u>948,306</u>	<u>877,637</u>	<u>1,740,842</u>	<u>1,537,831</u>
Total assets	<u>1,607,515</u>	<u>1,229,935</u>	<u>1,402,455</u>	<u>1,359,551</u>	<u>3,009,970</u>	<u>2,589,486</u>
Current liabilities	118,973	90,849	92,584	88,681	211,557	179,530
Long-term liabilities	<u>702,004</u>	<u>409,973</u>	<u>489,233</u>	<u>524,158</u>	<u>1,191,237</u>	<u>934,131</u>
Total liabilities	<u>820,977</u>	<u>500,822</u>	<u>581,817</u>	<u>612,839</u>	<u>1,402,794</u>	<u>1,113,661</u>
Net assets:						
Invested in capital assets, net of related debt	712,801	622,336	520,059	425,285	1,232,860	1,047,621
Restricted	415,618	158,038	57,613	71,386	473,231	229,424
Unrestricted	<u>(341,881)</u>	<u>(51,261)</u>	<u>242,966</u>	<u>250,041</u>	<u>(98,915)</u>	<u>198,780</u>
Total net assets	<u>\$786,538</u>	<u>\$729,113</u>	<u>\$820,638</u>	<u>\$746,712</u>	<u>\$1,607,176</u>	<u>\$1,475,825</u>

The City's assets exceeded liabilities by \$1,607,176 at June 30, 2007, an increase of \$131,351 from June 30, 2006.

By far the largest portion of the City's net assets (77 percent) reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure), net of any related debt that is still outstanding used to acquire those assets and net of unspent bond proceeds and cash held in bond reserve accounts. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

An additional portion of the City's net assets (29 percent) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, \$242,966 is held by the business type activities; and negative \$341,881 is held by the governmental activities. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents \$276,012 of negative unrestricted net assets for 2007 and was a negative \$112,747 in the prior year. The remaining governmental activities of the City have

negative unrestricted net assets of \$65,869 in 2007 and a positive \$61,486 in 2006. This decrease in unrestricted net assets is primarily due to the restriction of net assets for unspent bond proceeds pertaining to capital projects.

The Agency exists to finance improvements that serve to remediate blight within the City. Often these activities do not result in a residual asset, but rather underwrite the cost of a development activity deemed beneficial in meeting the Agency's objectives. The resulting statement of net assets reflects the debt obligation to be repaid through future tax revenues, without an offsetting asset. While this is the routine functioning of such an entity, when blended with the City, its negative unrestricted net assets causes the governmental activities to report a negative position.

The City's total net assets increased by \$131,351 during the current fiscal year, which reflects the growth in both the governmental (\$57,425) and business type (\$73,926) activities. This is primarily due to continued investment by the City in its infrastructure, which is largely funded by grants and dedicated revenue sources. Lastly, business type unrestricted assets grew based on municipal service charges for service exceeding the current years operating expenditures.

The following is a condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2007 with the prior fiscal year presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid in understanding the results of the current year's activities.

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for services	\$ 61,520	\$ 63,656	\$370,854	\$338,092	\$ 432,374	\$ 401,748
Operating Grants and Contributions	12,101	13,150	1,939	2,704	14,040	15,854
Capital Grants and Contributions	10,557	18,618	40,066	29,293	50,623	47,911
General Revenues:						
Sales taxes	55,666	57,522	-	-	55,666	57,522
Property taxes	106,114	80,934	-	-	106,114	80,934
Other taxes and fees	35,859	34,434	-	-	35,859	34,434
Grants and contributions not restricted to specific programs	29,743	39,653	-	-	29,743	39,653
Other	22,810	36,323	20,486	29,959	43,296	66,282
Total revenues	<u>334,370</u>	<u>344,290</u>	<u>433,345</u>	<u>400,048</u>	<u>767,715</u>	<u>744,338</u>
Expenses:						
General government	80,353	74,458	-	-	80,353	74,458
Public safety	134,062	120,470	-	-	134,062	120,470
Highways and streets	28,944	20,757	-	-	28,944	20,757
Culture and recreation	32,964	32,602	-	-	32,964	32,602
Interest on long-term debt	26,378	16,358	-	-	26,378	16,358
Electric	-	-	232,346	226,186	232,346	226,186
Water	-	-	42,108	39,486	42,108	39,486
Sewer	-	-	29,510	27,299	29,510	27,299
Refuse	-	-	16,490	14,546	16,490	14,546
Airport	-	-	1,201	1,004	1,201	1,004
Transportation	-	-	2,831	2,917	2,831	2,917
Public Parking	-	-	3,762	2,701	3,762	2,701
Total expenses	<u>302,701</u>	<u>264,645</u>	<u>328,248</u>	<u>314,139</u>	<u>630,949</u>	<u>578,784</u>
Increase in net assets and transfers:	31,669	79,645	105,097	85,909	136,766	165,554
Transfers	<u>31,171</u>	<u>25,576</u>	<u>(31,171)</u>	<u>(25,576)</u>	-	-
Increase in net assets	62,840	105,221	73,926	60,333	136,766	165,554
Net assets – beginning - restated	<u>723,698</u>	<u>623,892</u>	<u>746,712</u>	<u>686,379</u>	<u>1,470,410</u>	<u>1,310,271</u>
Net assets – ending	<u>\$786,538</u>	<u>\$729,113</u>	<u>\$820,638</u>	<u>\$746,712</u>	<u>\$1,607,176</u>	<u>\$1,475,825</u>

**Governmental activities.** Governmental activities increased the City's net assets by \$62,840 accounting for 46 percent of the total growth in net assets. The net assets in the prior fiscal year increased by \$105,221. Key elements of this year's activity in relation to the prior year are as follows:

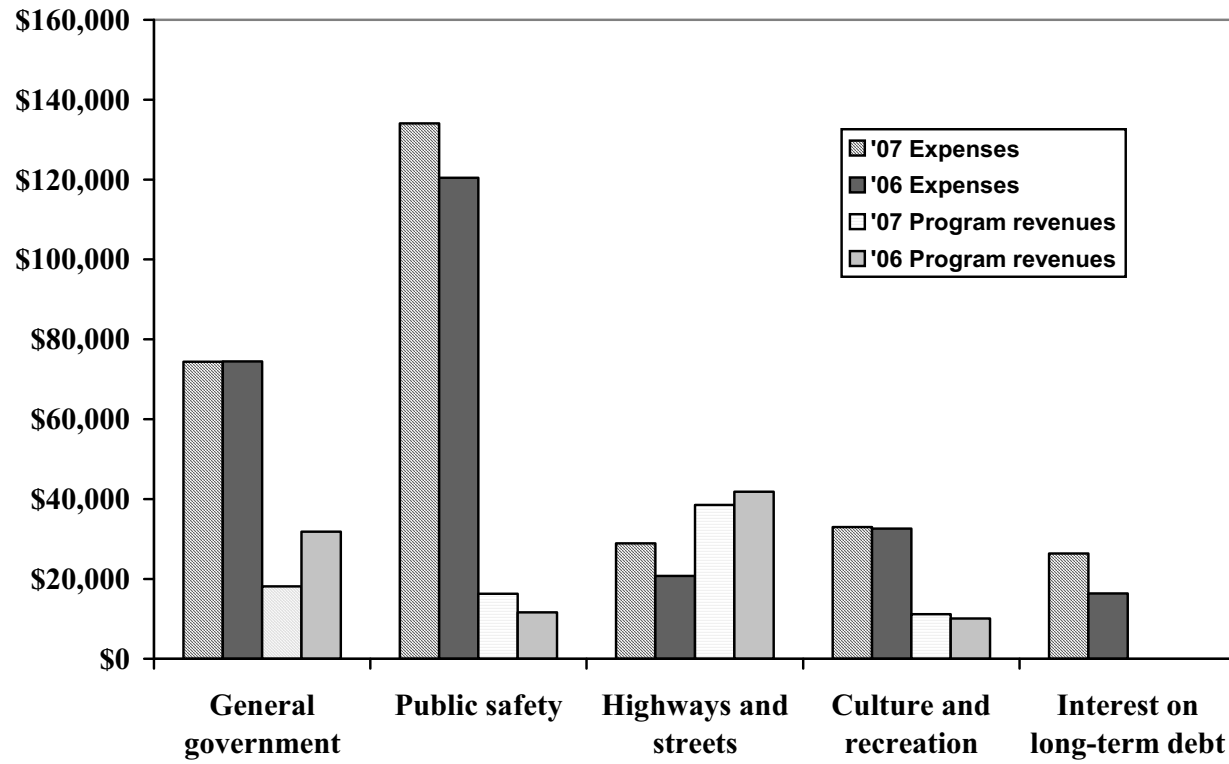
**Revenues:**

- Operating and capital grants and contributions, in total, decreased approximately \$9,100 in 2007 primarily due to decreased grant funding for street capital projects.
- Property taxes increased approximately \$25,180 in 2007, principally because of the strong local economy, increased property values and the expansion of redevelopment project areas and activities.
- Grants and contributions not restricted to specific programs decreased \$10,000 mainly due to a decrease in developer contributed assets.
- The total net decrease in Other general revenues was approximately \$13,400 primarily due to an issuance of special assessment debt in the prior year, offset by an increase in investment income in the current year.

**Expenditures and Transfers:**

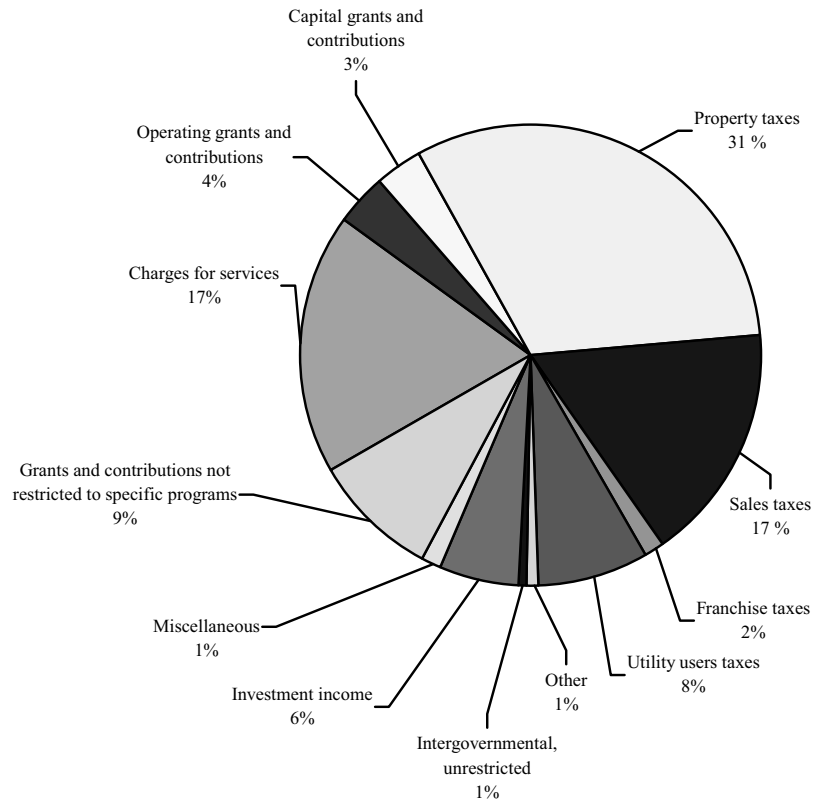
- While significant variances between years exist for the various expense functions, the total net increase was approximately \$32 million. The more significant items are: (1) increased salaries and benefits, including the addition of sworn officers, (2) increased costs associated with capital projects and development activities, (3) increased personnel costs associated with the addition of public works personnel connected with enhanced highway and streets maintenance, and (4) increased costs resulting from additional park and recreation programs. Transfers to governmental funds increased \$5,595 primarily due to increased operating revenue realized by the Electric and Water funds.

**Expenses and Programs Revenues – Governmental Activities – Fiscal Year Comparison 2007 vs. 2006**

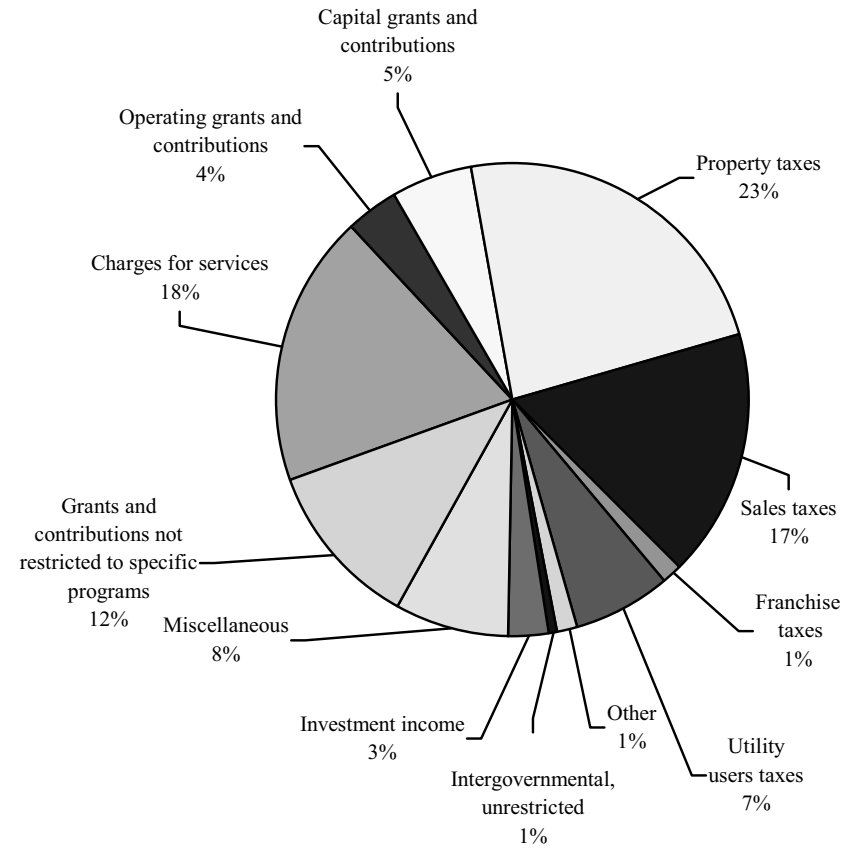


## Revenues by Source – Governmental Activities – Fiscal Year Comparison

2007



2006

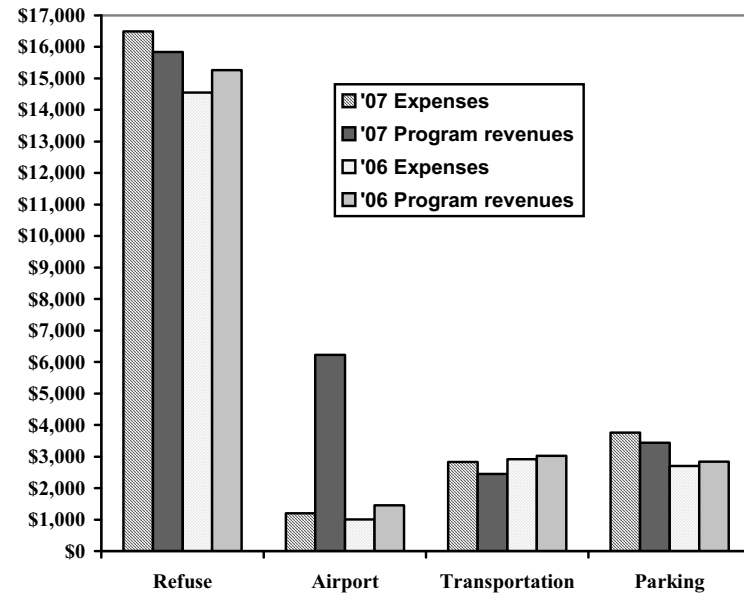
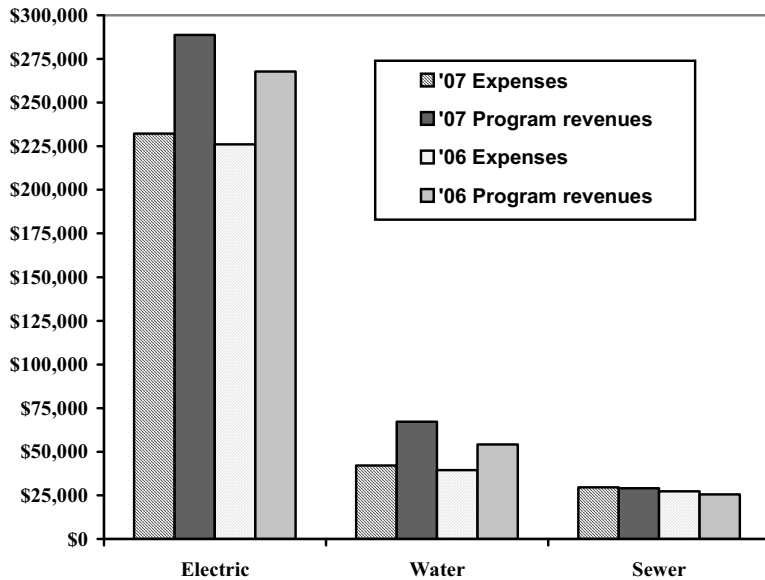




**Business type activities.** Business type activities increased the City’s net assets by \$73,926, accounting for 54 percent of the total growth in net assets. The net assets of business type activities increased by \$60,333 in the prior year. Key elements of this year’s increase in relation to the prior year are as follows:

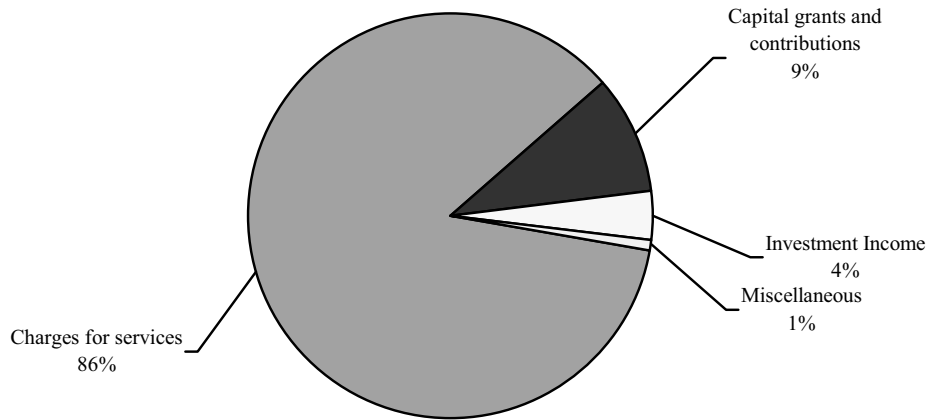
- In 2007, charges for services increased \$32,762 to \$370,854 primarily due to an increase in the volume of electric and water sales, an electric rate increase, the effects of the third and final year of an overall 8% water rate increase, as well as the implementation of the first year of the five year Safe W.A.T.E.R. rate plan consisting of a 12% increase effective November 1, 2006.
- Capital grants and contributions increased \$10,773 in the current year to \$40,066. The increase is due to a City contribution for the construction of a fiber optic network as well as contributions resulting from settlement agreements relating to litigation pertaining to contaminated ground water.
- Other revenues decreased by \$9 million mainly due to a prior year sale of surplus land.
- The total net increase in expenses in Business type activities was approximately \$14 million. Significant items include increased depreciation expense due to the completion of the Riverside Energy Resource Center, increased interest costs, as well as overall increases in staffing levels.

**Expenses and Program Revenues – Business Type Activities – Fiscal Year Comparison 2007 vs. 2006**

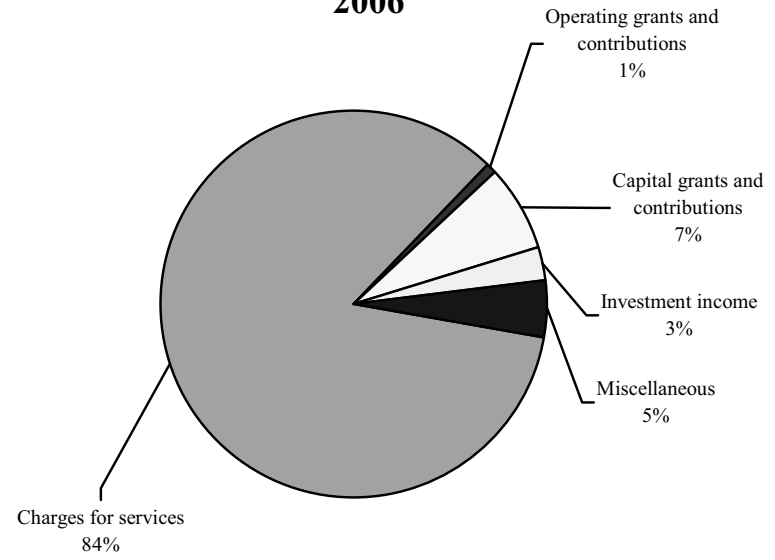


**Revenues by Source – Business Type Activities – Fiscal Year Comparison**

**2007**



**2006**



## Financial Analysis of the City's Funds

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The following table summarizes the balance sheet of the City's General Fund, Redevelopment Debt Service Fund, Capital Outlay Fund, Redevelopment Capital Projects Fund, and Total Governmental Funds. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

	General Fund		Redevelopment Debt Service		Capital Outlay		Redevelopment Capital Projects		Other Governmental Funds		Total Governmental Funds	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Total assets	\$ 178,892	\$ 202,033	\$ 38,185	\$ 41,302	\$ 142,152	\$ 42,494	\$ 235,973	\$ 66,139	\$ 113,655	\$ 216,148	\$ 708,857	\$ 568,116
Total liabilities	\$ 84,126	\$ 73,136	\$ 27,457	\$ 26,689	\$ 6,952	\$ 5,423	\$ 35,135	\$ 23,715	\$ 30,480	\$ 55,719	\$ 184,150	\$ 184,682
Fund balances												
Reserved	50,631	59,930	10,728	14,613	28,586	8,219	39,846	13,404	29,221	39,560	159,012	135,726
Unreserved:												
Designated for economic cont.	34,000	30,000	-	-	-	-	-	-	-	-	34,000	30,000
Designated for future operations	10,135	35,487	-	-	20,751	28,852	154,923	27,571	25,512	94,190	211,321	186,100
Undesignated	-	3,480	-	-	85,863	-	6,069	1,449	28,442	26,679	120,374	31,608
Total	94,766	128,897	10,728	14,613	135,200	37,071	200,838	42,424	83,175	160,429	524,707	383,434
Total liabilities and fund balances	\$ 178,892	\$ 202,033	\$ 38,185	\$ 41,302	\$ 142,152	\$ 42,494	\$ 235,973	\$ 66,139	\$ 113,655	\$ 216,148	\$ 708,857	\$ 568,116

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$708,857, an increase of \$140,741 in comparison with the prior year. About 30% of this amount (\$159,012) is reserved to indicate funds are not available for new spending because it has already been committed for a variety of restricted purposes. The remainder of the fund balance is unreserved, meaning it is available for spending at the City's discretion. Of that amount, \$245,321 has been designated for specific capital projects and economic contingencies, leaving \$120,374 without a commitment; at June 30, 2006 the comparable amount was \$31,608. The increase in Fund balance is due to monies received from bond proceeds that are not committed to specific projects.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, the unreserved fund balance was \$44,135, all of which was designated for future operations and economic contingencies, leaving \$0 unreserved and undesignated; the comparable number at June 30, 2006 was \$3,480. The total fund balance equaled \$94,766 at June 30, 2007, a decrease of \$34,131 from the prior year. This decrease was primarily due to increased planned spending for capital projects.

The Redevelopment debt service fund has a total fund balance of \$10,728 all of which is reserved for the payment of debt service. A net decrease in the fund balance occurred during the current year.

***Proprietary funds.*** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Electric, Water and Sewer operations at the end of the year amounted to \$137,708, \$46,950, and \$9,534 respectively. The total growth in net assets for these funds was \$13,854, \$11,605 and a decrease of \$55,182, respectively as a result of routine operations.

## General Fund Budgetary Highlights

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Total Revenues	<u>\$185,707</u>	<u>\$197,575</u>	<u>\$183,716</u>	<u>\$ (13,859)</u>
Expenditures:				
General Government	45,749	81,418	32,883	48,535
Public Safety	162,481	166,899	153,226	13,673
Highways & Streets	18,911	24,594	20,760	3,834
Culture & Recreation	31,922	33,600	27,090	6,510
Debt Service	<u>15,516</u>	<u>16,868</u>	<u>17,612</u>	<u>(744)</u>
Total Expenditures	<u>274,579</u>	<u>323,379</u>	<u>251,571</u>	<u>71,808</u>
Deficiency of Revenue Under Expenditures	(88,872)	(125,804)	(67,855)	57,949
Other Financing Sources	<u>29,849</u>	<u>29,577</u>	<u>31,131</u>	<u>1,554</u>
Net Change in Fund Balances	(59,023)	(96,227)	(36,724)	59,503
Beginning Fund Balance	<u>131,490</u>	<u>131,490</u>	<u>131,490</u>	<u>-</u>
Ending Fund Balance	<u>\$ 72,467</u>	<u>\$ 35,263</u>	<u>\$94,766</u>	<u>\$59,503</u>

Final budgeted revenues increased from the amount originally budgeted as a result of grant related programs and financing associated with capital projects.

Total budgeted expenditures increased from the amount originally budgeted by approximately \$48,000, from \$275,000 to \$323,000. The reasons for this increase can be generally summarized as follows:

- The Development department added appropriations of \$31,000 for construction costs associated with the Fox Theatre Renovation and the Orange Terrace Library.
- The Police department added appropriations of \$4,400 primarily for grant funded operational charges and the addition of sworn officers.
- The General Services department added appropriations of \$3,400 primarily for capital projects and maintenance.
- The Public Works departments added appropriations of \$ 6,000 primarily for increased costs associated with programs such as animal control, tree maintenance, and the addition of the photo red light program.

- Other miscellaneous appropriations were added in other departments throughout the year of approximately \$4,700.

Actual amounts differed from the Final Fund budget as follows:

- Actual total revenues were less than the amount budgeted due to lower than anticipated development activity within the City resulting in decreased sales and property taxes as well as intergovernmental revenue being under budget due to the timing of receipts for grant funded projects.
- Budgeted expenditures exceeded actual amounts by approximately \$72,000. As in prior years, this excess is associated with capital projects not completed at year-end. Such projects and related amounts are carried over to the next fiscal year.
- The net effect of all of the above was a favorable variance from the amounts budgeted of \$59,503.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for governmental and business type activities as of June 30, 2007 amounted to \$1,740,842 (net of accumulated depreciation). This investment includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's net investment in capital assets for the current fiscal year was \$203,011 (\$132,342 for governmental activities including internal service funds and \$70,669 for business type activities).

Major capital improvements during the current fiscal year included: new infrastructure, consisting primarily of street improvements (\$66,800); Magnolia Police Station (\$19,600); Sewer Mains (\$7,000); Electric Utility upgrades (\$17,717); Water Utility upgrades (\$11,072) and Fire Station Relocations (\$12,500).

Construction in progress totaled \$160,938 at June 30, 2007. Some of the major projects in process are the Casa Blanca Energy Demonstration Center, the 230 KV Substation, Mountain View Substation Modernization, Reid Park Improvements, City Hall Improvements, and the Fire Training Facility. Depreciation expense during the fiscal year was \$20,636 for governmental activities and \$35,889 for business type activities.

**City of Riverside's Capital Assets**  
(net of depreciation)

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$191,694	\$163,594	\$ 30,413	\$ 30,372	\$ 222,107	\$ 193,966
Buildings	72,179	49,807	157,155	159,075	229,334	208,883
Improvements other than Buildings	30,792	23,587	648,113	632,265	678,905	655,852
Machinery and equipment	25,299	14,478	16,673	13,861	41,972	28,339
Infrastructure	407,586	353,402	-	-	407,586	353,402
Construction in progress	64,986	55,326	95,952	42,064	160,938	97,390
Total	<u>\$792,536</u>	<u>\$660,194</u>	<u>\$948,306</u>	<u>\$877,637</u>	<u>\$1,740,842</u>	<u>\$1,537,831</u>

Additional information on the City's capital assets can be found in note 5 on page 42 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$1,191,237 which includes bonded debt of \$1,136,231.

**City of Riverside's Long-Term Debt**

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Lease/Revenue Bonds	\$296,598	\$140,195	\$474,332	\$509,577	\$770,930	\$649,772
General Obligation Bonds	19,331	19,858	-	-	19,331	19,858
Pension Obligation Bonds	144,450	146,470	-	-	144,450	146,470
Certificates of Participation	192,874	55,571	-	-	192,874	55,571
Notes Payable	9,759	10,215	9,211	9,841	18,970	20,056
Capital Leases	4,929	6,008	253	317	5,182	6,325
Landfill Capping	-	-	3,121	3,444	3,121	3,444
Arbitrage Liability	-	-	1,343	-	1,343	-
Compensated Absences	34,063	31,656	-	-	34,063	31,656
Water Acquisition Rights	-	-	973	979	973	979
Total	<u>\$702,004</u>	<u>\$409,973</u>	<u>\$489,233</u>	<u>\$524,158</u>	<u>\$1,191,237</u>	<u>\$933,858</u>

The City's total debt increased by \$257,379 (28 percent) during the current fiscal year due to the issuance of \$160,507 in Revenue bonds and \$139,139 in Certificates of Participation.

The City's Electric Utility maintains "A+" and "AA-" ratings, from Standard & Poors and Fitch, respectively, for their revenue bonds, while the Water Utility maintains "AA" ratings from both rating agencies. The City's general obligation bond ratings are "AA-" and "AA", respectively.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total adjusted assessed valuation. The legal debt margin for the City is \$451,055, after deducting the general obligation debt of \$19,331.

Additional information on the City's long-term debt can be found in note 7 beginning on page 43 of this report.

### **Economic Factors and Next Year's Budget and Rates**

- The assessed value for taxable property in the City increased 12.2% between fiscal year 2006 and fiscal year 2007.
- Property taxes increased between fiscal year 2006 and 2007 by 31% primarily as a result of new development, the expansion of redevelopment activity and increased assessed value.
- Unemployment in Riverside County is 6.5% as compared to 5.4% for 2006.
- The required contribution rates as a percentage of payroll for the City's retirement program, including the employee portion which is paid by the City, will be changing effective July 1, 2007 as follows:
  - Miscellaneous Plan – 21.81% to 21.295%
  - Safety Plan – 28.015% to 28.405%

At the time of budget preparation for fiscal year 2008, the economic outlook for the City was considered to be very good. The General Fund Budget for fiscal year 2008 of approximately \$204 million was adopted as balanced, not having to utilize any reserves.



**Request for information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager's Office, Finance Division, 3900 Main Street City of Riverside, CA 92522.

City of Riverside  
**Statement of Net Assets**  
**June 30, 2007**  
(amounts expressed in thousands)

Assets	Governmental	Business-type	Total
	Activities	Activities	
Cash and investments	\$ 210,719	\$ 188,816	\$ 399,535
Receivables, net	69,821	53,772	123,593
Inventory	5,916	1,061	6,977
Nuclear material inventory	-	1,535	1,535
Prepaid items	8,728	6,433	15,161
Deferred charges	130,332	45,385	175,717
Internal balances	9,560	(9,560)	-
Land and improvements held for resale	40,090	-	40,090
Restricted assets:			
Cash and cash equivalents	-	86,260	86,260
Cash and investments at fiscal agent	313,648	79,569	393,217
Other	-	878	878
Capital leases receivable	26,165	-	26,165
Land and other capital assets not being depreciated	256,680	126,365	383,045
Capital assets (net of accumulated depreciation)	535,856	821,941	1,357,797
Total assets	<u>1,607,515</u>	<u>1,402,455</u>	<u>3,009,970</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	46,586	33,568	80,154
Accrued interest payable	10,205	2,781	12,986
Unearned revenue	3,456	1,524	4,980
Deposits	30,737	3,924	34,661
Current liabilities payable from restricted assets	-	181	181
Claims and judgments payable	27,989	-	27,989
Decommissioning liability	-	50,606	50,606
Noncurrent liabilities:			
Due within one year	23,400	28,507	51,907
Due in more than one year	678,604	460,726	1,139,330
Total liabilities	<u>820,977</u>	<u>581,817</u>	<u>1,402,794</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	712,801	520,059	1,232,860
Restricted for:			
Expendable:			
Capital projects	379,942	-	379,942
Debt service	2,660	48,800	51,460
Public works	6,505	3,217	9,722
Low mod housing	25,196	-	25,196
Programs	-	5,596	5,596
Nonexpendable	1,315	-	1,315
Unrestricted	(341,881)	242,966	(98,915)
Total net assets	<u>\$ 786,538</u>	<u>\$ 820,638</u>	<u>\$ 1,607,176</u>

The notes to the financial statements are an integral part of this statement.

City of Riverside  
Statement of Activities  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

Functions/Programs	Expenses	Indirect Expenses Allocation	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total
Governmental activities:								
General government	\$ 111,439	\$ (15,543)	\$ 10,245	\$ 6,550	\$ 1,375	\$ (77,726)		\$ (77,726)
Public safety	114,312	9,875	12,410	3,916	-	(107,861)		(107,861)
Highways and streets	22,556	3,194	30,563	65	7,879	12,757		12,757
Culture and recreation	28,016	2,474	8,302	1,570	1,303	(19,315)		(19,315)
Interest on long-term debt	26,378		-	-	-	(26,378)		(26,378)
Total governmental activities	302,701	-	61,520	12,101	10,557	(218,523)		(218,523)
Business type activities:								
Electric	232,346		278,888	-	9,781		\$ 56,323	56,323
Water	42,108		47,080	-	20,074		25,046	25,046
Sewer	29,510		24,057	-	5,036		(417)	(417)
Refuse	16,490		15,833	-	7		(650)	(650)
Airport	1,201		1,263	-	4,959		5,021	5,021
Transportation	2,831		302	1,939	209		(381)	(381)
Public parking	3,762		3,431	-	-		(331)	(331)
Total business type activities	328,248		370,854	1,939	40,066		84,611	84,611
Total	\$ 630,949		\$ 432,374	\$ 14,040	\$ 50,623	(218,523)	84,611	(133,912)

General revenues:			
Taxes:			
Sales		55,666	55,666
Property		106,114	106,114
Utility users		25,384	25,384
Franchise		5,031	5,031
Other		3,581	3,581
Intergovernmental, unrestricted		1,863	1,863
Grants and contributions not restricted to specific programs		29,743	29,743
Investment income		18,582	35,570
Miscellaneous		4,228	7,726
Subtotal		250,192	270,678
Transfers, net		31,171	-
Total general revenues, special items, and transfers		281,363	270,678
Change in net assets		62,840	136,766
Net assets - beginning - restated		723,698	1,470,410
Net assets - ending		\$ 786,538	\$ 1,607,176

The notes to the financial statements are an integral part of this statement.

City of Riverside  
Balance Sheet  
Governmental Funds  
June 30, 2007  
(amounts expressed in thousands)

<u>Assets</u>	<u>General Fund</u>	<u>Redevelopment Debt Service</u>	<u>Capital Outlay</u>	<u>Redevelopment Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and investments	\$ 82,012	\$ 3,631	\$ 22,262	\$ 40,978	\$ 57,558	\$ 206,441
Cash and investments at fiscal agent	15,778	7,495	113,048	147,053	30,274	313,648
Receivables (net of allowance for uncollectibles)						
Interest	955	107	382	231	660	2,335
Property taxes	16,080	-	-	-	517	16,597
Sales tax	10,221	-	-	-	-	10,221
Utility billed	706	-	-	-	-	706
Accounts	4,140	787	1,651	115	4	6,697
Intergovernmental	6,585	-	4,633	180	3,726	15,124
Notes	70	-	-	3,933	13,839	17,842
Capital lease receivable	-	26,165	-	-	-	26,165
Prepaid items	691	-	-	-	1	692
Deposits	-	-	176	7,852	-	8,028
Due from other funds	7,435	-	-	4,122	-	11,557
Advances to other funds	31,626	-	-	-	-	31,626
Land & improvements held for resale	2,593	-	-	31,509	5,988	40,090
Total assets:	<u>\$ 178,892</u>	<u>\$ 38,185</u>	<u>\$ 142,152</u>	<u>\$ 235,973</u>	<u>\$ 112,567</u>	<u>\$ 707,769</u>
<b>Liabilities and fund balances</b>						
<u>Liabilities:</u>						
Accounts payable	\$ 8,064	\$ 763	\$ 2,384	\$ 14,949	\$ 2,094	\$ 28,254
Accrued payroll	11,457	-	-	-	15	11,472
Retainage payable	164	-	13	994	4,699	5,870
Intergovernmental	163	-	-	-	-	163
Unearned revenue	15,208	26,165	1,554	3,882	14,472	61,281
Deposits	30,727	-	-	-	10	30,737
Due to other funds	50	529	-	-	4,998	5,577
Advances from other funds	18,293	-	3,001	15,310	3,104	39,708
Total liabilities:	<u>84,126</u>	<u>27,457</u>	<u>6,952</u>	<u>35,135</u>	<u>29,392</u>	<u>183,062</u>
<u>Fund balances:</u>						
Reserved	50,631	10,728	28,586	39,846	29,221	159,012
Unreserved, designated for economic contingencies	34,000	-	-	-	-	34,000
Unreserved, designated for future operations						
General fund	7,288	-	-	-	-	7,288
Special revenue funds	-	-	-	-	7,714	7,714
Capital project funds	-	-	20,751	154,923	17,798	193,472
Unreserved, undesignated						
General fund	2,847	-	-	-	-	2,847
Special revenue funds	-	-	-	-	15,017	15,017
Capital project funds	-	-	85,863	6,069	13,425	105,357
Total fund balances	<u>94,766</u>	<u>10,728</u>	<u>135,200</u>	<u>200,838</u>	<u>83,175</u>	<u>524,707</u>
Total liabilities and fund balances	<u>\$ 178,892</u>	<u>\$ 38,185</u>	<u>\$ 142,152</u>	<u>\$ 235,973</u>	<u>\$ 112,567</u>	<u>\$ 707,769</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF RIVERSIDE**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS**  
**June 30, 2007**  
**(amounts expressed in thousands)**

Total fund balances - governmental funds \$524,707

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets net of accumulated depreciation used in governmental activities that are not current financial resources and, therefore, are not reported in the funds. 788,346

Issuance costs from issuing debt are expenditures at the fund level but are deferred and subject to capitalization and amortization in the Statement of Net Assets. 9,021

Pension contributions were expenditures at the fund level but are deferred as a net pension asset and subject to capitalization and amortization in the Statement of Net Assets. 119,668

Revenues that do not meet the "availability" criteria for revenue recognition and therefore, are deferred in the funds. 57,825

Long-term liabilities, as listed below, are not due and payable in the current period and therefore are not reported in the funds.

Bonds Payable	\$ (451,949)	
Accrued Interest Payable	(10,205)	
Certificates of Participation Payable	(192,874)	
Notes Payable	(9,759)	
Capital Leases Payable	(4,929)	
Bond Premiums	(8,431)	
Compensated Absences	(33,488)	
	(711,635)	(711,635)

Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. (1,394)

Net assets of governmental activities \$786,538

City of Riverside

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the fiscal year ended June 30, 2007

(amounts expressed in thousands)

	General Fund	Redevelopment Debt Service	Capital Outlay	Redevelopment Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes	\$ 135,390	\$ 39,811	\$ -	\$ -	\$ 15,930	\$ 191,131
Licenses and permits	7,821	-	-	-	5,163	12,984
Intergovernmental	12,069	200	21,434	242	13,989	47,934
Charges for services	11,903	-	-	-	11	11,914
Fines and forfeitures	2,559	-	-	-	219	2,778
Special assessments	3,963	-	1,784	-	423	6,170
Rental and investment income	6,827	3,820	3,112	3,925	4,903	22,587
Miscellaneous	3,184	393	417	74	2,096	6,164
Total revenues	<u>183,716</u>	<u>44,224</u>	<u>26,747</u>	<u>4,241</u>	<u>42,734</u>	<u>301,662</u>
<b>Expenditures</b>						
Current:						
General government	32,883	3,194	728	9,764	4,844	51,413
Public Safety	153,226	-	-	-	-	153,226
Highways and Streets	20,760	-	-	-	-	20,760
Culture and Recreation	27,090	-	-	-	9,359	36,449
Capital Outlay	-	-	50,668	28,964	37,438	117,070
Debt service:						
Principal	5,826	5,559	-	-	660	12,045
Interest	11,786	7,856	-	-	1,688	21,330
Bond issuance costs	-	805	-	-	1,746	2,551
Total expenditures	<u>251,571</u>	<u>17,414</u>	<u>51,396</u>	<u>38,728</u>	<u>55,735</u>	<u>414,844</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(67,855)</u>	<u>26,810</u>	<u>(24,649)</u>	<u>(34,487)</u>	<u>(13,001)</u>	<u>(113,182)</u>
<b>Other financing sources (uses):</b>						
Transfers in	32,656	11,673	28	45,782	2,562	92,701
Transfers out	(1,922)	(45,782)	-	(9,214)	(4,612)	(61,530)
Issuance of bonds	-	1,390	122,276	154,880	16,644	295,190
Premiums on bonds issued	-	2,024	186	2,213	32	4,455
Sales of capital assets	397	-	288	(760)	616	541
Total other financing sources and uses	<u>31,131</u>	<u>(30,695)</u>	<u>122,778</u>	<u>192,901</u>	<u>15,242</u>	<u>331,357</u>
Net Change in fund balances	<u>(36,724)</u>	<u>(3,885)</u>	<u>98,129</u>	<u>158,414</u>	<u>2,241</u>	<u>218,175</u>
Fund balances -- beginning, as restated	131,490	14,613	37,071	42,424	80,934	306,532
Fund balances -- ending	<u>\$ 94,766</u>	<u>\$ 10,728</u>	<u>\$ 135,200</u>	<u>\$ 200,838</u>	<u>\$ 83,175</u>	<u>\$ 524,707</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF RIVERSIDE**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2007**  
**(amounts expressed in thousands)**

Net change in fund balances-total governmental funds \$218,175

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period, as listed below:

Capital Asset additions	\$ 158,436	
Depreciation Expense	<u>(19,817)</u>	138,619

Revenues in the statement of activities that do not meet the "availability" criteria for revenue recognition and therefore are not reported as revenue in the funds. 6,005

The amortization of the net pension asset reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. (651)

The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds immediately report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is listed below:

Principal repayments	12,045	
Deferred Charges	5,152	
Compensated Absences	(2,475)	
Interest	(6,990)	
Premiums on the issuance of LTD	(4,455)	
Proceeds from LTD	<u>(295,190)</u>	(291,913)

Internal service funds are used by management to charge the costs of insurance, centralized purchasing and fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities. (7,395)

Change in net assets of governmental activities \$ 62,840

The notes to the financial statements are an integral part of this statement.

**City of Riverside**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
**For the year ended June 30, 2007**  
**(amounts expressed in thousands)**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget		Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final				Original	Final		
<b>Revenues</b>									
Taxes	\$ 141,917	\$ 141,917	\$ 135,390	\$ (6,527)	Public safety:				
Licenses and permits	8,402	8,402	7,821	(581)	Police	87,760	90,681	86,197	4,484
Intergovernmental	13,001	18,921	12,069	(6,852)	Fire	63,642	64,572	57,049	7,523
Charges for services	11,116	11,441	11,903	462	Animal regulation	2,967	3,534	2,670	864
Fines and forfeitures	2,355	4,639	2,559	(2,080)	Building and zoning inspection	4,043	4,043	3,243	800
Special assessments	3,905	3,905	3,963	58	Street lighting	4,069	4,069	4,067	2
Rental and investment income	3,197	4,389	6,827	2,438	Total public safety	162,481	166,899	153,226	13,673
Miscellaneous	1,814	3,961	3,184	(777)	Highways and streets	18,911	24,594	20,760	3,834
Total revenues	185,707	197,575	183,716	(13,859)	Culture and recreation	31,922	33,600	27,090	6,510
<b>Expenditures</b>					Debt service:				
General government:					Principal	4,560	5,826	5,826	0
Mayor	574	574	527	47	Interest	10,956	11,042	11,786	(744)
Council	130	130	0	130	Total debt service	15,516	16,868	17,612	(744)
Manager	16,137	17,540	15,502	2,038	Total expenditures	274,579	323,379	251,571	71,808
Attorney	78	78	60	18	Deficiency of revenue under expenditures	(88,872)	(125,804)	(67,855)	57,949
Clerk	184	344	180	164	<b>Other financing sources (uses)</b>				
Community Development	11,736	12,127	10,716	1,411	Transfers in	31,321	31,399	32,656	1,257
Human Resources	4,542	4,640	3,828	812	Transfers out	(1,572)	(1,922)	(1,922)	0
General Services	29,210	32,583	18,049	14,534	Sale of capital assets	100	100	397	297
Information System	14,809	14,841	14,348	493	Total other financing sources	29,849	29,577	31,131	1,554
Development	4,661	34,873	6,195	28,678	Net change in fund balances	(59,023)	(96,227)	(36,724)	59,503
Subtotal	82,061	117,730	69,405	48,325	Fund balance, beginning	131,490	131,490	131,490	0
Allocated expenditures	(36,312)	(36,312)	(36,522)	210	Fund balance, ending	\$ 72,467	\$ 35,263	\$ 94,766	\$ 59,503
Total general government	45,749	81,418	32,883	48,535					

continued

The notes to the financial statements are an integral part of this statement.



**City of Riverside**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2007**  
 (amounts expressed in thousands)

Assets	Business-type Activities - Enterprise Funds					
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
Current assets:						
Cash and investments	\$ 105,388	\$ 40,127	\$ 34,002	\$ 9,299	\$ 188,816	\$ 4,278
Receivables (net allowances for uncollectibles)					-	
Interest	1,311	399	185	111	2,006	246
Utility billed	13,492	2,558	596	548	17,194	-
Utility unbilled	14,238	2,732	817	644	18,431	-
Accounts	7,964	1,390	1,066	395	10,815	32
Intergovernmental	295	448	-	4,583	5,326	21
Nuclear materials inventory	1,535	-	-	-	1,535	-
Inventory	-	-	1,061	-	1,061	5,916
Prepaid items	6,430	2	1	-	6,433	8
Due from other funds	50	-	-	-	50	-
Restricted assets:					-	
Cash and cash equivalents	63,749	15,148	4,127	3,236	86,260	-
Cash and investments at fiscal agent	71,519	8,050	-	-	79,569	-
Public benefit programs receivable	766	-	-	-	766	-
Conservation & reclamation programs receivable	-	112	-	-	112	-
Total current assets	<u>286,737</u>	<u>70,966</u>	<u>41,855</u>	<u>18,816</u>	<u>418,374</u>	<u>10,501</u>
Non-current assets:						
Advances to other funds	3,669	20	22,104	-	25,793	17,079
Deferred charges	27,670	6,841	3,828	7,046	45,385	1,643
Capital assets:						
Land	7,049	9,892	2,698	10,774	30,413	-
Buildings	15,287	14,799	180,254	22,050	232,390	1,488
Accumulated depreciation-buildings	(3,635)	(2,857)	(65,719)	(3,024)	(75,235)	(92)
Improvements other than buildings	621,436	339,087	48,059	7,178	1,015,760	-
Accumulated depreciation-improvements other than buildings	(250,370)	(105,030)	(8,919)	(3,328)	(367,647)	-
Machinery and equipment	17,769	9,741	7,027	13,594	48,131	10,122
Accumulated depreciation-machinery and equipment	(12,132)	(6,303)	(4,676)	(8,348)	(31,459)	(7,328)
Construction in progress	57,308	27,067	713	10,864	95,952	-
Total non-current assets	<u>484,051</u>	<u>293,257</u>	<u>185,369</u>	<u>56,806</u>	<u>1,019,483</u>	<u>22,912</u>
Total assets	<u>770,788</u>	<u>364,223</u>	<u>227,224</u>	<u>75,622</u>	<u>1,437,857</u>	<u>33,413</u>

continued

**City of Riverside**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2007**  
 (amounts expressed in thousands)

Liabilities	Business-type Activities - Enterprise funds					
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
<b>Current Liabilities:</b>						
Accounts payable	12,098	3,901	2,044	1,097	19,140	809
Accrued payroll	5,942	1,959	1,472	1,022	10,395	592
Retainage payable	3,508	423	94	-	4,025	-
Intergovernmental	8	-	-	-	8	-
Claims and judgments	-	-	-	-	-	27,989
Unearned revenue	-	112	210	1,202	1,524	-
Deposits	2,580	1,343	-	1	3,924	-
Due to other funds	-	-	-	2,898	2,898	3,132
Capital leases-current	-	-	42	17	59	-
Water stock acquisitions-current	-	150	-	-	150	-
Landfill capping - current	-	-	-	300	300	-
<b>Current liabilities payable from restricted assets:</b>						
Revenue bonds	19,460	4,355	3,515	-	27,330	-
Accrued interest	1,851	318	612	-	2,781	-
Other payables	180	-	-	-	180	-
Total current liabilities	<u>45,627</u>	<u>12,561</u>	<u>7,989</u>	<u>6,537</u>	<u>72,714</u>	<u>32,522</u>
<b>Non-current liabilities:</b>						
Revenue bonds	334,751	90,745	21,506	-	447,002	-
Arbitrage payable	927	416	-	-	1,343	-
Notes payable	-	-	9,211	-	9,211	-
Capital leases	-	-	28	166	194	-
Advances from other funds	13,390	5,761	3,685	9,669	32,505	2,285
Decommissioning liability	50,606	-	-	-	50,606	-
Water stock acquisitions	-	823	-	-	823	-
Landfill capping	-	-	-	2,821	2,821	-
Total non-current liabilities	<u>399,674</u>	<u>97,745</u>	<u>34,430</u>	<u>12,656</u>	<u>544,505</u>	<u>2,285</u>
Total liabilities	<u>445,301</u>	<u>110,306</u>	<u>42,419</u>	<u>19,193</u>	<u>617,219</u>	<u>34,807</u>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	132,605	193,589	169,293	22,061	517,548	4,190
Restricted for debt service	46,830	12,525	5,978	-	65,333	-
Restricted for other purposes	-	-	-	3,217	3,217	-
Restricted for programs	8,344	853	-	-	9,197	-
Unrestricted	137,708	46,950	9,534	31,151	225,343	(5,584)
Total net assets	<u>\$ 325,487</u>	<u>\$ 253,917</u>	<u>\$ 184,805</u>	<u>\$ 56,429</u>	<u>\$ 820,638</u>	<u>\$ (1,394)</u>

The notes to the financial statements are an integral part of this statement.

**City of Riverside**  
**Statement of Revenues, Expenses, and Changes in fund Net Assets**  
**Proprietary Funds**  
**For the fiscal year ended June 30, 2007**  
**(amounts expressed in thousands)**

	Business-type Activities - Enterprise Funds					Governmental Activities- Internal Service Funds
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	
Operating revenues:						
Charges for services	\$ 278,888	\$ 47,080	\$ 24,057	\$ 20,829	\$ 370,854	\$ 14,148
Operating expenses:						
Personal services	17,274	7,528	8,406	6,055	39,263	3,122
Contractual services	4,370	2,137	780	4,444	11,731	130
Maintenance and operation	158,230	9,007	7,349	6,139	180,725	1,445
General	16,110	10,293	3,839	4,164	34,406	2,030
Materials and supplies	529	658	1,955	842	3,984	380
Insurance	395	233	276	193	1,097	14,859
Depreciation and amortization	20,836	7,783	5,333	2,137	36,089	819
Total operating expenses	217,744	37,639	27,938	23,974	307,295	22,785
Operating income (loss)	61,144	9,441	(3,881)	(3,145)	63,559	(8,637)
Nonoperating revenues (expenses):						
Operating grants	-	-	-	1,939	1,939	-
Interest income	11,118	2,931	2,439	500	16,988	1,283
Other	1,351	1,062	16	738	3,167	48
Gain (loss) on retirement of capital assets	485	(74)	(38)	(42)	331	(10)
Capital improvement fees	-	-	5,014	-	5,014	-
Interest expense and fiscal charges	(14,602)	(4,469)	(1,572)	(310)	(20,953)	(79)
Total non-operating revenues (expenses)	(1,648)	(550)	5,859	2,825	6,486	1,242
Income before capital contributions and transfers	59,496	8,891	1,978	(320)	70,045	(7,395)
Capital contributions	9,781	20,074	22	5,175	35,052	-
Transfers in	-	-	-	150	150	-
Transfers out	(27,393)	(3,928)	-	-	(31,321)	-
Change in net assets	41,884	25,037	2,000	5,005	73,926	(7,395)
Total net assets -- beginning	283,603	228,880	182,805	51,424	746,712	6,001
Total net assets -- ending	\$ 325,487	\$ 253,917	\$ 184,805	\$ 56,429	\$ 820,638	\$ (1,394)

City of Riverside  
Proprietary Funds  
Statement of Cash Flows  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Cash flows from operating activities:						
Cash received from customers and users	\$ 271,148	\$ 48,527	\$ 23,181	\$ 20,559	\$ 363,415	\$ 14,519
Cash paid to employees for services	(16,591)	(7,681)	(8,366)	(6,004)	(38,642)	(3,175)
Cash paid to other suppliers of goods or services	(174,648)	(21,510)	(13,904)	(15,620)	(225,682)	(11,508)
Other receipts	1,351	1,062	23	738	3,174	51
Net cash provided (used) by operating activities	<u>81,260</u>	<u>20,398</u>	<u>934</u>	<u>(327)</u>	<u>102,265</u>	<u>(113)</u>
Cash flows from noncapital financing activities:						
Transfers in	-	-	-	150	150	-
Transfers out	(27,393)	(3,928)	-	-	(31,321)	-
Operating grants	-	-	-	2,765	2,765	-
Advances from interfund receivables	-	-	-	5,912	5,912	-
Payments on interfund receivables	-	8	12,710	-	12,718	-
Advances to other funds	(144)	(62)	(2,044)	(1,229)	(3,479)	(16,771)
Net cash provided (used) by noncapital financing activities	<u>(27,537)</u>	<u>(3,982)</u>	<u>10,666</u>	<u>7,598</u>	<u>(13,255)</u>	<u>(16,771)</u>
Cash flows from capital and related financing activities:						
Purchase of capital assets	(43,733)	(25,469)	(11,974)	(8,220)	(89,396)	(1,457)
Purchase of nuclear fuel	(632)	-	-	-	(632)	-
Proceeds from the sale of capital assets	555	103	4	-	662	-
Principal paid on long-term obligations	(18,815)	(4,305)	(3,959)	(20)	(27,099)	-
Interest paid on long-term obligations	(14,656)	(3,445)	(1,687)	(310)	(20,098)	(79)
Capital improvement fees	-	-	5,014	-	5,014	-
Capital contributions	6,263	5,611	22	819	12,715	-
Net cash used for capital and related financing activities	<u>(71,018)</u>	<u>(27,505)</u>	<u>(12,580)</u>	<u>(7,731)</u>	<u>(118,834)</u>	<u>(1,536)</u>
Cash flows from investing activities:						
Purchase of investments	(5,371)	(4)	-	-	(5,375)	-
Income from investments	12,051	3,276	2,702	544	18,573	1,310
Net cash provided by investing activities	<u>6,680</u>	<u>3,272</u>	<u>2,702</u>	<u>544</u>	<u>13,198</u>	<u>1,310</u>
Net change in cash and cash equivalents	(10,615)	(7,817)	1,722	84	(16,626)	(17,110)
Cash and cash equivalents, ending (including \$69,801 for Electric, \$29,327 for Water and \$3,993 for Sewer in restricted accounts)						
	<u>169,169</u>	<u>63,092</u>	<u>36,407</u>	<u>12,451</u>	<u>281,119</u>	<u>21,388</u>
Cash and cash equivalents, ending (including \$53,166 for Electric, \$15,148 for Water and \$4,127 for Sewer in restricted accounts)						
	<u>\$ 158,554</u>	<u>\$ 55,275</u>	<u>\$ 38,129</u>	<u>\$ 12,535</u>	<u>\$ 264,493</u>	<u>\$ 4,278</u>

continued

City of Riverside  
Proprietary Funds  
Statement of Cash Flows  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

						continued
	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating Income (loss)	\$ 61,144	\$ 9,441	\$ (3,881)	\$ (3,145)	\$ 63,559	\$ (8,637)
Other receipts	1,351	1,062	16	738	3,167	32
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	20,836	7,783	5,333	2,137	36,089	819
Amortization of pension costs	87	38	24	14	163	9
Amortization (burn) of nuclear fuel	4,456	-	-	-	4,456	-
(Increase) in utility billed receivables	(1,249)	(840)	(41)	(96)	(2,226)	-
(Increase) in utility unbilled receivables	(1,687)	(178)	(18)	(12)	(1,895)	-
(Increase) decrease in accounts receivable	(5,256)	2,128	(890)	(189)	(4,207)	(21)
(Increase) decrease in intergovernmental receivables	603	(342)	73	29	363	412
(Increase) decrease in prepaid items	121	366	2	-	489	(1)
(Increase) in nuclear materials inventory	-	-	(508)	-	(508)	-
(Increase) decrease in inventory	(160)	-	-	-	(160)	1,227
Increase (decrease) in accounts payable	-	-	-	479	479	(595)
Increase (decrease) in accrued payroll	(3,059)	1,110	726	35	(1,188)	(62)
Increase (decrease) in retainage payable	596	(191)	16	-	421	-
Increase in intergovernmental receivables	165	79	75	-	319	-
Increase (decrease) in deferred revenue	(64)	-	-	6	(58)	-
Increase (decrease) in deposits	-	(1)	7	-	6	-
(Decrease) in due to other funds	(151)	(57)	-	-	(208)	(1,301)
Increase in claims and judgments	-	-	-	-	-	8,005
Increase in decommissioning liability	3,527	-	-	-	3,527	-
(Decrease) in landfill capping	-	-	-	(323)	(323)	-
Net cash provided by operating activities	<u>\$ 81,260</u>	<u>\$ 20,398</u>	<u>\$ 934</u>	<u>\$ (327)</u>	<u>\$ 102,265</u>	<u>\$ (113)</u>
Schedule of noncash financing and investing activities:						
Contribution in aid	<u>\$ 3,518</u>	<u>\$ 14,462</u>	<u>\$ 22</u>	<u>\$ 49</u>	<u>\$ 18,051</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

**City of Riverside**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Fund**  
**June 30, 2007**  
**(amounts expressed in thousands)**

	<u>Agency Funds</u>
<b>Assets:</b>	
Cash and investments	\$ 11,187
Cash and investments at fiscal agent	9,161
Interest receivable	108
Property tax receivables	<u>418</u>
Total assets	<u>\$ 20,874</u>
<b>Liabilities:</b>	
Accounts payable	\$ 11
Held for bond holders	<u>20,863</u>
Total liabilities	<u>\$ 20,874</u>

The notes to the financial statements are an integral part of this statement

1. Summary of Significant Accounting Policies

The City of Riverside (City) was incorporated on October 11, 1883 as a Charter City and operates under a Council-Manager form of Government. The more significant accounting policies reflected in the financial statements are summarized as follows:

A. Reporting Entity

These financial statements present the City and its component units, entities for which the City is financially accountable. Blended component units are legally separate entities, but in substance are part of the City's operations and their data is combined with that of the City's. The City has no component units that meet the criteria for discrete presentation. All of the City's component units have a June 30 year end.

Blended Component Units

Riverside Redevelopment Agency (Redevelopment Agency) was established in 1971 by the City. The Redevelopment Agency's primary purpose is to eliminate blighted areas in the City by encouraging commercial development. City Council members serve as the Redevelopment Agency's directors and have full accountability for fiscal matters.

Riverside Public Financing Authority (Public Financing Authority) was organized in December 1987 by the City and the Redevelopment Agency. The purpose of the Public Financing Authority is to provide financing for public capital improvements to the City or the Redevelopment Agency. City Council members serve as the Public Financing Authority's directors and have full accountability for fiscal matters.

Riverside Municipal Improvements Corporation (Municipal Improvements Corporation) was created in 1978 and operates under provisions of the Nonprofit Public Benefit Corporation Law of the State of California. The Municipal Improvements Corporation's primary purpose is to provide financing assistance by obtaining land, property and equipment on behalf of the City. Three members of the City Council serve as the Municipal Improvements Corporation's directors and have full accountability for fiscal matters.

Complete financial statements for each of the individual component units except the Riverside Municipal Improvement Corporation (which does not

generate a financial statement) may be obtained from the City's Finance Department, 3900 Main Street, Riverside, California, 92522.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. Interfund activity has been removed from these statements except for utility charges, as this would distort the presentation of function costs and program revenues. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. Indirect expenses are allocated to the various functions based on a proportionate utilization of the services rendered. Such allocations consist of charges for accounting, human resources, information technology and other similar support services.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting for the proprietary fund financial statements. Agency funds report only assets and liabilities, therefore have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred,

**CITY OF RIVERSIDE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the year ended June 30, 2007**

(amounts expressed in thousands)

regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied on the property. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. An allowance for doubtful accounts is maintained for the utility and other miscellaneous receivables. Agency funds report only assets and liabilities, therefore have no measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for grant revenue which is (6) months and sales tax revenue which is seven (7) months, as described below. Grant revenue is recognized if received within six (6) months of year end to enable the matching of revenue with applicable expenditures. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Effective with the previous fiscal year, the State temporarily began to exchange 25% of sales taxes for an equal amount of property taxes to securitize a short-term State bond issue. The State bond issue will remain outstanding for an uncertain number of years, but is currently estimated not to exceed eight (8) years. These in-lieu sales taxes will be paid to the City by the State on a different calendar than sales taxes, which are paid monthly, three months in arrears. The vast majority of the in-lieu amount will be paid during the applicable fiscal year; however, the final payment of the in-lieu sales taxes will not be paid until the January following the end of the applicable fiscal year. The City has budgeted this final payment in the current fiscal year and will continue this practice during this temporary period, effectively extending the availability period to seven (7) months for the in-lieu sales taxes and thus provide consistency in the reporting of sales tax revenue.

Property taxes, special assessments, sales taxes, franchise taxes, licenses, charges for services, amounts due from other governments and interest associated with the current fiscal period are all considered to be susceptible to accrual. Other revenue items such as fines and permits are considered to

be measurable and available only when the government receives cash, and are therefore not susceptible to accrual.

The government reports the following major governmental funds:

The General fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Redevelopment Agency's debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the Redevelopment Agency.

The Capital Outlay fund accounts for the construction and installation of street and highway capital improvements for the City, including improvements funded by the ½ % sales tax approved by Riverside County in 1988.

The Redevelopment Agency's capital project fund for the acquisition, relocation, demolition and sale of land for those portions of the City designated to be in need of redevelopment activities.

The government reports the following major proprietary funds:

The Electric fund accounts for the activities of the City's electric distribution operations.

The Water fund accounts for the activities of the City's water distribution operations.

The Sewer fund accounts for the activities of the City's sewer systems.

Additionally, the government reports the following fund types:

Internal service funds account for the central stores, central garage, and the three self-insured risks of workers compensation, unemployment and public liability on a cost reimbursement basis.

The agency (fiduciary) fund is used to account for special assessments that service no-commitment debt.



The permanent fund is a governmental fund that is used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's Library programs. Restricted for other purposes on the Statement of Net Assets includes \$1 million of permanent fund principal which are considered nonexpendable net assets.

Pronouncements regarding accounting and financial reporting issued by the Financial Accounting Standards Board prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Significant interfund activity has been eliminated from the government-wide financial statements with the exception of charges between the City's electric, water, sewer and refuse functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The sewer fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### D. Cash and Investments

The City values its cash and investments in accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Investment Pools (GASB 31)," which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net assets/balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value. All highly liquid investments (including restricted assets) with a maturity of 90 days or less when purchased are considered cash equivalents. Cash and investments held on behalf of proprietary funds by the City Treasurer are considered highly liquid and are classified as cash equivalents for the purpose of presentation in the Statement of Cash Flows.

#### E. Restricted Cash and Investments

Certain proceeds of Enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Additionally, unspent proceeds received from the City's landfill capping surcharge are also recorded as restricted assets.

#### F. Land and Improvements Held for Resale

Land and improvements held for resale are generally acquired under Developer Disposition Agreements in the normal course of Redevelopment Agency activity. The Developer Disposition Agreements provide for transfer of property to developers after certain redevelopment obligations have been fulfilled. Additionally, the General fund has acquired property which is to be held for resale at a later date. This property is carried at cost until an event occurs to indicate a lower net realizable value.

#### G. Inventory

Supplies are valued at cost using the average-cost method. Costs are charged to user departments when consumed rather than when purchased.

#### H. Prepaid Items

Payments to vendors for services benefiting future periods are recorded as prepaid items and expenditures are recognized when items are consumed.

#### I. Capital Assets and Nuclear Fuel

##### Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets ( e.g., roads, bridges, sidewalks, right of way, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs include: labor; materials; interest during construction; allocated indirect charges such as engineering, construction and transportation equipment, retirement plan contributions and other fringe benefits. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets other than land are depreciated using the straight-line method.

##### Nuclear Fuel

The Electric Utility amortizes the cost of nuclear fuel to expense using the "as burned" method. In accordance with the Nuclear Waste Disposal Act of 1982, the Electric Utility is charged one dollar per megawatt-hour of energy generated by the City's share of San Onofre Nuclear Generating Station's Units 2 and 3 to provide for estimated future storage and disposal of spent fuel. The Electric Utility pays this fee to its operating agent, Southern California Edison Company, on a quarterly basis.

#### J. Compensated Absences

City employees receive 10 to 25 vacation days a year based upon length of service. A maximum of two years' vacation accrual may be accumulated and unused vacation is paid in cash upon separation.

City employees generally receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain employees or their estates receive a percentage of unused sick leave paid in a lump sum based on longevity. The General, Library, Redevelopment Agency Capital Projects and the Housing and Community Development Special Revenue funds have been used to liquidate such balances.

The liability associated with these benefits is reported in the government-wide statements. Vacation and sick leave of proprietary funds is recorded as an expense and as a liability of those funds as the benefits accrue to employees.

#### K. Long-Term Obligations

##### Long-Term Debt

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are classified as deferred charges and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, government fund types recognize bond issuance costs as expenditures during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

##### Decommissioning

Federal regulations require the Electric Utility to provide for the future decommissioning of its ownership share of the nuclear units at San Onofre. The Electric Utility established a trust account to accumulate resources for the decommissioning of the nuclear power plant and restoration of the beachfront at San Onofre. Each year the Electric Utility recognizes an expense in the amount of the contribution to the trust account. The funding will occur over the useful life of the generating plant.

**CITY OF RIVERSIDE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the year ended June 30, 2007**

(amounts expressed in thousands)

Amounts held in the trust account are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside \$50,606 in cash and investments with the trustee as Riverside's estimated share of the decommissioning cost of San Onofre. Based on a cost estimate completed by Southern California Edison and approved by the California Public Utilities Commission, the Electric Utility plans to set aside approximately \$1,600 per year to fund this obligation. Decommissioning is expected to commence around the year 2014.

**L. Claims and Judgments Payable**

Claims and judgments payable are recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. Such claims, including an estimate for claims incurred but not reported at year end, are recorded as liabilities in the appropriate internal service fund.

**M. Fund Equity**

In the fund financial statements, reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Designated fund balances represent amounts identified by management or the governing board for the future use of financial resources.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriations.

**O. Interfund Transactions**

Interfund transactions are accounted for as revenues and expenditures or expenses. Transactions, which constitute reimbursements, are eliminated in

the reimbursed fund and accounted for as expenditures or expenses in the fund to which the transaction is applicable.

During the year, transactions occur between individual funds for goods provided or services rendered. Related receivables and payables are classified as "due from/to other funds" on the accompanying fund level statements. The noncurrent portion of long-term interfund loans receivable are reported as interfund receivables/payables and, for governmental fund types, are equally offset by a fund balance reserve to indicate that the receivable does not constitute available expendable financial resources. Interfund payables also include accrued interest, which has been offset by deferred revenue.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

**P. Unearned Revenues**

Governmental and proprietary funds report unearned revenue on the statement of net assets. Unearned revenues arise in governmental funds when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to meeting all eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The majority of the City's governmental fund unearned revenue for June 30, 2007 relates to unearned revenue on a capital lease. See Note 4.

**Q. Property Tax Calendar**

Under California law, general property taxes are assessed for up to 1% of the property's assessed value. General property taxes are collected by the counties along with other special district taxes and assessments and voter approved debt. General property tax revenues are collected and pooled by the county throughout the fiscal year and then allocated and paid to the county, cities and school districts based on complex formulas prescribed by State statutes.

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

Property taxes are calculated on assessed values as of January 1 for the ensuing fiscal year. On July 1 of the fiscal year the levy is placed and a lien is attached to the property. Property taxes are due in two installments. The first installment is due November 1 and is delinquent on December 10. The second installment is due February 1 and is delinquent on April 10. Property taxes receivable represent current and prior years' uncollected tax levies, adjusted for uncollectable amounts.

R. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures. Specifically, the City has made certain estimates and assumptions relating to the revenues due and expenditures incurred through fiscal year end, collectability of its receivables, the valuation of property held for resale, the useful lives of capital assets, and the ultimate outcome of claims and judgments. Actual results may differ from those estimates and assumptions.

S. Implementation of new accounting principles

GASB has issued two pronouncements prior to June 30, 2007 (for years ending after June 30, 2007) that have effective dates that may impact future financial presentations. Management has currently determined that GASB No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" and GASB No. 47, "Accounting for Termination Benefits" apply to the City, and are currently evaluating the impacts of implementing the pronouncements.

2. Legal Compliance - Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all departments within the general, special revenue and capital project funds. Formal budgets are not employed for debt service funds because debt indenture provisions specify payments. The permanent fund is not budgeted.

During the period December through February of each fiscal year, department heads prepare estimates of required appropriations for the following fiscal year. These estimates are compiled into a proposed operating budget that includes a summary of proposed expenditures and financial resources and historical data for the preceding fiscal year. The operating budget is presented by the City Manager to the City Council for review. Public hearings are conducted to obtain citizen comments. The City Council generally adopts the budget during one of its June meetings. The City Manager is legally authorized to transfer budgeted amounts between divisions and accounts within the same department. Transfer of appropriations between departments or funds and increased appropriations must be authorized by the City Council. Expenditures may not legally exceed budgeted appropriations at the departmental level within a fund. All appropriations shall lapse at the end of the fiscal year to the extent they have not been expended or lawfully encumbered, except for appropriations for capital projects which shall continue to their completion.

3. Cash and Investments

Cash and investments at fiscal year end consist of the following:

Investments	\$392,505
Investments at fiscal agent	<u>504,455</u>
	896,960
Cash on hand and in transit	<u>2,400</u>
	<u>\$899,360</u>

The amounts are reflected in the government-wide statement of net assets:

Cash and investments	\$399,535
Restricted cash and cash equivalents	86,260
Restricted cash and investments at fiscal agent	<u>393,217</u>
Total per statement of net assets	879,012
Fiduciary fund cash and investments	<u>20,348</u>
	<u>\$899,360</u>

The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures, which are administered by outside agencies.

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

Interest income earned on pooled cash and investments is allocated monthly to funds based on the beginning and month-end balances. Interest income from cash and investments held at fiscal agents is credited directly to the related account. Bank deposits are covered by federal depository insurance for the first \$100 or by collateral held in the pledging bank's trust department in the name of the City.

Authorized Investments

Under provisions of the City's investment policy, and in accordance with California Government Code Section 53601, the City Treasurer may invest or deposit in the following types of investments:

	<u>Max Maturity</u>	<u>Max % of Portfolio</u>
Securities of the U.S. Gov't. and its sponsored agencies	5 Years	100%
Repurchase Agreements	1 Year	100%
Reverse Repurchase Agreements	90 Days	20%
Negotiable Certificates of Deposit	5 Years	30%
Bankers Acceptances	180 Days	40%
Commercial Paper of "prime" quality	270 Days	25%
Local Agency Investment Fund (State Pool)	N/A	100%
Mutual Funds	N/A	20%
Medium-Term Corporate Notes	5 Years	30%

Investments in Medium Term Corporate Notes may be invested in securities rated A or better by Moody's or Standard and Poor's rating services and no more than 15% of the market value of the portfolio may be invested in one corporation.

The City's investment policy provides two exceptions to the above; one is for investments authorized by debt agreements (described below) and the other for funds reserved in the San Onofre Nuclear Generating Station Decommissioning Account for which the five-year maturity limitation may be extended to the term of the operating license.

Investments Authorized by Debt Agreements

Provisions of debt agreements, rather than the general provisions of the California Government Code or the City's investment policy, govern

investments of debt proceeds held by bond fiscal agents. Permitted investments are specified in related trust agreements and include the following:

- Securities of the U.S. Government and its sponsored agencies
- Bankers' Acceptances rated in the single highest classification
- Commercial Paper rated in the single highest classification
- Investments in money market funds rated in the single highest classification
- Municipal obligations rated Aaa/AAA or general obligations of states with ratings of at least A2/A or higher by both Moody's and S&P Investment Agreements

No maximum percentage of the related debt issue or maximum investment in one issuer is specified.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy requires that the interest rate risk exposure be managed by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>				
	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>	
Money Market Funds	\$ 31,239	\$ 31,239	\$ -	\$ -	\$ -
Federal Agency Securities	240,712	49,650	34,455	156,607	-
Corp Medium Term Notes	19,654	-	19,654	-	-
State Investment Pool	100,900	100,900	-	-	-
Held by Fiscal Agent					
Money Market Funds	33,514	33,514	-	-	-
Investment Contracts	391,335	59,028	166,216	118,210	47,881
Corp Med Term Notes	984	984	-	-	-
Commercial Paper	26,973	24,539	-	2,434	-
Fed Agency Securities	<u>51,649</u>	<u>19,904</u>	<u>1,697</u>	<u>9,224</u>	<u>20,824</u>
Total	<u>\$896,960</u>	<u>\$319,758</u>	<u>\$222,022</u>	<u>\$286,475</u>	<u>\$68,705</u>

The City assumes that callable investments will not be called.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each investment type:

<u>Investment Type</u>	<u>Rating as of Year End</u>				
	<u>AAA</u>	<u>Aa</u>	<u>A-1</u>	<u>Unrated</u>	
Money Market Funds	\$ 31,239	\$ -	\$ -	\$ -	\$ 31,239
Federal Agency Securities	240,712	240,712	-	-	-
Corp Medium Term Notes	19,654	-	19,654	-	-
State Investment Pool	100,900	-	-	-	100,900
Held by Fiscal Agent					
Money Market Funds	33,514	33,514	-	-	-
Investment Contracts	391,335	-	-	-	391,335
Corp Med Term Notes	984	984	-	-	-
Commercial Paper	26,973	-	-	26,973	-
Fed Agency Securities	<u>51,649</u>	<u>51,649</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$896,960</u>	<u>\$717,326</u>	<u>\$20,522</u>	<u>\$26,973</u>	<u>\$132,139</u>

Concentration on Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stated above. Investments in

any one issuer that represent 5% or more of total City investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
FHLB	Federal Agency Securities	\$158,386

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City's investment policy requires that a third party bank trust department hold all securities owned by the City. All trades are settled on a delivery vs. payment basis through the City's safekeeping agent. The City has no deposits with financial institutions; bank balances are swept daily into a money market account.

Investment in State Investment Pool

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 fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

4. Capital Lease Receivable

The Redevelopment Agency has a direct financing lease arrangement with the State of California (the State) for a twelve-story office building. The lease term is for thirty years and the State takes ownership of the facility at the conclusion of that term. The lease calls for semi-annual payments not less than the debt service owed by the Redevelopment Agency on the lease

**CITY OF RIVERSIDE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the year ended June 30, 2007**

(amounts expressed in thousands)

revenue bonds issued for the purchase and renovation of the building. The future minimum lease payments to be received are as follows:

2008	\$ 2,298
2009	2,324
2010	2,355
2011	2,381
2012	2,413
Thereafter	<u>34,197</u>
Total Due	45,968
Less: amount applicable to interest	<u>(19,803)</u>
Total capital lease receivable	<u>\$26,165</u>

**5. Capital Assets**

The following is a summary of changes in the capital assets during the fiscal year ended June 30, 2007.

Governmental activities:	Beginning Balance	Additions	Deletions/Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	\$163,594	\$34,265	\$(6,165)	\$191,694
Construction in progress	55,326	46,233	(36,573)	64,986
Total capital assets not being depreciated	<u>218,920</u>	<u>80,498</u>	<u>(42,738)</u>	<u>256,680</u>
Capital assets being depreciated:				
Buildings	77,724	24,139	-	101,863
Improvements other than Buildings	51,619	9,035	-	60,654
Machinery and Equipment	57,114	15,469	(4,774)	67,809
Infrastructure	521,056	66,801	-	587,857
Total capital assets being depreciated	<u>707,513</u>	<u>115,444</u>	<u>(4,774)</u>	<u>818,183</u>
Less accumulated depreciation for:				
Buildings	(27,917)	(1,767)	-	(29,684)
Improvements other than Buildings	(28,032)	(1,830)	-	(29,862)
Machinery and Equipment	(42,636)	(4,422)	4,548	(42,510)
Infrastructure	(167,654)	(12,617)	-	(180,271)
Total accumulated depreciation	<u>(266,239)</u>	<u>(20,636)</u>	<u>4,548</u>	<u>(282,327)</u>
Total capital assets being depreciated, net	<u>441,274</u>	<u>94,808</u>	<u>(226)</u>	<u>535,856</u>
Governmental activities capital assets, net	<u>\$660,194</u>	<u>\$175,306</u>	<u>\$(42,964)</u>	<u>\$792,536</u>

Business type activities:	Beginning Balance	Additions	Deletions/Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 30,372	\$ 44	\$( 3)	\$ 30,413
Construction in progress	42,064	103,001	(49,113)	95,952
Total capital assets not being depreciated	<u>72,436</u>	<u>103,045</u>	<u>(49,116)</u>	<u>126,365</u>
Capital assets being depreciated:				
Buildings	228,937	3,452	1	232,390
Improvements other than Buildings	973,640	43,336	(1,216)	1,015,760
Machinery and Equipment	43,645	6,215	(1,729)	48,131
Total capital assets being depreciated	<u>1,246,222</u>	<u>53,003</u>	<u>(2,944)</u>	<u>1,296,281</u>
Less accumulated depreciation for:				
Buildings	(69,862)	(5,375)	2	(75,235)
Improvements other than Buildings	(341,375)	(27,249)	977	(367,647)
Machinery and Equipment	(29,784)	(3,265)	1,591	(31,458)
Total accumulated depreciation	<u>(441,021)</u>	<u>(35,889)</u>	<u>2,570</u>	<u>(474,340)</u>
Total capital assets being depreciated, net	<u>805,201</u>	<u>17,114</u>	<u>(374)</u>	<u>821,941</u>
Business type activities capital assets, net	<u>\$877,637</u>	<u>\$120,159</u>	<u>\$(49,490)</u>	<u>\$948,306</u>

Estimated useful lives used to compute depreciation are as follows:

Buildings and Improvements	30-50 years
Improvements other than Buildings	20-99 years
Machinery and Equipment	3-15 years
Infrastructure	20-100 years

Depreciation expense was charged to functions of the government as follows:

Governmental activities:	
General government	\$ 2,307
Public safety	2,378
Highways and streets, including depreciation of general infrastructure assets	13,401
Culture and recreation	<u>2,550</u>
Total depreciation expense – governmental activities	<u>\$20,636</u>

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

Business type activities:	
Electric	\$20,836
Water	7,783
Sewer	5,333
Refuse	892
Special Transportation	385
Airport	221
Public Parking	<u>439</u>
Total depreciation and amortization expense - business type activities	<u>\$35,889</u>

	<u>Workers' Compensation</u>	<u>Unemployment Compensation</u>	<u>Public Liability</u>	<u>Total</u>
Unpaid Claims, June 30, 2005	\$11,147	\$ 76	\$6,326	\$17,549
Incurred claims	8,176	-	4,657	12,833
Claim payments	<u>(5,589)</u>	<u>-</u>	<u>(4,809)</u>	<u>(10,398)</u>
Unpaid Claims, June 30, 2006	13,734	76	6,174	19,984
Incurred claims (including IBNR's)	14,251	-	7,432	21,683
Claim payments	<u>(8,298)</u>	<u>-</u>	<u>(5,380)</u>	<u>(13,678)</u>
Unpaid claims, June 30, 2007	<u>\$19,687</u>	<u>\$ 76</u>	<u>\$ 8,226</u>	<u>\$27,989</u>

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Property insurance coverage has a limit of \$100,000, with a deductible of \$50. Earthquake and flood insurance coverage has a limit of \$15,000, with a deductible of 5% for earthquake and 2% for flood. Workers' compensation insurance coverage has a limit of \$25,000, with a deductible of \$3,000 per occurrence. The City carries commercial insurance up to \$23,000 for general and auto liability claims greater than \$3,000 per occurrence. There were no claims settled in the last three fiscal years that exceed insurance coverage. Internal service funds have been established to account for and finance the uninsured risks of loss.

All funds of the City participate in the Risk Management program and make payments to the Internal Service Funds based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. Interfund premiums are accounted for as quasi - external transactions and are therefore recorded as revenues of the Internal Service funds in the fund financial statements.

Changes in the funds' claims liability amounts are:

7. Long-Term Obligations

Changes in Long-Term Obligations: The following is a summary of changes in long-term obligations during the fiscal year:

Governmental Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Redevelopment Agency bonds	\$140,195	\$160,507	\$4,104	\$296,598	\$ 4,145
General Obligation Bonds	19,858	-	527	19,331	545
Pension Obligation Bonds	146,470	-	2,020	144,450	2,480
Certificates of Participation	55,571	139,139	1,836	192,874	1,870
Capital leases	6,008	1,103	2,182	4,929	1,656
Notes Payable	10,215	-	456	9,759	517
Compensated Absences	31,656	15,185	12,778	34,063	12,187
Total	<u>\$409,973</u>	<u>\$315,934</u>	<u>\$23,903</u>	<u>\$702,004</u>	<u>\$23,400</u>



**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

Business-type activities:

	Beginning			Ending	Due		Principal
	Balance	Additions	Reductions	Balance	Within		Outstanding
					One Year		
Revenue Bonds	\$509,577	\$ -	\$35,245	\$474,332	\$27,330	\$75,405 2003 Electric Revenue Bonds; 2.0% to 5.0%, due in annual installments from \$1,035 to \$8,535 through October 1, 2013.	53,880
Notes Payable	9,841	-	630	9,211	642		
Capital Leases	317	-	64	253	85		
Landfill Capping	3,444	-	323	3,121	300	\$27,500 2004 Electric Revenue Bonds; Series A fixed rate bonds, 4.0% to 5.25%, due in annual installments from \$2,615 to \$3,695 through October 1, 2014.	24,885
Arbitrage Liability	-	1,343	-	1,343	-		
Water Stock Acquisition Rights	979	-	6	973	150	\$82,500 2004 Electric Revenue Bonds; Series B Auction Rate Securities, variable rate subject to weekly repricing (rate at June 30, 2007 was 3.7%), due in annual installments from \$1,250 to \$7,000 through October 1, 2029.	82,500
Total	<u>\$524,158</u>	<u>\$ 1,343</u>	<u>\$27,671</u>	<u>\$489,233</u>	<u>\$28,507</u>		

Advance Refunding:

In prior years the City defeased certain Revenue and Tax Allocation Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At fiscal year end \$62,735 of bonds outstanding are considered defeased.

\$115,725 2005 Electric Refunding/Revenue Bonds; Series A and B; Auction Rate Securities, variable rate subject to weekly repricing (rate at June 30, 2007 was 3.7%), due in annual installments from \$600 to \$10,375 through October 1, 2035.

Long-Term Obligations at June 30, 2007:

Revenue Bonds:	Principal Outstanding	
Subtotal		352,830
Add: Unamortized bond premium		7,469
Less: Unamortized deferred bond refunding costs		<u>(6,087)</u>
		<u>\$360,299</u>

Electric

\$98,730 1998 Electric Revenue Bonds (partial refunding issue); \$63,165 serial bonds, 4.25% to 5.38%, due in annual installments from \$4,650 to \$7,085 through October 1, 2013; \$35,565 term bonds, 5%, due October 1, 2022 (partially advance refunded in 2005).

\$ 47,315

\$47,215 2001 Electric Revenue Bonds; 2.9% to 5.25%, due in annual installments from \$2,855 to \$4,750 through October 1, 2016 (partially advance refunded in 2005).

29,125

Water

\$69,840 1991 Water Revenue Bonds; \$25,050 serial bonds, 4.25% to 9.0%, due in annual installments from \$675 to \$3,100 through October 1, 2002; \$25,900 Capital Appreciation Bonds, due in annual installments from \$3,235 to \$3,240 from October 1, 2003 to October 1, 2010; (partially advance refunded in 1998)

\$ 12,950



**CITY OF RIVERSIDE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the year ended June 30, 2007**

(amounts expressed in thousands)

	<u>Principal Outstanding</u>		<u>Principal Outstanding</u>
\$6,055 1999 University Corridor/Sycamore Canyon Merged Project Area, Subordinate Tax Allocation Bonds, Series B; \$1,900 serial bonds, 4.5% to 5.5% due in annual installments from \$35 to \$190 through September 1, 2013; \$1,135 term bonds at 5.5% due September 1, 2018; and \$3,020 term bonds at 5.625% due September 1, 2027	5,315	\$40,435 Downtown/Airport Merged Project Area, 2003 Tax Allocation and Refunding Bonds; \$32,720 serial bonds 2.0% to 5.25% due in annual installments from \$1,220 to \$1,955 through August 1, 2023; and \$7,715 term bonds at 5.0% due in annual installments from \$195 to \$2,060 through August 2034	36,680
\$20,395 1999 Casa Blanca Project Area, Tax Allocation Bonds, Series A; \$8,925 serial bonds, 3.4% to 4.7% due in annual installments from \$455 to \$780 through August 1, 2014; \$2,565 term bonds at 4.75% due August 1, 2017; \$4,035 term bonds at 4.75% due August 1, 2021; and \$4,870 term bonds at 5.0% due August 1, 2025.	16,865	\$24,115 2005 Housing Set-Aside Tax Allocation Bonds; \$17,025 serial bonds 3.0% to 4.625% due in annual installments from \$505 to \$1,165 through August 1, 2025; \$2,425 term bonds at 5.0% due August 1, 2028; and \$4,665 term bonds at 4.85% due August 1, 2034	23,045
\$4,550 Arlington Redevelopment Project, 2004 Tax Allocation Bonds, Series A; \$420 term bonds at 3.8% due August 1, 2014; \$615 term bonds at 4.6% due August 1, 2024; and \$3,515 term bonds at 4.7% due August 1, 2034	4,475	\$1,465 California Statewide Communities Development Authority 2005 Taxable Revenue Bonds, Series A (CRA/ERAF Loan Program); 3.87% to 5.01% due in annual installments of \$105 to \$180 through August 1, 2015	1,360
\$2,975 Arlington Redevelopment Project, 2004 Tax Allocation Bonds; Series B: 5.5% due in annual installments from \$85 to \$235 through August 1, 2024	2,800	\$8,340 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Tax Exempt, Series A, serial bonds 4.0% to 4.25% due in annual installments from \$20 to \$590,000 through August 1, 2025; \$4,980 term bonds at 4.5% due August 1, 2029; \$410 term bonds at 4.375% due August 1, 2037	8,340
\$26,255 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series A; 2.0% to 5.0% due in annual installments from \$545 to \$2,230 through October 1, 2024	23,740	\$14,850 Downtown/Airport Merged Project Area and Casa Blanca Project Area 2007 Tax Allocation Bonds, Taxable, Series B, \$4,050 term bonds at 5.2% due August 1, 2017; \$10,800 term bonds at 5.8% due August 1, 2028	14,850
\$4,810 State of California Department of General Services Project, 2003 Lease Revenue Refunding Bonds, Series B; \$310 serial bonds 1.20% to 1.42% through October 1, 2004; \$620 term bonds at 3.090% due Oct. 1, 2008; \$1,110 term bonds at 4.340% due Oct. 1, 2014 and \$2,770 term bonds at 5.480% due Oct. 1, 2024	4,200		

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

Principal  
Outstanding

\$89,205 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Tax-Exempt, Series C, serial bonds 4.0% to 5.0% due in annual installments from \$50 to \$3,210 through August 1, 2025; \$17,955 term bonds at 4.5% due August 1, 2030; \$47,775 term bonds at 5.0% due August 1, 2037

89,205

\$43,875 University Corridor/Sycamore Canyon Merged Project Area, Arlington Project Area, Hunter Park/Northside Project Area, Magnolia Center Project Area, and La Sierra/Arlanza Project Area 2007 Tax Allocation Bonds, Taxable, Series D, \$15,740 term bonds due August 1, 2017; \$28,135 term bonds due August 1, 2032

Subtotal 43,875

Add: Unamortized bond premium 6,918

Total Redevelopment Agency Bonds \$296,598

Remaining debt service will be paid by the Redevelopment Agency Debt Service Funds from future property tax revenues. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 4,145	\$ 12,585	\$ 16,730
2009	6,250	13,931	20,181
2010	6,625	13,670	20,295
2011	6,925	13,380	20,305
2012	7,235	13,071	20,306
2013-2017	41,395	61,397	102,792
2018-2022	54,585	50,746	105,331
2023-2027	63,035	41,885	104,920
2028-2032	49,025	37,746	86,771
2033-2037	43,685	26,262	69,947
2038-2042	6,775	3,997	10,772
Premium	6,918	-	6,918
Total	<u>\$296,598</u>	<u>\$288,670</u>	<u>\$585,268</u>

General Obligation Bonds:

\$20,000 Fire Facility Projects, Election of 2003 General Obligation Bond; 3.0% to 5.5%, due in annual installments from \$410 to \$1,740 through August 1, 2024

\$19,075

Add; Unamortized bond premium 256

Total General Obligation Bonds \$19,331

Remaining general obligation bond debt service payments will be made from unrestricted revenues of the General fund. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 545	\$ 1,109	\$ 1,654
2009	590	1,130	1,720
2010	625	1,155	1,780
2011	675	1,183	1,858
2012	725	1,212	1,937
2013-2017	4,525	6,597	11,122
2018-2022	6,450	7,908	14,358
2023-2025	4,940	4,683	9,623
Premium	256	-	256
Total	<u>\$19,331</u>	<u>\$24,977</u>	<u>\$44,308</u>

**CITY OF RIVERSIDE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the year ended June 30, 2007**

(amounts expressed in thousands)

	<u>Principal Outstanding</u>		<u>Principal Outstanding</u>
Pension Obligation Bonds:		Certificates of Participation:	
\$89,540 California Statewide Community Development Authority (Public Safety) 2004 Taxable Pension Obligation Bond; 2.65% to 5.896%, due in annual installments from \$1,125 to \$10,715 through June 1, 2023	\$85,765	\$6,360 1999 Municipal Improvements Corporation Certificates of Participation; 6.0% to 7.6%, due in annual installments from \$310 to \$815 through April 1, 2010	\$ 2,280
\$30,000 2005 Taxable Pension Obligation Bonds Series A; 3.85% to 4.78%, due in annual installments \$630 to \$3,860 through June 1, 2020	28,685	\$53,185 2003 Riverside Public Financing Authority Certificates of Participation; 2.0% to 5.0%, due in annual installments from \$755 to \$2,830 through September 1, 2033	50,200
\$30,000 2005 Taxable Pension Obligation Bonds Series B (Auction Rate Securities); variable rate subject to weekly repricing (rate at June 30, 2007 was 5.3%), due in annual installments from \$1,475 to \$6,750 through June 1, 2025.	<u>30,000</u>	\$19,945 2006 Galleria at Tyler Public Improvements Certificates of Participation; 4.0% to 4.5%, due in annual installments from \$435 to \$735 through September 1, 2024	19,945
Total Pension Obligation Bonds	<u>\$144,450</u>	\$59,475 Riverside Renaissance Certificates of Participation Series 2007A; variable rate subject to weekly repricing (rate at June 30, 2007 was 3.7%), due in annual installments from \$1,350 to \$3,350 through March 1, 2037	59,475
Remaining pension obligation bond debt service payments will be made from unrestricted revenues of the General fund. Annual debt service requirements to maturity are as follows:		\$59,500 Riverside Renaissance Certificates of Participation Series 2007B; variable rate subject to weekly repricing (rate at June 30, 2007 was 3.7%) due in annual installments from \$1,350 to \$3,350 through March 1, 2037	59,500
<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 2,480	\$ 7,642	\$ 10,122
2009	2,985	7,539	10,524
2010	3,535	7,406	10,941
2011	4,130	7,241	11,371
2012	4,780	7,042	11,822
2013-2017	35,565	30,802	66,367
2018-2022	61,635	18,551	80,186
2023-2025	29,340	2,483	31,823
Total	<u>\$144,450</u>	<u>\$88,706</u>	<u>\$233,156</u>
			Subtotal
			191,400
			Add: Unamortized bond premium
			<u>1,474</u>
			Total Certificates of Participation
			<u>\$192,874</u>
			Remaining certificates of participation debt service payments will be made from unrestricted revenues of the Debt Service funds. Annual debt service requirements to maturity are as follows:

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$1,870	\$ 7,445	\$ 9,315
2009	1,950	7,360	9,310
2010	2,045	7,260	9,305
2011	1,275	7,124	11,099
2012	4,500	6,977	11,477
2013-2017	25,355	32,214	57,549
2018-2022	30,755	26,877	57,632
2023-2027	35,820	20,287	56,107
2028-2032	42,495	12,667	55,162
2033-2037	42,655	3,946	46,601
Premium	<u>1,474</u>	-	<u>1,474</u>
Total	<u>\$192,874</u>	<u>\$132,157</u>	<u>\$325,031</u>

Contracts – Enterprise Funds:

Water stock acquisition rights payable on demand to various water companies

Principal  
Outstanding  
  
\$973

Notes Payable - Redevelopment Agency:

Principal  
Outstanding

These notes payable have been issued to promote development and expansion within the City's redevelopment areas.

Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of \$341, including principal and interest through June 2020

\$2,987

HUD Section 108 loan for University Village, 5.36% to 7.66%, payable in semi-annual installments beginning August 1, 1996 of \$272 to \$425 through August 1, 2015

2,700

HUD Section 108 loan for Mission Village Project, 6.15% to 6.72%, payable in semi-annual installments beginning August 1, 1999 of \$110 to \$420 through August 1, 2018

3,595

Note payable to California Housing Finance Agency, interest at 3%, payable in annual installments of \$88 through 2013, for housing projects.

Principal  
Outstanding

477

Total notes payable – Redevelopment Agency

\$ 9,759

Remaining notes payable debt service payments will be made from unrestricted revenues of the Redevelopment Agency. Annual debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Redevelopment Agency</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2008	\$ 517	\$ 744	\$ 1,261
2009	552	711	1,263
2010	593	675	1,267
2011	638	635	1,274
2012	685	592	1,277
2013-2017	3,437	1,656	5,092
2018-2022	1,281	1,293	2,575
2023-2027	777	933	1,709
2028-2032	<u>1,279</u>	<u>430</u>	<u>1,709</u>
Total	<u>\$ 9,759</u>	<u>\$7,668</u>	<u>\$17,427</u>

Notes payable – Sewer Fund:

Principal  
Outstanding

Sewer fund loan from State of California for Cogeneration project, 2.336%, payable in net annual installments of \$339,474, beginning January 29, 2003 through January 29, 2022

\$ 4,088

Sewer fund loan from State of California for Headworks project, 1.803%, payable in net annual installments of \$477,387, beginning November 6, 1999 through November 6, 2018

5,123

Total notes payable – Sewer Fund

\$9,211

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

Remaining notes payable debt service payments will be made from unrestricted revenues of the Sewer fund. Annual debt service requirements to maturity are as follows:

Fiscal Year	Sewer Fund		Total
	Principal	Interest	
2008	\$ 642	\$ 175	\$ 817
2009	654	163	817
2010	6666	151	817
2011	679	138	817
2012	692	125	816
2013-2017	3,659	426	4,084
2018-2021	<u>2,220</u>	<u>92</u>	<u>2,313</u>
Total	<u>\$9,211</u>	<u>\$1,270</u>	<u>\$10,481</u>

Capital Leases:

The City leases various equipment through capital leasing arrangements in the governmental and proprietary fund types. These activities are recorded for both governmental and business-type activities in the government-wide financial statements. The assets and related obligations under leases in governmental funds are not recorded in the fund statements. For proprietary funds, the assets and their related liabilities are reported directly in the fund. Amortization applicable to proprietary assets acquired through capital lease arrangements is included with depreciation for financial statement presentation. The assets acquired through capital leases are as follows:

Asset	Governmental Activities	Business-Type Activities
Buildings	\$8,660	\$868
Equipment	<u>6,519</u>	<u>-</u>
Subtotal	15,179	868
Less: Accumulated Depreciation	<u>(2,217)</u>	<u>(167)</u>
Total	<u>\$12,962</u>	<u>\$701</u>

The future minimum lease obligations as of June 30, 2007 were as follows:

Years Ending June 30,	Governmental Activities	Business-type Activities
2008	\$1,749	\$ 92
2009	1,520	75
2010	848	51
2011	809	51
2012	<u>474</u>	<u>0</u>
Total Minimum lease payments	5,400	269
Less: Amount representing interest (rates ranging from 2.5% to 9%)	<u>(471)</u>	<u>(16)</u>
Total capital lease payable	<u>\$4,929</u>	<u>\$253</u>

The following are legally required debt service cash reserves. These amounts, at a minimum, are held by the City or fiscal agents at June 30, 2007:

General long-term obligations:

Redevelopment Agency	\$ 7,033
Certificates of Participation	<u>5,486</u>
Total	<u>\$12,519</u>

Enterprise funds:

Electric	\$30,108
Water	<u>9,427</u>
Total	<u>\$39,535</u>

Following are required debt service ratios for the year ended June 30, 2007. The ratio measures operating income in relation to debt service. The City is in compliance with these ratios, except for the Sewer fund. The Sewer fund has not raised sewer rates in over 20 years. Management is in the process of preparing a rate increase that is anticipated to be approved by City Council by fiscal year 07/08.

	Minimum Debt Service Ratio Required
Electric fund	1.10
Water fund	1.25
Sewer fund	1.25

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

There are also a number of limitations and restrictions contained in Assessment Bond indentures. The City believes they are in compliance with all significant limitations and restrictions.

**Landfill Capping:**

State and Federal laws and regulations require the City to place a final cover on all active landfills when closed and to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. To comply with these laws and regulations, the City is funding the costs of closure and "final capping" of the Tequesquite landfill located in the City. This area, comprised of approximately 120 acres, operated as a "Class II Sanitary Landfill" until its closure in 1985. During its operation, the landfill did not accept hazardous waste and no clean up and abatement or cease and desist orders have been issued to the City. The capacity used at June 30, 2007 was 100%.

The estimated costs as determined by an independent consultant and updated by the City's Engineering Department are associated with flood control upgrades, remediation of possible ground water contamination and control of methane gas. All potential costs have been recognized in the financial statements. There is the potential for these estimates to change due to inflation, deflation, technology, or change in laws or regulations. To fund the cost, the City imposed a landfill capping surcharge on customers effective August 1, 1988. The minimum unamortized estimated cost of \$4,559 is recorded as a deferred charge in the accompanying financial statements of the Refuse fund and is being amortized on a straight-line basis over the remaining post closure period, currently 23 years. The estimated cost of meeting the State's requirements was increased by \$2.2 million during 2002 based on the engineer's annual review of closure and post-closure maintenance costs.

**8. Other Long-Term Obligations**

**Assessment Districts Bonds (Not obligations of the City)**

As of June 30, 2007, the City has several series of Assessment District Bonds outstanding in the amount of \$74,508. Bonds issued for improvements in certain special assessment districts, in accordance with the provisions of the Municipal Improvements Acts, are liabilities of the property owners and are secured by liens against the assessed property. The City Treasurer acts as an agent for the property owners in collecting the

assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if applicable. Since the debt does not constitute an obligation of the City, it is not reflected as a long-term obligation of the City and is not reflected in the accompanying basic financial statements.  
Conduit Debt Obligations

Mortgage Revenue Bonds outstanding of \$16,975 and Industrial Development Revenue Bonds of \$11,275 are not included in the accompanying financial statements. These bonds are special obligations of third parties and payable solely from and secured by a pledge of the receipts received from the acquired mortgage loans and certain other reserve funds and related monies. The bonds are not payable from any other revenues or assets of the City or Redevelopment Agency. Neither the faith and credit nor the taxing power of the City, the Redevelopment Agency, the State of California or any political subdivision thereof is pledged to the payment of the principal and interest on the bonds.

**9. Interest Rate Swaps on Revenue Bonds**

Objective: As a means to lower borrowing costs, when compared against fixed-rate bonds at the time of issuance in September 2005, the City entered into interest rate swap agreements in connection with its \$115,725 2005 Electric Refunding/Revenue Bonds (Series A and B) and \$61,125 2005 Water Refunding/Revenue Bonds. Also in September 2005, the City entered into the interest rate swap agreement for the \$82,500 2004 Electric Revenue Bonds (Series B). The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 3.11% for the 2004 Electric Revenue Bonds (Series B) and 3.20% for the other respective Revenue Bonds. In March 2007, the City entered into additional interest rate swap agreements in connection with its \$59,475 2007 Series A Certificates of Participation, and its \$59,500 2007 Series B Certificates of Participation.

Terms: Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Starting in fiscal year 2007, the notional value of the swaps and the principal amounts of the associated debt decline by \$300 to \$7,000 until the debt is completely retired in fiscal year 2036. The bonds' variable rate coupons are established on a weekly basis through the results of an



**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

auction process administered through an auction agent, termed Auction Rate Securities (“ARS”).

The bonds and the related swap agreements for the 2004 Electric Revenue Bonds mature on October 1, 2029 and the 2005 Electric and Water Refunding/Revenue Bonds both mature on October 1, 2035. The 2007 Series A and B Certificates of Participation mature on March 1, 2037. As of June 30, 2007 rates were as follows:

		<b>2005 Water Refunding/ Revenue Bonds Series A</b>	<b>2005 Electric Refunding/ Revenue Bonds Series A</b>
	<u>Terms</u>	<u>Rates</u>	<u>Rates</u>
Interest rate Swap:			
Fixed payment to counterparty	Fixed 62.68 LIBOR	3.2000%	3.2010%
Variable payment from counterparty	+ 12 bps	<u>(3.26362%)</u>	<u>(3.35345%)</u>
Net interest rate swap payments		<u>(.06362%)</u>	<u>(.15245%)</u>
Variable-rate bond coupon payments	ARS	<u>3.12994%</u>	<u>3.22244%</u>
Synthetic interest rate on bonds		<u>3.06632%</u>	<u>3.06999%</u>
	<u>Terms</u>	<u>Rates</u>	<u>Rates</u>
Interest rate Swap:			
Fixed payment to counterparty	Fixed 62.68 LIBOR	3.2040%	3.1110%
Variable payment from counterparty	+ 12 bps	<u>(3.37995%)</u>	<u>(3.22906%)</u>
Net interest rate swap payments		<u>(.17595%)</u>	<u>(.11806%)</u>
Variable-rate bond coupon payments	ARS	<u>3.25034%</u>	<u>3.10258%</u>
Synthetic interest rate on bonds		<u>3.07439%</u>	<u>2.98452%</u>

	<u>Terms</u>	<u>Rates</u>	<u>Rates</u>
Interest rate Swap:			
Fixed payment to counterparty	Fixed 63.00 LIBOR	3.396%	3.396%
Variable payment from counterparty	+ 7 bps	<u>(3.42160%)</u>	<u>(3.42160%)</u>
Net interest rate swap payments		<u>(.0256%)</u>	<u>(.0256%)</u>
Variable-rate bond coupon payments	ARS	<u>3.60767%</u>	<u>3.63165%</u>
Synthetic interest rate on bonds		<u>3.58207%</u>	<u>3.60605%</u>

Fair Value: As of June 30, 2007, in connection with all swap arrangements, the transactions had a total positive fair value of \$17,816. Because the coupons on the City’s variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

Credit risk: As of June 30, 2007, the City was exposed to credit risk in the amount of \$17,816 because the swap had a positive fair value. The swap counterparties, Bear Stearns and Merrill Lynch were rated A+ and AA-, respectively by Standard & Poor’s. To mitigate the potential for credit risk, if either counterparties’s credit quality falls below A-, the fair value of the swap will be collateralized by the counterparty with U.S. Government securities. Collateral would be posted with a third-party custodian.

Basis risk: As noted above, the swaps expose the City to basis risk should the relationship between LIBOR and the auction-rate converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates’ moving to convergence, the expected cost savings may not be realized.

Termination risk: The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an “additional termination event.” That is, a swap may be terminated by the City if either counterparty’s credit quality falls below “BBB-“ as issued by Standard and Poor’s. The City or the counterparty may terminate a swap if the other party fails to perform under the terms of the

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

contract. If a swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination a swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt: As of June 30, 2007, the debt service requirements of the variable-rate debt and net swap payments assuming current interest rates remain the same, for their term are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2008	\$ 950	\$ 8,056	\$ (164)	\$ 8,842
2009	975	8,026	(163)	8,838
2010	1,000	7,995	(163)	8,832
2011	3,725	11,602	(236)	15,091
2012	6,200	11,408	(160)	17,448
2013-2017	53,700	52,862	(742)	105,820
2018-2022	67,400	42,676	(590)	109,486
2023-2027	74,600	31,083	(420)	105,263
2028-2032	84,225	18,709	(246)	102,688
2032-2037	84,550	4,658	(53)	86,155
Total	<u>\$377,325</u>	<u>\$197,075</u>	<u>\$ (2,937)</u>	<u>\$571,463</u>

10. Reserved Fund Balances:

Reserved fund balances at June 30, 2007 for the General Fund, Redevelopment Debt Service Fund, Capital Outlay Fund and the Redevelopment Debt Service Fund consist of the following:

Reserved for:	RDA Debt		RDA Capital	
	General	Service	Outlay	Projects
Encumbrances	\$ 13,803	\$ -	\$ 28,586	\$ 8,046
Interfund receivable	31,627	-	-	-
Debt service	-	2,333	-	-
Prepaid items	691	-	-	-
Notes receivable	70	-	-	291
Fire bond	1,847	-	-	-
Capital Assets	2,593	-	-	31,509
Total reserved fund balance	<u>\$ 50,631</u>	<u>\$ 2,333</u>	<u>\$ 28,586</u>	<u>\$ 39,846</u>

11. Interfund Assets, Liabilities and Transfers

Due From/To Other Funds: These balances resulted from expenditures being incurred prior to receipt of the related revenue source.

The following table shows amounts receivable/payable between funds within the City at June 30, 2007:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$4,303
	Central stores *	<u>3,132</u>
		<u>7,435</u>
Redevelopment Capital Projects	Non Major Governmental Redevelopment Debt Service	3,593
		<u>529</u>
		<u>4,122</u>
Electric	General	<u>50</u>
Total		<u>\$11,607</u>

\* Internal service funds

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

Advances To/From Other Funds: These balances consist of advances used to fund capital projects in advance of related financing/assessments and for other long-term borrowing purposes.

The following table shows amounts advanced from funds within the City to other funds within the City at June 30, 2007:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Electric	\$13,390
	Water	5,761
	Sewer	3,685
	Nonmajor governmental Funds	4,350
	Nonmajor enterprise funds	2,805
	Workers' compensation *	242
	Central stores *	253
	Central garage *	<u>1,140</u>
		<u>31,626</u>
Electric	General	3,019
	Central Stores*	<u>650</u>
		<u>3,669</u>
Water	General	<u>20</u>
Sewer	General	15,253
	Nonmajor governmental funds	3,001
	Nonmajor enterprise funds	<u>3,850</u>
		<u>22,104</u>
Workers' compensation*	Nonmajor governmental funds	<u>10,367</u>
Liability Insurance Trust*	Nonmajor governmental funds	3,697
	Nonmajor enterprise funds	<u>3,015</u>
		<u>6,712</u>
Total		<u>\$74,498</u>

\* Internal service funds

Transfers In/Out: Transfers are used to (1) move revenues to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, (3) move the remaining fund balances of closed funds to the General fund and (4) use unrestricted revenues collected in the General fund to finance various programs accounted for in the other funds in accordance with budgetary operations.

The following table shows amounts transferred to/from funds within the City as of June 30, 2007:

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
General	Electric	\$27,393
	Water	3,928
	Special Designation	1,257
	Special Capital Improvement	<u>78</u>
		<u>32,656</u>
RDA Special Revenue	General Fund	<u>200</u>
		<u>200</u>
RDA Debt Service	RDA Special Revenue	3,207
	RDA Capital Projects	<u>8,466</u>
		<u>11,673</u>
RDA Capital Projects	RDA Debt Service	<u>45,782</u>
		<u>45,782</u>
Library	General Fund	1,572
	RDA Capital Projects	<u>748</u>
		<u>2,320</u>
CDBG Community Dev	RDA Rehabilitation	<u>42</u>
		<u>42</u>
COPS 2006	COPS Debt Service	<u>28</u>
		<u>28</u>
Refuse	General Fund	<u>150</u>
		<u>150</u>
Total		<u>\$92,851</u>

**12. Deficit Fund Balances/Net Assets**

Deficit fund balance/net assets exist in the Workers Compensation (\$6,493), and the Public Liability (\$806) funds at fiscal year end. The deficit in these funds will be reduced based on a rate increase implemented in the subsequent fiscal year. Management's analysis shows that continuing cost control together with the rate increase will eliminate these deficits over the next few years.

**13. Litigation**

The City is a defendant in various lawsuits arising in the normal course of operations. City management, based in part on the opinion of outside legal counsel, does not believe that the ultimate resolution of these matters will have a material affect on the financial position or results of operations of the City. Management also believes that adequate reserves exist in the internal service funds to cover outstanding lawsuits.

On January 1, 2003, the City became a Participating Transmission Owner with the California Independent System Operator (ISO), entitling the City to receive compensation for use of its transmission facilities committed to the ISO's operational control. The compensation is based upon the City's Transmission Revenue Requirement (TRR) as approved by the Federal Energy Regulatory Commission (FERC). The California Investor Owned Utilities (IOU's), the California Department of Water Resources (CDWR), and the CPUC, among others, objected to various aspects of the City's TRR at the FERC. The City and the objecting parties submitted a settlement agreement for filing. The settlement agreement disposes of all City TRR issues except for CDWR's and CPUC's contention that the City is not entitled to its TRR for the majority of the transmission facilities committed to the ISO's control. After numerous FERC hearings, briefings, and decisions on this TRR issue, FERC issued a final order in favor of the City in late 2006. CDWR appealed this order to the U.S. Court of Appeals for the D.C. Circuit, but CDWR subsequently withdrew this petition, and the court issued an order dismissing the case on July 9, 2007. As a result of the dismissal, approximately \$49 million collected from the ISO through June 30, 2007 but previously held in reserves, has now been released to the Electric Utility's unrestricted operating cash reserve account, and is available for current operations or other strategic purposes upon approval of the Public Utilities Board and the City Council.

**14. City Employees Retirement Plan**

(A) Plan Description. The City of Riverside contributes to the California Public Employees Retirement System (CalPERS), an agent multiple employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

(B) Funding Policy. Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the fiscal year 2006-2007 rate was 13.181% for non-safety employees, and 19.015% for safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by CalPERS.

(C) Annual Pension Cost. For 2007, the City's annual pension cost of \$35,053 for CalPERS was equal to its annual required contribution of \$34,226 plus the effect of amortization of the net pension asset of \$826. The required contribution was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.25% per year compounded annually, attributable to inflation, and (c) 3.0% expected long term inflation. The actuarial value of CalPERS assets was determined using techniques that smooth the affects of short-term volatility in the market value of investments over a four-year period (smoothed market value). CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over 20 years.

Three-year trend information for CalPERS:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
<u>June 30,</u>			
2005	\$28,948	305%	(\$147,842)
2006	30,684	100%	(\$147,546)
2007	35,053	100%	(\$147,521)

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

A total of \$147,521 of net pension assets are included as a deferred charge in the Government-wide Statement of Net Assets. The deferred charge relating to the net pension assets will be amortized over 19 years in accordance with the method used by CalPERS for calculating actuarial gains and losses.

Schedule of funding for CalPERS:

Plan	Actuarial Valuation Date	Entry Age Normal Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded/ (Overfunded) Actuarial Accrued Liability (UAAL)	% Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Misc.	6/30/03	568,712	511,281	57,431	89.9	75,838	75.7
Safety	6/30/03	413,125	329,673	83,452	79.8	44,611	187.1
Misc.	6/30/04	611,841	537,352	74,489	87.8	77,960	95.5
Safety	6/30/04	454,795	440,172	14,623	96.8	48,635	30.1
Misc.	6/30/05	655,642	634,694	30,948	96.8	84,290	24.9
Safety	6/30/05	486,880	468,652	18,228	96.3	50,368	36.2

15. Commitments and Contingencies

A. Long-Term Electric Utility Commitments

Intermountain Power Agency

The City's Electric Utility has entered into a Power Purchases Contract with the Intermountain Power Agency (IPA) for delivery of electric power. The City's share of IPA power is equal to 7.6%, or approximately 137.1 megawatts, of the generation output of IPA's 1,800 megawatt coal-fueled generating station, located in Central Utah. The contract expires in 2027 and the debt fully matures in 2024.

The contract constitutes an obligation of the Electric Utility to make payments solely from operating revenues and requires payment of certain minimum charges, which are based on debt service requirements. Such payments are considered a cost of production and are quantified below.

Southern California Public Power Authority

The Electric Utility is a member of the Southern California Public Power Authority (SCPPA), a joint powers agency. SCPPA provides for the financing and construction of electric generating and transmission projects for participation by some or all of its members. To the extent the Electric Utility participates in projects developed by SCPPA, the Electric Utility is obligated for its proportionate share of the project cost. The projects and the Electric Utility's proportionate share of SCPPA's obligations are as follows:

Project	Percent Share	Entitlement
Palo Verde Nuclear Generating Station	5.40%	11.7MW
Southern Transmission System	10.20%	195.0MW
Hoover Dam Uprating	31.91%	30.0MW
Mead – Phoenix Transmission	4.00%	12.0MW
Mead – Adelanto Transmission	13.50%	118.0MW

Terms of Take or Pay Commitments

As part of the take or pay commitments with IPA and SCPPA, the Electric Utility has agreed to pay its share of current and long-term obligations. Payment for these obligations will be made from operating revenues received during the year that payment is due. A long-term obligation has not been recorded on the accompanying financial statements for these commitments. Interest rates on the outstanding debt associated with the take or pay obligations range from 3.0% to 6.125%. The following schedule details the amount of principal and interest, which is due and payable by the Electric Utility for each project in the fiscal year indicated.

Fiscal Year	IPA	SCPPA					Total
	Intermountain Power Project	Palo Verde Nuclear Generating Project	Transmission System Project	Hoover Dam Uprating	Mead-Phoenix Transmission	Mead-Adelanto Transmission	
2008	\$ 20,886	\$ 849	\$ 7,041	\$ 704	\$ 260	\$ 2,819	\$ 32,559
2009	21,852	846	6,923	704	259	2,814	33,398
2010	22,626	709	6,677	703	259	2,818	33,792
2011	26,440	706	6,711	702	289	2,814	37,662
2012	24,061	704	6,775	701	287	2,797	35,325
Thereafter	<u>210,212</u>	<u>3,481</u>	<u>91,126</u>	<u>4,167</u>	<u>2,295</u>	<u>25,133</u>	<u>336,414</u>
Total	<u>\$326,077</u>	<u>\$7,295</u>	<u>\$125,253</u>	<u>\$7,681</u>	<u>\$3,649</u>	<u>\$39,195</u>	<u>\$509,150</u>

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

Take-or-pay commitments expire upon final maturity of outstanding bonds for each project. Final fiscal year maturities are as follows:

<u>Project</u>	<u>Final Maturity Date</u>
Intermountain Power Project	2024
Palo Verde Nuclear Generating System	2017
Southern Transmission System	2023
Hoover Dam Uprating	2017
Mead-Phoenix Transmission	2020
Mead-Adelanto Transmission	2020

In addition to debt service, Riverside's entitlement requires the payment for fuel costs, operating and maintenance, administrative and general and other miscellaneous costs associated with the generation and transmission facilities discussed above. These costs do not have a similar structured payment schedule as debt service and vary each year. The costs incurred for 2006 and 2007 fiscal years are as follows:

<u>Fiscal Year</u>	<u>IPA</u>	<u>PV</u>	<u>STS</u>	<u>MAP</u>	<u>MPP</u>	<u>Hoover</u>	<u>Total</u>
2006	24,121	2,122	1,845	220	43	96	28,447
2007	24,227	2,122	1,948	249	49	96	28,691

**B. Other Commitments**

**Power Purchase Agreements:**

The City has executed five firm power purchase agreements for non-renewable power. The agreements are with Deseret Generation and Transmission Cooperative (Deseret) of Murray, Utah; CDWR; and Bonneville Power Administration (BPA). The minimum annual obligations under each of these contracts are shown in the table below.

Minimum Obligations 2006-2007

<u>Supplier</u>	<u>Capacity</u>	<u>Energy</u>	<u>Total</u>
Deseret	\$3,463	\$1,824	\$5,287
CDWR III	446	-	446
CDWR IV	581	-	581
BPA	861	-	861
	<u>\$5,351</u>	<u>\$1,824</u>	<u>\$7,175</u>

The agreement with Deseret is for five megawatts of capacity and associated energy from January 1, 1992, through December 31, 1994, then increasing to 52 megawatts of capacity and associated energy through December 31, 2009. A notice of termination of the power purchase agreement was provided to Deseret effective March 31, 1998, resulting in litigation that was settled on July 31, 1999. Under the terms of the settlement agreement, the notice of termination was rescinded and the power purchase agreement was amended to reflect substantial price reductions after fiscal year 2002 through the term of the agreement in 2009. In exchange, the Electric Utility paid Deseret \$25 million from reserves, which is reflected on the Statement of Net Assets as unamortized purchase power. On July 1, 2002, the Electric Utility began to amortize the related price reductions, and will continue to amortize the remaining balance over the term of the agreement using the straight-line method. As of June 30, 2007, unamortized purchased power was \$8,352 and the Electric Utility had recorded amortization of \$3,341.

There are two separate agreements with CDWR. The two agreements, CDWR III and IV are for the purchase of 23 and 30 megawatts of capacity and associated energy from May through October. CDWR III and CDWR IV are for a period of 15 years beginning June 1, 1996, subject to termination. In early 2005, CDWR and the City disagreed upon whether the Power Sale Agreements III and IV were still in effect as of December 31, 2004. While CDWR believed the agreements were terminated, the City contended that CDWR did not provide proper notification under the terms of the power sale agreements. During May and June, CDWR continued to provide power under the original terms of the contracts, pending staff's resolution of the dispute. On September 13, 2005, in order to maintain the City's long-term relationship with CDWR and to avoid costly litigation, City Council approved the contract amendments, effectively terminating the contract in 2007 and reducing the final two years of the contracts to a period of May through September.

An agreement with Bonneville Power Administration (BPA) is for a purchase of firm capacity and associated energy of 23 megawatts in the summer and 16 megawatts in the winter for a period of twenty years ending February 1, 2011. A second agreement with BPA was executed in 1996 and is for the purchase of firm capacity (50 megawatts during the summer months and 13 megawatts during the winter months) and associated energy beginning April 30, 1996 for twenty years. Effective May 1, 1998, these summer and winter capacity amounts increased to 60 and 15 magawatts, respectively, for the remainder of the second agreement.

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

On July 8, 2003, and June 6, 2003, the City Council and Public Utilities Board, respectively, adopted the Renewable Portfolio Standard to increase procurement of renewable resources to reach a target of 20 percent of the Utility's energy from renewable sources by 2015. The contracts in the following table were executed as part of compliance with this standard. The Electric Utility has agreements with Bonneville Power Administration for the purchase of energy credits that add to the total renewable portfolio. In the current year, renewable resources provided approximately 13 percent of the retail energy requirements, approximately 11 percent of the total power supply.

Long-term renewable power purchase agreements:

<u>Supplier</u>	<u>Type</u>	<u>Maximum Contract</u>	<u>Contract Expiration</u>	<u>Estimated Annual Cost for 2008</u>
Milliken Genco	Landfill Gas	2.3MW	12/31/2007	\$ 416
Mid Valley Genco	Landfill Gas	2.3MW	12/31/2007	475
Riverside County (Badlands Landfill)	Landfill Gas	1.2MW	12/31/2008	256
Wintec	Wind	1.3MW	4/30/2018	176
Salton Sea	Geothermal	<u>20.0MW</u>	5/31/2013	<u>9,645</u>
Total		<u>27.1MW</u>		<u>\$10,968</u>

Under the terms of the renewable power purchase agreements, Riverside's financial obligation is only for actual energy delivered.

On August 23, 2005, the City Council approved an amendment to the Power Sales Agreement between Salton Sea and the City. The agreement increases the amount of renewable energy available to the City from the current 20 MW to 46 MW effective June 1, 2009 through May 31, 2020, at the same price under the current contract until 2013, with escalation thereafter based on an inflationary type index. Similar to other renewable power purchase agreements, the City is only obligated for purchases of energy delivered to the City.

Construction Commitments:

As of June 30, 2007, the Electric Utility had major construction commitments of approximately \$15,508 with respect to unfinished capital projects. Of these commitments, \$11,264 is expected to be funded by bonds, \$1,274 funded by rates and \$2,970 by others.

As of June 30, 2007, the Water Utility had major construction commitments of approximately \$19,276 with respect to unfinished capital projects. Of these commitments, \$10,106 is expected to be funded by bonds, \$8,099 by other sources and \$1,071 funded by rates.

**C. Jointly Governed Organizations**

On November 1, 1980, the City of Riverside joined with the cities of Los Angeles, Anaheim, Vernon, Azusa, Banning, Colton, Burbank, Glendale, Pasadena, and Imperial Irrigation District to create the Southern California Public Power Authority (SCPPA) by a Joint Powers Agreement under the laws of the State of California. As of July 2001, the cities of Cerritos and San Marcos were admitted as members of SCPPA. In August 2003, the Authority rescinded the membership of the City of San Marcos, as the City no longer met the criteria for membership. The primary purpose of the Authority is to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. The Authority is governed by a Board of Directors, which consists of one representative for each of the members. During the 2007 fiscal year, the Electric Utility paid approximately \$16,854 to SCPPA under various take-or-pay contracts, which are described in greater detail in Note 14A. These payments are reflected as a component of purchased power in the financial statements.

On July 1, 1990, the City of Riverside joined with the cities of Azusa, Banning and Colton to create the Power Agency of California (Agency) by a Joint Powers Agreement under the laws of the State of California. The City of Anaheim joined the Agency on July, 1 1996. The primary purpose of the Agency is to take advantage of economies of scale resulting from the five cities acting in concert. The Agency has the ability to plan, finance, develop, acquire, construct, operate and maintain projects for the generation and transmission of electric energy for sale to its participants. The Agency is governed by a Board of Directors (the Board), which consists of one representative for each of the members. The term of the Joint Powers Agreement is fifty years. On April 5, 2001 the Board placed the Agency in an inactive status, effective June 30, 2001. It can only be reactivated with authorization from the Agency Board.

**D. Jointly-Owned Utility Project**

Pursuant to the Settlement Agreement with Southern California Edison (SCE) dated August 4, 1972, the City was granted the right to acquire a

**CITY OF RIVERSIDE  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the year ended June 30, 2007**

(amounts expressed in thousands)

1.79% ownership interest in San Onofre Nuclear Generating Station (SONGS) Units 2 and 3. Pursuant to the Settlement Agreement, SCE agreed to provide the necessary transmission service to deliver the output of SONGS to Riverside. SCE and the City entered into the SONGS Participation Agreement which sets forth the terms and conditions under which the City, through the Electric Utility, participates in the ownership and output of SONGS. Other participants in this project include SCE, 75.05 percent; San Diego Gas and Electric Company, 20.00 percent; and the City of Anaheim, 3.16 percent. Maintenance and operation of SONGS remains the responsibility of SCE, as operating agent for the City.

SCE, as operating agent, has declared an "operating impairment" due to deterioration of the steam generators ("SGs"), which would likely result in permanent shutdown of the plant in the 2009-2010 timeframe. The estimated cost to replace the SGs is \$680 million, of which approximately \$12.2 million would represent the City's share. The replacement is expected to enable plant operations through at least 2022, and perhaps beyond if Nuclear Regulatory Commission approval is obtained. Although the City Council has approved participation in the replacement of the SGs, the City of Anaheim has opted not to participate. As a result, upon replacement of the SGs, Riverside and San Diego Gas and Electric Company will retain their respective 1.79 and 75.05 percent shares and SCE will assume Anaheim's interest resulting in a 78.21 percent interest in both units 1 and 2 at SONGS. The original operating license for SONGS units 2 and 3 was set to expire in 2013; however, this was subsequently extended due to a construction recapture provision, and now expires February 16, 2022 and November 15, 2022 for Units 2 and 3 respectively.

There are no separate financial statements for the jointly-owned utility plant since each participant's interest in the utility plant and operating expenses is included in their respective financial statements. The Electric Utility's share of the capitalized construction cost and operating expenses is included in the financial statements. As of June 30, 2007, Riverside's 1.79% share of the capitalized construction costs for SONGS totaled \$138,575 with accumulated depreciation of \$108,709. The Electric Utility made provisions during fiscal year 2006 for nuclear fuel burn of \$911 and for future decommissioning cost of \$1,581 (See Note 1). The Electric Utility's portion of current and long-term debt associated with SONGS is included in the accompanying financial statements.

As a participant in the SONGS, the Electric Utility could be subject to assessment of additional insurance premiums in the event of a nuclear incident at San Onofre or any other licensed reactor in the United States.

16. Restatement of Net Assets/Fund Balance

The City's Net Assets for Governmental Activities and Fund balance at June 30, 2007 have been restated to properly classify land which was purchased from the Water fund as land held for resale rather than as a capital asset and to properly report the asset at their original acquisition cost.

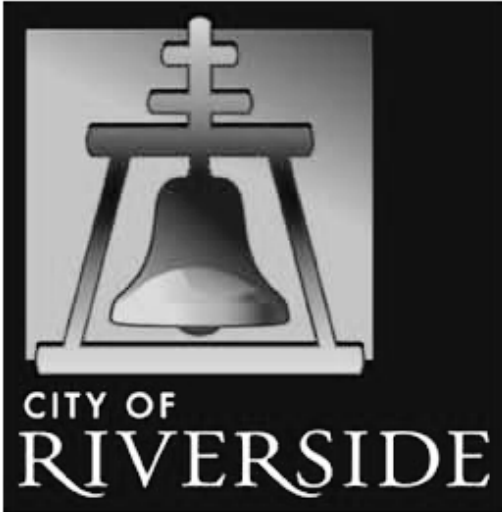
The restatements had the following effect on the Net Assets for Governmental Activities:

Beginning, as previously reported	\$729,113
Land Purchase	<u>(5,415)</u>
Beginning, as restated	<u>\$723,698</u>

The restatements had the following effect on Beginning Fund Balance:

General Fund	
Beginning, as previously reported	\$128,897
Land Purchase	<u>2,593</u>
Beginning, as restated	<u>\$131,490</u>





City of Riverside  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2007  
 (amounts expressed in thousands)

Special Revenues

Assets	Library	Gas Tax	Air Quality Improvements	Housing & Community Development	Redevelopment Agency	Special Designation Fund	NPDES Storm Drain	Total
Cash and investments	\$ 2,718	\$ 9,238	\$ 744	\$ 85	\$ 14,011	\$ -	\$ -	\$ 26,796
Cash and investments at fiscal agent	-	-	-	7	8,447	-	-	8,454
Receivables (net of allowances for uncollectibles):								
Interest	36	119	9	-	138	-	-	302
Property taxes	517	-	-	-	-	-	-	517
Accounts	1	-	-	2	1	-	-	4
Intergovernmental	-	111	-	1,831	199	-	423	2,564
Notes	-	-	-	5,993	7,846	-	-	13,839
Prepaid items	1	-	-	-	-	-	-	1
Advances to other funds	-	-	-	-	-	-	-	-
Land & improvements held for resale	-	-	-	-	5,988	-	-	5,988
Total assets	\$ 3,273	\$ 9,468	\$ 753	\$ 7,918	\$ 36,630	\$ -	\$ 423	\$ 58,465
<b>Liabilities and fund balances</b>								
Liabilities								
Accounts payable	\$ 37	\$ 437	\$ 30	\$ 1,035	\$ 53	\$ -	\$ 3	\$ 1,595
Accrued payroll	9	-	2	4	-	-	-	15
Retainage payable	-	3,247	-	-	-	-	-	3,247
Unearned revenue	281	-	-	6,267	7,777	-	-	14,325
Deposits	-	-	-	-	10	-	-	10
Due to other funds	-	-	-	-	3,594	-	420	4,014
Advances from other funds	2,492	-	-	612	-	-	-	3,104
Total liabilities	2,819	3,684	32	7,918	11,434	-	423	26,310
Fund balances								
Reserved:								
Reserved for noncurrent loans receivable	-	-	-	-	70	-	-	70
Reserved for encumbrances	100	2,066	30	1,026	143	-	-	3,365
Reserved for fixed assets	-	-	-	-	5,988	-	-	5,988
Reserved for prepaid items	1	-	-	-	-	-	-	1
Reserved for debt service	-	-	-	-	-	-	-	-
Reserved for interfund receivable	-	-	-	-	-	-	-	-
Reserved for library services	-	-	-	-	-	-	-	-
Unreserved, designated for future operations	-	-	595	-	7,119	-	-	7,714
Unreserved, undesignated	353	3,718	96	(1,026)	11,876	-	-	15,017
Total fund balances	454	5,784	721	-	25,196	-	-	32,155
Total liabilities and fund balances	\$ 3,273	\$ 9,468	\$ 753	\$ 7,918	\$ 36,630	\$ -	\$ 423	\$ 58,465

continued

**City of Riverside**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2007**  
 (amounts expressed in thousands)

Assets	Debt Service			Capital Projects				Permanent Fund	Total Nonmajor Governmental Funds
	Debt Service	Riverside Municipal Improvements Corporation	Total	Special Capital Improvement	Storm Drain	Transportation	Total	Library Special	
Cash and investments	\$ 50	\$ 118	\$ 168	\$ 23,944	\$ 5,335	\$ -	\$ 29,279	\$ 1,315	\$ 57,558
Cash and investments at fiscal agent	-	14,026	14,026	7,794	-	-	7,794	-	30,274
Receivables(net of allowances for uncollectibles):									
Interest	1	1	2	294	62	-	356	-	660
Property taxes	-	-	-	-	-	-	-	-	517
Accounts	-	-	-	-	-	-	-	-	4
Intergovernmental	-	-	-	28	-	1,134	1,162	-	3,726
Notes	-	-	-	-	-	-	-	-	13,839
Prepaid items	-	-	-	-	-	-	-	-	1
Advances to other funds	-	-	-	-	-	-	-	-	-
Land & improvements held for resale	-	-	-	-	-	-	-	-	5,988
Total assets	<u>\$ 51</u>	<u>\$ 14,145</u>	<u>\$ 14,196</u>	<u>\$ 32,060</u>	<u>\$ 5,397</u>	<u>\$ 1,134</u>	<u>\$ 38,591</u>	<u>\$ 1,315</u>	<u>\$ 112,567</u>
<b>Liabilities and fund balances</b>									
Liabilities:									
Accounts payable	\$ -	\$ -	\$ -	\$ 463	\$ 1	\$ 35	\$ 499	\$ -	\$ 2,094
Accrued payroll	-	-	-	-	-	-	-	-	15
Retainage payable	-	-	-	1,443	9	-	1,452	-	4,699
Unearned revenue	-	-	-	16	25	106	147	-	14,472
Deposits	-	-	-	-	-	-	-	-	10
Due to other funds	-	-	-	-	-	984	984	-	4,998
Advances from other funds	-	-	-	-	-	-	-	-	3,104
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,922</u>	<u>35</u>	<u>1,125</u>	<u>3,082</u>	<u>-</u>	<u>29,392</u>
Fund balances (deficits):									
Reserved									
Reserved for noncurrent loans receivable	-	-	-	-	-	-	-	-	70
Reserved for encumbrances	-	-	-	3,159	93	6	3,258	-	6,623
Reserved for fixed assets	-	-	-	-	-	-	-	-	5,988
Reserved for prepaid items	-	-	-	-	-	-	-	-	1
Reserved for debt service	51	14,145	14,196	-	-	-	-	-	14,196
Reserved for interfund receivable	-	-	-	1,028	-	-	1,028	-	1,028
Reserved for library services	-	-	-	-	-	-	-	1,315	1,315
Unreserved, designated for future operations	-	-	-	14,108	3,690	-	17,798	-	25,512
Unreserved, undesignated	-	-	-	11,843	1,579	3	13,425	-	28,442
Total fund balances	<u>51</u>	<u>14,145</u>	<u>14,196</u>	<u>30,138</u>	<u>5,362</u>	<u>9</u>	<u>35,509</u>	<u>1,315</u>	<u>83,175</u>
Total liabilities and fund balances	<u>\$ 51</u>	<u>\$ 14,145</u>	<u>\$ 14,196</u>	<u>\$ 32,060</u>	<u>\$ 5,397</u>	<u>\$ 1,134</u>	<u>\$ 38,591</u>	<u>\$ 1,315</u>	<u>\$ 112,567</u>

City of Riverside  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

	Special Revenue							Total
	Library	Gas Tax	Air Quality Improvement	Housing and Community Development	Redevelopment Agency	Special Designation	NPDES Storm Drain	
<b>Revenues</b>								
Taxes	\$ 5,969	\$ -	\$ -	\$ -	\$ 9,961	\$ -	\$ -	\$ 15,930
Intergovernmental	256	6,969	347	6,086	199	-	-	13,857
Charges for services	11	-	-	-	-	-	-	11
Fines and forfeitures	219	-	-	-	-	-	-	219
Special assessments	-	-	-	-	-	-	423	423
Rental and investment income	89	537	33	56	805	-	-	1,520
Miscellaneous	73	-	-	979	448	-	-	1,500
Total revenues	<u>6,617</u>	<u>7,506</u>	<u>380</u>	<u>7,121</u>	<u>11,413</u>	<u>-</u>	<u>423</u>	<u>33,460</u>
<b>Expenditures</b>								
Current:								
General government	-	1,642	254	898	1,349	-	228	4,371
Culture and recreation	9,208	-	-	-	-	-	-	9,208
Capital outlay	-	9,546	-	6,265	1,427	-	195	17,433
Total expenditures	<u>9,208</u>	<u>11,188</u>	<u>254</u>	<u>7,163</u>	<u>2,776</u>	<u>-</u>	<u>423</u>	<u>31,012</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,591)</u>	<u>(3,682)</u>	<u>126</u>	<u>(42)</u>	<u>8,637</u>	<u>-</u>	<u>-</u>	<u>2,448</u>
<b>Other financing sources (uses)</b>								
Transfers in	2,320	-	-	42	200	-	-	2,562
Transfers out	-	-	-	-	(3,249)	(1,257)	-	(4,506)
Sales of capital assets	522	-	-	-	4	-	-	526
Total other financing sources (uses)	<u>2,842</u>	<u>-</u>	<u>-</u>	<u>42</u>	<u>(3,045)</u>	<u>(1,257)</u>	<u>-</u>	<u>(1,418)</u>
Net Change in fund balances	251	(3,682)	126	-	5,592	(1,257)	-	1,030
Fund balances - beginning	203	9,466	595	-	19,604	1,257	-	31,125
Fund balances - ending	<u>\$ 454</u>	<u>\$ 5,784</u>	<u>\$ 721</u>	<u>\$ -</u>	<u>\$ 25,196</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,155</u>

continued

City of Riverside  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

	Debt Service			Capital Projects				Permanent Fund	Total Nonmajor Governmental Funds
	Debt Service	Riverside Municipal Improvements Corporation	Total Debt Service	Special Capital Improvement	Strom Drain	Transportation Projects	Total Capital Projects	Library Special	
<b>Revenues</b>									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,930
Licenses and permits	-	-	-	4,415	748	-	5,163	-	5,163
Intergovernmental	-	-	-	-	-	132	132	-	13,989
Charges for services	-	-	-	-	-	-	-	-	11
Fines and forfeitures	-	-	-	-	-	-	-	-	219
Special assessments	-	-	-	-	-	-	-	-	423
Rental and investment income	3	1,091	1,094	1,974	262	-	2,236	53	4,903
Miscellaneous	-	-	-	208	140	-	348	248	2,096
Total revenues	<u>3</u>	<u>1,091</u>	<u>1,094</u>	<u>6,597</u>	<u>1,150</u>	<u>132</u>	<u>7,879</u>	<u>301</u>	<u>42,734</u>
<b>Expenditures</b>									
Current:									
General government	-	238	238	225	10	-	235	-	4,844
Culture and recreation	-	-	-	-	-	-	-	151	9,359
Capital outlay	-	-	-	19,185	633	187	20,005	-	37,438
Debt service:									
Principal	-	660	660	-	-	-	-	-	660
Interest	-	1,688	1,688	-	-	-	-	-	1,688
Bond issuance costs	-	1,746	1,746	-	-	-	-	-	1,746
Total expenditures	<u>-</u>	<u>4,332</u>	<u>4,332</u>	<u>19,410</u>	<u>643</u>	<u>187</u>	<u>20,240</u>	<u>151</u>	<u>55,735</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3</u>	<u>(3,241)</u>	<u>(3,238)</u>	<u>(12,813)</u>	<u>507</u>	<u>(55)</u>	<u>(12,361)</u>	<u>150</u>	<u>(13,001)</u>
Other financing sources (uses)									
Transfers in	-	-	-	-	-	-	-	-	2,562
Transfers out	-	(28)	(28)	(78)	-	-	(78)	-	(4,612)
Proceeds from issuance of bonds	-	16,644	16,644	-	-	-	-	-	16,644
Premiums on bonds issued	-	32	32	-	-	-	-	-	32
Sales of capital assets	-	-	-	90	-	-	90	-	616
Total other financing sources (uses)	<u>-</u>	<u>16,648</u>	<u>16,648</u>	<u>12</u>	<u>-</u>	<u>-</u>	<u>12</u>	<u>-</u>	<u>15,242</u>
Net Change in fund balances	<u>3</u>	<u>13,407</u>	<u>13,410</u>	<u>(12,801)</u>	<u>507</u>	<u>(55)</u>	<u>(12,349)</u>	<u>150</u>	<u>2,241</u>
Fund balances - beginning	48	738	786	42,939	4,855	64	47,858	1,165	80,934
Fund balances - ending	<u>\$ 51</u>	<u>\$ 14,145</u>	<u>\$ 14,196</u>	<u>\$ 30,138</u>	<u>\$ 5,362</u>	<u>\$ 9</u>	<u>\$ 35,509</u>	<u>\$ 1,315</u>	<u>\$ 83,175</u>

City of Riverside  
Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual  
Nonmajor Governmental Funds  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

	Special Revenue								
	Library			Gas Tax			Air Quality Improvement		
	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget
<b>Revenues</b>									
Taxes	\$ 6,224	\$ 5,969	\$ (255)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	298	256	(42)	7,350	6,969	(381)	340	347	7
Charges for services	14	11	(3)	-	-	-	-	-	-
Fines and forfeitures	190	219	29	-	-	-	-	-	-
Rental and investment income	13	89	76	60	537	477	-	33	33
Miscellaneous	122	73	(49)	-	-	-	-	-	-
Total revenues	6,861	6,617	(244)	7,410	7,506	96	340	380	40
<b>Expenditures</b>									
Current									
General government	-	-	-	1,435	1,642	(207)	485	254	231
Culture and recreation	12,435	9,208	3,227	-	-	-	-	-	-
Capital outlay	-	-	-	15,420	9,546	5,874	281	-	281
Total expenditures	12,435	9,208	3,227	16,855	11,188	5,667	766	254	512
Excess (deficiency) of revenues over (under) expenditures	(5,574)	(2,591)	2,983	(9,445)	(3,682)	5,763	(426)	126	552
<b>Other financing sources (uses)</b>									
Transfers in	1,572	2,320	748	-	-	-	-	-	-
Sales of capital assets	-	522	522	-	-	-	-	-	-
Total other financing sources	1,572	2,842	1,270	-	-	-	-	-	-
Fund balances (deficit), beginning	203	203	-	9,466	9,466	-	595	595	-
Fund balances (deficit), ending	\$ (3,799)	\$ 454	\$ 4,253	\$ 21	\$ 5,784	\$ 5,763	\$ 169	\$ 721	\$ 552

(continued)

City of Riverside  
Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual  
Nonmajor Governmental Funds  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

	Special Revenue								
	Housing & Community Development			Redevelopment Agency			Special Designation		
	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget
<b>Revenues</b>									
Taxes	\$ -	\$ -	\$ -	\$ 5,915	\$ 9,961	\$ 4,046	\$ -	\$ -	\$ -
Intergovernmental	16,676	6,086	(10,590)	250	199	(51)	-	-	-
Rental and investment income	-	56	56	53	805	752	50	-	(50)
Miscellaneous	1,040	979	(61)	10	448	438	-	-	-
Total revenues	17,716	7,121	(10,595)	6,228	11,413	5,185	50	-	(50)
<b>Expenditures</b>									
Current									
General government	919	898	21	1,416	1,349	67	-	-	-
Capital outlay	16,555	6,265	10,290	14,684	1,427	13,257	-	-	-
Total expenditures	17,474	7,163	10,311	16,100	2,776	13,324	-	-	-
Excess (deficiency) of revenues over (under) expenditures	242	(42)	(284)	(9,872)	8,637	18,509	50	-	(50)
<b>Other financing sources (uses)</b>									
Transfers in	-	42	42	200	200	-	-	-	-
Transfers out	-	-	-	3,207	(3,249)	(6,456)	-	(1,257)	(1,257)
Sale of capital assets	-	-	-	-	4	4	-	-	-
Total other financing sources (uses)	-	42	42	3,407	(3,045)	(6,452)	-	(1,257)	(1,257)
Net change in fund balances	242	-	(242)	(6,465)	5,592	12,057	50	(1,257)	(1,307)
Fund balances, beginning	-	-	-	19,604	19,604	-	1,257	1,257	-
Fund balances (deficits), ending	\$ 242	\$ -	\$ (242)	\$ 13,139	\$ 25,196	\$ 12,057	\$ 1,307	\$ -	\$ (1,307)

(continued)

City of Riverside  
Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual  
Nonmajor Governmental Funds  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

	Special Revenue			Capital Projects					
	NPDES Storm Drain			Capital Outlay			Special Capital Improvements		
	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget
<b>Revenues</b>									
Licenses and permits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,415	\$ 4,415
Intergovernmental	-	-	-	73,204	21,434	(51,770)	210	-	(210)
Special assessments	565	423	(142)	350	1,784	1,434	-	-	-
Rental and investment income	-	-	-	1,000	3,112	2,112	-	1,974	1,974
Miscellaneous	-	-	-	1,501	417	(1,084)	187	208	21
Total revenues	565	423	(142)	76,055	26,747	(49,308)	397	6,597	6,200
<b>Expenditures</b>									
Current									
General government	328	228	100	53,708	728	52,980	8,500	225	8,275
Culture and recreation	-	-	-	-	-	-	-	-	-
Capital outlay	267	195	72	109,811	50,668	59,143	39,014	19,185	19,829
Total expenditures	595	423	172	163,519	51,396	112,123	47,514	19,410	28,104
Excess (deficiency) of revenues over (under) expenditures	(30)	-	30	(87,464)	(24,649)	62,815	(47,117)	(12,813)	34,304
<b>Other financing sources (uses)</b>									
Transfers in	-	-	-	-	28	28	-	-	-
Transfers out	-	-	-	-	-	-	(78)	(78)	-
Issuance of bonds	-	-	-	-	122,276	122,276	-	-	-
Premiums on bonds issued	-	-	-	-	186	186	-	-	-
Sales of capital assets	-	-	-	-	288	288	-	90	90
Total other financing sources	-	-	-	-	122,778	122,778	(78)	12	90
Net change in fund balances	(30)	-	30	(87,464)	98,129	185,593	(47,195)	(12,801)	34,394
Fund balances, beginning	-	-	-	37,071	37,071	-	42,939	42,939	-
Fund balances (deficits), ending	\$ (30)	\$ -	\$ 30	\$ (50,393)	\$ 135,200	\$ 185,593	\$ (4,256)	\$ 30,138	\$ 34,394

(continued)



City of Riverside  
Schedule of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual  
Nonmajor Governmental Funds  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

	Capital Projects								
	Storm Drain			Transportation			Redevelopment Agency		
	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget	Final Budget	Actual	Variance to Final Budget
<b>Revenues</b>									
Licenses and permits	\$ -	\$ 748	\$ 748	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	452	132	(320)	2,687	242	(2,445)
Charges for services	200	-	(200)	-	-	-	-	-	-
Rental and investment income	30	262	232	-	-	-	1,215	3,925	2,710
Miscellaneous	-	140	140	-	-	-	152	74	(78)
Total revenues	230	1,150	920	452	132	(320)	4,054	4,241	187
<b>Expenditures</b>									
Current									
General government	-	10	(10)	-	-	-	7,219	6,764	455
Capital outlay	4,195	633	3,562	438	187	251	207,401	28,964	178,437
Total expenditures	4,195	643	3,552	438	187	251	214,620	35,728	178,892
Excess (deficiency) of revenues over (under) expenditures	(3,965)	507	4,472	14	(55)	(69)	(210,566)	(31,487)	179,079
<b>Other financing sources (uses)</b>									
Transfers in	-	-	-	-	-	-	45,782	45,782	-
Transfers out	-	-	-	-	-	-	-	(819)	(819)
Issuance of bonds	-	-	-	-	-	-	-	154,880	154,880
Premiums on bonds issued	-	-	-	-	-	-	-	2,213	2,213
Sale of capital assets	-	-	-	-	-	-	-	(760)	(760)
Total other financing sources (uses)	-	-	-	-	-	-	45,782	201,296	155,514
Net change in fund balances	(3,965)	507	4,472	14	(55)	(69)	(164,784)	169,809	334,593
Fund balances, beginning	4,855	4,855	-	64	64	-	42,424	42,424	-
Fund balances, ending	\$ 890	\$ 5,362	\$ 4,472	\$ 78	\$ 9	\$ (69)	\$ (122,360)	\$ 212,233	\$ 334,593

**City of Riverside**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds**  
**June 30, 2007**  
**(amounts expressed in thousands)**

<b>Assets</b>	<b>Airport</b>	<b>Refuse</b>	<b>Transportation</b>	<b>Public Parking</b>	<b>Total</b>
<b>Current assets:</b>					
Cash and investments	\$ -	\$ 2,309	\$ 1,143	\$ 5,847	\$ 9,299
Receivables (net of allowance for uncollectibles)					
Interest	-	71	-	40	111
Utility billed	-	548	-	-	548
Utility unbilled	-	644	-	-	644
Accounts	155	239	-	1	395
Intergovernmental	4,449	-	134	-	4,583
Nuclear materials inventory	-	-	-	-	-
Inventory	-	-	-	-	-
Prepaid items	-	-	-	-	-
Due from other funds	-	-	-	-	-
Advances to other funds	-	-	-	-	-
<b>Restricted assets:</b>					
Cash and cash equivalents	-	3,236	-	-	3,236
<b>Total Current assets</b>	<b>4,604</b>	<b>7,047</b>	<b>1,277</b>	<b>5,888</b>	<b>18,816</b>
<b>Non-current assets:</b>					
Deferred charges	254	5,941	665	186	7,046
<b>Capital assets:</b>					
Land	7,061	-	-	3,713	10,774
Buildings	2,114	-	22	19,914	22,050
Accumulated depreciation-buildings	(867)	-	(7)	(2,150)	(3,024)
Improvements other than buildings	6,853	-	-	325	7,178
Accumulated depreciation-improvements other than buildings	(3,003)	-	-	(325)	(3,328)
Machinery and equipment	258	10,771	1,746	819	13,594
Accumulated depreciation-machinery and equipment	(122)	(6,402)	(1,356)	(468)	(8,348)
Construction in progress	10,613	251	-	-	10,864
<b>Total non-current assets:</b>	<b>23,161</b>	<b>10,561</b>	<b>1,070</b>	<b>22,014</b>	<b>56,806</b>
<b>Total assets</b>	<b>27,765</b>	<b>17,608</b>	<b>2,347</b>	<b>27,902</b>	<b>75,622</b>

continued

**City of Riverside**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds**  
**June 30, 2007**  
 (amounts expressed in thousands)

<b>Liabilities</b>	<b>Airport</b>	<b>Refuse</b>	<b>Transportation</b>	<b>Public Parking</b>	<b>Total</b>
Current liabilities:					
Accounts payable	509	573	14	1	1,097
Accrued payroll	58	768	151	45	1,022
Unearned revenue	97	-	1,105	-	1,202
Deposits	1	-	-	-	1
Due to other funds	2,898	-	-	-	2,898
Capital leases-current	17	-	-	-	17
Landfill capping-current	-	300	-	-	300
Total Current liabilities	3,580	1,641	1,270	46	6,537
Non-current liabilities:					
Capital leases	166	-	-	-	166
Advances from other funds	349	1,376	662	7,282	9,669
Landfill capping	-	2,821	-	-	2,821
Total non-current liabilities	515	4,197	662	7,282	12,656
Total liabilities	4,095	5,838	1,932	7,328	19,193
<b>Net Assets</b>					
Invested in capital assets, net of related debt	14,695	2,140	791	4,435	22,061
Restricted for other purposes	-	3,217	-	-	3,217
Unrestricted	8,975	6,413	(376)	16,139	31,151
Total net assets	\$ 23,670	\$ 11,770	\$ 415	\$ 20,574	\$ 56,429

**City of Riverside**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Nonmajor Enterprise Funds**  
**For the fiscal year ended June 30, 2007**  
**(amounts expressed in thousands)**

	<u>Airport</u>	<u>Refuse</u>	<u>Transportation</u>	<u>Public Parking</u>	<u>Totals</u>
Operating revenues:					
Charges for services	\$ 1,263	\$ 15,833	\$ 302	\$ 3,431	\$ 20,829
Operating expenses:					-
Personal services	460	3,697	1,450	448	6,055
Contractual services	42	3,534	32	836	4,444
Maintenance and operation	154	5,250	457	278	6,139
General	220	2,146	253	1,545	4,164
Materials and supplies	13	619	204	6	842
Insurance	27	86	15	65	193
Depreciation and amortization	221	1,091	386	439	2,137
Total operating expenses	<u>1,137</u>	<u>16,423</u>	<u>2,797</u>	<u>3,617</u>	<u>23,974</u>
Operating Income (loss)	<u>126</u>	<u>(590)</u>	<u>(2,495)</u>	<u>(186)</u>	<u>(3,145)</u>
Nonoperating revenues (expenses):					
Operating grants	-	-	1,939	-	1,939
Interest income	-	350	-	150	500
Other	38	183	-	517	738
Loss on retirement of capital assets	-	(42)	-	-	(42)
Interest expense and fiscal charges	(64)	(67)	(34)	(145)	(310)
Total non-operating revenues	<u>(26)</u>	<u>424</u>	<u>1,905</u>	<u>522</u>	<u>2,825</u>
Income before capital contributions and transfers	<u>100</u>	<u>(166)</u>	<u>(590)</u>	<u>336</u>	<u>(320)</u>
Capital contributions	4,959	7	209	-	5,175
Transfers in	-	150	-	-	150
Change in net assets	<u>5,059</u>	<u>(9)</u>	<u>(381)</u>	<u>336</u>	<u>5,005</u>
Total net assets - beginning	<u>18,611</u>	<u>11,779</u>	<u>796</u>	<u>20,238</u>	<u>51,424</u>
Total net assets - ending	<u>\$ 23,670</u>	<u>\$ 11,770</u>	<u>\$ 415</u>	<u>\$ 20,574</u>	<u>\$ 56,429</u>

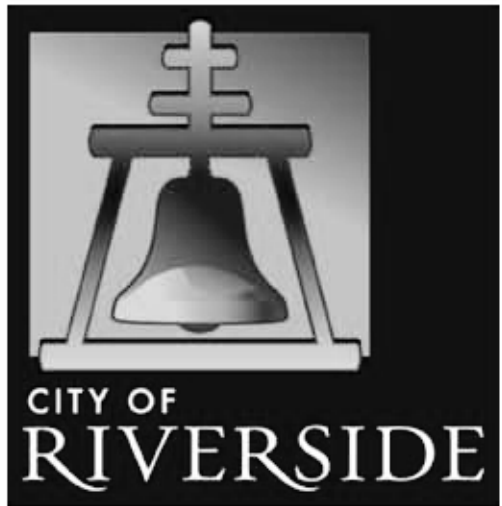
City of Riverside  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

	Airport	Refuse	Trans- portation	Public Parking	Totals
Cash flows from operating activities:					
Cash received from customers and users	\$ 1,209	\$ 15,576	\$ 308	\$ 3,466	\$ 20,559
Cash paid to employees for services	(451)	(3,678)	(1,437)	(438)	(6,004)
Cash paid to other suppliers of goods or services	51	(11,922)	(950)	(2,799)	(15,620)
Other receipts	38	183	-	517	738
Net cash provided (used) by operating activities	847	159	(2,079)	746	(327)
Cash flows from noncapital financing activities:					
Transfers in	-	150	-	-	150
Operating grants	-	-	2,765	-	2,765
Advances from interfund receivables	2,898	-	-	3,014	5,912
Payments on interfund receivables	-	-	-	-	-
Advances to other funds	(81)	(754)	(7)	(387)	(1,229)
Net cash provided (used) by noncapital financing activities	2,817	(604)	2,758	2,627	7,598
Cash flows from capital and related financing activities:					
Purchase of capital assets	(5,132)	(2,677)	-	(411)	(8,220)
Proceeds from the sale of capital assets	-	-	-	-	-
Principal paid on long-term obligations	(20)	-	-	-	(20)
Interest paid on long-term obligations	(64)	(67)	(34)	(145)	(310)
Capital contributions	603	7	209	-	819
Net cash provided (used) for capital and related financing activities	(4,613)	(2,737)	175	(556)	(7,731)
Cash flows from investing activities:					
Income from investments	3	398	-	143	544
Net cash provided by investing activities	3	398	-	143	544
Net change in cash and cash equivalents	(946)	(2,784)	854	2,960	84
Cash and cash equivalents, beginning	946	8,329	289	2,887	12,451
Cash and cash equivalents, ending	\$ -	\$ 5,545	\$ 1,143	\$ 5,847	\$ 12,535

continued

City of Riverside  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

	Airport	Refuse	Trans- portation	Public Parking	Totals
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating Income (loss)	\$ 126	\$ (590)	\$ (2,495)	\$ (186)	\$ (3,145)
Other receipts	38	183	-	517	738
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	221	1,091	386	439	2,137
Amortization of pension costs	1	9	4	-	14
(Increase) in utility billed receivable	-	(96)	-	-	(96)
(Increase) in utility unbilled receivable	-	(12)	-	-	(12)
(Increase) decrease in accounts receivable	(53)	(149)	6	7	(189)
Decrease in intergovernmental receivable	-	-	-	29	29
Increase (decrease) in accounts payable	501	36	11	(69)	479
Increase in accrued payroll	8	10	9	8	35
Increase in deferred revenue	5	-	-	1	6
(Decrease) in landfill capping	-	(323)	-	-	(323)
Net cash provided (used) by operating activities	<u>\$ 847</u>	<u>\$ 159</u>	<u>\$ (2,079)</u>	<u>\$ 746</u>	<u>\$ (327)</u>
Schedule of noncash financing and investing activities:					
Contribution in aid	<u>\$ 0</u>	<u>\$ 7</u>	<u>\$ 42</u>	<u>\$ 0</u>	<u>\$ 49</u>



**City of Riverside**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2007**  
**(amounts expressed in thousands)**

<b>Assets</b>	<b>Self-Insurance</b>					<b>Totals</b>
	<b>Workers' Compensation</b>	<b>Unemployment Compensation</b>	<b>Public Liability</b>	<b>Central Stores</b>	<b>Central Garage</b>	
<b>Current assets:</b>						
Cash and investments	\$ 2,662	\$ 348	\$ 821	\$ -	\$ 447	\$ 4,278
Receivables (net of allowances for uncollectibles):						
Interest	150	4	90	-	2	246
Accounts	-	-	-	-	32	32
Intergovernmental	18	-	-	-	3	21
Inventory	-	-	-	5,307	609	5,916
Prepaid items	1	-	-	7	-	8
Total current assets	<u>2,831</u>	<u>352</u>	<u>911</u>	<u>5,314</u>	<u>1,093</u>	<u>10,501</u>
Deferred charges	243	-	-	255	1,145	1,643
Advances to other funds	10,367	-	6,712	-	-	17,079
<b>Capital Assets:</b>						
Buildings	-	-	-	-	1,488	1,488
Accumulated depreciation-buildings	-	-	-	-	(92)	(92)
Machinery and equipment	7	-	-	148	9,967	10,122
Accumulated depreciation-machinery and equipment	(7)	-	-	(126)	(7,195)	(7,328)
Capital assets (net of accumulated depreciation)	<u>-</u>	<u>-</u>	<u>-</u>	<u>22</u>	<u>4,168</u>	<u>4,190</u>
Total assets	<u>13,441</u>	<u>352</u>	<u>7,623</u>	<u>5,591</u>	<u>6,406</u>	<u>33,413</u>
<b>Liabilities</b>						
<b>Current liabilities:</b>						
Accounts payable	2	-	203	167	437	809
Accrued payroll	3	-	-	111	478	592
Claims and judgements	19,687	76	8,226	-	-	27,989
Deposits	-	-	-	-	-	-
Due to other funds	-	-	-	3,132	-	3,132
Advances from other funds	242	-	-	903	1,140	2,285
Total current liabilities	<u>19,934</u>	<u>76</u>	<u>8,429</u>	<u>4,313</u>	<u>2,055</u>	<u>34,807</u>
Total liabilities	<u>19,934</u>	<u>76</u>	<u>8,429</u>	<u>4,313</u>	<u>2,055</u>	<u>34,807</u>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	-	-	-	22	4,168	4,190
Unrestricted	(6,493)	276	(806)	1,256	183	(5,584)
Total net assets	<u>\$ (6,493)</u>	<u>\$ 276</u>	<u>\$ (806)</u>	<u>\$ 1,278</u>	<u>\$ 4,351</u>	<u>\$ (1,394)</u>



**City of Riverside**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the fiscal year ended June 30, 2007**  
**(amounts expressed in thousands)**

	<b>Self-Insured</b>					<b>Totals</b>
	<b>Workers' Compensation</b>	<b>Unemployment Compensation</b>	<b>Public Liability</b>	<b>Central Stores</b>	<b>Central Garage</b>	
Operating revenues:						
Charges for services	\$ 3,895	\$ 75	\$ 3,454	\$ 1,463	\$ 5,261	\$ 14,148
Operating expenses:						
Personal services	313	-	-	525	2,284	3,122
Contractual services	17	-	11	-	102	130
Maintenance and operation	58	-	-	22	1,365	1,445
General	417	11	379	395	828	2,030
Materials and supplies	1	-	-	294	85	380
Insurance	8,573	202	6,062	6	16	14,859
Depreciation and amortization	-	-	-	10	809	819
Total operating expenses	<u>9,379</u>	<u>213</u>	<u>6,452</u>	<u>1,252</u>	<u>5,489</u>	<u>22,785</u>
Operating Income (loss)	<u>(5,484)</u>	<u>(138)</u>	<u>(2,998)</u>	<u>211</u>	<u>(228)</u>	<u>(8,637)</u>
Nonoperating revenues (expenses):						
Interest Income	777	22	448	-	36	1,283
Other	19	-	-	(3)	32	48
Gain on retirement of capital assets	-	-	-	-	(10)	(10)
Interest expense and fiscal charges	(12)	-	-	(12)	(55)	(79)
Total non-operating revenue (expenses)	<u>784</u>	<u>22</u>	<u>448</u>	<u>(15)</u>	<u>3</u>	<u>1,242</u>
Change in net assets	(4,700)	(116)	(2,550)	196	(225)	(7,395)
Total net assets - beginning	(1,793)	392	1,744	1,082	4,576	6,001
Total net assets - ending	<u>\$ (6,493)</u>	<u>\$ 276</u>	<u>\$ (806)</u>	<u>\$ 1,278</u>	<u>\$ 4,351</u>	<u>\$ (1,394)</u>

City of Riverside  
Combining Statement of Cash Flows  
Internal Service Funds  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

	Self Insured					Total
	Workers' Compensation	Unemployment Compensation	Public Liability	Central Stores	Central Garage	
Cash flows from operating activities:						
Cash received from customers and users	\$ 3,899	\$ 75	\$ 3,454	\$ 1,465	\$ 5,626	\$ 14,519
Cash paid to employees for services	(399)	-	-	(529)	(2,247)	(3,175)
Cash paid to other suppliers of goods or services	(3,112)	(213)	(4,687)	(921)	(2,575)	(11,508)
Other	19	-	-	-	32	51
Net cash provided (used) by operating activities	<u>407</u>	<u>(138)</u>	<u>(1,233)</u>	<u>15</u>	<u>836</u>	<u>(113)</u>
Cash flows from noncapital financing activities:						
Advances to other funds	<u>(10,043)</u>	<u>-</u>	<u>(6,712)</u>	<u>(3)</u>	<u>(13)</u>	<u>(16,771)</u>
Net cash provided by noncapital financing activities	<u>(10,043)</u>	<u>-</u>	<u>(6,712)</u>	<u>(3)</u>	<u>(13)</u>	<u>(16,771)</u>
Cash flows from capital and related financing activities:						
Interest paid on long-term obligation	(12)	-	-	(12)	(55)	(79)
Purchase of capital assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,457)</u>	<u>(1,457)</u>
Net cash (used) for capital and related financing activities	<u>(12)</u>	<u>-</u>	<u>-</u>	<u>(12)</u>	<u>(1,512)</u>	<u>(1,536)</u>
Cash flows from investing activities:						
Income from investments	<u>771</u>	<u>24</u>	<u>469</u>	<u>-</u>	<u>46</u>	<u>1,310</u>
	<u>771</u>	<u>24</u>	<u>469</u>	<u>-</u>	<u>46</u>	<u>1,310</u>
Net increase (decrease) in cash and cash equivalents	(8,877)	(114)	(7,476)	-	(643)	(17,110)
Cash and cash equivalents, beginning	<u>11,539</u>	<u>462</u>	<u>8,297</u>	<u>-</u>	<u>1,090</u>	<u>21,388</u>
Cash and cash equivalents, ending	<u>\$ 2,662</u>	<u>\$ 348</u>	<u>\$ 821</u>	<u>\$ -</u>	<u>\$ 447</u>	<u>\$ 4,278</u>

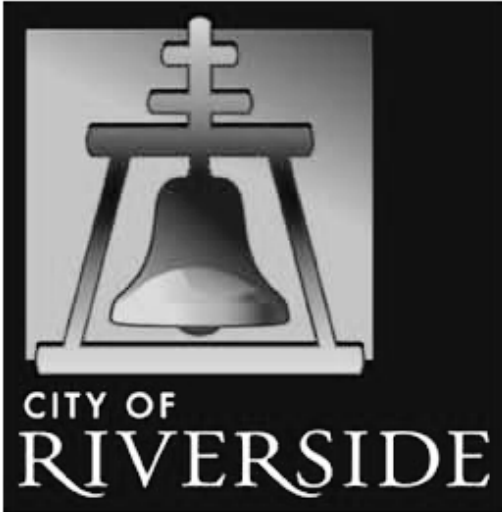
continued

City of Riverside  
Combining Statement of Cash Flows  
Internal Service Funds  
For the fiscal year ended June 30, 2007  
(amounts expressed in thousands)

	Self Insured					Total
	Workers' Compensation	Unemployment Compensation	Public Liability	Central Stores	Central Garage	
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (5,484)	\$ (138)	\$ (2,998)	\$ 211	\$ (228)	\$ (8,637)
Other	-	-	-	-	32	32
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation and amortization	-	-	-	10	809	819
Amortization of pension costs	1	-	-	1	7	9
(Increase) in account receivable	-	-	-	-	(21)	(21)
(Increase) in intergovernmental receivable	24	-	-	2	386	412
(Increase) in prepaid items	(1)	-	-	-	-	(1)
(Increase) in inventory	-	-	-	1,353	(126)	1,227
Increase (decrease) in accounts payable	1	-	(287)	(256)	(53)	(595)
Increase (decrease) in accrued payroll	(87)	-	-	(5)	30	(62)
Increase in due to other funds	-	-	-	(1,301)	-	(1,301)
Increase (decrease) in claims and judgments	5,953	-	2,052	-	-	8,005
Net cash provided (used) by operating activities	<u>\$ 407</u>	<u>\$ (138)</u>	<u>\$ (1,233)</u>	<u>\$ 15</u>	<u>\$ 836</u>	<u>\$ (113)</u>

**City of Riverside**  
**Fiduciary Fund - Agency Fund**  
**Combining Statement of Changes in Assets and Liabilities**  
**For the fiscal year ended June 30, 2007**  
**(amounts expressed in thousands)**

	<b>Balance</b>			<b>Balance</b>
	<b>July 1,</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30,</b>
	<b>2006</b>			<b>2007</b>
<b>Assets:</b>				
Cash and investments	\$ 6,776	\$ 9,578	\$ 5,167	\$ 11,187
Cash and investments at fiscal agent	13,287	5,276	9,402	9,161
Interest receivable	64	865	821	108
Property taxes receivable	214	418	214	418
Total assets	<u>\$ 20,341</u>	<u>\$ 16,137</u>	<u>\$ 15,604</u>	<u>\$ 20,874</u>
<b>Liabilities:</b>				
Accounts payable	\$ 0	\$ 140	\$ 129	\$ 11
Held for bond holders	20,341	12,276	11,754	20,863
Total liabilities	<u>\$ 20,341</u>	<u>\$ 12,416</u>	<u>\$ 11,883</u>	<u>\$ 20,874</u>



City of Riverside  
 Capital Assets Used in the Operation of Governmental Funds  
 Schedule By Source  
 June 30, 2007  
 (amounts expressed in thousands)

Governmental funds capital assets:	
Land	\$ 191,694
Buildings and improvements	102,042
Improvements other than buildings	60,662
Machinery and equipment	67,622
Infrastructure	587,856
Construction in progress	64,987
Total governmental funds capital assets	<u>\$ 1,074,863</u>

Investments in governmental funds capital assets by source:	
Certificates of participation	\$ 50,941
Gifts	136,346
Operating revenue	189,456
General obligation bonds	4,483
Revenue bonds	21,104
County contracts and grants	218
State grants	32,597
Asset forfeiture - state	121
Asset forfeiture - federal	1,744
Housing and community development grants	17,025
Other federal grants	22,410
Community facilities bonds	1,026
Assessment district bonds	397
Capital leases	13,038
RDA tax increment bonds	2,278
Capital projects funds	581,679
Total governmental funds capital assets	<u>\$ 1,074,863</u>

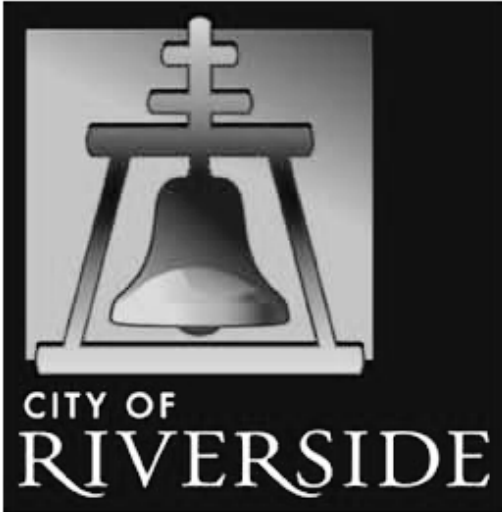
City of Riverside  
 Capital Assets Used in the Operation of Governmental Funds  
 Schedule By Function and Activity  
 June 30, 2007  
 (amount expressed in thousands)

	<u>Land</u>	<u>Construction in Progress/ Buildings and Improvements</u>	<u>Construction in Progress/ Improvements Other than Buildings</u>	<u>Machinery and Equipment</u>	<u>Infrastructure</u>	<u>Total</u>
General government	\$ 8,372	\$ 34,273	\$ 16,816	\$ 10,077	\$ 0	\$ 69,538
Public safety	12,743	42,405	0	34,266	0	89,414
Highways and streets	148,425	16,430	530	18,731	587,858	771,974
Recreation and culture	20,865	95,237	21,628	4,251	0	141,981
Community development	1,289	370	0	297	0	1,956
 Total governmental funds capital assets	 <u>\$ 191,694</u>	 <u>\$ 188,715</u>	 <u>\$ 38,974</u>	 <u>\$ 67,622</u>	 <u>\$ 587,858</u>	 <u>\$ 1,074,863</u>

City of Riverside  
 Capital Assets Used in the Operation of Governmental Funds  
 Schedule of Changes By Function and Activity  
 For the fiscal year ended June 30, 2007  
 (amount expressed in thousands)

	Governmental Funds Capital Assets July 1, 2005	Additions	Deductions and Transfers	Governmental Funds Capital Assets June 30, 2006
General government	\$ 53,931	\$ 32,173	\$ 30,331	\$ 55,773
Public safety	66,423	42,723	5,741	103,405
Highways and streets	680,361	92,323	710	771,974
Recreation and culture	123,523	27,697	8,591	142,629
Community development	2,195	1,026	2,139	1,082
 Total governmental funds capital assets	 <u>\$ 926,433</u>	 <u>\$ 195,942</u>	 <u>\$ 47,512</u>	 <u>\$ 1,074,863</u>





**City of Riverside  
Statistical Section  
For the year ended June 30, 2007**

**Table of Contents**

This part of the 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.

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	<b>86</b>
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the factors affecting the City's ability to generate property and sales taxes.	<b>92</b>
<b>Debt Capacity</b> 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.	<b>101</b>
<b>Demographic and Economic Information</b> 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.	<b>108</b>
<b>Operating Information</b> 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.	<b>111</b>

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented Statement 34 in the year ended June 30, 2001; schedules presenting government-wide information include information beginning in that year.

**Table 1**  
**City of Riverside**  
**Net Assets by Component**  
**Last Seven Fiscal Years**  
**(accrual basis of accounting)**

(in thousands)

	Fiscal Year						
	2001	2002	2003	2004	2005	2006	2007
<b>Governmental activities</b>							
Invested in capital assets, net of related debt	\$ 422,886	\$ 465,803	\$ 471,380	\$ 484,784	\$ 515,354	\$ 622,336	\$ 712,801
Restricted	106,320	115,352	106,862	137,126	154,957	158,038	415,618
Unrestricted	(54,406)	(59,893)	(10,227)	(41,353)	(46,419)	(51,261)	(335,928)
Total governmental activities net assets	<u>\$ 474,800</u>	<u>\$ 521,262</u>	<u>\$ 568,015</u>	<u>\$ 580,557</u>	<u>\$ 623,892</u>	<u>\$ 729,113</u>	<u>\$ 792,491</u>
<b>Business-type activities</b>							
Invested in capital assets, net of related debt	\$ 279,165	\$ 293,936	\$ 323,094	\$ 341,041	\$ 402,377	\$ 425,285	\$ 520,059
Restricted	31,154	38,535	40,869	49,242	54,540	71,386	57,613
Unrestricted	172,344	177,537	181,985	217,762	229,462	250,041	242,966
Total business-type activities net assets	<u>\$ 482,663</u>	<u>\$ 510,008</u>	<u>\$ 545,948</u>	<u>\$ 608,045</u>	<u>\$ 686,379</u>	<u>\$ 746,712</u>	<u>\$ 820,638</u>
<b>Primary government</b>							
Invested in capital assets, net of related debt	\$ 702,051	\$ 759,739	\$ 794,474	\$ 825,825	\$ 917,731	\$ 1,047,621	\$ 1,232,860
Restricted	137,474	153,887	147,731	186,368	209,497	229,424	473,231
Unrestricted	117,938	117,644	171,758	176,409	183,043	198,780	(92,962)
Total primary government net assets	<u>\$ 957,463</u>	<u>\$ 1,031,270</u>	<u>\$ 1,113,963</u>	<u>\$ 1,188,602</u>	<u>\$ 1,310,271</u>	<u>\$ 1,475,825</u>	<u>\$ 1,613,129</u>

The City of Riverside implemented GASB 34 for the fiscal year ended June 30, 2001. Information prior to the implementation of GASB 34 is not available.

**Table 2**  
**City of Riverside**  
**Changes in Net Assets**  
**Last Seven Fiscal Years**  
**(accrual basis of accounting)**

(in thousands) Page 1 of 2

	Fiscal Year						
	2001	2002	2003	2004	2005	2006	2007
<b>Expenses</b>							
Governmental activities:							
General government	\$ 60,688	\$ 47,245	\$ 59,530	\$ 63,000	\$ 58,460	\$ 74,458	\$105,486
Public safety	71,285	80,944	88,969	102,500	110,969	120,470	114,312
Highways and streets	12,277	6,819	15,625	22,017	20,364	20,757	22,556
Culture and Recreation	10,512	29,607	29,236	22,988	26,353	32,602	28,016
Interest on long-term debt	8,083	7,727	7,696	10,996	15,885	16,358	26,378
Total governmental activities expenses	162,845	172,342	201,056	221,501	232,031	264,645	296,748
Business-type activities:							
Electric	251,185	215,131	186,917	196,727	200,030	226,186	232,346
Water	27,460	28,978	29,715	33,921	36,709	39,486	42,108
Sewer	19,463	19,214	20,053	23,273	26,108	27,299	29,510
Refuse	11,069	10,821	11,577	11,510	12,841	14,546	16,490
Airport	892	1,045	1,151	1,088	1,185	1,004	1,201
Transportation	1,580	1,735	2,110	2,286	2,557	2,917	2,831
Public parking	-	-	1,392	1,389	824	2,701	3,762
Total business-type activities expenses	311,649	276,924	252,915	270,194	280,254	314,139	328,248
Total primary government expenses	\$ 474,494	\$ 449,266	\$ 453,971	\$ 491,695	\$ 512,285	\$ 578,784	\$624,996
<b>Program Revenues</b>							
Governmental activities:							
Charges for services:							
General government	\$ 27,910	\$ 20,265	\$ 22,675	\$ 26,160	\$ 25,995	\$ 24,683	\$ 10,245
Public safety	6,680	5,855	6,427	6,799	6,982	5,845	12,410
Highways and streets	22,067	18,891	20,867	22,286	23,108	25,412	30,563
Culture and recreation	5,121	4,671	8,304	5,056	7,002	7,716	8,302
Operating grants and contributions	3,490	7,257	12,716	12,935	16,140	13,150	12,101
Capital grants and contributions	617	19,528	2,144	1,136	5,292	18,618	10,557
Total governmental activities program revenues	65,885	76,467	73,133	74,372	84,519	95,424	84,178
Business-type activities:							
Charges for services:							
Electric	259,420	216,106	204,293	233,102	252,322	259,572	278,888
Water	26,597	29,527	28,637	32,382	34,002	37,613	47,080
Sewer	20,428	20,457	21,172	21,672	21,967	21,510	24,057
Refuse	11,475	11,220	11,795	13,759	14,492	15,160	15,833
Airport	955	1,089	1,046	1,051	1,088	1,162	1,263
Transportation	137	116	170	185	200	238	302
Public parking	-	-	2,385	2,760	2,961	2,837	3,431
Operating grants and contributions	2,411	2,992	3,663	1,723	2,261	2,704	1,939
Capital grants and contributions	3,293	1,877	4,976	26,390	32,317	29,293	40,066
Total business-type activities program revenues	324,716	283,384	278,137	333,024	361,610	370,089	412,859
Total primary government program revenues	\$ 390,601	\$ 359,851	\$ 351,270	\$ 407,396	\$ 446,129	\$ 465,513	\$497,037

continued

**Table 2**  
**City of Riverside**  
**Changes in Net Assets**  
**Last Seven Fiscal Years**  
**(accrual basis of accounting)**

(in thousands) Page 2 of 2

	Fiscal Year						
	2001	2002	2003	2004	2005	2006	2007
<b>Net Revenues (Expense)</b>							
Governmental activities	\$ (96,960)	\$ (95,875)	\$ (127,923)	\$ (147,129)	\$ (147,512)	\$ (169,221)	\$ (212,570)
Business-type activities	13,067	6,460	25,222	62,830	81,356	55,950	84,611
Total primary government net expense	<u>\$ (83,893)</u>	<u>\$ (89,415)</u>	<u>\$ (102,701)</u>	<u>\$ (84,299)</u>	<u>\$ (66,156)</u>	<u>\$ (113,271)</u>	<u>\$ (127,959)</u>
<b>General Revenues and Other Changes in Net Assets</b>							
Governmental activities:							
Taxes							
Sales	\$ 33,981	\$ 38,467	\$ 41,691	\$ 46,624	\$ 53,348	\$ 57,522	\$ 55,666
Property	35,037	29,471	33,584	35,911	61,553	80,934	106,114
Utility Users	3,746	18,510	19,928	21,362	22,133	23,502	25,384
Franchise	19,613	4,070	3,811	4,261	4,481	4,813	5,031
Other	2,725	2,777	2,967	3,213	3,828	4,372	3,581
Intergovernmental, unrestricted	13,772	14,848	15,533	12,528	1,795	1,747	1,863
Unrestricted grants and contributions	-	-	-	18,710	15,220	39,653	29,743
Investment earnings	13,297	11,058	8,064	1,284	7,815	10,150	18,582
Miscellaneous	14,091	5,079	2,241	5,476	5,756	26,173	4,228
Transfers	17,527	18,057	18,218	10,302	14,918	25,576	31,171
Contributions	-	-	-	(2,800)	-	-	-
Total governmental activities	<u>153,789</u>	<u>142,337</u>	<u>146,037</u>	<u>156,871</u>	<u>190,847</u>	<u>274,442</u>	<u>281,363</u>
Business-type activities:							
Unrestricted grants and contributions	19,501	12,638	15,972	-	-	-	-
Investment income	16,022	12,780	9,115	5,016	7,548	11,259	16,988
Miscellaneous	2,414	5,624	3,849	4,553	7,362	18,700	3,498
Special item	2,982	7,900	-	-	(3,014)	-	-
Transfers	(17,527)	(18,057)	(18,218)	(10,302)	(14,918)	(25,576)	(31,171)
Total business-type activities	<u>23,392</u>	<u>20,885</u>	<u>10,718</u>	<u>(733)</u>	<u>(3,022)</u>	<u>4,383</u>	<u>(10,685)</u>
Total primary government	<u>\$ 177,181</u>	<u>\$ 163,222</u>	<u>\$ 156,755</u>	<u>\$ 156,138</u>	<u>\$ 187,825</u>	<u>\$ 278,825</u>	<u>\$ 270,678</u>
<b>Change in Net Assets</b>							
Governmental activities	\$ 56,829	\$ 46,462	\$ 18,114	\$ 9,742	\$ 43,335	\$ 105,221	\$ 68,793
Business-type activities	36,459	27,345	35,940	62,097	78,334	60,333	73,926
Total primary government	<u>\$ 93,288</u>	<u>\$ 73,807</u>	<u>\$ 54,054</u>	<u>\$ 71,839</u>	<u>\$ 121,669</u>	<u>\$ 165,554</u>	<u>\$ 142,719</u>

The City of Riverside implemented GASB 34 for the fiscal year ended June 30, 2001. Information prior to the implementation of GASB 34 is not available.

**Table 3**  
**City of Riverside**  
**Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis of accounting)**

(in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General fund										
Reserved	\$ 5,008	\$ 4,245	\$ 11,049	\$ 9,089	\$ 10,947	\$ 14,362	\$ 17,268	\$ 44,487	\$ 59,930	\$ 50,631
Unreserved	27,061	28,149	33,643	61,048	63,829	67,376	117,259	109,266	68,967	44,135
Total general fund	\$ 32,069	\$ 32,394	\$ 44,692	\$ 70,137	\$ 74,776	\$ 81,738	\$ 134,527	\$ 153,753	\$ 128,897	\$ 94,766
All other governmental funds										
Reserved	23,638	30,346	25,564	30,589	29,856	28,123	35,177	47,677	54,173	99,986
Unreserved, reported in:										
Special revenue funds	8,415	21,992	23,945	12,350	12,168	14,691	14,960	24,991	26,718	22,731
Capital projects funds	48,765	63,034	68,027	65,698	67,211	69,444	93,722	89,303	94,070	307,224
Permanent funds	-	-	-	1,355	1,457	1,232	1,219	127	81	-
Total all other governmental funds	\$ 80,818	\$ 115,372	\$ 117,536	\$ 109,992	\$ 110,692	\$ 113,490	\$ 145,078	\$ 162,098	\$ 175,042	\$ 429,941

**Table 4**  
**City of Riverside**  
**Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis accounting)**

(in thousands) Page 1 of 2

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Revenues:</b>										
Taxes	\$ 72,936	\$ 77,617	\$ 84,445	\$ 88,121	\$ 93,879	\$ 102,286	\$ 113,118	\$ 142,056	\$ 170,638	\$ 191,131
Licenses and permits	6,331	7,854	12,273	13,232	12,317	14,394	11,343	14,389	16,351	12,984
Intergovernmental	35,534	44,055	42,259	48,960	47,410	43,829	42,609	42,568	55,178	47,934
Charges for services	5,499	6,922	7,160	7,879	7,866	8,878	10,046	11,299	11,538	11,914
Fines and forfeitures	872	1,702	2,226	2,330	2,346	2,095	2,188	2,006	2,098	2,778
Special assessments	4,018	4,060	6,587	5,258	5,420	6,324	10,259	6,272	6,247	6,170
Use of money and property	11,878	11,856	12,470	22,329	13,017	11,255	10,587	10,915	14,324	22,587
Miscellaneous	4,828	4,503	7,900	6,325	4,816	5,042	7,133	9,996	8,502	6,164
Total revenues	\$ 141,896	\$ 158,569	\$ 175,320	\$ 194,434	\$ 187,071	\$ 194,103	\$ 207,283	\$ 239,501	\$ 284,876	\$ 301,662
<b>Expenditures:</b>										
General government	\$ 24,318	\$ 22,046	\$ 19,942	\$ 28,552	\$ 27,748	\$ 22,031	\$ 36,938	\$ 28,800	\$ 49,381	\$ 51,413
Public safety	70,116	72,687	76,386	84,134	91,245	96,487	107,637	119,036	131,688	153,226
Highways and streets	7,071	9,292	9,388	9,979	10,551	12,034	12,124	13,446	12,171	20,760
Culture and recreation	16,933	17,573	18,856	21,239	23,835	27,579	25,919	34,180	34,264	36,449
Capital outlay	25,497	30,647	36,784	33,195	41,058	39,098	37,035	48,366	87,972	117,070
Debt Service:										
Principal	23,445	7,082	14,559	9,326	6,174	4,470	2,422	8,599	9,733	12,045
Interest	9,130	9,285	8,268	8,154	7,785	7,785	9,945	15,025	19,205	21,330
Debt issuance costs	-	2,185	469	-	-	-	950	1,538	-	2,551
Total expenditures	\$ 176,510	\$ 170,797	\$ 184,652	\$ 194,579	\$ 208,396	\$ 209,484	\$ 232,970	\$ 268,990	\$ 344,414	\$ 414,844
Excess of revenues over (under) expenditures	\$ (34,614)	\$ (12,228)	\$ (9,332)	\$ (145)	\$ (21,325)	\$ (15,381)	\$ (25,687)	\$ (29,489)	\$ (59,538)	\$ (113,182)

continued

**Table 4**  
**City of Riverside**  
**Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(modified accrual basis accounting)**

(in thousands) Page 2 of 2

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Other financing sources (uses):</b>										
Transfers in	\$ 49,869	\$ 39,089	\$ 32,914	\$ 41,364	\$ 31,305	\$ 36,202	\$ 41,440	\$ 49,944	\$ 59,545	\$ 84,306
Transfers out	(31,612)	(21,258)	(15,902)	(23,837)	(13,248)	(17,984)	(31,338)	(35,026)	(33,969)	(53,135)
Sales of general capital assets	1,304	(225)	(191)	168	153	1,314	(675)	6,230	1,281	541
Advances from other funds	2,052	918	613	1,599	-	81	-	-	-	-
Long-term obligation proceeds	3,379	48,936	6,360	-	8,454	750	247,594	85,578	20,969	295,190
Premiums on bonds issued	-	-	-	-	-	-	-	113	-	4,455
Payments to refunded bond agent	-	(20,360)	-	-	-	-	(58,657)	(9,167)	-	-
Total other financing sources (uses)	24,992	47,100	23,794	19,294	26,664	20,363	198,364	97,672	47,826	331,357
Special item - pension contribution	-	-	-	-	-	-	(88,300)	(32,141)	-	-
Net change in fund balances	\$ (9,622)	\$ 34,872	\$ 14,462	\$ 19,149	\$ 5,339	\$ 4,982	\$ 84,377	\$ 36,042	\$ (11,712)	\$ 218,175
Debt service as a percentage of noncapital expenditures	10.00% (1)	10.10%	12.24%	10.01%	8.30%	6.64%	31.35% (2)	16.20% (2)	14.39%	16.41%

(1) Higher than average debt service included \$16 million interfund advance payoff.

(2) Restatement of debt service principal payments to reflect proper reporting of payment to refunded bond agent for refundings during the fiscal year.



**Table 5**  
**City of Riverside**  
**Business-Type Activities Electricity Revenue By Source**  
**Last Seven Fiscal Years**  
**(accrual basis of accounting)**

(in thousands)

<b>Fiscal Year</b>	<b>Residential Sales</b>	<b>Commerical Sales</b>	<b>Industrial Sales</b>	<b>Wholesale Sales</b>	<b>Other Sales</b>	<b>Transmission Revenue</b>	<b>Other Operating Revenue</b>	<b>Total Revenues</b>
2001	\$ 65,426	\$ 45,478	\$ 51,558	\$ 73,090	\$ 21,897	\$ -	\$ 1,971	\$ 259,420
2002	64,625	46,265	49,487	46,505	7,447	-	1,777	216,106
2003	68,649	48,974	52,380	17,806	5,619	8,661	2,230	204,319
2004	80,872	57,079	56,117	9,581	6,354	20,917	2,182	233,102
2005	79,786	59,998	59,157	15,249	6,337	20,213	12,697	253,437
2006	85,243	53,773	71,084	11,952	7,139	20,043	9,183	258,417
2007	94,426	55,421	83,698	9,913	5,713	20,097	9,536	278,804

The City started receiving Transmission Revenue in 2003.

The City of Riverside implemented GASB 34 for the fiscal year ended June 30, 2001. Information prior to the implementation of GASB 34 is not available.

**Table 6**  
**City of Riverside**  
**Governmental Activities Tax Revenues By Source**  
**Last Seven Fiscal Years**  
**(accrual basis of accounting)**

**(in thousands)**

<b>Fiscal Year</b>	<b>Sales Tax</b>	<b>Property Tax</b>	<b>Utility Users Tax</b>	<b>Franchise Tax</b>	<b>Other Tax</b>	<b>Total Taxes</b>
2001	\$ 35,037	\$ 33,981	\$ 19,613	\$ 3,746	\$ 2,725	\$ 95,102
2002	38,467	29,471	18,510	4,070	2,777	93,295
2003	41,691	33,584	19,928	3,811	2,967	101,981
2004	46,624	35,911	21,362	4,261	3,213	111,371
2005	53,348	61,553	22,133	4,481	1,795	143,310
2006	57,522	80,934	23,502	4,813	4,372	171,143
2007	55,666	106,114	25,384	5,031	3,581	195,776

The City of Riverside implemented GASB 34 for the fiscal year ended June 30, 2001. Information prior to the implementation of GASB 34 is not available.

**Table 7**  
**City of Riverside**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**

(in thousands)

Fiscal Year Ended June 30	City				Redevelopment Agency				Total Direct Tax Rate
	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	Secured	Unsecured	Less: Exemptions	Taxable Assessed Value	
1998	\$ 10,188,885	\$ 540,358	(1,840,080)	\$ 8,889,163	N/A	N/A	N/A	N/A	1.000
1999	10,158,747	576,029	(1,819,089)	8,915,687	N/A	N/A	N/A	N/A	1.000
2000	10,557,523	632,940	(1,899,625)	9,290,838	N/A	N/A	N/A	N/A	1.000
2001	11,269,877	686,215	(2,017,543)	9,938,549	N/A	N/A	N/A	N/A	1.000
2002	12,103,179	799,323	(2,129,115)	10,773,387	1,240,768	205,181	(16,263)	1,429,686	1.000
2003	13,071,416	980,529	(2,406,961)	11,644,984	1,390,108	276,506	(27,690)	1,638,924	1.000
2004	14,188,658	845,858	(2,526,503)	12,508,013	1,508,478	228,775	(30,286)	1,706,967	1.000
2005	15,540,982	951,211	(2,751,844)	13,740,349	1,775,655	158,148	(33,654)	1,900,149	1.010
2006	17,557,341	1,058,995	(4,002,177)	14,614,159	2,914,600	210,025	(51,992)	3,072,633	1.009
2007	20,672,126	1,140,891	(5,417,388)	16,395,629	4,145,700	410,625	(93,261)	4,463,064	1.009

Notes:

In 1978 the voters of the State of California passed Proposition 13 which limited property taxes 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 increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above. Assessed valuations are based on 100 percent of estimated actual value.

NA - not available

Source: Riverside County Auditor-Controller

**Table 8  
City of Riverside  
Direct and Overlapping Property Tax Rates  
Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>City Direct Rates</b>			<b>Overlapping Rates</b>			
	<b>Basic Rate</b>	<b>General Obligation Debt Service</b>	<b>Total Direct Rate</b>	<b>Alvord Unified School District</b>	<b>Jurupa Unified School District</b>	<b>Riverside Unified School District</b>	<b>Moreno Valley Unified School District</b>
<b>1998</b>	1.00	-	1.000	0.041	0.000	-	0.007
<b>1999</b>	1.00	-	1.000	0.095	0.000	-	-
<b>2000</b>	1.00	-	1.000	0.116	-	-	-
<b>2001</b>	1.00	-	1.000	0.134	-	-	-
<b>2002</b>	1.00	-	1.000	0.128	-	-	-
<b>2003</b>	1.00	-	1.000	0.116	0.060	0.050	-
<b>2004</b>	1.00	-	1.000	0.076	0.060	0.050	-
<b>2005</b>	1.00	0.010	1.010	0.075	0.060	0.040	0.034
<b>2006</b>	1.00	0.009	1.009	0.073	0.060	0.041	0.031
<b>2007</b>	1.00	0.008	1.008	0.058	0.029	0.035	0.023

**Notes:**

In 1978, California voters passed Proposition 13 which sets the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of the various intergovernmental overlapping debt.

Source: Riverside County, Auditor-Controller's Office

**Table 9**  
**City of Riverside**  
**Principal Property Taxpayers**  
**June 30, 2007**

(in thousands)

Property Owner	2007			1998		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Tyler Mall LTD Partnership	\$ 154,056	1	0.7%	-		
BRE Prop. Inc.	147,691	2	0.7%	-		
La Sierra University	112,207	3	0.5%			
Riverside Healthcare System	103,978	4	0.5%	80,078	2	0.8%
State Street Bank	81,756	5	0.4%	79,228	3	0.8%
Centex Homes	78,112	6	0.4%			
Rohr/Goodrich	66,894	7	0.3%	64,391	4	0.7%
La Sierra College	64,230	8	0.3%			
Riverside Plaza	63,553	9	0.3%			
Press Enterprise	61,540	10	0.3%	44,175	5	0.4%
Ohio Teacher Retirement	-			132,799	1	1.4%
Metal Container Corp	-			42,847	6	0.4%
Wal Mart Stores	-			36,701	7	0.4%
Secretary Housing/Urban Dev of Washington D.C.				33,917	8	0.3%
Charter Communications Entertainment				32,310	9	0.3%
RREEF America Reit Corp				32,063	10	0.3%
Totals	<u>\$ 934,017</u>		<u>4.5%</u>	<u>578,509</u>		<u>5.8%</u>

Notes:

The amounts shown above include assessed value data for both the City and the Redevelopment Agency.

Source: California Municipal Statistics, Inc.

**Table 10**  
**City of Riverside**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**

(in thousands)

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Delinquent Tax Collections for Fiscal Year	Total Fiscal Year Collections	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1998	\$ 22,429	\$ 21,055	93.9%	\$ 584	\$ 21,639	96.5%
1999	23,113	21,888	94.7%	537	22,425	97.0%
2000	24,241	23,431	96.7%	626	24,057	99.2%
2001	25,205	24,436	96.9%	370	24,806	98.4%
2002	25,237	23,098	91.5%	513	23,611	93.6%
2003	26,050	25,186	96.7%	603	25,789	99.0%
2004	31,954	31,092	97.3%	966	32,058	100.3%
2005	37,144	36,004	96.9%	706	36,710	98.8%
2006	53,680	51,503	95.9%	746	52,249	97.3%
2007	74,305	66,751	89.8%	934	67,685	91.1%

Notes:

The table includes the City of Riverside Redevelopment Agency. Total Tax collections include supplemental tax levies not included in the total tax levy column.

Source: Riverside County Auditor Controller's Office

**Table 11**  
**City of Riverside**  
**Electricity Sold by Type of Customer,**  
**Last Ten Fiscal Years**

(in millions of kilowatt-hours)

	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Type of Customer:</b>										
Residential	555.0	575.0	594.0	610.0	600.0	618.0	707.0	675.0	696.0	748.0
Commercial	404.0	406.0	436.0	432.0	434.0	451.0	522.0	530.0	474.0	456.0
Industrial	620.0	619.0	651.0	654.0	629.0	658.0	687.0	707.0	810.0	924.0
Wholesale sales	135.0	151.0	419.0	600.0	541.0	378.0	354.0	470.0	287.0	295.0
Other	45.0	46.0	53.0	54.0	53.0	49.0	52.0	50.0	58.0	39.0
<b>Total</b>	<b>1,759.0</b>	<b>1,797.0</b>	<b>2,153.0</b>	<b>2,350.0</b>	<b>2,257.0</b>	<b>2,154.0</b>	<b>2,322.0</b>	<b>2,432.0</b>	<b>2,325.0</b>	<b>2,462.0</b>
<b>Total direct rate</b>										
Monthly Base Rate <sup>1</sup>	3.06	3.06	3.06	3.06	3.06	3.18	3.28	3.36	3.36	5.00
Rate per 250 KWH <sup>1</sup>	20.18	20.18	20.18	20.18	20.18	20.98	21.65	22.20	22.20	22.20

<sup>1</sup> Rates are based on a monthly base rate plus energy charge for the first 250 KWH.  
The Utility charges an excess use rate over 250 KWH.

Source: Riverside Public Utilities, Finance Services

**Table 12**  
**City of Riverside**  
**Electricity Rates**  
**Last Ten Fiscal Years**  
**(Average Rate in Dollars per Kilowatt-Hour)**

---

<b>Fiscal Year Ended June 30</b>	<b>Residential</b>	<b>Commercial</b>	<b>Industrial</b>	<b>Other</b>
1998	0.10726	0.10663	0.08298	0.11385
1999	0.10744	0.10632	0.08163	0.11319
2000	0.10767	0.10640	0.08081	0.11090
2001	0.10798	0.10637	0.07925	0.11112
2002	0.10768	0.10615	0.07844	0.11206
2003	0.10990	0.10779	0.07901	0.11869
2004	0.11439	0.10936	0.08167	0.12271
2005	0.11813	0.11321	0.08369	0.12768
2006	0.12222	0.11330	0.08798	0.12373
2007	0.12621	0.12164	0.09059	0.14493

**NOTE:**

Rates are based on a monthly base rate plus an energy charge for the first 250 KWH. The Utility charges an excess use rate over 250 KWH.

Source: Riverside Public Utilities, Finance Services



**Table 13**  
**City of Riverside**  
**Top 10 Electricity Customers**  
**Current Year and Nine Years Ago**

Electricity Customer	2007		1998	
	Electricity Charges	Percent of Total Electric Revenues	Electricity Charges	Percent of Total Electric Revenues
County Agency	\$ 6,737,345	2.82%	N/A	N/A
State University	6,208,160	2.59%	N/A	N/A
Local Government	6,190,517	2.59%	N/A	N/A
Local School District	3,858,521	1.61%	N/A	N/A
Grocery Store	2,997,336	1.25%	N/A	N/A
Corporation	2,267,071	0.95%	N/A	N/A
Shopping Mall	2,040,225	0.85%	N/A	N/A
Hospital	1,664,993	0.70%	N/A	N/A
Corporation	1,653,565	0.69%	N/A	N/A
Corporation	1,614,061	0.67%	N/A	N/A
	<u>\$ 35,231,794</u>	<u>14.73%</u>	<u>N/A</u>	<u>N/A</u>

Retail Sales Per Financial Statements \$ 239,258,513

N/A - not available

Source: Riverside Public Utilities, Finance Services

**Table 14**  
**City of Riverside**  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

(in thousands)

Fiscal Year	Governmental Activities							
	General Obligation Bonds	Redevelopment Bonds	Revenue Bonds	Assessment Bonds	Pension Obligation Bonds	Certificates of Participation	Capital Leases	Notes Payable
1998	\$ -	\$ 95,774	\$ 10,295	\$ 480	\$ -	\$ 7,865	\$ 4,666	\$ 9,571
1999	-	116,600	8,595	285	-	7,440	5,375	13,674
2000	-	115,605	6,795	245	-	6,050	4,719	12,998
2001	-	113,980	2,830	195	-	5,615	7,316	11,629
2002	-	111,880	525	135	-	5,150	6,430	11,096
2003	-	109,615	-	-	-	4,650	5,517	11,447
2004	20,285	131,590	-	-	89,540	58,706	8,938	11,057
2005	20,280	144,024	-	-	148,280	57,336	7,431	10,645
2006	19,858	140,195	-	-	146,470	55,571	6,008	10,215
2007	19,331	296,598	-	-	144,450	192,874	4,929	9,759

Fiscal Year	Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	Loans Payable	Capital Leases			
1998	\$ 331,592	\$ -	\$ 107	\$ 460,350	13.62%	1.84
1999	321,058	7,956	428	481,411	13.43%	1.89
2000	310,424	7,956	409	465,201	12.96%	1.79
2001	299,244	7,315	653	448,777	12.01%	1.71
2002	355,621	6,966	571	498,374	13.70%	1.88
2003	342,559	11,524	498	485,810	12.54%	1.77
2004	440,970	11,066	439	772,591	18.68%	2.79
2005	419,581	10,459	392	818,428	19.02%	2.87
2006	509,577	9,841	317	898,052	14.29%	3.12
2007	482,929	9,211	253	1,160,334	17.37%	3.92

Source: City of Riverside Notes to Financial Statements and Statistical Table 19.

**Table 15**  
**City of Riverside**  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

(in thousands, except per capita amount)

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Pension Bonds</b>	<b>Certificates of Participation</b>	<b>Tax Allocation Bonds <sup>2</sup></b>	<b>Total</b>	<b>Percent of Assessed Value <sup>1</sup></b>	<b>Per Capita</b>
1998	\$ -	\$ -	\$ -	\$ 95,774	\$ 95,774	1.08%	\$ 396
1999	-	-	-	116,600	116,600	1.31%	483
2000	-	-	-	115,605	115,605	1.24%	478
2001	-	-	-	113,980	113,980	1.15%	472
2002	-	-	-	111,880	111,880	1.04%	463
2003	-	-	-	109,615	109,615	0.94%	454
2004	20,285	89,540	58,706	131,590	300,121	2.40%	1,242
2005	20,280	148,280	57,336	144,024	369,920	2.69%	1,531
2006	19,858	146,470	55,571	140,195	362,094	2.48%	1,499
2007	19,331	144,450	192,874	291,776	648,431	3.95%	2,193

Notes:

General bonded debt is debt payable with governmental fund resources and general obligation bonds recorded in enterprise funds (which, the City has none.)

<sup>1</sup> Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

<sup>2</sup> Amount presented is net of restricted resources held for the repayment of outstanding debt principal.

Source: City of Riverside Notes to Financial Statements and Reserve Cash Reconciliation maintained by City Finance Division.

**Table 16**  
**City of Riverside**  
**Direct and Overlapping Debt**  
**As of June 30, 2006**

City Assessed Valuation:	\$ 16,395,628,541
Redevelopment Agency Incremental Valuation:	4,463,063,852
Adjusted Assessed Valuation:	<u>\$ 11,932,564,689</u>

	<b>Percentage Applicable <sup>3</sup></b>	<b>Outstanding Debt 06/30/2006</b>	<b>Estimated Share of Overlapping Debt</b>
Direct and Overlapping Tax and Assessment Debt:			
Metropolitan Water District	1.017%	\$ 3,961,876	\$ 40,292
Riverside City Community College District	30.102%	20,149,108	6,065,284
Alvord Unified School District	67.749%	32,282,399	21,871,002
Riverside Unified School District	84.037%	99,239,293	83,397,725
Corona-Norco Unified School District	0.002%	1,090	0
Jurupa Unified School District	0.001%	561	0
Moreno Valley Unified School District	4.005%	2,002,498	80,200
City of Riverside	100%	19,590,000	19,590,000
Riverside Unified School District Community Facilities Districts	96.650-100%	94,426,090	91,262,816
City of Riverside Community Facilities Districts	100%	54,223,000	54,223,000
City of Riverside 1915 Act Bonds	100%	43,220,000	43,220,000
Total Direct and Overlapping Tax and Assessment Debt:		<u>\$ 369,095,915</u>	<u>\$ 319,750,320</u>

continued

**Table 16**  
**City of Riverside**  
**Direct and Overlapping Debt**  
**As of June 30, 2006**

Direct and Overlapping General Fund Debt:			
Riverside County General Fund Obligations	12.065%	\$ 76,072,910	\$ 9,178,197
Riverside County Pension Obligations	12.065%	47,879,349	5,776,643
Riverside County Board of Education Certificates of Participation	12.065%	1,356,106	163,614
Alvord Unified School District Certificates of Participation	67.748%	16,350,980	11,077,462
Corona-Norco Unified School District Certificates of Participation	0.002%	1,668	0
Jurupa Unified School District Certificates of Participation	0.001%	80	0
Moreno Valley Unified School District Certificates of Participation	4.005%	1,072,739	42,963
Riverside Unified School District General Fund Obligations	84.037%	22,122,740	18,591,287
City of Riverside General Fund Obligations	100%	55,315,000	55,315,000 (1)
City of Riverside Pension Obligations	100%	146,470,000	146,470,000
Total Gross Direct and Overlapping General Fund Debt:		<u>366,641,572</u>	<u>246,615,166</u>
Less: Riverside County Self-Supporting Obligations		2,363,665	2,363,665
Total Net Direct and Overlapping General Fund Debt:		<u>\$ 364,277,907</u>	<u>\$ 244,251,501</u>
Net Direct and Overlapping Debt:			<u>\$ 564,001,821</u>
Gross Direct and Overlapping Debt:			<u>\$ 566,365,486 (2)</u>

(1) Excludes certificates of participation to be sold

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

(3) For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the city's boundaries and dividing it by each unit's total taxable assessed value.

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. This process recognizes that, when considering the City'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.

Source: California Municipal Statistics, Inc.

Note: July 1, 2006 is the latest information available from the California Municipal Statistics, Inc. for this schedule.

**Table 17**  
**City of Riverside**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**

	(in thousands)									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Assessed valuation	\$8,889,163	\$8,915,687	\$9,290,838	\$9,938,549	\$10,773,387	\$11,644,984	\$12,508,013	\$13,740,349	\$14,614,159	\$16,395,629
Conversion percentage	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjusted assessed valuation	2,222,291	2,228,922	2,322,710	2,484,637	2,693,347	2,911,246	3,127,003	3,435,087	3,653,540	4,098,907
Debt limit percentage	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Debt limit	333,344	334,338	348,406	372,696	404,002	436,687	469,050	515,263	548,031	614,836
General obligation bonds	-	-	-	-	-	-	20,285	20,280	19,858	19,331
Pension obligation bonds	-	-	-	-	-	-	89,540	148,280	146,470	144,450
Total net debt applicable to limit:	-	-	-	-	-	-	109,825	168,560	166,328	163,781
Legal debt margin	\$ 333,344	\$ 334,338	\$ 348,406	\$ 372,696	\$ 404,002	\$ 436,687	\$ 359,225	\$ 346,703	\$ 381,703	\$ 451,055
Total net debt applicable to the limit as a percentage of debt limit	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	23.4%	32.7%	30.4%	26.6%

The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective with the 1981-82 fiscal year, each parcel is now assessed at 100% of market value (as of the most recent change in ownership for that parcel). The computations shown above reflect a conversion of assessed valuation data for each fiscal year from the current full valuation perspective to the 25% level that was in effect at the time that the legal debt margin was enacted by the State of California for local governments located within the State.

Source: City of Riverside, Statistical Table 6 and Notes to Financial Statements.

**Table 18**  
**City of Riverside**  
**Pledged-Revenue Coverage**  
**Governmental Activity Debt**  
**Last Ten Fiscal Years** **(in thousands)**

Fiscal Year	Tax Allocation Bonds				
	Tax Increment	Debt Service			Coverage
		Principal	Interest		
1998	\$ 11,179	\$ 1,902	\$ 7,540		1.18
1999	11,832	2,466	7,970		1.13
2000	12,829	1,894	7,194		1.41
2001	13,279	3,099	7,363		1.27
2002	14,859	2,745	7,252		1.49
2003	16,180	2,694	7,371		1.61
2004	17,410	1,873 (1)	9,599		1.52
2005	21,242	4,507 (1)	6,307		1.96
2006	35,268	4,390	7,236		3.03
2007	49,772	4,727	7,663		4.02

Source: Annual Financial Report, Redevelopment Agency

(1) Restatement of debt service principal payments to reflect proper reporting of payment to refunded bond agent during the fiscal year.

**Table 19**  
**City of Riverside**  
**Pledged-Revenue Coverage**  
**Business Type Activity Debt**  
**Last Ten Fiscal Years**

(in thousands)

Fiscal Year	Electric Revenue Bonds						Water Revenue Bonds					
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest					Principal	Interest	
1998	\$ 207,934	\$ 143,828	\$ 64,106	\$ 6,635	\$ 10,371	3.77	\$ 26,126	\$ 14,776	\$ 11,350	\$ 2,265	\$ 2,642	2.31
1999	180,171	145,402	34,769	6,555	10,701	2.01	30,739	15,659	15,080	2,780	2,667	2.77
2000	197,842	150,175	47,667	6,610	10,669	2.76	33,327	16,397	16,930	2,755	2,591	3.17
2001	271,828	227,081	44,747	6,930	10,350	2.59	36,259	18,643	17,616	2,955	2,364	3.31
2002	229,529	190,426	39,103	7,385	9,841	2.27	43,215	19,244	23,971	3,215	2,941	3.89
2003	211,553	157,450	54,103	7,840	10,966	2.88	36,837	19,928	16,909	3,895	2,720	2.56
2004	239,842	168,162	71,680	10,780	10,183	3.42	47,093	23,767	23,326	4,010	2,622	3.52
2005	271,987	169,064	102,923	14,555	12,143	3.86	45,626	26,583	19,043	4,045	2,591	2.87
2006	275,478	191,758	83,720	15,015	14,545	2.83	51,313	27,385	23,928	3,875	3,388	3.29
2007	301,414	192,450	108,964	18,815	13,549	3.37	70,736	29,856	40,880	4,300	3,113	5.51

Sewer Revenue Bonds						
Fiscal Year	Sewer Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
1998	\$ 21,530	\$ 11,901	\$ 9,629	\$ 2,075	\$ 2,792	1.98
1999	21,322	12,117	9,205	2,200	2,662	1.89
2000	23,851	12,300	11,551	2,330	2,557	2.36
2001	25,056	12,451	12,605	2,435	2,729	2.44
2002	23,872	12,387	11,485	2,550	2,423	2.31
2003	24,297	13,433	10,864	2,665	2,165	2.25
2004	24,176	17,006	7,170	2,800	2,341	1.39
2005	25,444	19,163	6,281	2,970	2,061	1.25
2006	23,482	20,393	3,089	3,120	1,691	0.64
2007	26,534	22,806	3,728	3,285	1,469	0.78

Source: City of Riverside, Proprietary Fund Statement of Revenues, Expenses and Changes in Net Fund Balance.



**Table 20**  
**City of Riverside**  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**

---

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income (amounts expressed in thousands)</b>	<b>Per Capita Personal Income</b>	<b>Unemployment Rate</b>
1998	250,799	\$ 3,381,021,319	\$ 13,481	7.0
1999	254,300	3,583,849,900	14,093	6.2
2000	259,738	3,590,877,850	13,825	5.3
2001	262,335	3,735,912,735	14,241	5.2
2002	265,700	3,636,635,900	13,687	6.5
2003	274,100	3,874,951,700	14,137	6.8
2004	277,030	4,135,503,840	14,928	6.2
2005	285,537	4,303,042,590	15,070	5.9
2006	288,203	6,283,978,212	21,804	5.4
2007	295,730	6,681,723,620	22,594	6.5

Source: City of Riverside, Development Department

**Table 21**  
**City of Riverside**  
**Principal Employers**  
**Current Year and Nine Years Ago**

Employer	2007			1998		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
University of California	6,470	1	4.2%	N/A	N/A	N/A
Riverside Unified School District	4,000	2	2.6%	N/A	N/A	N/A
City of Riverside	2,600	3	1.7%	N/A	N/A	N/A
Riverside Community College	2,000	4	1.3%	N/A	N/A	N/A
Fleetwood Motorhome Svc	1,875	5	1.2%	N/A	N/A	N/A
Alvord Unified School District	1,669	6	1.1%	N/A	N/A	N/A
Riverside Community Hospital	1,600	7	1.0%	N/A	N/A	N/A
Press-Enterprise Co	1,090	8	0.7%	N/A	N/A	N/A
Parkview Community Hospital	1,000	9	0.6%	N/A	N/A	N/A
Riverside Medical Clinic	600	10	0.4%	N/A	N/A	N/A
Total	<u>22,904</u>		<u>14.7%</u>	<u>N/A</u>		<u>N/A</u>

N/A - not available

Source: City of Riverside, Development Department

**Table 22**  
**City of Riverside**  
**Full-Time Equivalent City Government Employees by Function**  
**Last Ten Fiscal Years**

<b>Function</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
General government	283.38	273.50	276.22	288.26	313.29	314.39	318.36	331.88	377.15	412.22
Public safety										
Police	531.70	530.70	534.95	544.65	560.65	569.65	567.83	568.83	589.33	618.33
Fire										
Firefighters and officers	187.64	187.64	188.64	218.64	217.65	218.65	219.65	221.11	221.73	251.73
Highways and streets	266.00	266.10	267.10	269.10	266.10	280.10	285.10	281.35	262.35	286.35
Sanitation	44.49	44.49	44.49	44.49	44.49	44.49	48.49	48.49	59.49	60.29
Culture and recreation	244.42	249.28	256.52	265.08	282.93	301.97	302.92	300.92	311.45	324.26
Airport	5.00	5.00	5.00	5.00	6.00	6.00	6.00	6.00	6.00	7.00
Water	128.00	119.00	121.00	122.00	123.00	123.00	130.00	130.00	133.00	142.00
Electric	277.71	273.60	276.60	280.60	282.60	291.60	295.60	305.60	337.60	351.35
<b>Total</b>	<b>1,968.34</b>	<b>1,949.31</b>	<b>1,970.52</b>	<b>2,037.82</b>	<b>2,096.71</b>	<b>2,149.85</b>	<b>2,173.95</b>	<b>2,194.18</b>	<b>2,298.10</b>	<b>2,453.53</b>

Source: City of Riverside, Budget Office

**Table 23**  
**City of Riverside**  
**Operating Indicators by Function**  
**Last Ten Fiscal Years**

Function/Program	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Police										
Arrests	12,243	11,034	8,756	9,638	10,047	10,541	11,951	11,280	10,093	9,827
Fire										
Number of calls answered	21,639	20,920	22,824	23,968	24,115	24,886	25,876	26,505	26,696	27,458
Inspections	N/A	N/A	N/A	N/A	N/A	14,229	16,306	17,028	19,261	7,261 (1)
Public works:										
Street resurfacing (miles)	N/A	N/A	N/A	109.09	104.04	67.39	62.37	102.45	51.26	73.40
Parks and recreation										
Number of recreation classes	14,492	14,492	14,492	14,492	14,619	14,787	15,135	15,195	16,272	19,079
Number of facility rentals	26,327	26,327	26,327	26,327	26,533	26,854	27,014	27,074	27,483	32,980
Water										
Number of accounts	58,214	58,383	58,538	58,905	59,176	59,890	61,668	62,492	62,985	63,431
Annual consumption (ccf)	24,925,154	26,777,544	29,285,011	28,044,248	29,419,027	28,232,000	30,407,000	27,697,000	28,682,000	32,110,208
Electric										
Number of accounts	90,607	92,213	93,147	95,205	96,503	98,459	100,766	103,463	104,294	105,226
Annual consumption (kwh)	1,624,389,147	1,646,453,088	1,734,156,468	1,749,842,407	1,716,000,000	1,776,000,000	1,968,000,000	1,962,000,000	2,038,000,000	2,431,000
Sewer:										
New connections	N/A	N/A	N/A	4,073	5,267	5,825	7,034	9,621	16,717	15,423
Average daily sewage treatment (millions of gallons)	27.22	32.33	30.92	32.59	34.75	33.15	35.24	38.07	35.91	32.50

<sup>1</sup> Inspections were not tracked prior to 2003

N/A - not available

Source: City of Riverside, various departments

**Table 24**  
**City of Riverside**  
**Capital Asset Statistics by Function**  
**Last Ten Fiscal Years**

Function	Fiscal Year									
	1998	1999	2000	2001	2002	2003	2004	2005 (1)	2006	2007
Public Safety										
Police										
Stations	2	2	2	2	2	2	2	2	3	3
Substations	9	9	9	9	9	7	11	7	5	4
Helicopters	4	4	4	4	4	4	4	4	4	4
Fire										
Stations	13	13	13	13	13	13	13	13	13	14
Active apparatus	25	25	26	26	26	30	30	30	29	30
Reserve apparatus	6	6	4	4	5	6	5	5	6	6
Training facilities	1	1	1	1	1	1	1	1	1	1
Highways and streets										
Streets (miles)	796.84	804.04	811.74	819.18	816.34	1,100.00	829.00	836.00	845.35	852.04
Streetlights	26,144	27,406	27,622	27,841	28,058	28,246	28,401	28,581	28,847	29,028
Traffic signals	283	283	287	299	320	320	322	322	353	358
Culture and recreation										
Parks acreage	2,465.60	2,664.60	2,664.60	2,664.60	2,665.00	2,534.00	2,500.00	2,534.00	2,534.00	2,800.00
Community centers	10	10	10	10	10	10	10	11	11	11
Playgrounds	31	31	32	32	35	30	26	26	27	38
Swimming pools	9	9	9	9	9	6	6	7	6	7
Softball & baseball diamonds	36	36	36	36	36	34	34	35	33	44
Library branches	5	5	5	5	5	7	5	5	6	6
Museum exhibit-fixed	65	51	51	51	51	52	11	8	7	13
Museum exhibit-special	4	7	7	7	11	13	4	1	-	2
Museum reference library volumes	2,575	2,575	2,575	2,575	2,600	2,750	3,000	5,224	5,500	5,600
Water										
Fire hydrants	6,402	6,390	6,504	6,566	6,715	6,763	6,763	6,926	7,127	7,187
Sewer										
Sanitary sewers (miles)	1,100	1,100	1,100	1,100	800	750	755	755	810	840
Electric										
Miles of overhead distribution system	546.9	546.0	543.9	554.9	539.1	593.3	539.0	531.0	527.0	528.0
Miles of underground system	497.9	515.1	523.5	540.1	575.8	538.2	608.0	622.0	663.0	704.0

Source: City of Riverside, various departments

(1) During the 2004/05 fiscal year, four police substations closed.

**Table 25**  
**City of Riverside**  
**Cash Debt Reserves**  
**Tax Allocation Bonds**  
**Last Ten Fiscal Years**

(in thousands)

Tax Allocation Bond	Minimun Required Reserve	Cash Debt Reserve										
		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
1988 Issue Series A Revenue Bonds	\$ 492	\$ 505	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1991 Issue \$13,285,000 Series A	28	509	79	75	76	76	74	29	29	29	29	29
1994 Issue PFA Multiple Project Areas A/B	900	900	900	911	927	902	904	906	-	-	-	-
1994 Issue RDA CA Towers Series A	2,481	2,481	2,699	2,699	2,699	2,411	2,411	-	-	-	-	-
1994 Issue RDA CA Towers Series B	431	427	465	465	417	431	431	-	-	-	-	-
1999 Issue \$17,025,000 Series A Univ Corr	1,257	-	1,257	1,259	1,220	1,256	1,257	1,257	1,257	1,257	1,257	1,257
1999 Issue \$6,055,000 Series B Univ Corr	442	-	442	442	442	443	442	442	442	442	442	442
1999 Issue \$20,395,000 Casa Blanca	343	-	344	340	340	341	344	344	344	344	344	348
2004 Issue A Arlington \$4,550,000	301	-	-	-	-	-	-	299	305	309	309	309
2004 Issue B Arlington \$2,975,000	197	-	-	-	-	-	-	195	199	198	193	193
2003 Issue A Cal Towers \$26,255,000	2,341	-	-	-	-	-	-	2,342	2,342	2,342	2,342	2,342
2003 Issue B Cal Towers \$4,810,000	371	-	-	-	-	-	-	371	371	371	371	371
2004 Issue A Multiple Project \$24,115,000	1,753	-	-	-	-	-	-	-	1,753	1,753	1,753	1,753
2004 ERAF loan \$1,465,000	-	-	-	-	-	-	-	-	-	-	-	-
2007 Issue PFA Mult Proj Areas A \$8,340,000	-	-	-	-	-	-	-	-	-	-	-	-
2007 Issue PFA Mult Proj Areas B \$14,850,000	-	-	-	-	-	-	-	-	-	-	-	-
2007 Issue PFA Mult Proj Areas C \$9,205,000	-	-	-	-	-	-	-	-	-	-	-	-
2007 Issue PFA Mult Proj Areas D \$43,875,000	-	-	-	-	-	-	-	-	-	-	-	-
	\$ 11,337	\$ 4,822	\$ 6,186	\$ 6,191	\$ 6,121	\$ 5,860	\$ 5,863	\$ 6,185	\$ 7,042	\$ 7,045	\$ 7,044	\$ 7,044

## APPENDIX C

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following is a brief summary of certain provisions of the legal documents related to the Certificates which are not described in the Official Statement to which this Appendix is attached. This summary is not intended to be definitive and is qualified in its entirety by reference to the Trust Agreement, the Lease Agreement and the Site Lease for the complete terms thereof. Copies of the Site Lease, Lease Agreement, and the Trust Agreement are available upon request from the City.*

### SUMMARY OF THE TRUST AGREEMENT

#### DEFINITIONS

**“Acquisition and Construction Fund”** means the fund by that name established in accordance with the Trust Agreement.

**“Acquisition Costs”** means all costs of acquiring, constructing and installing the Project, including but not limited to:

(a) all costs which the Authority or the City shall be required to pay to a seller or any other person under the terms of any contract or contracts for the purchase of the Project;

(b) all costs which the Authority or the City shall be required to pay a contractor or any other person for the acquisition, construction and installation of the Project;

(c) obligations of the Authority or the City incurred for services (including obligations payable to the Authority or the City for actual out-of-pocket expenses of the Authority or the City) in connection with the acquisition, construction and installation of the Project, including reimbursement to the Authority or the City for all advances and payments made in connection with the Project prior to or after delivery of the Certificates;

(d) the actual out-of-pocket costs of the Authority or the City for test borings, surveys, estimates and preliminary investigations therefor, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project, including administrative expenses under the Lease Agreement and under the Trust Agreement relating to the acquisition, construction and installation of the Project; and

(e) any sums required to reimburse the Authority or the City for advances made by the Authority or the City for any of the above items or for any other costs incurred and for work done by the Authority or the City which are properly chargeable to the Project.

**“Additional Certificates”** means the Certificates of participation authorized by a supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

**“Additional Rental Payments”** means all amounts payable by the City as Additional Rental Payments pursuant to the Lease Agreement.

**“Alternate Credit Facility”** means a Credit Facility issued to replace a Credit Facility as provided in the Trust Agreement.

**“Alternate Rate”** means, on any Rate Determination Date, for the Certificates in a Daily Mode, a Weekly Mode, a Flexible Rate Mode or a Term Rate Mode, a rate per annum equal to (a) the SIFMA Index most recently available as of the date of determination, or (b) if such index is no longer available, or if the SIFMA Index is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions), or (c) if neither the SIFMA Index nor the Kenny Index is published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by The Bond Market Association to determine the SIFMA Index just prior to when The Bond Market Association stopped publishing the SIFMA Index. If there is no Remarketing Agent for the Certificates, if the Remarketing Agent fails to make any such determination or if the Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement, then the Trustee shall make the determinations required by this definition, or if the Trustee shall decline to make such determination, a financial advisor, investment banker or other qualified party shall make such determination at the expense of the Authority.

**“ARS”** means Auction Rate Securities.

**“ARS Certificate”** means any Certificate in the ARS Mode.

**“ARS Mode”** means the Mode during which the Certificates evidence interest at the ARS Rate.

**“ARS Rate”** shall have the meaning specified in Exhibit B to the Trust Agreement.

**“ARS Rate Conversion Date”** shall have the meaning specified in Exhibit B to the Trust Agreement.

**“Assignment Agreement”** means the Assignment Agreement, dated as of April 1, 2008, by and between the Authority and the Trustee.

**“Auction Period”** means the period during which the Certificates evidence interest at an ARS Rate, set forth in Exhibit B to the Trust Agreement.

**“Authority”** means the Riverside Public Financing Authority, a joint powers authority organized and existing under the laws of the State of California.

**“Authorized Authority Representative”** means the Chair of the Authority and any other person authorized by the governing board of the Authority to act on behalf of the Authority under or with respect to the Trust Agreement.

**“Authorized City Representative”** means the Assistant City Manager, Chief Financial Officer, Treasurer or Deputy Treasurer of the City, and any other person authorized by the City Council to act on behalf of the City under or with respect to the Trust Agreement.



**“Authorized Denominations”** means: (i) with respect to Certificates in a Daily Mode or Weekly Mode, \$100,000 and any integral multiple of \$5,000 in excess thereof; (ii) with respect to Certificates in a Flexible Mode, \$100,000 and any integral multiple of \$1,000 in excess thereof; (iii) with respect to Certificates in a Term Rate Mode or Fixed Rate Mode, \$5,000 and any integral multiple thereof; and (iv) with respect to Certificates in the ARS Mode, \$25,000 and any integral multiple thereof.

**“Automatic Suspension Event”** means an event set forth in a Reimbursement Agreement between the Authority and a Credit Facility Provider which would result in the immediate suspension of the Credit Facility Provider’s obligation to purchase Certificates without prior notice from the Credit Facility Provider to the Trustee, the Authority or the City.

**“Automatic Termination Event”** means an event set forth in a Reimbursement Agreement between the Authority and a Credit Facility Provider which would result in the immediate termination of the Credit Facility Provider’s obligation to purchase Certificates without prior notice from the Credit Facility Provider to the Trustee.

**“Available Amount”** means the amount available under a Credit Facility, as applicable, the Purchase Price with respect to the Certificates, as applicable.

**“Bank Certificates”** means Certificates purchased by a Credit Facility Provider pursuant to a Credit Facility and not remarketed.

**“Bank Certificates Escrow Account”** means the account with that name established within the Purchase Fund pursuant to the Trust Agreement.

**“Base Rental Payment Fund”** means the fund by that name established in accordance with the Trust Agreement.

**“Base Rental Payment”** means any payment required to be paid by the City to the Authority pursuant to the Lease and deposited in the Account of the Base Rental Payment Fund.

**“Beneficial Owners”** means those individuals, partnerships, corporations or other entities for whom the Participants have caused the Depository to hold Book-Entry Certificates.

**“Book-Entry Certificates”** means the Certificates registered in the name of the nominee of DTC, or any successor securities depository for the Certificates, as the registered owner thereof pursuant to the terms and provisions of the Trust Agreement.

**“Business Day”** means a day other than (a) Saturday or Sunday, (b) a day on which banking institutions in the city or cities in which the Principal Office of the Trustee is located or the principal office of the Remarketing Agent is located, are authorized or required by law to be closed, (c) a day on which the New York Stock Exchange is authorized or obligated by law or executive order to be closed, (d) a day on which the office of the applicable Credit Facility Provider at which draws or advances will be paid is required or authorized to be closed or (e) a day on which The New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Trust Agreement or the Lease Agreement, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in

the Trust Agreement or the Lease Agreement and, unless otherwise specifically provided in the Trust Agreement, the Lease Agreement or the Reimbursement Agreement, no interest shall accrue for the period from and after such nominal date.

**“Capitalized Interest Account”** means the subaccount by that name established within the Interest Fund pursuant to the Trust Agreement.

**“Cede & Co.”** means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Certificates.

**“Certificate of the Authority”** means an instrument in writing signed by an Authorized Authority Representative. If and to the extent required by the provisions of the Trust Agreement, each Certificate of the Authority shall include the statements provided for in the Trust Agreement.

**“Certificate of the City”** means an instrument in writing signed by an Authorized City Representative. If and to the extent required by the provisions of the Trust Agreement, each Certificate of the City shall include the statements provided for in the Trust Agreement.

**“Certificate Payment Date”** means, with respect to any Certificate, subject to the provisions of the Trust Agreement concerning Mandatory Sinking Fund Prepayment, the Certificate Payment Date designated therein, on which or, in the case of Certificates subject to mandatory sinking fund prepayment, by which, the principal component of the final Base Rental Payment evidenced and represented thereby, or the Mandatory Sinking Account Payment, as applicable, shall become due and payable.

**“Certificate Purchase Agreement”** means the Certificate Purchase Agreement, dated April 16, 2008, by and between the Purchaser and the City relating to the Certificates.

**“Certificates”** means the \$128,300,000 City of Riverside Variable Rate Refunding Certificates of Participation (Riverside Renaissance Projects), Series 2008.

**“City”** means the City of Riverside, a municipality of the State of California.

**“Code”** means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations in effect with respect thereto.

**“Completion Certificate”** means a certificate of an Authorized City Representative delivered pursuant to the Lease Agreement and in the form required by the Trust Agreement to the effect that the Project has been completed substantially in conformity with the plans and specifications for the Project.

**“Continuing Disclosure Certificate”** means the Continuing Disclosure Certificate, dated as of the Delivery Date, executed by the City and as it may from time to time be amended in accordance with the provisions thereof.

**“Conversion Date”** shall have the meaning specified in Exhibit B to the Trust Agreement.

**“Costs of Issuance”** means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the

Trust Agreement, the Lease Agreement, the Site Lease, the Assignment Agreement, the Certificates, the Credit Facility, the Reimbursement Agreement and official statement pertaining to the Certificates, rating agency fees, CUSIP Service Bureau charges, market study fees, legal fees and expenses of counsel to Credit Facility Provider, any computer and other expenses incurred in connection with the Certificates, the initial fees and expenses of the Trustee and the Credit Facility Provider, and other fees and expenses incurred in connection with the execution of the Certificates or the implementation of the financing of the Project, to the extent such fees and expenses are approved by the City.

**“Costs of Issuance Account”** means the account by that name established in accordance with the Trust Agreement.

**“Credit Facility”** means any irrevocable, direct-pay letter of credit issued in favor of the Trustee by the Credit Facility Provider and all amendments, extensions, renewals or substitutions thereof pursuant to its terms, and upon the effectiveness of any Alternate Credit Facility, such Alternate Credit Facility. When used at a time when there is more than one Credit Facility securing the Certificates, the term “Credit Facility” shall mean, as the context dictates, either all such Credit Facilities collectively or only each Credit Facility with respect to particular Certificates. The initial Credit Facility shall be the Letter of Credit, dated April 17, 2008, issued by Bank of America, N.A., pursuant to the Reimbursement Agreement, of even date herewith, which shall secure principal, interest, prepayment price and Purchase Price in the Daily Mode or Weekly Mode only.

**“Credit Facility Drawings Account”** means the account in the Base Rental Payment Fund established pursuant to the Trust Agreement.

**“Credit Facility Provider”** means the issuer of the Credit Facility, and upon the effectiveness of an Alternative Credit Facility, the issuer of such Alternate Credit Facility. The initial Credit Facility Provider shall be Bank of America, N.A.. When used at a time when there is more than one Credit Facility securing the Certificate, the term “Credit Facility Provider” shall mean, as the context dictates, either all such Credit Facility Providers collectively, or only each Credit Facility Provider acting with respect to particular Certificates and a particular Credit Facility.

**“Credit Facility Provider Failure”** means (i) a failure of a Credit Facility Provider to pay a properly presented and strictly conforming draw or request for advance; or (ii) the filing or commencement of any bankruptcy or insolvency proceedings by or against a Credit Facility Provider, provided such proceeding has not been dismissed within sixty (60) consecutive days; or (iii) the declaration by a Credit Facility Provider of a moratorium on the payment of its unsecured debt obligations; or (iv) the written repudiation by a Credit Facility Provider of its Credit Facility; or (v) such Credit Facility, if any, shall at any time for any reason be finally determined under applicable law, by a court of competent jurisdiction, to be null and void and not valid and binding on the respective Credit Facility Provider, if any, or the validity or enforceability thereof is being contested by such Credit Facility Provider or by any governmental agency or authority which has taken control of the assets of the Credit Facility Provider, if any, in any bankruptcy, insolvency or similar proceedings and which shall be authorized under applicable law to act on behalf of such Credit Facility Provider, if any; or (vi) the Credit Facility, if any, is no longer in effect and any and all of the City’s obligations under the respective Credit Facility have been paid in full.

**“Current Mode”** shall have the meaning specified in the Trust Agreement.

**“Daily Mode”** means the Mode during which the Certificates evidence interest at the Daily Rate.

**“Daily Rate”** means the per annum interest rate with respect to the Certificates in the Daily Mode determined pursuant to the Trust Agreement.

**“Daily Rate Period”** means the period during which the Certificates in the Daily Mode shall evidence interest at a Daily Rate, which shall be from the Business Day upon which a Daily Rate is set to but not including the next succeeding Business Day.

**“Defaulted Interest”** means interest evidenced by any Certificate that is payable but not duly paid on the date due after giving effect to payment under any Credit Facility.

**“Delayed Remarketing Period”** shall have the meaning specified in the Trust Agreement.

**“Delivery Date”** means April 17, 2008.

**“Depository”** means the securities depository acting as Depository pursuant to the Trust Agreement.

**“Differential Interest Amount”** means the amount of interest owing to the Credit Facility Provider under the Credit Facility because of the Credit Facility Provider’s purchase of a Bank Certificate which exceeds the amount of accrued interest payable by the purchaser of such Bank Certificate upon its remarketing by the Remarketing Agent.

**“Draw Request”** means a request by the Trustee or Tender Agent, as the case may be, under a Credit Facility or an Alternate Credit Facility for the payment of principal, interest or the Purchase Price of Certificates in accordance with the terms of the Trust Agreement.

**“DTC”** means The Depository Trust Company, New York, New York and its successors.

**“Electronic”** means telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

**“Eligible Account”** means an account that is either (a) maintained with a federal or state chartered depository institution or trust company that has a S&P short-term rating of at least ‘A-2’ (or, if no short-term debt rating, a long-term debt rating of ‘BBB+’) or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

**“Escrow Agent”** means U.S. Bank National Association, a national banking association, as escrow agent pursuant to the terms of the Escrow Agreement, or its successor thereunder.

**“Escrow Agreement”** means the Escrow Agreement, dated as of April 1, 2008 by and between the Authority and the Escrow Agent, as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

**“Expiration Date”** means the stated expiration date of a Credit Facility, as it may be extended from time to time as provided in such Credit Facility, or any earlier date on which such Credit Facility shall terminate at the direction of the Authority, expire or be cancelled (other than the date on which a Credit Facility shall terminate as a result of an Automatic Termination Event or an event of default under the Reimbursement Agreement entered into in connection with such Credit Facility).

**“Event of Default”** means an event described in the section of the Trust Indenture describing Action on Default.

**“Favorable Opinion of Special Counsel”** means, with respect to any action the occurrence of which requires such an opinion, an Opinion of Special Counsel, addressed to the Trustee, to the effect that the action proposed to be taken will not, in and of itself, adversely affect any exclusion from gross income of interest with respect to the Certificates.

**“Fiscal Year”** means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period hereafter selected and designated by the Authority as its Fiscal Year.

**“Fitch”** means the Fitch Ratings Service.

**“Fixed Rate”** means the per annum interest rate or interest rates evidenced by the Certificates in a Fixed Rate Mode determined pursuant to the Trust Indenture.

**“Fixed Rate Certificates”** means the Certificates in a Fixed Rate Mode.

**“Fixed Rate Mode”** means the Mode during which the Certificates evidence interest at a Fixed Rate.

**“Fixed Rate Period”** means, with respect to Certificates converted to the Fixed Rate Mode, the period from the Mode Change Date upon which the Certificates were converted to a Fixed Rate Mode to but not including the Maturity Date.

**“Fixed Rate Remarketing Agent”** means, an investment banking firm or firms selected by the City that has or have entered into a written agreement with the City to remarket or purchase and remarket the Certificates upon their being converted to a Fixed Rate Mode in accordance with the terms and provisions set forth in the Trust Agreement.

**“Flexible Mode”** means the Mode during which the Certificates evidence interest at Flexible Rates.

**“Flexible Rate”** means, with respect to the Certificates in a Flexible Mode, the per annum interest rate determined for the Certificate pursuant to the Trust Indenture.

**“Flexible Rate Certificates”** means the Certificates in a Flexible Mode.

**“Flexible Rate Period”** means, with respect to the Certificates in a Flexible Mode, the period of from one (1) to three hundred ninety-seven (397) calendar days (which Flexible Rate Period must end on a day preceding a Business Day) during which a Flexible Rate Certificate shall

evidence interest at a Flexible Rate, as established by the Remarketing Agent pursuant to the Trust Indenture.

**“Interest Fund”** means the fund by that name established in accordance with the Trust Indenture.

**“Interest Accrual Period”** means the period during which the Certificates accrue interest payable on the next Interest Payment Date applicable thereto. Each Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid, from the date of original authentication and delivery of the Certificates) to, but not including, the Interest Payment Date on which interest is to be paid. If, at the time of authentication of any Certificate, interest is in default or overdue with respect to the Certificates, such Certificate shall evidence interest from the date to which interest has previously been paid in full or made available for payment in full with respect to the Certificates.

**“Interest Payment Date”** means each date on which interest is to be paid and is: (i) with respect to the Certificates in an ARS Mode, each date defined as an Interest Payment Date in the ARS Provisions set forth in Exhibit B to the Trust Agreement, and any date that is an ARS Rate Conversion Date; (ii) with respect to the Certificates in a Flexible Mode, each Mandatory Purchase Date applicable thereto; (iii) with respect to the Certificates in a Daily Mode or a Weekly Mode, the first Business Day of each month; (iv) with respect to the Certificates in a Fixed Rate Mode or a Term Rate Mode, the first day of March or September, which is at least three (3) months after the month in which such Long-Term Mode takes effect, and the first day of each March and September thereafter or, upon the receipt by the Trustee of a Favorable Opinion of Special Counsel, any other six-month interval chosen by the City (beginning with the first such day which is at least three months after the Mode Change Date) and, with respect to a Term Rate Mode, the final day of the current Interest Period if other than a regular six-month interval; (v) (without duplication as to any Interest Payment Date listed above) any Mode Change Date, other than a change between a Daily Mode and a Weekly Mode, and each Maturity Date; and (vi) with respect to any Bank Certificates, the day or days set forth in the applicable Reimbursement Agreement; and (vii) with respect to any Parity Obligation, the day or days set forth in the agreement or instrument pursuant to which such Parity Obligation was created or incurred.

**“Interest Period”** means, for the Certificates in a particular Mode, the period of time that the Certificates evidence interest at the rate (per annum) which becomes effective at the beginning of such period, and shall include an ARS Rate Period, a Daily Rate Period, a Weekly Rate Period, a Flexible Rate Period, a Term Rate Period, and a Fixed Rate Period.

**“Lease Agreement”** means the Lease Agreement, dated as of April 1, 2008, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

**“Letter of Representations”** means the letter of the City delivered to and accepted by the Depository on or prior to the delivery of the Certificates as Book-Entry Certificates setting forth the basis on which the Depository serves as depository for such Book-Entry Certificates, as originally executed or as it maybe supplemented or revised or replaced by a letter to a substitute Depository.

**“Long-Term Interest Period”** means a Term Rate Period or a Fixed Rate Period.

**“Long-Term Mode”** means a Term Rate Mode or a Fixed Rate Mode.

**“Mandatory Sinking Account Payment”** means the principal evidenced by Certificates required to be paid on each Mandatory Sinking Account Payment Date pursuant to the Trust Agreement.

**“Mandatory Sinking Account Payment Date”** means for the Certificates with a stated Principal Payment Date of March 1, 2011 and each March 1 thereafter continuing through and including March 1, 2037, provided that while the Certificates are in the ARS Mode, the Mandatory Sinking Account Payment Date refers to the first Auction Date on or following March 1 of each year for either Series of Certificates as set forth in the Trust Agreement.

**“Maturity Date”** means, with respect to the Certificates, the maturity date specified for the Certificates in the Trust Agreement or, if Serial Certificates or more than one Term Certificates are established for the Certificates pursuant to the Trust Agreement upon a change of the Certificates to a Fixed Rate Mode, the maturity dates established for such Serial Certificates or Term Certificates.

**“Maximum Rate”** means (a) with respect to any Certificate, other than Bank Certificates, in the Daily Rate Mode or Weekly Rate Mode, 11% per annum, (b) with respect to any Certificate, other than Bank Certificates, in the Term Rate Mode or Flexible Rate Mode, the rate per annum that would, if all Certificates in the Term Rate Mode or Flexible Rate Mode evidenced interest at such rate for a period of 183 days, result in the interest accrued during such period being equal to the amount available under the Credit Facility to pay the interest portion of the Purchase Price of Certificates in the Term Rate Mode or Flexible Rate Mode delivered or required to be delivered to the Trustee for purchase pursuant hereto, (c) with respect to any Certificate in the Fixed Rate Mode, the highest rate of interest allowed by law, and (d) with respect to Bank Certificates, the lesser of 11% per annum and the highest rate of interest allowed by law.

**“Mode”** means, as the context may require, the ARS Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Rate Mode, or the Fixed Rate Mode.

**“Mode Change Date”** means with respect to the Certificates in a particular Mode, the day on which another Mode for the Certificates begins, and includes an ARS Rate Conversion Date and a Conversion Date.

**“Mode Change Notice”** means the notice from the City to the other Notice Parties of the intention of the City to change the Mode with respect to the Certificates.

**“Moody’s”** means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall no longer perform the function of a securities rating agency for any reason, the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City and approved by the Trustee.

**“Net Proceeds”** means any insurance proceeds or condemnation award in excess of \$50,000, paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

**“New Mode”** shall have the meaning specified in the Trust Agreement.

**“Nominee”** means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

**“Notice Parties”** means the Authority, the City, the Trustee, the Credit Facility Provider, if any, the Broker-Dealer, if any, the Auction Agent, if any, the Remarketing Agent, if any, and the Fixed Rate Remarketing Agent, if any.

**“Opinion of Counsel”** means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the City.

**“Outstanding”** when used as of any particular time with reference to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates except:

(a) Certificates previously canceled by the Trustee or delivered to the Trustee for cancellation;

(b) Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and

(c) Certificates in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

**“Owner”** means any person who shall be the registered owner of any Outstanding Certificate as indicated in the registration books of the Trustee required to be maintained pursuant to the Trust Agreement.

**“Parity Obligations”** means obligations of the City payable from Rental Payments the payment of which is on a parity with the payment of principal and interest with respect to the Certificates and shall include (i) all payments to a Credit Facility Provider under its Credit Facility Reimbursement Agreement and (ii) regularly scheduled payment under the Interest Rate Swap Agreement, excluding termination payments.

**“Participating Underwriter”** has the meaning ascribed thereto in the Continuing Disclosure Certificate.

**“Participants”** means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Book-Entry Certificates as securities depository.

**“Permitted Investments”** means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

A. The following obligations may be used as Permitted Investments for all purposes, including defeasance investments in refunding escrow accounts.

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation),

(2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:



- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

B. The following Obligations may be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts.

(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Federal Financing Bank

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

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

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks 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 "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

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

(5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

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

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

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate; Pre-refunded Municipal Obligations meeting the requirements of subsection (B) hereof may be used as Permitted Investments for annual appropriation lease transactions.

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

(8) Investment agreements (supported by appropriate opinions of counsel).

(9) Interest-bearing demand or time deposits (including certificates of deposit) continuously and fully insured by FDIC and with banks that are rated at least in the highest short-term Rating Category by one or more of the Rating Agencies or is rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies; or fully secured by obligations described in item (A)(1) or (2) of the definition of Permitted Investments;

(10) the Local Agency Investment Fund of the State of California created under Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

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

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

b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest thereon; and

c) As to any investment not specified above: the value thereof established by prior agreement among the Issuer and the Trustee.

**“Prepayment Date”** means the date fixed for prepayment of any Certificate in any notice of prepayment given in accordance with the terms hereof.

**“Prepayment Fund”** means the fund by that name established in accordance with the Trust Agreement.

**“Principal Fund”** means the fund by that name established in accordance with the Trust Agreement.

**“Principal Payment Date”** means, with respect to (i) the Certificates, a date on which the principal evidenced by the Certificates becomes due and payable and (ii) any Parity Obligation, the date or dates set forth in the agreement or instrument pursuant to which such Parity Obligation was created or incurred as the date or dates upon which the principal of such Parity Obligations is due and payable.

**“Property”** has the meaning set forth in the Lease Agreement.

**“Purchase Date”** means (i) for a Certificate in the Daily Mode or the Weekly Mode, any Business Day selected by the Beneficial Owner of said Certificate pursuant to the provisions of the Trust Agreement, and (ii) any Mandatory Purchase Date.

**“Purchase Price”** means an amount equal to the principal amount of the Certificates purchased on any Purchase Date, plus accrued interest to such Purchase Date (unless such Purchase Date is also an Interest Payment Date, in which case the Purchase Price shall not include accrued interest, which shall be paid in the normal course).

**“Purchaser”** means Banc of America Securities LLC as underwriter and purchaser of the Certificates pursuant to the Certificate Purchase Agreement.

**“Rate Determination Date”** means any date on which the interest rate with respect to the Certificates shall be determined, which: (i) in the case of an ARS Mode, shall be each Auction Date for the Certificates; (ii) in the case of a Flexible Mode, shall be the first day of an Interest Period; (iii) in the case of a Daily Mode, shall be each Business Day commencing with the first day (which must be a Business Day) the Certificates become subject to the Daily Mode; (iv) in the case of the initial conversion to a Weekly Mode, shall be no later than the Business Day prior to the Mode Change Date for the Certificates, and thereafter, shall be each Wednesday or, if Wednesday is not a Business Day, then the Business Day after such Wednesday; (v) in the case of a Term Rate Mode, shall be a Business Day no earlier than fifteen (15) Business Days and no later than the Business Day next preceding the first day of an Interest Period for the Certificates, as determined by the Remarketing Agent; and (vi) in the case of a Fixed Rate Mode, shall be a date determined by the Remarketing Agent which shall be at least one (1) Business Day prior to the Mode Change Date.

**“Rating Agencies”** means Fitch and S&P, and their respective successors or assigns, or any other nationally recognized securities rating agency or agencies rating the Certificates at the request of the City.

**“Rebate Fund”** means the fund by that name established in accordance with the Trust Agreement.

**“Rebate Requirement”** has the meaning ascribed thereto in the Tax Certificate.

**“Record Date”** means: (i) with respect to the Certificates in a Short Term Mode, the last Business Day before each Interest Payment Date, (ii) with respect to the Certificates in a Long Term Mode, the fifteenth (15<sup>th</sup>) day (whether or not a Business Day) of the month next preceding each Interest Payment Date; and (iii) with respect to the Certificates in an ARS Mode, the Business Day immediately preceding each Interest Payment Date.

**“Reimbursement Agreement”** means the agreement by and among the City of Riverside, the Riverside Public Financing Authority and Bank of America, N.A. dated April 1, 2008 relating to the Certificates, any subsequent reimbursement agreement, credit agreement, line of credit agreement, standby bond purchase agreement or other agreement, between a Credit Facility Provider, as applicable, and the Authority and/or the City, as the same may be amended from time to time pursuant to its terms.

**“Remarketing Agent”** means the remarketing agent for the Certificates selected by the City pursuant to the Trust Agreement.

**“Remarketing Agreement”** means an agreement providing for the remarketing of the Certificates tendered for purchase, as the same may be amended from time to time pursuant to its terms.

**“Remarketing Proceeds Account”** means the account by that name established within the Purchase Fund pursuant to the Trust Agreement.

**“Rental Payments”** means, collectively, the Base Rental Payments and the Additional Rental Payments.

**“Rental Period”** means the period from the Delivery Date through February 28, 2009 and, thereafter, the twelve-month period commencing on March 1 of each year during the term of the Lease Agreement.

**“Required Stated Amount”** means, (i) in the case of each Credit Facility, at any time of calculation with respect to the Certificates, an amount equal to the aggregate principal amount of the Certificates then Outstanding together with interest accruing thereon (assuming an annual rate of interest equal to the Maximum Rate) for the minimum period specified by the Rating Agencies then rating the Certificates, as necessary to maintain the short-term rating of the Certificates.

**“Reserve Facility”** means any line of credit, letter of credit, insurance policy, surety bond or other acceptable credit source deposited with the Trustee pursuant to the Trust Agreement, including without limitation a surety bond.

**“Reserve Fund”** means the fund by that name established in accordance with the Trust Agreement.

**“Reserve Requirement”** means an amount equal to the least of (a) the maximum amount of Base Rental Payments coming due in any one year, (b) “10% of the proceeds of the issue” within the meaning of Section 148 of the Code, and (c) 125% of the average amount of Base Rental Payments coming due in each year; provided, however, that for purposes of calculating the Reserve Requirement, the interest component of Base Rental Payments evidenced by Certificates in a Short-Term Mode shall be deemed to accrue at a rate per annum of \_\_\_\_%.

**“S&P”** means Standard & Poor’s, a Division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such entity shall no longer perform the functions of a securities rating agency for any reason, the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

**“Serial Certificate”** means any Certificate not subject to mandatory prepayment from Sinking Fund Payments.

**“Short-Term Mode”** means the Daily Mode, the Weekly Mode or the Flexible Mode.

**“SIFMA”** means the Securities Industry and Financial Markets Association (formerly known as The Bond Market Association and the Public Securities Association).

**“SIFMA Index”** means on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data which meet specific criteria established by SIFMA and acceptable to the broker-dealer, if any, or the Remarketing Agent, as applicable, and effective from such date.

**“Sinking Fund Payments”** means the payments required under the Trust Agreement to be deposited in the Principal Fund under the Trust Agreement.

**“Site Lease”** means the Site and Facilities Lease, dated as of April 1, 2008, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof and of the Lease Agreement.

**“Special Counsel”** means any firm of nationally recognized municipal bond attorneys selected by the Authority and experienced in the issuance of municipal bonds and matters relating to the exclusion of the interest thereon from gross income for federal income tax purposes.

**“Substitution Date”** means the date on which an Alternate Credit Facility is substituted for the Credit Facility then in effect.

**“Swap Agreement”** means the Master ISDA Swap Agreement, by and between the City and the Swap Provider, including a Confirmation or Confirmations, as applicable, with respect to the Certificates and a Credit Support Annex thereto, as amended and restated.

**“Swap Provider”** means Bank of America, N.A.

**“Tax Certificate”** means the Tax Certificate dated as of April 17, 2008, concerning certain matters pertaining to the use and investment of proceeds of the Certificates executed by and delivered to the City on the date of execution and delivery of the Certificates, including any and all exhibits attached thereto.

**“Tender Notice”** means a notice delivered by Electronic Means or in writing that states: (i) the principal amount of the Certificates to be purchased pursuant to the Trust Agreement; (ii) the Purchase Date on which such Certificates are to be purchased; (iii) applicable payment instructions with respect to such Certificates being tendered for purchase; and (iv) an irrevocable demand for such purchase.

**“Tender Notice Deadline”** means: (i) during the Daily Mode, 11:00 a.m. New York City time on any Business Day; and (ii) during the Weekly Mode, 5:00 p.m. New York City time on a Business Day not less than seven (7) days prior to the applicable Purchase Date.

**“Term Certificates”** means the Certificates subject to mandatory prepayment from Sinking Fund Payments.

**“Term Rate”** means the per annum interest rate for the Certificates in the Term Rate Mode determined pursuant to the Trust Agreement.

**“Term Rate Mode”** means the Mode during which the Certificates evidence interest at a Term Rate.

**“Term Rate Period”** means the period from (and including) the Mode Change Date or the date of initial conversion of the Certificates to a Term Rate Mode, as applicable, to (but excluding) the last day of the first period that Certificates shall be in the Term Rate Mode as established by the Authority and, thereafter, the period from (and including) the beginning date of each successive Interest Rate Period selected for the Certificates by the Authority while the Certificates are in the Term Rate Mode to (but excluding) the commencement date of the next succeeding Interest Period, including another Term Rate Period. Except as otherwise provided in the Trust Agreement, an Interest Period for the Certificates in the Term Rate Mode must be at least one hundred eighty (180) days in length.

**“Trust Agreement”** means the Trust Agreement, by and among the Trustee, the Authority and the City, as originally executed and as it may from time to time be amended or supplemented in accordance with the provisions hereof.

**“Trustee”** means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

**“Weekly Mode”** means the Mode during which the Certificates evidence interest at the Weekly Rate.

**“Weekly Rate”** means the per annum interest rate with respect to the Certificates in the Weekly Mode determined pursuant to the Trust Agreement.

**“Weekly Rate Period”** means the period during which the Certificates evidence interest at a Weekly Rate, which shall be the period commencing on Thursday of each week to and including Wednesday of the following week, except the first Weekly Rate Period which shall be from the Delivery Date or a Mode Change Date for the Certificates to and including the Wednesday of the following week and the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to and including the day next preceding the Mode Change Date.

**“Written Request of the City”** means an instrument in writing signed by an Authorized City Representative.

**“Written Request of the Authority”** means an instrument in writing signed by an Authorized Authority Representative.

## **TERMS AND CONDITIONS OF CERTIFICATES**

Additional Provisions Concerning Prepayment of Certificates in an ARS Mode. With respect to any notice relating to the prepayment in part of any Certificates in an ARS Mode and held by a Securities Depository, the Trustee shall (i) specify in the notice of prepayment under an item entitled “Publication Date for Securities Depository Purposes” the Interest Payment Date prior to the date fixed for prepayment and (ii) shall instruct the Securities Depository in such notice of prepayment (x) to determine on the Publication Date (such determination to be made with respect to the Certificates in a daily Auction Period after the Auction held on such Publication Date has settled) the Securities Depository participants whose Securities Depository positions will be prepaid (the “Securities Depository Participants”) and the principal amount of such Certificates to be prepaid from each such position (the “Securities Depository Redemption Information”) and (y) to notify the Auction Agent promptly after such determination of the positions of the Securities Depository Participants in such Certificates immediately prior to the settlement of the second Auction next preceding the date fixed for prepayment, the positions of the Securities Depository Participants in such Certificates immediately following settlement of the second Auction next preceding the date fixed for prepayment, and of the Securities Depository Redemption Information. As used in this paragraph, “Publication Date” shall mean, for any daily Auction Period, two (2) Business Days immediately preceding the date fixed for prepayment, and shall mean, for any Auction Period other than a daily Auction Period, one (1) Business Day immediately succeeding the Interest Payment Date

next preceding the date fixed for prepayment; provided, however, that the preceding notifications shall not be required to be given any sooner than notice of prepayment is given pursuant to the Trust Agreement.

No Notice of Prepayment. Notwithstanding any other provision of the Trust Agreement to the contrary, no notice of prepayment is required to be given with respect to any prepayment occurring on a Mandatory Purchase Date.

Mandatory Purchase in Lieu of Prepayment. Each Owner, by purchase and acceptance of any Certificate irrevocably grants to the City the option to purchase such Certificate on any date such Certificate is subject to optional prepayment provided above at a purchase price equal to the prepayment price then applicable to such Certificate, plus accrued interest thereon to the date of purchase. In order to exercise such option, the City shall deliver to the Trustee a Favorable Opinion of Special Counsel and shall direct the Trustee to provide notice of mandatory purchase in lieu of prepayment, such notice to be provided, as and to the extent applicable, in accordance with the provisions set forth in the Trust Agreement. On the date fixed for purchase of any Certificate pursuant to the Trust Agreement, the City shall pay the purchase price of such Certificate to the Trustee in immediately available funds and the Trustee shall pay the same to the Owners of the Certificates being purchased against delivery thereof. All Certificates so purchased shall be delivered to the Trustee for cancellation.

Exchange of Certificates. Certificates may be exchanged at the Principal Office of the Trustee for Certificates evidencing and representing a like aggregate principal amount of Certificates of the same Certificate Payment Date of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange as a condition precedent to the exercise of such privilege.

The Trustee shall not be required to exchange any Certificate during the 15-day period preceding the selection of Certificates for prepayment, or any Certificate which has been selected for prepayment in whole or in part, from and after the day of mailing of a notice of prepayment of such Certificates selected for prepayment in whole or in part as provided in the Trust Agreement.

Certificate Registration Books. The Trustee will keep at its Principal Office of the Trustee sufficient books for the registration and transfer of the Certificates which shall at all times be open to inspection by the City during regular business hours with reasonable prior notice, and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Certificates in such books as provided in the Trust Agreement.

Mutilated, Destroyed, Stolen or Lost Certificates. If any Certificate shall become mutilated the Trustee, at the expense of the Owner, shall thereupon execute and deliver a new Certificate of like tenor and amount in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be cancelled and destroyed.

If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee has been given, the Trustee, at the expense of the Owner, shall thereupon



execute and deliver a new Certificate of like tenor in lieu of and in substitution for the Certificate so lost, destroyed or stolen.

The Trustee may require payment of a reasonable sum for each new Certificate delivered under the Trust Agreement and of the expenses which may be incurred by the City and the Trustee in the premises. Any Certificate executed and delivered under the provisions of the Trust Agreement in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement. The Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same.

Temporary Certificates. The Certificates executed and delivered under the Trust Agreement may be initially executed and delivered in temporary form exchangeable for definitive Certificates when ready for delivery. The temporary Certificates may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and may contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Certificate shall be executed and delivered by the Trustee, upon the same conditions and terms and in substantially the same manner as definitive Certificates. If the Trustee executes and delivers temporary Certificates it will execute and furnish definitive Certificates and thereupon the temporary Certificates may be surrendered, for cancellation, in exchange therefor at the Principal Office of the Trustee, and the Trustee shall deliver in exchange for such temporary Certificates definitive Certificates evidencing and representing an equal aggregate principal amount of Certificates of Authorized Denominations. Until so exchanged, the temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates delivered under the Trust Agreement.

Determination of Auction Rate. While in an ARS Mode, the Certificates shall evidence interest at the Auction Rate which shall be determined as provided in Exhibit B hereto.

Determination of Flexible Rates and Interest Periods During Flexible Mode. An Interest Period for the Certificates in the Flexible Mode shall be of such duration of from one (1) to three hundred ninety-seven (397) calendar days, ending on a day preceding a Business Day or the Maturity Date, as the Remarketing Agent shall determine in accordance with the provisions of the Trust Agreement. In making the determinations with respect to Interest Periods, subject to limitations imposed by the immediately preceding sentence, on each Rate Determination Date for a Flexible Rate Certificate, the Remarketing Agent shall select the Interest Period that would result in the Remarketing Agent being able to remarket the Certificates at par in the secondary market at the lowest average interest cost under then-existing marketing conditions; provided, however, that if the Remarketing Agent has received notice from the City to the effect that the Mode for the Certificates is to be changed from the Flexible Mode to any other Mode, the Remarketing Agent shall select Interest Periods that do not extend beyond the resulting Mode Change Date. The Flexible Rate for the Certificates in a Flexible Mode shall be the rate of interest per annum determined by the Remarketing Agent to be the minimum interest rate which, if evidenced by the Certificates, would enable the Remarketing Agent to sell the Certificates under then existing market conditions, including length of Interest Period, on the effective date of such rate at a price equal to the principal

amount thereof. Each Certificate in a Flexible Mode may evidence interest at a different Flexible Rate and may have an Interest Period within the Flexible Mode which differs from the Interest Period applicable to any Certificate in a Flexible Mode.

The Trustee, in consultation with the Remarketing Agent, shall take such actions as shall be necessary to distinguish Certificates having different Flexible Rate Periods, which actions may include obtaining different CUSIP numbers if determined desirable by the Trustee or the Remarketing Agent.

By 1:00 p.m. New York City time on each Rate Determination Date, the Remarketing Agent, with respect to each Certificate in the Flexible Mode that is subject to adjustment on such Rate Determination Date, shall determine the Flexible Rate for the Interest Period then selected for such Certificate and shall give notice of the Interest Period, the Purchase Date and the Flexible Rate for such Certificate, such notice to be given by Electronic Means to the Trustee and the City. The Remarketing Agent shall make the Flexible Rate and Interest Period available after 2:00 p.m. New York City time on each Rate Determination Date by telephone or Electronic Means to any Beneficial Owner or Notice Party other than the City requesting such information.

In the event the use of the Book-Entry System is discontinued, in order to receive payment of the Purchase Price of any Certificate in the Flexible Mode, the Owner of such Certificate must present such Certificate to the Trustee, by 12:00 noon New York City time on the applicable Mandatory Purchase Date. Upon receipt of such Certificate by 12:00 noon New York City time on a Mandatory Purchase Date, the Trustee shall pay the Purchase Price to such Owner by 2:30 p.m. New York City time on such Mandatory Purchase Date.

Determination of Interest Rates During the Daily Mode and the Weekly Mode. The interest rate for the Certificates during the Daily Mode or Weekly Mode shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of the Certificates in the Daily Rate Period or Weekly Rate Period, as applicable, at a price equal to 100% of the principal amount thereof.

(a) During the Daily Mode, the Remarketing Agent shall establish the Daily Rate by 10:00 a.m. New York City time on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date. The Remarketing Agent shall make the Daily Rate available no less frequently than once each week by telephone or Electronic Means to the City, each other Notice Party and any Beneficial Owner requesting such rate.

(b) During the Weekly Mode, the Remarketing Agent shall establish the Weekly Rate by 4:00 p.m. New York City time on each Rate Determination Date. The Weekly Rate shall be in effect during the applicable Weekly Rate Period. The Remarketing Agent shall make the Weekly Rate available no later than 5:00 p.m. New York City time on the Business Day following the Rate Determination Date by telephone or Electronic Means to the City, each other Notice Party and any Beneficial Owner requesting such rate.

Determination of Term Rates and Fixed Rates.

(a) Term Rates. The interest rate for the Certificates in the Term Rate Mode shall be the minimum rate which, in the opinion of the Remarketing Agent, would result in a sale of the Certificates, under then existing market conditions, at a price equal to 100% of the principal amount thereof on the Rate Determination Date for a Term Rate Period of the duration selected by the City, written notice of which shall have been delivered by the City to the Remarketing Agent prior to such Rate Determination Date. Notwithstanding the foregoing, if the City shall deliver a Favorable Opinion of Special Counsel, the interest rate set for some or all of the affected Certificates may include a premium or a discount. In no event shall any Term Rate be greater than the Maximum Rate and no Term Rate Period may extend beyond the Maturity Date.

The Term Rate shall be determined by the Remarketing Agent not later than 4:00 p.m. New York City time on the Rate Determination Date and the Remarketing Agent shall make the Term Rate available by telephone or Electronic Means after 5:00 p.m. New York City time on the Rate Determination Date to the City and each other Notice Party requesting such Term Rate.

Except as is otherwise provided in the Trust Agreement, once the Certificates are changed to a Term Rate Mode, the Certificates shall continue in the Term Rate Mode until changed to another Mode in accordance with the Trust Agreement. If the City shall have failed to select a new Term Rate Period prior to the applicable Rate Determination Date for such new Term Rate Period, the new Term Rate Period shall be the same length as the current Term Rate Period; provided however, that no Term Rate Period may extend beyond the Maturity Date.

(b) Fixed Rates. The Fixed Rate for the Certificates when being converted from a Short-Term Mode or a Term Rate Mode to the Fixed Rate Mode shall be determined by the Fixed Rate Remarketing Agent in the following manner: not later than 4:00 p.m. New York City time on the applicable Rate Determination Date, the Fixed Rate Remarketing Agent shall determine the Fixed Rate or Fixed Rates, as applicable. The Fixed Rate or Fixed Rates shall be the minimum interest rate(s) which, in the opinion of the applicable Fixed Rate Remarketing Agent, will result in a sale of the Certificates at a price equal to the principal amount thereof on the Rate Determination Date. Notwithstanding the foregoing, if the City shall deliver a Favorable Opinion of Special Counsel, the interest rate set for some or all of the Certificates may include a premium or a discount. The Fixed Rate Remarketing Agent shall make the Fixed Rate or Fixed Rates, as applicable, available by telephone or by Electronic Means after 5:00 p.m. New York City time on the Rate Determination Date to the City and each other Notice Party requesting notice of such Fixed Rate or Fixed Rates. The Fixed Rate or Rates, as applicable, so established for the Certificates shall remain in effect until the Maturity Date or Maturity Dates, as applicable, of the Certificates, unless the Certificates are changed to another Mode.

Alternate Rates. When the Certificates are in a Daily Mode, a Weekly Mode, a Flexible Rate Mode or a Term Rate Mode, the following provisions shall apply in the event (i) the Remarketing Agent fails or is unable to determine the interest rate for the Certificates or to determine the interest rate or Flexible Rate Period for the Certificates within the Flexible Mode, (ii) the method by which the Remarketing Agent determines the interest rate or Interest Period with respect to the Certificates (or the selection by the City of the duration of a Term Rate Period for the Certificates) shall be held to be unenforceable by a court of law of competent jurisdiction, or (iii) the Remarketing Agent suspends its remarketing effort in accordance with the provisions of the Remarketing Agreement.

The provisions set forth in this Section shall continue to apply until such time as the Remarketing Agent (or the City, if applicable) resumes making such determinations. In the case of clause (ii) above, the Remarketing Agent (or the City, if applicable) shall resume making such determination at such time as there is delivered to the Remarketing Agent or the City, as applicable, an opinion of Special Counsel to the effect that there are no longer any legal prohibitions against the Remarketing Agent or City, as applicable, making such determinations.

The following shall be the methods by which the interest rates and, in the case of the Flexible Rate Mode and Term Rate Modes, the Interest Periods, shall be determined for the Certificates or for any Flexible Rate Certificate as to which any of the events described in clauses (i), (ii) or (iii) above shall be applicable. Such methods shall be applicable from and after the date any of the events described in clauses (i), (ii) or (iii) of the immediately preceding paragraph shall become applicable until such time as the events described in clauses (i), (ii) or (iii) of the immediately preceding paragraph are no longer applicable to the Certificates or any Flexible Rate Certificate. Notwithstanding any other provision in the Trust Agreement, these provisions shall not apply with respect to the selection of the length of the Term Rate Period for the Certificates in a Term Rate Mode if the City fails to select the length of the Term Rate Period for the Certificates for a reason other than as described in clause (ii) of the immediately preceding paragraph.

(a) For Flexible Rate Certificates, the next Interest Period shall be from, and including, the first day following the last day of the current Interest Period for the applicable Flexible Rate Certificates to, but excluding, the next succeeding Business Day, and thereafter the Interest Period for such Flexible Rate Certificate shall commence on each Business Day and extend to, but exclude, the next succeeding Business Day. For each such Interest Period, the interest rate for such Flexible Rate Certificates shall be the applicable Alternate Rate in effect on the Business Day that begins an Interest Period.

(b) If the Certificates are in a Daily Mode or a Weekly Mode, then the Certificates shall evidence interest during each subsequent Interest Period for the Certificates at the Alternate Rate in effect on the first day of such Interest Period.

(c) If the Certificates are in a Term Rate Mode, then the Certificates shall automatically convert to a Flexible Rate Mode, with an Interest Period commencing on the first day following the last day of the current Interest Period for the Certificates to, but excluding, the next succeeding Business Day, and thereafter the Interest Period for the Certificates shall commence on each Business Day and extend to, but exclude, the next succeeding Business Day. For each such Interest Period, the interest rate for the Certificates shall be the applicable Alternate Rate in effect at the beginning of each such Interest Period.

Changes in Mode. Subject to compliance with the provisions set forth in this Section and, for so long as the Swap Agreement is in effect, subject to the consent of the Swap Provider, the City may elect to effect, a change in Mode with respect the Certificates. All Certificates shall be in or be converted to the same Mode.

(a) Changes to Modes Other Than ARS Mode and Fixed Rate Mode. At the option of the City, the Certificates (other than the Certificates being changed to or from an ARS Mode, and other than the Certificates, including the Certificates in an ARS Mode, being changed to a Fixed Rate Mode,) may be changed from one Mode to another Mode as set forth below:

(i) Notice by City. At least five (5) Business Days (or such shorter time as may be agreed to by the City, the Trustee and the Remarketing Agent) prior to the date that notice of the proposed Mode Change Date is required to be given to the Owners by the Trustee as specified below, the City shall give written notice to each of the Notice Parties of its intention to effect a change in the Mode from the Mode then prevailing (for purposes of this Section, the “Current Mode”) to another Mode (for purposes of this Section, the “New Mode”) which shall be specified in such written notice. Such notice to the Notice Parties shall specify the proposed Mode Change Date and shall also include a statement as to whether a Credit Facility is expected to be in effect with respect to the Certificates following such change and, if a Credit Facility is expected to be in effect, such notice shall identify the anticipated provider of such Credit Facility. If the change is to a Term Rate Mode, such notice shall specify the length of the initial Term Rate Period.

(ii) Notice to Owners. Notice of the proposed change in Mode, unless otherwise specified in the Trust Agreement, shall be given by the Trustee to the Owners of the Certificates not less than the fifteenth (15th) day next preceding the applicable Mode Change Date; provided that no notice need be given for a Mode Change Date occurring on the first Business Day following the last day of a Flexible Rate Period or a Term Rate Mode or on a Substitution Date. Such notice shall state the Mode to which the conversion will be made and the proposed Mode Change Date and, if applicable, shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to the Trust Agreement. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of physical Certificates and procedures for payment of Purchase Price. Notwithstanding any other provision of the Trust Agreement, the Trustee shall not mail such written notice if the Certificates are being converted from a Flexible Mode until the Trustee shall have received a written confirmation from the Remarketing Agent to the effect that no Interest Period for the Certificates extends beyond the proposed Mode Change Date. The Trustee shall provide a copy of such notice to the City and to each of the other Notice Parties.

(iii) Determination of Interest Rates and Interest Periods. The New Mode shall commence on the Mode Change Date and the interest rate(s), together, in the case of a change to the Flexible Mode, with the Interest Period or Interest Period(s), as applicable, shall be determined by the Remarketing Agent (or the City in the case of the Interest Period for the Certificates being converted to a Term Rate Mode) in the manner provided in the Trust Agreement.

(iv) Conditions Precedent:

(A) The Mode Change Date shall be: (1) in the case of a change from a Flexible Mode, the next Mandatory Purchase Date for all of the Flexible Rate Certificates; (2) in the case of a change from a Daily Mode or a Weekly Mode, any Business Day; and (3) in the case of a change from a Term Rate Mode to another Mode, or from a Term Rate Period to a Term Rate Period of a different duration, the Mode Change Date shall be limited to (aa) any Interest Payment Date on which the Certificates are subject to optional prepayment or (bb) the last Interest Payment Date of the current Term Rate Period. The Certificates shall be subject to mandatory tender for purchase on such Mode Change Date in accordance with the Trust Agreement, and, except as is otherwise provided in the Trust Agreement, the Certificates shall be purchased on the Mode Change Date at a Purchase Price equal to 100% of the principal amount thereof; provided, however, that if the Certificates are to be purchased on an Interest Payment Date other than the last Interest Payment Date applicable to the Certificates, and if the Certificates would otherwise be subject to optional prepayment on such Mode

Change Date at a prepayment price of more than 100% of the principal amount thereof, then the Certificates shall be purchased at a Purchase Price equal to such prepayment price.

(B) If the Certificates to be converted are in the Flexible Mode, no Interest Period for the Certificates set after delivery by the City to the Remarketing Agent of the notice of the intention to effect a change in Mode shall extend beyond the day preceding the proposed Mode Change Date.

(C) As and to the extent applicable, the City shall select a Remarketing Agent for the Certificates, and shall provide for the delivery of a Credit Facility if required.

(D) The following items shall have been delivered to the City, Trustee and the Remarketing Agent on or prior to the Mode Change Date:

(1) in the case of a change from any Mode other than a change from a Daily Mode to a Weekly Mode or a change from a Weekly Mode to a Daily Mode, a Favorable Opinion of Special Counsel dated the Mode Change Date;

(2) if there is to be a Credit Facility delivered in connection with such change, the items required by the Trust Agreement; and

(3) a notice from the Rating Agencies of the rating(s) to be assigned to the Certificates on such Mode Change Date.

(v) Rescission of Election. The City may rescind any election by it to change a Mode in accordance with the Trust Agreement.

(b) Change to ARS Mode. At the option of the City, the Certificates may be converted from a Daily Mode, a Weekly Mode, a Term Rate Mode, a Flexible Mode or a Fixed Rate Mode to an ARS Mode; provided, however, the Certificates may not be converted to an ARS Mode if the Certificates will not be held by a Securities Depository in a Book-Entry System. Any such conversion of the Certificates shall be made as set forth below.

(i) General Provisions. In any such conversion from a Daily Mode or a Weekly Mode, the ARS Rate Conversion Date shall be a Business Day. In any such conversion from a Term Rate Mode, the ARS Rate Conversion Date shall be a regularly scheduled Interest Payment Date on which a new Term Rate Period would otherwise have commenced. In any such conversion from a Flexible Mode, the ARS Rate Conversion Date shall be the last regularly scheduled Interest Payment Date on which interest is payable for any Interest Period theretofore established for the Certificates and no Interest Period for the Certificates set after delivery by the City of a notice of the intention to effect a change in Mode shall extend beyond the proposed ARS Rate Conversion Date. In any such conversion from a Fixed Rate Mode, the ARS Conversion Date shall be a date on which the Certificates at the option of the City pursuant may be prepaid in accordance with the Trust Agreement. The Certificates shall be subject to mandatory tender for purchase pursuant to the Trust Agreement and shall be purchased on such ARS Rate Conversion Date at the applicable Purchase Price.

(ii) Notice by City; Delivery of Favorable Opinion of Special Counsel. The City shall give written notice of any such conversion to the Notice Parties not less than five (5) Business

Days (or such shorter time as may be agreed to by the Trustee, the Remarketing Agent and the Auction Agent) prior to the date on which the Trustee is required to notify the Owners of the conversion pursuant to subparagraph (iii) below. Such notice shall specify the ARS Rate Conversion Date and the length of the initial Auction Period for the Certificates and, if applicable, shall confirm the appointment of an Auction Agent and a Broker-Dealer for the Certificates. Together with such notice, the City shall file with the Trustee a Favorable Opinion of Special Counsel concerning such conversion. No such change to an ARS Mode shall become effective unless the City shall also file with the Trustee, a Favorable Opinion of Special Counsel dated the ARS Rate Conversion Date.

(iii) Notice to Owners. Not less than fifteen (15) days prior to the ARS Rate Conversion Date, the Trustee shall mail a written notice of the conversion to the Owners of the Certificates to be converted; provided, however, that the Trustee shall not mail such written notice if the Certificates are being converted from a Flexible Rate Period until the Trustee has received a written confirmation from the Remarketing Agent to the effect that no Interest Period for the Certificates extends beyond the proposed ARS Rate Conversion Date. Such notice shall specify the ARS Rate Conversion Date and the length of the initial Auction Period for the Certificates to be converted. Such notice shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to the Trust Agreement. The Trustee shall provide a copy of such notice to the City and to each of the other Notice Parties.

(iv) Determination of Interest Rate. The initial interest rate for the Interest Period commencing on the ARS Rate Conversion Date shall be the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Certificates to be remarketed at a price equal to 100% of the principal amount thereof. The initial interest rate so determined by the Broker-Dealer shall remain in effect to but not including the first Interest Payment Date subsequent to such ARS Rate Conversion Date.

(v) Notification of Interest Rate. Not later than 5:00 p.m., New York City time, on the date of determination of the interest rate for the Interest Period commencing on the ARS Rate Conversion Date, the applicable Broker-Dealer shall notify the Trustee and the City, and the Auction Agent of the ARS Rate, such notice to be provided by telephone or other Electronic Means, promptly confirmed in writing.

(vi) Rescission of Election. The City may rescind its election to convert the Certificates to an ARS Mode by giving written notice of such rescission to the Trustee and each of the other Notice Parties at any time prior to the setting by the Broker-Dealer of the initial interest rate for such ARS Mode.

(c) Change from ARS Mode to Daily Mode, Weekly Mode, Term Rate Mode, Flexible Mode or a Fixed Rate Mode. At the option of the City, the Certificates may be converted from an ARS Mode to a Daily Mode, a Weekly Mode, a Term Rate Mode, a Flexible Mode or a Fixed Rate Mode. Any such conversion shall be made as set forth below.

(i) General Provisions. The Conversion Date from an ARS Mode shall be the Interest Payment Date following the final Auction Period for the Certificates.

(ii) Notice by City. The City shall give written notice of any such conversion to the Trustee and each of the other Notice Parties not less than five (5) Business Days (or such shorter time as may be agreed to by the City, the Trustee, the Broker-Dealer and the Auction Agent) prior to

the date on which the Trustee is required to notify the Owners of the conversion pursuant to subparagraph (iii) below. Such notice shall specify that the Certificates will be converted, the Conversion Date and the Mode to which the conversion will be made and shall confirm the selection of a Remarketing Agent for the Certificates to be converted. Such notice to the Notice Parties shall also include a statement as to whether a Credit Facility is expected to be in effect with respect to the Certificates following such change and, if a Credit Facility is expected to be in effect, such notice shall identify the anticipated provider of such Credit Facility. If the interest rate on the Certificates is being converted to a Term Rate, such notice shall specify the length of the initial Term Rate Period within the Term Rate Mode. Together with such notice, the City shall file with the Trustee a Favorable Opinion of Special Counsel. No change from the ARS Mode to another Mode shall become effective unless the City shall also file with the Trustee, (i) a Favorable Opinion of Special Counsel to the same effect dated the Conversion Date and (ii) notice from the Rating Agencies of the rating(s) to be assigned to the Certificates on the Conversion Date, such notice to be provided on or prior to the Conversion Date.

(iii) Notice to Owners. Not less than twenty (20) days prior to the Conversion Date, the Trustee shall mail a written notice of the conversion to the Owners of all of the Certificates. Such notice shall specify the Conversion Date and the Mode to which the conversion will be made. If the interest rate on the Certificates is being converted to a Term Rate Mode, the notice shall specify the length of the initial Term Rate Period during such Term Rate Mode. Such notice shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to the Trust Agreement. If the interest rate on the Certificates is being converted to a Fixed Rate Mode, the notice shall specify the Maturity Date as the last day of such period.

(iv) Conditions Precedent.

(A) The City shall appoint a Remarketing Agent for the Certificates as provided in the Trust Agreement.

(B) In the event that the Mode on the Certificates is being changed to a Daily Mode, a Weekly Mode, a Flexible Mode or a Term Rate Mode, the City shall, pursuant to the Trust Agreement, cause the City to provide a Credit Facility meeting the requirements specified in the Trust Agreement, such Credit Facility to be delivered to the Trustee and to become effective on the Conversion Date.

(v) Rescission of Election. At anytime prior to 10:00 a.m. New York City time on the Business Day immediately preceding the proposed Conversion Date, the City may withdraw its notice of conversion by giving written notice of such withdrawal to each of the Notice Parties. If the City so withdraws such notice, the Auction for the Certificates will be held on the scheduled Auction Date as if no notice of conversion had ever been given.

(vi) Failed Conversion. On the Conversion Date, the Certificates shall be subject to mandatory tender for purchase at a Purchase Price equal to 100% of the principal amount thereof. The Purchase Price of the Certificates shall be payable solely from the proceeds of the remarketing of the Certificates. In the event that any of the conditions to conversion set forth in the Trust Agreement are not satisfied or if there is a failure to remarket all of the Certificates on the proposed Conversion Date, the Mode on the Certificates will not be converted, the Certificates will not be purchased, the Certificates will be returned to their Owners, the Auction Period will automatically convert to a seven-day Auction Period and the Certificates will evidence interest at the Maximum



Interest Rate for the seven-day Auction Period then commencing. Succeeding Auction Periods shall be seven-day Auction Periods until subsequently changed in accordance with the provisions set forth in Exhibit B to the Trust Agreement and the Auction Rate for succeeding Auction Periods shall be determined in accordance with the provisions set forth in Exhibit B to the Trust Agreement. Notwithstanding any other provision of the Trust Agreement, a failure to purchase the Certificates on a proposed Conversion Date shall not constitute an Event of Default under the Trust Agreement.

(vii) Notice to Owners of Failed Conversion. If on any proposed Conversion Date there has not been a timely withdrawal of the conversion notice as set forth in subparagraph (v) above and any condition precedent to such conversion set forth in the Trust Agreement has not been satisfied, the Trustee will give written notice by first class mail postage prepaid as soon as practicable and in any event not later than the next succeeding Business Day to the Owners of the Certificates to have been converted to the effect that such conversion has not occurred, that the Certificates were not purchased on the proposed Conversion Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to the Certificates that would otherwise have been converted, excluding, however, the Auction Date falling on the Business Day next preceding the proposed Conversion Date, and that the interest rate applicable to the Certificates will continue to be the ARS Rate; provided, however, that the interest rate evidenced by the Certificates that otherwise would have been converted during the Auction Period commencing on such failed Conversion Date will be the Maximum Interest Rate for the Auction Period then commencing, and the Auction Period will be a seven-day Auction Period. The Trustee shall provide a copy of such notice to each of the Notice Parties.

(d) Change to Fixed Rate Mode. At the option of the City, the Certificates may be converted to a Fixed Rate Mode. Any such conversion shall be made as set forth below.

(i) Mode Change Date Provisions. The Mode Change Date shall be:

(A) in the case of a change from an ARS Rate Period, the Interest Payment Date following the final Auction Period for the Certificates;

(B) in the case of a change from a Flexible Mode, the next Mandatory Purchase Date for the Flexible Rate Certificates of the Certificates ;

(C) in the case of a change from a Daily Mode or a Weekly Mode, any Business Day; and

(D) in the case of a change from a Term Rate Mode, the Mode Change Date shall be limited to (1) any Interest Payment Date on which the Certificates are subject to optional prepayment or (2) the next Mandatory Purchase Date for the Certificates being converted, as the case may be. The Certificates in a Term Rate Mode shall be subject to mandatory tender for purchase pursuant to the Trust Agreement and shall be purchased on such Mode Change Date at a Purchase Price equal to 100% of the principal amount thereof; provided that if the Certificates would otherwise be subject to optional prepayment on such Mode Change Date at a prepayment price of more than 100% of the principal amount thereof, the Certificates shall be purchased at a Purchase Price equal to such prepayment price.

(ii) Serialization Provisions. Upon conversion of the Certificates to a Fixed Rate Mode, unless otherwise directed by the City, the Certificates will be converted to Serial Certificates

maturing in such years and such principal amounts as correspond to the years and principal amounts set forth in the mandatory Sinking Fund Payment schedule set forth in the Trust Agreement.

(iii) Notice by City. At least five (5) Business Days (or such shorter time as may be agreed to by the Trustee, the Auction Agent, if any, and the Remarketing Agent, if any) prior to the date that notice of the Mode Change Date is required to be given to the Owners by the Trustee as specified in paragraph (iii) below, the City shall give written notice to each of the Notice Parties. Such notice shall state that the Mode will be changed to the Fixed Rate Mode, shall set forth the proposed Mode Change Date, and shall be accompanied by the appointment of one or more firms of investment bankers to remarket the Certificates being changed to the Fixed Rate Mode (such firm or firms of investment bankers referred to as the “Fixed Rate Remarketing Agent”). Together with such notice, the City shall file with the Trustee a Favorable Opinion of Special Counsel. No conversion to a Fixed Rate Mode shall occur unless the City shall also file with the Trustee a Favorable Opinion of Special Counsel to the same effect dated the Mode Change Date.

(iv) Notice to Owners. Not less than the fifteenth (15th) day next preceding the Mode Change Date (not less than the twentieth (20th) day if such change is being made in connection with the Certificates in the ARS Mode), the Trustee shall mail notice of such proposed change to the Owners of the Certificates, such notice to state that the Mode on the Certificates will be changed to a Fixed Rate Mode and to set forth the proposed Mode Change Date. Such notice shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to the Trust Agreement. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of physical Certificates and the procedures for payment of Purchase Price. Notwithstanding any other provision of the Trust Agreement, the Trustee shall not mail such written notice if the Certificates are being converted from a Flexible Mode until the Trustee shall have received a written confirmation from the Remarketing Agent to the effect that no Interest Period for the Certificates extends beyond the proposed Mode Change Date. The Trustee shall provide a copy of such notice to the City and to each of the other Notice Parties.

(v) General Provisions Applying to Change to Fixed Rate Mode. The change to a Fixed Rate Mode shall not occur unless the City shall have selected a Fixed Rate Remarketing Agent to remarket the Certificates being changed to the Fixed Rate Mode and the following items shall have been delivered to the City and each of the Notice Parties, such items to be delivered on or prior to the Mode Change Date:

(A) a Favorable Opinion of Special Counsel dated the Mode Change Date; and

(B) notice from the Rating Agencies of the rating(s) to be assigned the Certificates on such Mode Change Date.

(vi) Determination of Fixed Rates. The Fixed Rate (or Fixed Rates in the case of Serial Certificates) for the Certificates shall be established by the applicable Fixed Rate Remarketing Agent on the Rate Determination Date applicable thereto. Such Fixed Rate Remarketing Agent shall set the interest rate or interest rates with respect to the Certificates in accordance with the provisions set forth in the Trust Agreement. The applicable Remarketing Agent shall make the Fixed Rate or Rates available by telephone or Electronic Means not later than 5:00 p.m., New York City time, on the Rate Determination Date to the City, the Trustee and each of the other Notice Parties requesting such notice.

(vii) Modification of Serialization Provisions, Prepayment Provisions and Price.

Upon conversion of the Certificates to a Fixed Rate Mode, the Certificates shall be subject to the serialization provisions set forth in subsection (ii) above, shall be subject to the optional prepayment and mandatory sinking fund prepayment provisions set forth in the Trust Agreement and shall be remarketed at par. Notwithstanding the foregoing or any other provision of the Trust Agreement to the contrary, the City may elect to change the serialization provisions, the optional prepayment provisions or the mandatory sinking fund prepayment provisions and/or remarket some or all of the Certificates at a premium or discount to par if the City shall file with the Trustee a Favorable Opinion of Special Counsel.

(viii) Rescission of Election.

Except as is otherwise provided with respect to the Certificates being converted from an ARS Mode to a Fixed Rate Mode, the City may rescind any election by it to change a Mode in accordance with the Trust Agreement as provided therein.

(ix) Additional Provisions Applicable to Conversion From ARS Mode to Fixed Rate Mode.

(A) Rescission of Election.

At anytime prior to 10:00 a.m. New York City time on the Business Day immediately preceding the proposed Conversion Date, the City may withdraw its notice of conversion by giving written notice of such withdrawal to each of the Notice Parties. If the City so withdraws such notice, the Auction for the Certificates will be held on the scheduled Auction Date as if no notice of conversion had ever been given.

(B) Failed Conversion.

On each Conversion Date the Certificates shall be subject to mandatory tender for purchase at a Purchase Price equal to 100% of the principal amount thereof. The Purchase Price of the Certificates shall be payable solely from the proceeds of the remarketing of the Certificates. In the event that any of the conditions to conversion to a Fixed Rate Mode set forth in the Trust Agreement are not satisfied or if there is a failure to remarket all of the Certificates on the proposed Conversion Date, the Mode on the Certificates will not be converted, the Certificates will not be purchased, the Certificates will be returned to their Owners, the Auction Period will automatically convert to a seven-day Auction Period and the Certificates will evidence interest at the Maximum Interest Rate for the seven-day Auction Period then commencing. Succeeding Auction Periods shall be seven-day Auction Periods until subsequently changed in accordance with the provisions set forth in Exhibit B to the Trust Agreement and the Auction Rate for succeeding Auction Periods shall be determined in accordance with the provisions set forth in Exhibit B to the Trust Agreement. Notwithstanding any other provision of the Trust Agreement, a failure to purchase the Certificates on a proposed Conversion Date shall not constitute an Event of Default under the Trust Agreement.

(C) Notice to Owners of Failed Conversion.

If on any proposed Conversion Date there has not been a timely withdrawal of the conversion notice as set forth in subparagraph (A) above and any condition precedent to such conversion set forth in the Trust Agreement has not been satisfied, the Trustee will give written notice by first class mail postage prepaid as soon as practicable and in any event not later than the next succeeding Business Day to the Owners of the Certificates to have been converted to the effect that such conversion has not occurred, that the Certificates were not purchased on the proposed Conversion Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to the Certificates which would otherwise have been converted, excluding, however, the Auction Date

falling on the Business Day next preceding the proposed Conversion Date, and that the interest rate applicable to the Certificates will continue to be the ARS Rate; provided, however, that the interest rate evidenced by the Certificates that which otherwise would have been converted during the Auction Period commencing on such failed Conversion Date will be the Maximum Interest Rate for the Auction Period then commencing, and the Auction Period will be a seven-day Auction Period. The Trustee will provide a copy of such notice to each of the Notice Parties.

(e) Change from Fixed Rate Mode to Daily Mode, Weekly Mode, Term Rate Mode, Flexible Mode or ARS Mode. At the option of the City, the Certificates (other than the Certificates being changed to an ARS Mode, which shall be governed by the provisions set forth in the Trust Agreement, may be changed from one Mode to another Mode as set forth below:

(i) Notice by City. Unless otherwise specified in the Trust Agreement with respect to a conversion to ARS Mode, at least five (5) Business Days (or such shorter time as may be agreed to by the City, the Trustee and the Remarketing Agent) prior to the date that notice of the proposed Mode Change Date is required to be given to the Owners by the Trustee as specified below, the City shall give written notice to each of the Notice Parties of its intention to effect a change in the Mode from the Mode then prevailing (for purposes of this Section, the “Current Mode”) to another Mode (for purposes of this Section, the “New Mode”) which shall be specified in such written notice. Such notice to the Notice Parties shall specify the proposed Mode Change Date and shall also include a statement as to whether a Credit Facility is expected to be in effect with respect to the Certificates following such change and, if a Credit Facility is expected to be in effect, such notice shall identify the anticipated provider of such Credit Facility. If the change is to a Term Rate Mode, such notice shall specify the length of the initial Term Rate Period.

(ii) Notice to Owners. Notice of the proposed change in Mode, unless otherwise specified in the Trust Agreement with respect to a conversion to ARS Mode, shall be given by the Trustee to the Owners of the Certificates not less than the fifteenth (15th) day next preceding the applicable Mode Change Date; provided that no notice need be given for a Mode Change Date occurring on a Substitution Date. Such notice shall state the Mode to which the conversion will be made and the proposed Mode Change Date and, if applicable, shall be combined with the notice of mandatory purchase required to be delivered by the Trustee pursuant to the Trust Agreement. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of physical Certificates and procedures for payment of Purchase Price. The Trustee shall provide a copy of such notice to the City and to each of the other Notice Parties.

(iii) Determination of Interest Rates and Interest Periods. Except for a conversion to ARS Mode which is governed by the provisions set forth in the Trust Agreement, the New Mode shall commence on the Mode Change Date and the interest rate(s), together, in the case of a change to the Flexible Mode, with the Interest Period or Interest Period(s), as applicable, shall be determined by the Remarketing Agent (or the City in the case of the Interest Period for the Certificates being converted to a Term Rate Mode) in the manner provided in the Trust Agreement.

(iv) Conditions Precedent:

(A) The Mode Change Date shall be a date on which the Certificates may be redeemed at the option of the City pursuant to the provisions of the Trust Agreement (provided, however that if, prior to the making of such election, any affected Certificate shall have been called for prepayment and such prepayment shall not have theretofore been accomplished, the Mode

Change Date of any such change to a Daily Mode, Weekly Mode, Term Rate Mode, Flexible Mode or ARS Mode shall not precede such Prepayment Date. The City shall specify the date on which Owners of Certificates are required to deliver their Certificates for mandatory tender for purchase on such effective date, and that Owners of such Certificates shall have no right to retain their Certificates after such date. With respect to a change to the Term Rate Mode, the City shall specify the last day of such Term Rate Period.

(B) As and to the extent applicable, the City shall select a Remarketing Agent for the Certificates, and shall provide for the delivery of a Credit Facility if required.

(C) The following items shall have been delivered to the City, Trustee and the Remarketing Agent on or prior to the Mode Change Date:

(1) if there is to be a Credit Facility delivered in connection with such change, the items required by the Trust Agreement; and

(2) a notice from the Rating Agencies of the rating(s) to be assigned to the Certificates on such Mode Change Date.

(3) for conversions to the ARS Mode, a delivery of a favorable Opinion of Special Counsel described in the Trust Agreement.

(v) Rescission of Election. Unless otherwise specified in the Trust Agreement with respect to a conversion to ARS Mode, the City may rescind any election by it to change a Mode in accordance with this section as provided in the Trust Agreement.

(f) Failure to Satisfy Conditions Precedent to a Mode Change. In the event that the City has not withdrawn any election by it to change a Mode as provided in the Trust Agreement and the conditions described above in subsections (a), (b), (c) or (d), as applicable, have not been satisfied by the applicable Mode Change Date, then the New Mode shall not take effect (although any mandatory purchase, other than a mandatory purchase in connection with a conversion from an ARS Mode, shall be made on such date if notice has been sent to the Owners stating that the Certificates would be subject to mandatory purchase on such date). If the failed change in Mode was from a Flexible Mode, the Certificates shall remain in the Flexible Mode with interest rates and Interest Periods to be established by the Remarketing Agent on the failed Mode Change Date in accordance with the Trust Agreement. If the failed change in Mode was from a Daily Mode, the Certificates shall remain in the Daily Mode, and if the failed change in Mode was from a Weekly Mode, the Certificates shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of the Trust Agreement on and as of the failed Mode Change Date. If the failed change in Mode was from a Term Rate Mode, then the Certificates shall stay in the Term Rate Mode for an Interest Period ending on the following Interest Payment Date for the Certificates in the Term Rate Mode and the interest rate shall be established by the Remarketing Agent on the failed Mode Change Date in accordance with the Trust Agreement. If the failed change in Mode was from an ARS Mode, then the Certificates shall automatically convert to a seven-day Auction Period and will evidence interest at the Maximum Interest Rate. Succeeding Auction Periods shall be seven-day Auction Periods until subsequently changed in accordance with the provisions set forth in Exhibit B to the Trust Agreement and the Auction Rate for succeeding Auction Periods shall be determined in accordance with the provisions set forth in Exhibit B to the Trust Agreement.

(g) Rescission of Election. Notwithstanding anything in the Trust Agreement to the contrary, the City may rescind any election by it to change a Mode as described above prior to the Mode Change Date by giving written notice thereof to the Notice Parties prior to such Mode Change Date; provided, however, any such notice given in connection with conversion to an ARS Mode shall be given in accordance with the Trust Agreement and any notice given in connection with conversion from an ARS Mode shall be given in accordance with the applicable sections of the Trust Agreement. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Owners of the Certificates, then such notice of change in Mode shall be of no force and effect. If the Trustee receives notice from the City of rescission of a Mode change after the Trustee has given notice thereof to the Owners of the Certificates, then if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date shall continue to be a Mandatory Purchase Date; provided, however, if the proposed conversion was from an ARS Mode, the Certificates shall in not be subject to mandatory purchase and shall remain in the ARS Mode as more fully described in the following paragraph.

If the proposed change in Mode was from a Flexible Mode, the Certificates shall remain in the Flexible Mode with interest rates and Interest Periods to be established by the Remarketing Agent on the proposed Mode Change Date in accordance with the Trust Agreement. If the proposed change in Mode was from a Daily Mode, the Certificates shall remain in the Daily Mode, and if the proposed change in Mode was from a Weekly Mode, the Certificates shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of the Trust Agreement on and as of the proposed Mode Change Date. If the proposed change in Mode was from a Term Rate Mode, then the Certificates shall stay in the Term Rate Mode for an Interest Period ending on the following Interest Payment Date for the Certificates in the Term Rate Mode and the interest rate shall be established by the Remarketing Agent on the proposed Mode Change Date in accordance with the Trust Agreement. If the proposed change in Mode was from a Fixed Rate Mode, the Certificates shall remain in the Fixed Rate Mode. If the Remarketing Agent is unable to determine the interest rate on the proposed Mode Change Date, the applicable provisions of the Trust Agreement shall apply. If the proposed change in Mode was from an ARS Mode, then an Auction for the Certificates will be held on the scheduled Auction Date as though no notice of conversion had ever been given.

(h) Form of Notices. Upon request, the form of any notice from the Trustee to the Owners of the Certificates required by the Trust Agreement shall be furnished by the City to the Trustee.

Execution and Delivery of Additional Certificates. In addition to the Certificates, the City, the Authority and the Trustee may by execution of a supplemental Trust Agreement, without the consent of the Owners, but with prior written consent of the Swap Provider and, if required by any Credit Facility Provider, the prior written consent of such Credit Facility Provider, as long as such Credit Facility Provider is not in default of its obligations thereunder, provide for the execution and delivery of Additional Certificates evidencing additional Base Rental Payments. The Trustee may execute and deliver to or upon the request of the City, such Additional Certificates evidencing the additional principal components and interest components of such Base Rental Payments, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the City, but such Additional Certificates may only be executed and delivered upon compliance by the City with provisions of the Trust Agreement and subject to the following specific conditions, which are conditions precedent to the execution and delivery of any such Additional Certificates:

(a) neither the City nor the Authority shall be in default under the Trust Agreement, any Reimbursement Agreement, the Lease Agreement, or the Site Lease;

(b) upon execution and delivery of such Additional Certificates, the amount on deposit in the Reserve Fund, together with the amount available under all Reserve Facilities, shall be at least equal to the Reserve Requirement (calculated with respect to all Outstanding Certificates and Additional Certificates);

(c) principal evidenced by such Additional Certificates shall be payable only on March 1 of any particular year and interest evidenced by such Additional Certificates shall be payable on the Interest Payment Dates, commencing with the first Interest Payment Date occurring after their date of execution and delivery;

(d) the aggregate amount of principal evidenced by Certificates executed and delivered and at any time Outstanding under the Trust Agreement shall not exceed any limit imposed by law or by the Trust Agreement;

(e) the Site Lease shall have been amended, to the extent necessary, and the Lease Agreement shall have been amended so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal and interest evidenced by such Additional Certificates, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest evidenced by such Additional Certificates and Parity Obligations related thereto; provided, however, that no such amendment shall be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period shall be in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Certificates executed and delivered in connection therewith (evidence of the satisfaction of such condition shall be made by a Certificate of the City); and

(f) said supplemental Trust Agreement shall provide principal payments and/or Mandatory Sinking Account Payments of Additional Certificates in amounts sufficient to provide for payment of the Additional Certificates when principal and interest components of Base Rental Payments are due.

Any Additional Certificates shall be on a parity with the Certificates and the Parity Obligations, and each Owner thereof shall have the same rights upon an Event of Default as the Owner of any other Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the supplemental Trust Agreement under which Additional Certificates are executed and delivered.

Proceedings for Authorization of Additional Certificates. Whenever the City and the Authority shall determine to authorize the execution and delivery of any Additional Certificates pursuant to the Trust Agreement, the City, the Authority and the Trustee shall enter into a supplemental Trust Agreement, without the consent of the Owners of any Certificates, providing for the execution and delivery of such Additional Certificates, specifying the maximum amount of principal evidenced by such Additional Certificates and prescribing the terms and conditions of such Additional Certificates.

Such supplemental Trust Agreement shall prescribe the form or forms of such Additional Certificates and, subject to the provisions of the Trust Agreement, shall provide for the distinctive designation, denominations, method of numbering, dates, stated Principal Payment Dates, interest rates, Interest Payment Dates, provisions for prepayment (if desired) and places of payment of principal and interest evidenced thereby.

Before such Additional Certificates shall be executed and delivered, the City and the Authority shall file or cause to be filed the following documents with the Trustee:

(a) an Opinion of Counsel setting forth (i) that counsel rendering such opinion has examined the supplemental Trust Agreement, the amendment to the Lease Agreement and the amendment, if any, to the Site Lease required by the Trust Agreement, (ii) that the execution and delivery of the Additional Certificates have been duly authorized by the City and the Authority, (iii) that said amendments to the Lease Agreement, the Site Lease and the supplemental Trust Agreement, when duly executed by the Trustee, the City and the Authority, will be valid and binding obligations of the City and the Authority, (iv) that the execution and delivery of the supplemental Trust Agreement and the amendments to the Lease Agreement and the Site Lease have been duly authorized, executed and delivered by the City and the Authority, and (v) that the execution and delivery of the supplemental Trust Agreement and the amendments to the Lease Agreement and the Site Lease, in and of themselves, do not adversely affect the exclusion from gross income for federal income tax purposes of interest evidenced by Outstanding Certificates;

(b) a Certificate of the City that the requirements of the Trust Agreement hereof have been met, which shall include a Certificate of the City as to the fair rental value of the Property, after giving effect to the execution and delivery of the Additional Certificates, and to the use of proceeds received therefrom;

(c) certified copies of the resolutions of the Authority and the City authorizing the execution and delivery of the supplemental Trust Agreement and the amendments to the Lease Agreement and the Site Lease required by the Trust Agreement;

(d) executed counterparts or duly authenticated copies of the supplemental Trust Agreement and the amendments to the Lease Agreement and the Site Lease required by the Trust Agreement, with satisfactory evidence that such amendments to the Lease Agreement and the Site Lease have been duly recorded;

(e) certified copies of the policies of insurance required by Article V of the Lease Agreement or certificates thereof, which shall evidence that the amounts of the insurance required under Sections 5.03 and 5.04 of the Lease Agreement have been increased, if applicable, to cover the amount of such Additional Certificates;

(f) an ALTA title insurance policy or other appropriate form of policy in the amount of the Additional Certificates of the type and with the endorsements described in the Trust Agreement; and

(g) if a rating or ratings on the existing Certificates shall be in effect on the date of execution and delivery of such Additional Certificates, written evidence from each rating agency then rating the existing Certificates to the effect that the execution and delivery of such Additional



Certificates will not, in and of itself, result in a reduction, suspension or withdrawal of such rating agency's rating on such existing Certificates.

Upon the delivery to the Trustee of the foregoing instruments and upon the Trustee's being satisfied from an examination of said instruments that all applicable provisions of the Trust Agreement have been complied with so as to permit the execution and delivery of the Additional Certificates in accordance with the supplemental Trust Agreement, the Trustee shall execute and deliver said Additional Certificates, evidencing principal in the aggregate amount specified in such supplemental Trust Agreement, to, or upon the request of, the City.

Maintaining Credit Facility. The City agrees that at any time when the Certificates bear interest in a Daily Mode, a Weekly Mode, a Flexible Mode or a Term Mode, it will maintain a Credit Facility, as required by the Trust Agreement, with a Required Stated Amount as may be required the Rating Agencies then rating the Certificates. The City shall replace such Credit Facility if the Credit Facility Provider's short-term rating is withdrawn, suspended or lowered below a rating that is acceptable to remarket Certificates. The City covenants that it will not voluntarily terminate a Credit Facility then in effect without either: (i) providing for an Alternate Credit Facility prior to the effective date of the termination; or (ii) converting the Daily Mode, Weekly Mode, Flexible Mode or Term Mode to a Fixed Rate Mode. If Certificates bearing interest in the Daily Mode, the Weekly Mode, the Flexible Mode or the Term Mode are then Outstanding, the Trustee shall not release the applicable Credit Facility until it has received the Alternate Credit Facility. The City shall give, or cause to be given pursuant to the Trust Agreement, written notice of its intention to terminate a Credit Facility and exercise its option to provide an Alternate Credit Facility to the Trustee and each of the other Notice Parties thirty (30) days before the proposed termination date of the Credit Facility and the effective date of such Alternate Credit Facility. The City shall provide notice of any expiration, termination, extension or substitution of the Credit Facility to the Rating Agencies.

#### **TENDERS OF CERTIFICATES; REMARKETING**

Optional Tenders of Certificates in a Daily Mode or a Weekly Mode. Subject to the provisions of the Trust Agreement concerning Book-Entry Tenders, during any Daily Mode for the Certificates and during any Weekly Mode for the Certificates, any Certificate or portion thereof in a principal amount equal to an Authorized Denomination shall be purchased on any Business Day at a price equal to the Purchase Price, upon delivery of a Tender Notice to the Trustee by the Tender Notice Deadline. Immediately upon receipt of a Tender Notice, the Trustee shall notify the Remarketing Agent and provide the Remarketing Agent with a copy of such Tender Notice. Notwithstanding any other provision of the Trust Agreement to the contrary, these provisions shall not apply to any Certificate in a Delayed Remarketing Period.

Mandatory Tender for Purchase on Mandatory Purchase Date. The Certificates shall be subject to mandatory purchase on each Mandatory Purchase Date applicable to the Certificates. The Trustee shall give notice of each such mandatory purchase, such notice to be given by mail to the Owners of the Certificates subject to mandatory purchase no less than fifteen (15) days prior to the applicable Mandatory Purchase Date. No notice shall be required to be given nor shall any notice be given with respect to any Certificate in a Flexible Rate Mode in connection with the Mandatory Purchase Date occurring at the end of each Interest Period for the Certificates.

Any notice to be given shall state the Mandatory Purchase Date, shall set forth the Purchase Price applicable on such Mandatory Purchase Date, and shall identify the Certificates to be

purchased. Subject to certain provisions of the Trust Agreement concerning changes from ARS Mode and to a Fixed Rate Mode, such notice shall also state that interest on the Certificates subject to mandatory purchase shall cease to accrue from and after the Mandatory Purchase Date. The failure to mail such notice with respect to any Certificate shall not affect the validity of the mandatory purchase of any other Certificate with respect to which notice was so mailed. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any Owner. If the Book-Entry System is no longer in effect, such notice shall also provide information with respect to required delivery of physical certificates and the procedures for payment of Purchase Price. A copy of any notice delivered by the Trustee shall also be provided to each of the Notice Parties.

Purchases of Certificates in Daily Mode, Weekly Mode, Flexible Mode and Term Rate Mode; Payment of Purchase Price; Notices.

(a) On each date on which Certificates in a Daily Mode, a Weekly Mode, a Flexible Mode or a Term Rate Mode are to be purchased:

(i) the Remarketing Agent shall notify the Trustee and the Authority by 11:15 a.m. New York City time of the principal amount of such tendered Certificates it has remarketed and of the principal amount of such tendered Certificates it has not remarketed, such notice to be provided by Electronic Means;

(ii) the Remarketing Agent shall cause the proceeds of the remarketing by the Remarketing Agent of such tendered Certificates to be paid to the Trustee in immediately available funds not later than 12:15 p.m., New York City time, on the Purchase Date for such tendered Certificates;

(iii) the Remarketing Agent shall notify the Trustee by Electronic Means not later than 11:15 a.m. New York City time of such information as may be necessary to register and deliver such remarketed Certificates, such notice to be provided by Electronic Means; and

(iv) if the affected Certificates are no longer in the Book-Entry System, the Trustee shall authenticate new Certificates for the respective purchasers thereof which shall be available for pick-up by the Remarketing Agent not later than 2:30 p.m. New York City time.

(b) On each date on which a Certificate is to be purchased, other than for a mandatory purchase in lieu of optional prepayment, (i) if the Remarketing Agent shall have given notice to the Trustee as described in paragraph (a)(i) above that it has been unable to remarket all or any portion of any tendered Certificates or (ii) if the Trustee shall not have received any notice from the Remarketing Agent as described in paragraph (a)(i) above, the Trustee shall draw on the applicable Credit Facility, if any, by 4:00 p.m. New York City time on a business day prior to the Mandatory Purchase Date in an amount equal to the Purchase Price of all such Certificates that have not been successfully remarketed for payment by 1:00 p.m. New York City time on the Mandatory Purchase Date; provided, however, that if the draw is in connection with a Mandatory Purchase Date resulting from a Substitution Date, the draw shall be made on the existing Credit Facility that is being replaced. In no event shall the Trustee draw on a Credit Facility to pay the Purchase Price of any Certificate not covered by such Credit Facility or to pay the Purchase Price of a Certificate owned by the Authority or the City.

(c) If the Trustee is notified in writing by a Credit Facility Provider that an Automatic Termination Event or Automatic Suspension Event has occurred, with respect to its Credit Facility, then the Trustee shall provide prompt written notice thereof to the Owners of the Certificates to which such Credit Facility relates and shall provide copy of such notice to each of the Notice Parties.

(d) If the Trustee does not have funds in the applicable Remarketing Proceeds Account and the applicable Credit Facility Account sufficient to pay the Purchase Price of such Certificates on any Purchase Date, the Trustee shall give the Authority notice of such insufficiency by 2:45 p.m. New York City time on such Purchase Date.

Source of Funds for Purchase of Certificates in Daily Mode, Weekly Mode, Flexible Mode, or Term Rate Mode. By 3:30 p.m. New York City time on the date on which a Certificate in a Daily Mode, a Weekly Mode, a Flexible Mode or a Term Rate Mode is to be purchased, the Trustee shall purchase tendered Certificates from the tendering Owners at the applicable Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and neither the Trustee nor the Remarketing Agent shall be obligated to provide funds from any other source:

- (a) immediately available funds on deposit in the Remarketing Proceeds Account;
- (b) other than for purchase of Certificates in lieu of optional prepayment, immediately available funds on deposit in the applicable Credit Facility Drawings Account, if any; and
- (c) in the City's sole discretion, moneys provided by the City that may lawfully be used for such purpose.

Delivery of Certificates in Daily Mode, Weekly Mode, Flexible Mode or Term Rate Mode. On each date on which a Certificate in a Daily Mode, a Weekly Mode, a Flexible Mode or a Term Rate Mode is to be purchased, such Certificate shall be delivered as follows:

(a) Each Certificate sold by the Remarketing Agent and for which payment has been received in immediately available funds on deposit in the Remarketing Proceeds Account shall be delivered by the Remarketing Agent to the purchaser of such Certificate by 3:00 p.m. New York City time; and

(b) Each Certificate purchased by the Trustee (other than for purchase of Certificates in lieu of optional prepayment) with moneys that are immediately available funds on deposit in the applicable Credit Facility Drawings Account shall be registered immediately in the name of the applicable Credit Facility Provider or its nominee (which may be the Securities Depository), if any, on or before 3:30 p.m. New York City time and deposited on the day of such purchase in the Bank Certificates Escrow Account (provided, that the Trustee shall not release the securities until the Trustee has received written notice from the Credit Facility Provider that the bank facility has been reinstated).

(c) Each Certificate purchased by the Authority with moneys provided by the City that may lawfully be used for such purpose as described in the Trust Agreement shall be registered immediately in the name of the Authority or its nominee on or before 3:00 p.m. New York City time. Any Certificate so owned by the Authority shall continue to be Outstanding under the terms of the Trust Agreement and be subject to all of the terms and conditions of the Trust Agreement and shall

be subject to remarketing by the applicable Remarketing Agent; provided, however, that the Authority shall not be considered a Owner for the purpose of voting such Certificates under the Trust Agreement.

Book-Entry Tenders.

(a) Notwithstanding any other provision of the Trust Agreement to the contrary, all tenders for purchase of Certificates during any period in which Certificates so tendered are registered in the name of Cede & Co. (or the nominee of any successor Securities Depository) shall be subject to the terms and conditions set forth in the Representations Letter and to any regulations promulgated by DTC (or any successor Securities Depository). For so long as the Certificates are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Owners of Certificates may be exercised only by a Direct Participant of DTC (as such term is described in Schedule A attached to the Representation Letter) acting, directly or indirectly, on behalf of a Beneficial Owner of Certificates by giving notice of its election to tender Certificates or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Certificates directly to the Trustee.

Procedures under which a Beneficial Owner may direct a Direct Participant of DTC, or an Indirect Participant of DTC (as such term is described in Schedule A attached to the Representation Letter) acting through a direct participant of DTC, to exercise a tender option right in respect of Certificates or portions thereof in an amount equal to all or a portion of such Beneficial Owner's beneficial ownership interest therein, shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant. For so long as the Certificates are registered in the name of Cede & Co., as nominee for DTC, delivery of the Certificates required to be tendered for purchase shall be effected by the transfer in the Book-Entry System on the applicable Purchase Date of a book-entry credit to the account of the Trustee of a beneficial interest in such Certificates.

(b) Notwithstanding anything expressed or implied in the Trust Agreement to the contrary, so long as the Book-Entry System for the Certificates is maintained by the Authority:

(i) there shall be no requirement of physical delivery to, or by, the applicable Remarketing Agent or the Trustee of:

(A) any Certificates subject to optional or mandatory purchase as a condition to the payment of the Purchase Price therefor;

(B) any Certificates that have become Bank Certificates; or

(C) any remarketing proceeds of such Certificates or Bank Certificates to any Owner other than the Securities Depository or its nominee, as applicable; and

(ii) except as provided in (iii) below, the Trustee shall not have any responsibility for paying the Purchase Price of any tendered Certificate or for remitting remarketing proceeds to any person and such remarketing proceeds may be remitted directly to the Securities Depository by the applicable Remarketing Agent; and

(iii) the Trustee's sole responsibilities in connection with the purchase and remarketing of a tendered Certificate shall be:

(A) to draw upon the Credit Facility in the event the Remarketing Agent for the Certificates notifies the Trustee as provided in the Trust Agreement that the Certificates have not been remarketed on or before the Purchase Date therefor, which draw shall be in an amount equal to the difference between such Purchase Price and any remarketing proceeds received by the Remarketing Agent in connection with a partial remarketing of such Certificates, and to remit the amount so drawn to or upon the order of the Securities Depository for the benefit of the tendering Beneficial Owners;

(B) remit any proceeds derived from the remarketing of a Bank Certificate to the applicable Credit Facility Provider; and

(C) remit any funds deposited by the Authority for the payment of the Purchase Price of tendered Certificates to the Securities Depository for the benefit of the tendering Beneficial Owners.

(D) hold any remarketing or Credit Facility funds in accounts that are an Eligible Account.

Tender Provisions Applicable Upon Discontinuation of Book-Entry System. If at any time the Certificates shall no longer be in the Book-Entry System, the procedures set forth below shall apply.

(a) Each Certificate shall be delivered (with all necessary endorsements) at or before 12:00 noon New York City time on the Purchase Date at the corporate trust office of the Trustee; provided, however, that payment of the Purchase Price shall be made pursuant to the Trust Agreement only if the Certificate so delivered to the Trustee conforms in all respects to the description thereof in the notice provided pursuant to the applicable sections of the Trust Agreement. Payment of the Purchase Price with respect to purchases pursuant to the provisions set forth in this Section shall be made to the Owners of tendered Certificates by wire transfer in immediately available funds by the Trustee by 3:00 p.m. New York City time on the Purchase Date.

(b) The Trustee shall hold all Certificates properly tendered to it for purchase under the Trust Agreement as agent and bailee of, and in escrow for the benefit of, the respective Owners of the Certificates that shall have so tendered such Certificates until moneys representing the Purchase Price of such Certificates shall have been delivered to or for the account of or to the order of such Owners.

(c) If a Certificate to be purchased is not delivered by the Owner to the Trustee by 12:00 noon New York City time on the date in which such Certificate is to be purchased, the provisions set forth in the following two paragraphs shall apply.

Certificates Deemed Purchased. If funds sufficient to pay the Purchase Price of any Certificate are held by the Trustee on any Purchase Date, such Certificate shall be deemed to have been purchased and shall be purchased according to the terms hereof, for all purposes of the Trust Agreement, irrespective of whether or not such Certificate shall have been delivered to the Trustee,

and neither the former Owner of such Certificate nor any other person shall have any claim thereon, under the Trust Agreement or otherwise, for any amount other than the Purchase Price thereof.

In the event any Certificate purchased according to the terms hereof shall not be presented to the Trustee, the Trustee shall segregate and hold uninvested the moneys for the Purchase Price of such Certificate in trust, without liability for interest thereon, for the benefit of the former Owners of such Certificate, who shall, except as provided in the following sentence, thereafter be restricted exclusively to such moneys for the satisfaction of any claim for the Purchase Price of such Certificate. Any moneys which the Trustee shall segregate and hold in trust for the payment of the Purchase Price of any Certificate and remaining unclaimed for two (2) years after the date of purchase shall be paid to the Authority. After the payment of such unclaimed moneys to the Authority, the former Owner of such Certificate shall look only to the Authority for the payment thereof.

Establishment of Purchase Fund. The Trustee shall create, establish and maintain, a separate fund to be designated as the "Purchase Fund" (the "Purchase Fund"). Moneys deposited in the Purchase Fund shall be kept separate from and not commingled with other moneys deposited under the Trust Agreement or with any other moneys of the Authority. The Trustee shall further create, establish and maintain separate accounts within the Purchase Fund, such separate account to be designated as the "Remarketing Proceeds Account," the "Credit Facility Drawings Account," the "Authority Account" and the "Bank Certificates Escrow Account." The Purchase Fund shall be held in trust solely for the benefit of the Owners of tendered Certificates and, in the case of Bank Certificates, the Credit Facility Provider (or any subsequent purchaser from the Credit Facility Provider), and the Trustee shall not have any interest in, claim on or right to, any Purchase Fund.

(a) Remarketing Proceeds Account. Upon receipt of the proceeds of a remarketing of any Certificate on the date such Certificate is to be purchased, the Trustee shall deposit such remarketing proceeds in the Remarketing Proceeds Account, such remarketing proceeds to be applied to the payment of the Purchase Price of such Certificate. Notwithstanding the foregoing, upon receipt of the proceeds of a remarketing of Bank Certificates, the Trustee shall immediately pay such proceeds to the Credit Facility Provider. The Authority shall not have any right, title or interest in any of the funds held on deposit in any Remarketing Proceeds Account nor any remarketing proceeds held for any period of time by any Remarketing Agent.

(b) Credit Facility Drawings Account. Upon receipt of the proceeds of a draw on a Credit Facility for purchase of Certificates, the Trustee shall deposit such Credit Facility proceeds in the Credit Facility Drawings Account, such Credit Facility proceeds to be applied to the payment of the Purchase Price of the Certificates to the extent that the moneys on deposit in the Remarketing Proceeds Account shall not be sufficient. Any amounts deposited in a Credit Facility Drawings Account and not needed for the payment of the Purchase Price of the Certificates shall be immediately returned to the applicable Credit Facility Provider.

(c) Bank Certificates Escrow Account. Upon receipt by the Trustee of Certificates purchased from moneys on deposit in the Credit Facility Drawings Account, such Certificates shall be deposited in the Bank Certificates Escrow Account. Certificates on deposit in the Bank Certificates Escrow Account shall constitute Bank Certificates and shall be held for the account of Credit Facility Provider (or any subsequent purchaser from the Credit Facility Provider).

(d) Authority Account. Upon receipt of funds from the Authority provided at its sole discretion pursuant to the Trust Agreement, the Trustee shall deposit such funds in the Authority Account, such funds to be applied to the payment of the Purchase Price of the Certificates. Any amounts deposited in an Authority Account and not needed for the payment of the Purchase Price of the Certificates shall be immediately returned to the Authority.

(e) Investment of Funds on Deposit in the Purchase Funds. Amounts held in the Remarketing Proceeds Account, the Credit Facility Drawings Account, the Authority Account and the Bank Certificates Escrow Account shall not be commingled with any other funds held by the Trustee and shall be held uninvested.

Insufficient Funds for Tenders; Delayed Remarketing Period.

(a) If sufficient funds are not available to pay the Purchase Price of all tendered Certificates to be purchased on any Purchase Date (such Certificates being referred to as the “Tendered Certificates”): (i) no purchase of such Tendered Certificates shall be consummated on such Purchase Date; (ii) all such Tendered Certificates shall be returned to the Owners thereof; (iii) all remarketing proceeds shall be returned to the applicable Remarketing Agent for return to the persons providing such moneys; and (iv) such insufficiency and the failure to pay the Purchase Price on any Payment Date shall not constitute an Event of Default under the Trust Agreement.

(b) All such Tendered Certificates shall evidence interest at the Maximum Rate during the period of time (such period of time referred to as a “Delayed Remarketing Period”) from and including the applicable Purchase Date to (but not including) the date that all such Tendered Certificates are successfully remarketed.

(c) The Authority may direct the conversion of such Tendered Certificates to a different Mode during a Delayed Remarketing Period in accordance with the Trust Agreement; provided that the Authority shall not be required to comply with the notice requirements described in the section of the Trust Agreement concerning changes in mode.

(d) During a Delayed Remarketing Period, the Remarketing Agent shall continue to use its best efforts to remarket such Tendered Certificates. Once the Remarketing Agent has advised the Trustee that it has a good faith belief that it is able to remarket all of such Tendered Certificates, the Trustee shall give written notice by mail to the Owners of such Tendered Certificates not later than five (5) Business Days prior to the proposed Purchase Date, which notice shall state: (i) that such Tendered Certificates will be subject to mandatory tender for purchase on the proposed Purchase Date; (ii) the proposed Purchase Date; (iii) the Mode applicable to such Tendered Certificates from and after the proposed Purchase Date; (iv) the procedures for such mandatory tender for purchase; (v) the Purchase Price applicable to such Tendered Certificates; and (vi) the consequences of a failed remarketing.

(e) During a Delayed Remarketing Period, the Trustee may, upon direction of the Authority, apply amounts on deposit in the Principal Fund to the prepayment of such Tendered Certificates, as a whole or in part on any Business Day during such Delayed Remarketing Period, at a prepayment price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for prepayment, without premium. Notwithstanding any provisions in the Trust Agreement to the contrary, the Trustee shall give five (5) Business Days’ notice of such prepayment to the Owners of the Certificates to be prepaid.

(f) During a Delayed Remarketing Period, interest on such Tendered Certificates shall be paid to the Owners thereof (i) on the first Business Day of each calendar month occurring during such Delayed Remarketing Period and (ii) on the day after the last day of such Delayed Remarketing Period.

(g) Notwithstanding any other provision of the Trust Agreement to the contrary, the provisions set forth above shall not apply to any Certificate in an ARS Mode.

Credit Facility; Alternate Credit Facility.

(a) The Authority shall provide a Credit Facility for the Certificates in a Daily Mode, a Weekly Mode, a Flexible Mode and in a Term Rate Mode. Each such Credit Facility (and any Alternate Credit Facility provided in replacement thereof) shall provide for the purchase of the Certificates upon their optional or mandatory tender in accordance with the Trust Agreement. Any Credit Facility (or Alternate Credit Facility) shall be a facility provided by a Credit Facility Provider in an amount equal to the Required Stated Amount.

(b) Draw Requests.

(i) Draw Requests to Pay Interest. If a Credit Facility for the Certificates is in effect, the Trustee is hereby directed, on or before each Interest Payment Date, to make a drawing under such Credit Facility, in accordance with the terms of the Credit Facility, no later than the time provided in such Credit Facility for presentations of drafts in order to receive payment in immediately available funds by 2:45 p.m., New York City time, on such date, equal to the interest with respect to Certificates then payable from such Credit Facility due on such Interest Payment Date (other than such interest representing a portion of the purchase price of any Certificates required to be purchased on such date and other than any interest with respect to Bank Certificates or Certificates owned by or registered in the name of the Authority or the City) and to use such drawing to pay such interest with respect to the Certificates on such Interest Payment Date. The proceeds of such drawing shall be deposited in the Credit Facility Interest Account and held uninvested pending application to the payment of interest with respect to such Certificates. In determining the amount of any such interest, the Trustee shall not take into consideration any interest with respect to any Certificate for any period when such Certificate is a Bank Certificate, and no drawings under such Credit Facility shall be made, or be used, to pay interest with respect to any Certificate for any period when such Certificate is a Bank Certificate or any Certificate owned by or registered in the name of the Authority or the City.

(ii) Draw Requests to Pay Principal. If a Credit Facility for the Certificates is in effect, on or before each date on which a payment of principal or Prepayment Price (if covered by such Credit Facility) is due either at maturity or as a result of any mandatory or optional prepayment of such Certificates or any acceleration of the maturity of such Certificates or otherwise (in each case, other than an amount representing the principal portion of the purchase price of any such Certificates required to be purchased on such date and other than any principal due on Bank Certificates or Certificates owned by or registered in the name of the Authority or the City), the Trustee is directed under the Trust Agreement to make a drawing under such Credit Facility, in accordance with the terms of the Credit Facility, no later than the time provided in such Credit Facility for presentations of drafts in order to receive payment in immediately available funds by 2:45 p.m., New York City time, on the date such principal or Prepayment Price (if covered by such Credit Facility) is payable, equal to the amount of such principal or Prepayment Price payment and to



use such drawing to make such payment. The proceeds of such drawing shall be deposited in the Credit Facility Principal Account and held uninvested pending application to the payment of the principal of and Prepayment Price (if covered by such Credit Facility) on such Certificates. In determining the amount of such principal and Prepayment Price then due, the Trustee shall not take into consideration any principal or Prepayment Price required on Bank Certificates, and no drawings under such Credit Facility shall be made or be used to pay any principal of or Prepayment Price on Bank Certificates or any Certificates owned by or registered in the name of the Authority or the City.

(iii) Draw Requests to Pay Purchase Price. If there is not a sufficient amount of money available to pay the Purchase Price on a Purchase Date on which Certificates are required to be purchased pursuant to under the Trust Agreement, the Tender Agent shall make a Draw Request or Requests under the Credit Facility for such Certificates in accordance with its terms to receive immediately available funds on the Purchase Date sufficient to pay the balance of the Purchase Price. The Tender Agent agrees to deposit the proceeds of such Draw Requests in the Credit Facility Drawings Account pending application of that money to the payment of the Purchase Price. In determining the amount of the Purchase Price then due, the Tender Agent shall not take into consideration any Bank Certificates or Certificates owned by or registered in the name of the Authority or the City. No Draw Requests shall be made under a Credit Facility to pay the Purchase Price of Bank Certificates or Certificates owned by or registered in the name of the Authority or the City. Neither Bank Certificates or Certificates owned by or registered in the name of the Authority or the City may be tendered for purchase at the option of the Credit Facility Provider.

(c) If the Authority shall have delivered a Credit Facility to the Trustee in accordance with subsection (a) of this Section, the Authority: (i) shall maintain such Credit Facility or an Alternate Credit Facility, in an amount equal to the Required Stated Amount prior to its termination; and (ii) shall not voluntarily terminate such Credit Facility or any Alternate Credit Facility without providing at least thirty (30) days written notice to the Trustee and each of the other Notice Parties.

(d) The Authority may provide an Alternate Credit Facility with respect to the Certificates on any Business Day not later than the fifth (5th) Business Day prior to the Expiration Date of the Credit Facility then in effect for the Certificates. The Authority shall give at least thirty (30) days' written notice to the Trustee and each of the Notice Parties of (i) its intent to furnish an Alternate Credit Facility to the Trustee, which notice shall specify the nature of such Credit Facility, the identity of the Credit Facility Provider and the proposed Substitution Date. The Trustee shall give notice of each Mandatory Purchase Date resulting from the proposed delivery of an Alternate Credit Facility in accordance with the provisions set forth in the Trust Agreement.

(e) On or before the Substitution Date, there shall be delivered to the Trustee: (i) the Alternate Credit Facility in substitution for the Credit Facility then in effect, (ii) a Favorable Opinion of Special Counsel and (iii) a written Opinion of Counsel for the provider of Alternate Credit Facility to the effect that such Alternate Credit Facility is a legal, valid, and binding obligation of the provider thereof and covering such other matters as the Authority shall require. Upon the satisfaction of the conditions described in the preceding sentence, the Trustee shall accept such Alternate Credit Facility and shall surrender the Credit Facility then in effect to the provider thereof on the Substitution Date; provided, however, that if there are insufficient remarketing proceeds to pay the Purchase Price of all Certificates subject to mandatory purchase on such Substitution Date, the Trustee shall not surrender the Credit Facility then in effect until the Trustee shall have drawn upon the existing Credit Facility to pay the Purchase Price for the Certificates subject to mandatory purchase on such Substitution

Date. Notwithstanding any other provision of the Trust Agreement to the contrary, if any condition precedent to the substitution of an Alternate Credit Facility is not satisfied, the substitution shall not occur but the affected Certificates shall remain subject to mandatory purchase on the proposed Substitution Date.

(f) In addition to the notice provided pursuant to the Trust Agreement, the Trustee shall give written notice to the Owners of the Certificates and each of the Notice Parties of the extension of the Expiration Date of any Credit Facility, such notice to be given by mail as promptly as possible upon receipt by the Trustee of notification of such extension.

#### Appointment of Remarketing Agent.

(a) Upon conversion of the Certificates to a Mode which requires the appointment of a Remarketing Agent, the Authority shall appoint a Remarketing Agent for the Certificates. Any Remarketing Agent shall be a member of the National Association of Securities Dealers, Inc., shall have a capitalization of at least fifty million dollars (\$50,000,000) and shall be authorized by law to perform all the duties set forth in the Trust Agreement.

(b) By acceptance of appointment as Remarketing Agent for the Certificates, the Remarketing Agent shall be deemed to have agreed: (i) to remarket the Certificates in accordance with the provisions set forth in the Trust Agreement; (ii) to keep such books and records as shall be consistent with prudent industry practice; and (iii) to make such books and records available for inspection by each of the Notice Parties at all reasonable times.

(c) The Remarketing Agent may at any time resign and be discharged of the duties and obligations created in the Trust Agreement as set forth in the Remarketing Agreement entered into by such Remarketing Agent and the Authority; provided, however, that such resignation or discharge shall not become effective until such time as a successor Remarketing Agent has been appointed and has accepted its duties under the Trust Agreement. The Remarketing Agent may only suspend its remarketing efforts in accordance with the provisions set forth in Remarketing Agreement entered into by the Remarketing Agent and the Authority. The Remarketing Agent may be removed at any time, at the direction of the City in accordance with the provisions set forth in the Remarketing Agreement entered into by the Remarketing Agent and the City; provided, however, that removal shall not become effective until such time as a successor Remarketing Agent has been appointed and has accepted its duties under the Trust Agreement. The Authority shall provide written notice to each of the Notice Parties of the resignation, discharge or removal of the Remarketing Agency and the appointment of any successor Remarketing Agent.

(d) If the Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all of its assets, to another entity meeting the requirements specified in subparagraph (a) above, the resulting, surviving or transferee entity shall be the successor Remarketing Agent without any further act.

#### Duties of Remarketing Agent.

(a) Each Remarketing Agent shall use its best efforts to offer for sale: (i) all Certificates (or portions thereof to be remarketed) for which notice of optional tender pursuant to the Trust Agreement has been given; (ii) all Certificates that are required to be purchased (A) on a Mandatory Purchase Date described in clauses (i), (ii), (iii), (iv) or (vii) of the definition of Mandatory Purchase

Date set forth in the Trust Agreement and (B) on a Mandatory Purchase Date described in clause (v) of the definition of Mandatory Purchase Date set forth in the Trust Agreement if no Credit Facility is required to be delivered by the Authority in connection with such Mandatory Purchase Date; and (iii) all Bank Certificates that are: (A) purchased on a Purchase Date described above in clause (i) or (ii) above, (B) with respect to which the Credit Facility Provider has provided notice that it is ready to reinstate the Available Amount, such notice to have been provided to the Authority, the Trustee and the Remarketing Agent, (C) with respect to which an Alternate Credit Facility is in effect, or (D) which are being marketed as Fixed Rate Certificates or ARS Certificates (if the Remarketing Agent shall have been engaged to be the Fixed Rate or ARS Rate Remarketing Agent).

If a notice of prepayment or a notice of mandatory purchase shall have been given with respect to a Certificate, the Remarketing Agent shall provide a copy of such notice to each Person to which such Certificate is remarketed.

Notwithstanding any provision of the Trust Agreement to the contrary, if there shall have occurred and be continuing a Credit Facility Provider Failure, the applicable Remarketing Agent shall not be required to remarket any Certificates.

Limitations on Remarketing. No Certificate shall be remarketed by the Remarketing Agent to the Authority or the City.

Credit and Substitute Credit Facilities.

(a) The City may obtain or provide for the delivery to the Trustee of a Substitute Credit Facility with respect to the Certificates on any Business Day not later than the 5th Business Day prior to the Expiration Date. To the extent provided in the Trust Agreement, all Outstanding Certificates to which a terminating Credit Facility relates will become subject to mandatory tender for purchase if such Credit Facility permits a draw thereon or borrowing thereunder prior to such Termination.

On or prior to the date on which a Credit Facility is obtained and delivered to the Trustee, the Authority shall furnish to the Trustee, the Credit Facility Provider an opinion of Special Counsel to the effect that the delivery thereof, by itself, (1) is lawful and is authorized or permitted by the Trust Agreement, and (2) will not adversely affect the exclusion of interest on the Certificates from gross income for Federal income tax purposes, nor adversely affect the validity of the Certificates.

(b) The City shall deliver to the Trustee, and the Remarketing Agent a copy of each Credit Facility obtained pursuant to in the Trust Agreement on or before the Substitution Date for such Credit Facility. In the event of an extension of the Expiration date, the Authority shall give Trustee a written notice of the new Expiration Date at least thirty (30) days prior to the Expiration date then in effect. The Trustee shall give written notice of the extension to the owners by mail as promptly as possible. In the event of a substitution of a Credit Facility with a Substitute Credit Facility or, as the case may be, or the assignment of the obligation of an issuer of the then-existing Credit Facility thereunder, (i) the Authority shall give the Trustee and the Remarketing Agent a written notice of such substitution or assignment at least thirty (30) days prior to the effective date of such Substitute Credit Facility or such assignment, and (ii) to the extent that the Certificates supported by such Credit Facility are not subject to mandatory tender for purchase as a result of such assignment, Trustee shall give the Owners of the Certificate and each Rating Agency then rating the Certificates a written notice of such substitution or assignment at least fifteen (15) days prior to the effective date of such Substitute Credit Facility or assignment. To the extent that the Certificates

supported by a Credit Facility are not subject to mandatory tender for purchase as a result of the assignment of the obligation of the issuer of such Credit Facility thereunder, the Authority or the Trustee, as the case may be, shall not consent to such assignment unless a notice thereof was given to the Owners of Certificates and each Rating Agency then rating such Certificates in accordance with the next preceding sentence.

(c) The Trustee shall release any then-existing Credit Facility supporting Certificates only upon (i) the Substitution Date (or, in the case of a Flexible Rate Mode, the last Substitution Date) therefor and following the honor of any draws on the then-existing Credit Facility to pay the Purchase Price of Certificates that have been tendered for purchase. on or prior to such Substitution Date and that have not been remarketed on or prior to such Substitution Date, (ii) the effective date of a change in the Interest Rate Mode to an Auction Rate Mode or a Fixed Rate Mode, or (iii) the date on which all Certificates cease to be Outstanding (whether by defeasance of the Certificates secured thereby.

(d) Each Credit Facility for the Certificates shall provide for draws thereon or borrowings therefrom, in the aggregate, in an amount at least equal to the applicable principal and interest payments for all of the Certificates.

(e) If at any time there shall have been delivered to the Trustee a Substitute Credit Facility in substitution for or replacement of the then existing Credit Facility, the Trustee shall accept such Substitute Credit Facility and surrender the previously held Credit Facility to the respective Credit Facility Provider; provided, however, that no such surrender shall be permitted unless provisions above have been complied with. If at any time there shall cease to be Certificates Outstanding under the Trust Agreement secured by a Credit Facility, the Trustee shall promptly surrender such Credit Facility to the respective Credit Facility Provider.

(f) On or prior to a Substitution Date, no drawing under a Substitute Credit Facility, as the case may be, shall be made by the Trustee with respect to such Certificate if the predecessor Credit Facility shall be effective and available to make drawings thereunder on the date of such drawing. After a Substitution Date relating to a Certificate, no drawing under a predecessor Credit Facility shall be made by the Trustee with respect to such Certificate if such Substitute Credit Facility, as the case may be, shall be effective and available to make drawings thereunder on the date of such drawing.

(g) If at any time during the term of a Credit Facility any successor Trustee shall be appointed and qualified under the Indenture, the Trustee shall request that the Credit Facility Provider transfer (or reissue) the Credit Facility, as the case may be, to such successor Trustee. If the Trustee fails to make such request, the successor Trustee shall do so before accepting its appointment. The Authority shall pay all costs associated with such a transfer.

(h) Neither the Authority nor the Trustee shall permit, or consent to, the delivery of a Substitute Credit Facility in substitution for or replacement of a then-existing Credit Facility securing the Certificates without the written confirmation from each Rating Agency then rating the Certificates to the effect that such substitution will not, by itself, result in a reduction or withdrawal of the short-term rating, if any, or the long-term rating of such Certificates below the rating of -such-Rating Agency then in effect. with respect to such Certificates.

Rights of Credit Facility Providers.

(a) To the extent any provision in the Trust Agreement requires the Trustee to obtain or procure the consent, direction, approval or request of a Credit Facility Provider, if any, the Trustee shall obtain or procure such consent, direction, approval or request in all instances, except during a Credit Facility Provider Failure.

(b) (i) So long as any Credit Facility issued is in full force and effect, and there is no Credit Facility Provider Failure, then, in all such events, such Credit Facility Provider shall be deemed to be the sole Owner of the Outstanding Certificates the payment of which such Credit Facility secures or secured when the approval, consent or action of the Owners of such Certificates is required or may be exercised under the Trust Agreement except with respect to modifications and amendments only with the consent of particular Owners of such Certificates and (ii) with respect to such modifications and amendments, the consent of such Credit Facility Provider shall be required in addition to the consent of the Owners of such Certificates.

(ii) In the event that the principal, sinking fund installments, if any, Purchase Price and Prepayment Price, if applicable, or interest due on any Outstanding Certificates shall be paid under the provisions of a Credit Facility that secures or secured the Certificates, all covenants, agreements and other obligations of the Authority to the Owners of such Certificates shall continue to exist, and the Credit Facility Provider shall be subrogated to the rights of such Owners.

**FUNDS AND ACCOUNTS; RENTAL PAYMENTS**

Acquisition and Construction Fund. The Trustee shall establish and maintain a separate fund to be known as the Acquisition and Construction Fund. All moneys in the Acquisition and Construction Fund shall be held by the Trustee in trust and applied by the Trustee, as provided in the Trust Agreement, to the payment of Acquisition Costs.

Before any payment is made from the Acquisition and Construction Fund by the Trustee, the City shall cause to be filed with the Trustee a Written Request of the City showing with respect to each payment to be made

- (i) the item number of the payment;
- (ii) the name of the person, corporation or entity to whom payment is due;
- (iii) the amount to be paid; and
- (iv) the purpose for which the obligation to be paid was incurred.

Each such Written Request of the City shall also state, and shall be sufficient evidence to the Trustee, (x) that obligations in the stated amounts have been incurred by the City or the Authority, and (y) that each item thereof is a proper charge against the Acquisition and Construction Fund and is an Acquisition Cost properly allocable to the Project. Each such Written Request of the City shall further specify in reasonable detail the nature of the obligation to be paid and be accompanied by a bill or statement of account for each obligation.

Upon receipt of each such Written Request of the City, the Trustee shall pay the amount set forth in such Written Request of the City as directed by the terms thereof. The Trustee need not make any such payment if it has received written notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, which has not been released or will not be released simultaneously with such payment, unless a payment bond has been posted with the Trustee in the full amount of such lien or claim.

The completion of the acquisition, construction, delivery and installation of the Project shall be evidenced by the filing of a Completion Certificate of an Authorized City Representative, which shall be filed with the Trustee and the Credit Facility Provider, stating (1) that the acquisition, construction, delivery and installation of the indicated component of the Project has been completed substantially in accordance with the plans and specifications applicable thereto and that the Project is ready for use, (2) the date of such completion, and (3) the amount, if any, required, in the opinion of the signer or signers, for the payment of any remaining part of the cost of the Project, which amount shall be retained in the Acquisition and Construction Fund.

Upon the filing of such Certificate of the City, all amounts remaining on deposit in the Acquisition and Construction Fund in excess of the amount required for the payment of any remaining part of the cost of the Project shall be transferred to the Interest Account and used to pay interest evidenced by the Certificates in accordance with the Trust Agreement. Upon the filing of the final such Certificate of the City, wherein the City indicates that, in the opinion of the signer or signers, the Project is either (i) complete in its entirety, or (ii) the incomplete portions of the Project will not be funded from amounts on deposit in the Acquisition and Construction Fund, and that no amount is required to be retained in the Acquisition and Construction Fund therefor, all amounts remaining on deposit in the Acquisition and Construction Fund shall be transferred to the Interest Fund and used to pay interest evidenced by the Certificates in accordance with the Trust Agreement.

Costs of Issuance Account. The Trustee shall establish and maintain a separate special account to be held by the Trustee known as the Costs of Issuance Account. The Trustee shall disburse moneys from the Costs of Issuance Account on such dates and in such amounts as are necessary to pay Costs of Issuance, in each case upon the Written Request of the City stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against the Costs of Issuance Account. On September 30, 2008, the Trustee shall transfer any amounts then remaining in the Costs of Issuance Account to the Acquisition and Construction Fund.

Pledge; Base Rental Payment Fund. In order to secure the City's obligations under the Trust Agreement, in respect of Parity Obligations and under the Lease Agreement, the Authority and the City hereby irrevocably pledge to the Trustee, for the benefit of the Owners and all holders of Parity Obligations, all of their right, title and interest, if any, in and to all amounts on deposit from time to time all funds and accounts established under the Trust Agreement (other than the Acquisition and Construction Fund, the Purchase Fund and the Rebate Fund), which amounts shall be used for the payment of the interest components and principal components of the Certificates and the payment of Parity Obligations. This pledge shall constitute a first lien on the funds and accounts established under the Trust Agreement in accordance with the terms of the Trust Agreement. It is the intent of the parties hereto that neither the Authority nor the City shall have any right, title or interest in or to the amounts on deposit from time to time in the funds and accounts established under the Trust Agreement. If, contrary to the intent of the parties hereto, the Authority or the City is found to have

any right, title or interest in or to any such amounts, then each of the Authority and the City hereby irrevocably pledges to the Trustee for the benefit of the Owners all of such right, title and interest.

All Base Rental Payments shall be paid directly by the City to the Trustee, and if received by the Authority at any time shall be deposited by the Authority with the Trustee within one Business Day after the receipt thereof. If the City shall fail to deposit with the Trustee a Base Rental Payment on the applicable Base Rental Deposit Date, the Trustee shall, within three Business Days after such Base Rental Deposit Date notify the Credit Facility Provider of such failure. All Base Rental Payments paid by the City shall be deposited by the Trustee in the Base Rental Payment Fund, which the Trustee shall establish. All moneys at any time deposited by the Trustee in the Base Rental Payment Fund shall be held by the Trustee in trust for the benefit of the Owners of the Certificates and the holders of Parity Obligations. So long as any Certificates are Outstanding or Parity Obligations remain outstanding, neither the City nor the Authority shall have any beneficial right or interest in the Base Rental Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys shall be used and applied by the Trustee as set forth in the Trust Agreement.

(a) Deposits. There shall be deposited in the Base Rental Payment Fund all Base Rental Payments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Trust Agreement and Section 3.01 of the Lease Agreement, and any other moneys required to be deposited therein pursuant to the Lease Agreement, including without limitation Section 5.04(c) of the Lease Agreement or pursuant to the Trust Agreement, which moneys shall be applied as a credit towards any Base Rental Payment then due.

(b) Application of Moneys. Except as provided in the Trust Agreement, all amounts in the Base Rental Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest with respect to the Certificates and Parity Obligations as the same shall become due and payable, subject to the requirement that certain investment earnings may be transferred to the Rebate Fund, as provided in the Trust Agreement, which the Trustee shall establish and maintain until all required Base Rental Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding and there are no Parity Obligations outstanding.

The moneys in the Base Rental Payment Fund shall be held in trust by the Trustee for the benefit of the Owners and holders of Parity Obligations and shall be disbursed only for the purposes and uses authorized in the Trust Agreement. The Credit Facility shall be held by the Trustee and shall be deemed to be held in the Base Rental Payment Fund. Any Net Proceeds of rental interruption insurance received with respect to the Property shall be deposited in the Base Rental Payment Fund.

Deposit of Base Rental Payments. The Trustee shall transfer the amounts on deposit in the Base Rental Payment Fund, at the times and in the manner provided in the Trust Agreement, to the following respective funds, each of which the Trustee hereby agrees to establish and maintain until all required Base Rental Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding and there are no Parity Obligations outstanding. The Trustee shall establish and maintain the Capitalized Interest Account within the Interest Fund until the date all amounts are transferred therefrom in accordance with the Trust Agreement. The moneys in each of such funds and account shall be held in trust by the Trustee for

the benefit of the Owners and holders of Parity Obligations and shall be disbursed only for the purposes and uses authorized in the Trust Agreement. The Trustee shall establish a Credit Facility Drawings Account within the Base Rental Payments Fund and deposit any amounts received from the Credit Facility Provider therein.

Interest Fund, Capitalized Interest Account and SWAP Account. Except as provided in the Trust Agreement, moneys in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest with respect to the Certificates when due and payable (including accrued interest with respect to any Certificates prepaid prior to maturity pursuant to the Trust Agreement). The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund that amount of moneys representing the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date; provided, however, that on each Interest Payment Date occurring on or prior to April 1, 2010, prior to making said deposit, if and to the extent available in the Capitalized Interest Account within the Interest Fund, an amount equal to the interest component coming due on such Interest Payment Date shall be transferred from the Capitalized Interest Account within the Interest Fund to the Interest Fund. Moneys in the Interest Fund shall be used by the Trustee for the purpose of paying the interest evidenced by the Certificates and Parity Obligations when due and payable. On April 1, 2010, the Trustee shall transfer any amounts then remaining in the Capitalized Interest Account to the Interest Fund. The Trustee shall establish a SWAP Account within the Interest Fund and deposit any amounts received from the SWAP Provider therein.

Principal Fund. Except as provided the Trust Agreement, moneys in the Principal Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal with respect to the Certificates when due and payable. The Trustee, on each Principal Payment Date and each Mandatory Sinking Account Payment Date, shall deposit in the Principal Fund that amount of moneys representing the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. Moneys in the Principal Fund shall be used by the Trustee for the purpose of paying on a parity with the Rental Payments the principal evidenced by the Certificates when due and payable at their stated Principal Payment Dates or upon earlier prepayment from Mandatory Sinking Account Payments. Moneys received from drawings on the Credit Facility to pay principal with respect to the Certificates shall be deposited in the Credit Facility Drawings Account in the Base Rental Payment Fund and shall never be commingled with moneys received from any other source.

Prepayment Fund. The Trustee, on the prepayment date specified in the Written Request of the City filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease Agreement, shall deposit in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Additionally, the Trustee shall deposit in the Prepayment Fund any amounts required to be deposited therein pursuant to the Trust Agreement. Moneys in the Prepayment Fund shall be used by the Trustee for the purpose of paying the interest, premium, if any, and principal evidenced by the Certificates and Parity Obligations to be prepaid. All moneys held by the Trustee in the Prepayment Fund shall either be held uninvested or invested in Permitted Investments described in clause (A) of the definition thereof, which mature in sufficient amounts and on the dates needed to make the prepayments of Certificates and Parity Obligations for which such moneys were deposited.



In the event that a standby Credit Facility is in place with respect to the Certificates, the Trustee shall draw under such standby Credit Facility by no later than the time provided in the standby Credit Facility for presentation of documents in order to receive payment in immediately available funds by 2:45 p.m., New York City time, on each Principal Payment Date, Prepayment Date and Interest Payment Date, as the case may be, an amount which together with other moneys available in the Principal Fund or Prepayment Fund or Interest Fund, as applicable, is sufficient to pay the principal or Prepayment Price of and interest due on such Principal due date, Prepayment Date and Interest Payment Date, as the case may be, and shall immediately deposit the proceeds of such draw in the related subaccount in the Credit Facility Drawings Account.

Notwithstanding the two next preceding paragraphs, the Trustee shall not draw on a Credit Facility to pay the principal or Prepayment Price of, and interest on, Certificates registered in the name of the Authority or the City.

Additional Rental Payments. The City shall also pay, as Additional Rental Payments, such amounts as shall be required for the payment of the following:

(a) (i) any amount due to the Swap Provider pursuant to the terms of the Swap Agreement, or any Credit Facility Provider pursuant to the terms of its Credit Facility or any Liquidity Facility Provider, if any, pursuant to the terms of its Liquidity Facility or any Reserve Facility provider pursuant to the terms of its Reserve Facility, excluding amounts paid as Base Rental Payments described in Section 3.01 of the Lease, and (ii) if there has been an abatement of Base Rental Payments as described in Section 3.03 of the Lease during any Rental Period, any amount that would have otherwise been payable to the Swap Provider, Credit Facility Provider or the Liquidity Facility Provider, if any, or any Reserve Facility provider pursuant to the terms of its Reserve Facility, under the Lease, but which was not so paid, such amount to become payable to the Swap Provider or Credit Facility Provider or the Liquidity Facility Provider, if any, or any Reserve Facility provider pursuant to the terms of its Reserve Facility, in the first Rental Period during which such Rental Payments are not abated pursuant to the Lease Agreement following the shortfall in payments described in (i) or (ii) above and each successive Rental Period in which there is sufficient Fair Rental Value available to pay such amount, all taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein;

(b) Any amounts needed to replenish the Reserve Fund to the Reserve Requirement;

(c) all reasonable administrative costs of the City and Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the City or Authority under the Trust Agreement, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the City or Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Trust Agreement or the Lease Agreement or to defend the City or Authority and its members, officers, agents and employees;

(d) insurance premiums for all insurance required pursuant to Article V of the Lease;

(e) any net scheduled payment due under the Swap Agreement and, on a subordinate basis as provided below, any termination payment due under the Swap Agreement;

(f) any amounts with respect to the Lease Agreement or the Certificates required to be rebated to the federal government in accordance with Section 148(f) of the Code; and

(g) all other payments required to be paid by the City under the provisions of any Broker-Dealer Agreement, any Auction Agreement, any Remarketing Agreement and Liquidity Facility, if any, the Reimbursement Agreement and Liquidity Facility, if any, the Lease Agreement or the Trust Agreement, including amounts due under the Reserve Facility which do not constitute a part of the Base Rental Payments due hereunder including fees and charges under those agreements.

Amounts constituting Additional Rental Payments payable under the Trust Agreement shall be paid by the City directly to the person or persons to whom such amounts shall be payable. The City shall, subject to the abatement provisions of the Lease Agreement, pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof. To the extent that the Additional Rental Payments due in any Rental Period would cause the Rental Payments to exceed the Fair Rental Value of the Property, such excess shall constitute an Excess Amount which shall be paid in accordance with the provisions of Section 3.01(b) of the Lease, provided that termination payment due under the Swap Agreement shall be paid only after all other Rental Payments are paid in full.

Application of Net Proceeds. If the Property or any portion thereof shall be damaged or destroyed, subject to the further requirements of the Trust Agreement, the City shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the City elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions of the Trust Agreement.

The Net Proceeds of any insurance (other than Net Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof shall as soon as possible be deposited with the Trustee and be held by the Trustee in a special account and made available for and, to the extent necessary, shall be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a Written Request of the City, together with invoices therefor. Pending such application, such proceeds may be invested by the Trustee as directed by the City in Permitted Investments that mature not later than such times as moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the City shall, within 60 days of the occurrence of the event of damage or destruction, notify the Trustee in writing as to whether the City intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the City does intend to replace or repair the Property or portions thereof, the City shall deposit with the Trustee the full amount of any insurance deductible to be credited to the special account.

If such damage, destruction or loss was such that there resulted a substantial interference with the City's right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments results from such damage or destruction pursuant to the Lease Agreement, then the City shall be required either to (a) apply sufficient funds from the insurance proceeds and other legally available funds from the sources identified in Section 3.06 of the Lease Agreement to the replacement or repair of the Property or the portions thereof which have been damaged to the condition which existed prior to such damage or destruction, or (b) apply sufficient funds from the

insurance proceeds and other legally available funds from the sources identified in Section 3.06 of the Lease Agreement to the prepayment, as set forth in the Trust Agreement, in full of all the Outstanding Certificates or all of those Outstanding Certificates which would have been payable from that portion of the Base Rental Payments which are abated as a result of the damage or destruction and to the prepayment of Parity Obligations on a pro rata basis. Funds to be applied to the prepayment of Certificates in accordance with clause (b) above shall be deposited in the Prepayment Fund. Any proceeds of any insurance, including the proceeds of any self-insurance remaining after the portion of the Property which was damaged or destroyed is restored to and made available to the City in substantially the same condition and annual fair rental value as that which existed prior to the damage or destruction as required by (a) above or the prepayment of Certificates as required by (b) above, in each case as evidenced by a Certificate of the City to such effect, shall be deposited in the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement. If the City is not required to replace or repair the Property, or the affected portion thereof, as set forth in (a) above or to use such amounts to prepay Certificates as set forth in (b) above, then such proceeds shall be deposited in the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement. Any amounts not required to be so deposited into the Reserve Fund shall, with the consent of the Credit Facility Provider so long as there is no Credit Provider Failure, and if there is first delivered to the Trustee a Certificate of the City to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current Rental Period or any subsequent Rental Period and the fair replacement value of the Property after such damage or destruction is at least equal to the sum of the then unpaid principal components of Base Rental Payments, be paid to the City to be used for any lawful purpose.

The proceeds of any award in eminent domain shall be deposited by the Trustee in the Prepayment Fund and applied to the prepayment of Outstanding Certificates pursuant to the Trust Agreement and the prepayment of Parity Obligations, on a pro rata basis.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee in respect of the Property shall be applied and disbursed by the Trustee as follows:

(a) if the City determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Rental Payments payable by the City under the Lease Agreement, such proceeds shall, upon the Written Request of the City, be remitted to the City and used for any lawful purpose thereof; or

(b) if the City determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement in whole or in part of Rental Payments payable by the City under the Lease Agreement, then the Trustee shall, upon the Written Request of the City, immediately deposit such proceeds in the Prepayment Fund and such proceeds shall be applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

Reserve Fund.

(a) The Trustee shall establish and maintain the Reserve Fund until all required Base Rental Payments are paid in full pursuant to the Lease Agreement and until the first date upon which the Certificates are no longer Outstanding and no Parity Obligations remain outstanding. The

moneys in the Reserve Fund and any Reserve Facility shall be held in trust by the Trustee for the benefit of the Owners and the holders of Parity Obligations and shall be used and disbursed only for the purposes and uses authorized in the Trust Agreement. On the Delivery Date, there shall be deposited in the Reserve Fund the amount required to be deposited therein pursuant to the Trust Agreement. The City may, with the consent of the Credit Facility Provider so long as there is no Credit Facility Provider Failure, substitute a Reserve Facility for all or part of the moneys on deposit in the Reserve Fund by depositing such Reserve Facility with the Trustee, provided that, at the time of such substitution, the amount on deposit in the Reserve Fund, together with the amount available under all Reserve Facilities, shall be at least equal to the Reserve Requirement. Moneys for which a Reserve Facility has been substituted as provided in the Trust Agreement shall be transferred, at the election of the City, to the Acquisition and Construction Fund, to the Prepayment Fund or, upon receipt of an Opinion of Counsel that such transfer will not, in and of itself, adversely affect the exclusion of interest evidenced by the Certificates from gross income for federal income tax purposes, to a special account to be held by the Trustee and applied to the payment of capital costs of the City.

(b) Amounts on deposit in the Reserve Fund which were not derived from payments under any Reserve Facility credited to the Reserve Fund to satisfy a portion of the Reserve Requirement shall be used and withdrawn by the Trustee prior to using and withdrawing any amounts derived from payments under such Reserve Facility. In order to accomplish such use and withdrawal of such amounts not derived from payments under any such Reserve Facility, the Trustee shall, as and to the extent necessary, liquidate any investments purchased with such amounts.

If, on any Interest Payment Date, the amount on deposit in the Interest Fund is insufficient to pay the interest evidenced by the Certificates payable on such Interest Payment Date or interest due on Parity Obligations on such Interest Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Interest Fund an amount sufficient to make up such deficiency. If the amount on deposit in the Reserve Fund is not sufficient to make such transfer, the Trustee shall make a claim under any available Reserve Facility, in accordance with the provisions thereof, in order to obtain an amount sufficient to allow the Trustee to make such transfer as and when required.

If, on any Principal Payment Date or Mandatory Sinking Account Payment Date, the amount on deposit in the Principal Fund is insufficient to pay the principal evidenced by the Certificates payable on such Principal Payment Date or Mandatory Sinking Account Payment Date or principal due on Parity Obligations on such Interest Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Principal Fund an amount sufficient to make up such deficiency. If the amount on deposit in the Reserve Fund is not sufficient to make such transfer, the Trustee shall make a claim under any available Reserve Facility, in accordance with the provisions thereof, in order to obtain an amount sufficient to allow the Trustee to make such transfer as and when required.

Moneys, if any, on deposit in the Reserve Fund shall be withdrawn and applied by the Trustee for the final payment of principal and interest evidenced by the Certificates and Parity Obligations.

(c) In the event of any transfer from the Reserve Fund or the making of any claim under a Reserve Facility, the Trustee shall, within five days thereafter, provide written notice to the City of the amount and the date of such transfer or claim.

(d) If the sum of the amount on deposit in the Reserve Fund, plus the amount available under all available Reserve Facilities, is less than the Reserve Requirement, the first of Base Rental Payments thereafter received from the City under the Lease Agreement and not needed to pay the principal or interest evidenced by the Certificates or the principal or interest evidenced by Parity Obligations on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be used, first, to reinstate the amounts available under any Reserve Facilities that have been drawn upon and, second, to increase the amount on deposit in the Reserve Fund, so that the amount available under all available Reserve Facilities, when added to the amount on deposit in the Reserve Fund, shall equal the Reserve Requirement. If, as a result of investment losses on funds on deposit in the Reserve Fund, the sum of the amount on deposit in the Reserve Fund, plus the amount available under all available Reserve Facilities, is less than the Reserve Requirement, the City shall pay to the Trustee on the next succeeding Base Rental Payment Date, as Additional Rental pursuant to subsection (b) of Section 3.02 of the Lease Agreement, for deposit in the Reserve Fund, such amounts as are required to increase the amount on deposit in the Reserve Fund to an amount which, when added to the amount available under all available Reserve Facilities, is equal to the Reserve Requirement.

(e) If, as a result of the payment of principal or interest evidenced by the Certificates, Parity Obligations or otherwise, the Reserve Requirement is reduced, amounts on deposit in the Reserve Fund in excess of such reduced Reserve Requirement shall be transferred to the Base Rental Payment Fund.

#### Rebate Fund.

(a) In addition to the other funds and accounts created pursuant hereto, the Trustee shall establish and maintain the Rebate Fund. There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Certificates pursuant to the Trust Agreement or anything to the contrary contained therein, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by this Section and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall be deemed conclusively to have complied with such provisions if it follows the written directions of the City, and shall have no liability or responsibility to enforce compliance by the City with the terms of the Tax Certificate. The Trustee may conclusively rely upon the City's determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the City's calculations.

(b) Any funds remaining in the Rebate Fund after payment in full of all of the Certificates and after payment of any amounts described in the Trust Agreement, shall be withdrawn by the Trustee and remitted to the City.

#### Investments.

(a) General. Except as otherwise provided in the Trust Agreement, any moneys held by the Trustee in the funds and accounts established under the Trust Agreement shall be invested by the Trustee upon the Written Request of the City only in Permitted Investments, and in the absence of such direction shall be invested by the Trustee only in investments defined in Subsection (5) of the

definition of Permitted Investments, provided that such money-market investment is composed exclusively of direct obligations permitted under Subsection (2) of the definition of Permitted Investments. All such moneys invested by the Trustee shall be invested so as to obtain the highest yield which the Trustee deems practicable, having due regard for the safety of such moneys, and the Trustee may act as principal or agent in the acquisition or disposition of any such investment. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with the Trust Agreement. The Trustee shall sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. The City and the Authority acknowledge to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant to the City or the Authority the right to receive brokerage confirmations of security transactions as they occur, the City and the Authority waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the City and the Authority (if requested by the Authority) periodic account transaction statements that will include detail for all investment transactions made by the Trustee under the Trust Agreement.

(b) Maturity of Investments. Investments purchased with funds on deposit in the Base Rental Payment Fund shall mature not later than the payment date immediately succeeding the investment. Investments purchased with funds on deposit in the Prepayment Fund shall be invested in Permitted Investments described in A. of the definition thereof that mature on or prior to the prepayment date on which such funds are to be applied to the prepayment of Certificates and Parity Obligations. Investments purchased with funds on deposit in the Acquisition and Construction Fund shall mature not later than the dates upon which such funds shall be needed to be expended for the payment of Acquisition Costs. Notwithstanding anything to the contrary contained in the Trust Agreement, investments purchased with funds on deposit in the Reserve Fund shall have an average aggregate weighted term to maturity of not greater than five years.

(c) Valuation. Investments (except investment agreements) in any fund or account established under the Trust Agreement shall be valued, exclusive of accrued interest, (i) not less often than annually nor more often than monthly, and (ii) upon any draw upon the Reserve Fund. All investments of amounts deposited in any fund or account established under the Trust Agreement shall be valued at the market value thereof.

(d) Earnings. Any interest or profits received with respect to investments held in any fund or account established under the Trust Agreement (other than the Reserve Fund) shall be retained in such fund or account. Prior to the date the Certificate of the City required by the Trust Agreement is filed with the Trustee, any interest or profits received with respect to investments held in the Reserve Fund established under the Trust Agreement shall be transferred to the Acquisition and Construction Fund. On and after the date the Certificate of the City required by the Trust Agreement is filed with the Trustee, any interest or profits received with respect to investments held in the Reserve Fund established under the Trust Agreement shall be transferred to the Base Rental Payment Fund. Notwithstanding the foregoing, any such transfer shall be made from the Reserve Fund only if and to the extent that, after such transfer, the amount on deposit in the Reserve Fund, together with amounts available to be drawn on all Reserve Facilities, if any, available therein, is at least equal to the Reserve Requirement.

(e) Liquidation. If at any time after investment therein an investment ceases to meet the criteria set forth in the definition of Permitted Investments and such obligation, aggregated with other

non-conforming investments, exceeds 10% of invested funds, such investment shall be sold or liquidated by the Trustee. The Trustee shall terminate any repurchase agreement upon a failure of the counterparty thereto to maintain the requisite collateral percentage after the restoration period and, if not paid by the counterparty in federal funds against transfer of the repurchase securities, liquidate the collateral.

## COVENANTS

Compliance with Trust Agreement. The Trustee will not execute or deliver any Certificates in any manner other than in accordance with the provisions of the Trust Agreement, and the Authority and the City will not suffer or permit any default by them to occur under the Trust Agreement, 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 them.

Compliance with Site Lease and Lease Agreement. The Authority and the City will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Site Lease and the Lease Agreement required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Site Lease and the Lease Agreement against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Authority, the City and the Trustee will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them 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 them, 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.

Other Liens. The City will keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, and free from any claim or liability which materially impairs the City in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the City ten days' written notice to comply therewith and failure of the City to so comply within such ten-day period) may defend against any and all actions or proceedings, or may pay or, compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the City from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its obligation under the Trust Agreement to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Certificates are Outstanding or Parity Obligations are outstanding, none of the Trustee, the Authority or the City shall create or suffer to be created any pledge of or lien on the amounts on deposit in any of the funds or accounts created under the Trust Agreement, other than the pledge and lien of the Trust Agreement.

The Authority and the Trustee shall not encumber the Property other than in accordance with the Site Lease, the Lease Agreement, the Trust Agreement and the Assignment Agreement.

Prosecution and Defense of Suits. The City will promptly, upon request of the Trustee, any Credit Facility Provider or any Owner, take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Property or any part thereof, whether now existing or hereafter developing, will prosecute all actions, suits or other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee, each Credit Facility Provider 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.

The City will defend against every action, suit or other proceeding at any time brought against the Trustee, any Credit Facility Provider or any Owner upon any claim arising out of the receipt, deposit or disbursement of any of the Base Rental Payments or involving the rights of the Trustee, any Credit Facility Provider or any Owner under the Trust Agreement; provided, however, that the Trustee, any Credit Facility Provider or any Owner at its or his election may appear in and defend any such action, suit or other proceeding. The City will, to the extent permitted by law, indemnify and hold harmless the Trustee, any Credit Facility Provider and the Owners against any and all liability claimed or asserted by any person arising out of any such receipt, deposit or disbursement, and will, to the extent permitted by law, indemnify and hold harmless the Trustee and the Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation or otherwise in connection with the foregoing to which any of them may become a party in order to enforce their rights under the Trust Agreement, provided that no indemnification will be made to the Trustee or any Credit Facility Provider for losses arising out of the willful misconduct or negligence of the Trustee or any such Credit Facility Provider.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records shall be available for inspection by any Credit Facility Provider, the Authority and the City at reasonable hours and under reasonable conditions. The Trustee will, upon written request, make copies of the foregoing available any Owner or his agent duly authorized in writing.

Recordation. The City will record, or cause to be recorded, with the appropriate county recorder, the Lease Agreement, the Site Lease and the Assignment Agreement, or memoranda thereof.

Tax Covenants. Notwithstanding any other provision of the Trust Agreement, absent an opinion of Bond Counsel that the exclusion from gross income of interest as evidenced by the Certificates will not be adversely affected for federal income tax purposes, the City covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The City will take no action or refrain from taking any action or make any use of the proceeds of the Certificates or of any other moneys or property which would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code;



(b) Arbitrage. The City will make no use of the proceeds of the Certificates or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(c) Federal Guaranty. The City will make no use of the proceeds of the Certificates or take or omit to take any action that would cause the Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The City will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

(e) Hedge Bonds. The City will make no use of the proceeds of the Certificates or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause either the Certificates to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the City takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Certificates for federal income tax purposes; and

(f) Miscellaneous. The City will take no action or refrain from taking any action inconsistent with its expectations stated in that certain Tax Certificate executed by the City in connection with each issuance of Certificates and will comply with the covenants and requirements stated therein and incorporated by reference in the Trust Agreement.

The City will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest evidenced by the Certificates under Section 103 of the Code. Without limiting the generality of the foregoing, the City will comply with the requirements of the Tax Certificate. This covenant shall survive payment in full or defeasance of the Certificates.

In the event that at any time the City is of the opinion that for purposes of this Section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Trust Agreement, the City shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

Notwithstanding any provisions of this Section, if the City shall provide to the Trustee an Opinion of Counsel to the effect that any specified action required under the Trust Agreement is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest evidenced by the Certificates, the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and of the Tax Certificate, and the covenants under the Trust Agreement shall be deemed to be modified to that extent.

Continuing Disclosure. The City and the Trustee will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Trust Agreement, failure of the City or the Trustee to comply with the Continuing Disclosure Certificate shall not constitute an event of default under the Trust Agreement; provided, however, that the Trustee shall, at the written direction of any Participating Underwriter or the holders of at least 25% of the aggregate amount of principal evidenced by Outstanding Certificates, to the extent

indemnified to its reasonable satisfaction from any liability or expense, or any holder or beneficial owner of the Certificates may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Uniform Commercial Code (UCC) Covenants.

(a) The City shall inform the Trustee in writing within ten (10) days of any change, amendment, or modification of its place of organization, form of organization, or change in City's name (including, but not by way of limitation, resulting from mergers, acquisitions, tax free exchanges, or other transactions) (all of which are sometimes referred to as "Corporate Changes," regardless of whether the City is organized as a corporation, partnership, limited partnership, limited liability company, limited liability partnership, sole proprietorship, or other form of entity recognized under the law of the state in which the City is organized), and City shall cooperate with the Trustee by executing as soon as reasonably practicable after receipt thereof any and all amendments to UCC financing statements deemed necessary by the Trustee to insure that the security interest of the Trustee in any and all collateral of the City remains fully perfected. The Trustee may rely on opinions of bond counsel as to whether any or all UCC financing statements of the City need to be amended as a result. If the City fails to provide information to the Trustee about Corporate Changes on a timely basis, the Trustee shall not be liable or responsible to any party for any failure to maintain a perfected security interest in the City's collateral, for which the Trustee needed to have information about the Corporate Changes. The Trustee shall have no duty to inquire about Corporate Changes if the City does not inform the Trustee of such Corporate Changes, the parties acknowledging and agreeing that it would not be feasible or practical for the Trustee to search for information on the Corporate Changes if such information is not provided by the City.

(b) The City shall provide the Trustee with copies of any Debtor Termination Statement (as such term is defined below) the City files in violation of the covenant contained in this document at paragraph (c) below.

(c) The City shall not file or record any instrument or document with any entity, officer or office having responsibility for recording of security interests which purports to terminate, vitiate or extinguish a security interest in the collateral in which the Trustee holds a security interest (a "Debtor Termination Statement").

Further Assurances. Whenever and so often as requested to do so by the Trustee, or the Credit Facility Provider, so long as there is no Credit Facility Provider Failure, the Authority and the City will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee, the Owners and the holders of Parity Obligations all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Trust Agreement or by the Assignment Agreement, the Site Lease or the Lease Agreement.

**DEFAULT AND LIMITATIONS OF LIABILITY**

Action on Default. If an event of default (within the meaning of Article VI of the Lease Agreement) shall happen, then such event of default shall constitute an event of default under the Trust Agreement. The Trustee may give notice, as assignee of the Authority, of an event of default under the Lease Agreement to the City, and shall do so if directed to do so by the Owners of not less

than a majority of the aggregate principal evidenced by Certificates then Outstanding. In each and every case during the continuance of an event of default, the Trustee (a) shall, at the direction of the Credit Facility Provider so long as there is no Credit Facility Provider Failure, (b) may, at the direction of the Owners of not less than a majority of the aggregate principal evidenced by Certificates then Outstanding with the written consent of the Credit Facility Provider so long as there is no Credit Facility Provider Failure, and (c) shall, upon notice in writing to the City and the Authority, exercise any of the remedies granted to the City under the Lease Agreement and, in addition, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement.

Other Remedies of the Trustee. Subject to the provisions of the Trust Agreement, the Trustee shall have the right, with the written consent of the Credit Facility Provider so long as there is no Credit Facility Provider Failure:

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

(ii) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(iii) by suit in equity upon the happening of any event of default under the Trust Agreement to require the Authority and the City to account as the trustee of an express trust.

Notwithstanding the foregoing, the Credit Facility Provider (if any), acting alone, so long as there is no Credit Facility Provider Failure, shall have the right to direct all remedies in the case of an event of default under the Trust Agreement. So long as there is no Credit Facility Provider Failure, the Credit Facility Provider shall be recognized as the registered owner of each certificate for the purposes of exercising all rights and privileges available to Owners. No event of default shall be waived without the prior written consent of the Credit Facility Provider so long as there is no Credit Facility Provider Failure.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee 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 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 Trustee by law or by the Trust Agreement may be enforced and exercised from time to time and as often the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy under the Trust Agreement is abandoned or determined adversely to the Trustee, any Credit Facility Provider

or any Owner, then subject to any adverse determination, the Trustee, such Credit Facility Provider, such Owner, the Authority and the City 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. Subject to the provisions of the Trust Agreement, no remedy conferred in the Trust Agreement 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 Trust Agreement 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 law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Authority to the Owners. Except as expressly provided in the Trust Agreement, the Authority shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the City of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Site Lease or in the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the City to the Owners. Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Site Lease or in the Trust Agreement, the City shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rental Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability of the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the City, or with respect to the performance by the Authority or the City of the other agreements and covenants required to be performed by them, respectively contained in the Lease Agreement, the Site Lease or in the Trust Agreement.

Application of Amounts After Default. All payments received by the Trustee with respect to the rental of the Property after a default by the City pursuant to Article VI of the Lease Agreement (including, without limitation, any proceeds received in connection with the sale, assignment or sublease of the Authority's right, title and interest in the Site Lease), and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under Article VI of the Lease Agreement, shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

- (i) to the payment of all amounts due the Trustee under the Trust Agreement;
- (ii) to the payment of all amounts then due for interest evidenced by the Certificates and Parity Obligations, in respect of which, or for the benefit of which, money has been collected (other than Certificates and Parity Obligations which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without

preference or priority of any kind, according to the amounts of interest evidenced by such Certificates and Parity Obligations due and payable;

(iii) to the payment of all amounts then due for principal evidenced by the Certificates and Parity Obligations, in respect of which, or for the benefit of which, money has been collected (other than Certificates and Parity Obligations which have become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of principal evidenced by such Certificates and Parity Obligations due and payable; and

Trustee May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Certificates in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or Trustee, or for any other remedy under the Trust Agreement, unless (a) such Owner shall have previously given written notice to the Trustee of a continuing event of default, (b) the Owners of not less than 25% of the aggregate principal evidenced by Certificates then Outstanding shall have made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee under the Trust Agreement, (c) such Owner or Owners shall have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such proceedings, and (e) no direction inconsistent with such written request shall have been given to the Trustee during such 60 day period by the Owners of a majority of the aggregate principal evidenced by Certificates then Outstanding; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal and ratable benefit of all the Owners of Certificates. Notwithstanding the foregoing, so long as the Credit Facility is in full force and effect and there is no Credit Facility Provider Failure, the Credit Facility Provider shall have the right to institute any suit action, or proceeding at law or in equity under the same terms as an Owner.

## **THE TRUSTEE, AUCTION AGENTS AND BROKER-DEALERS**

Employment of the Trustee; Duties. The Authority and the City hereby appoint and employ the Trustee to receive, deposit and disburse the Base Rental Payments, to prepare, execute, deliver and transfer the Certificates and to perform the other functions contained in the Trust Agreement, including entering into the Reimbursement Agreement and performing thereunder, all in the manner provided in the Trust Agreement and subject to the conditions and terms hereof. By executing and delivering the Trust Agreement, the Trustee accepts the appointment and employment above referred

to and accepts the rights and obligations of the Trustee provided in the Trust Agreement, subject to the conditions and terms of the Trust Agreement. Other than when an event of default has occurred and is continuing, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In case an event of default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Trustee covenants and agrees that, with the exception of the Assignment Agreement, it will not encumber the Property. The Trustee is directed to execute the Assignment Agreement.

The Trustee agrees to hold all Certificates delivered to it for purchase under the Trust Agreement in trust for the benefit of the respective Owners which shall have so delivered such Certificates until moneys representing the Purchase Price of such Certificates shall have been delivered to or for the account of or to the order of such Owners and to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the City and the Remarketing Agent.

Removal and Resignation of the Trustee. The Authority and the City may, subject to the provisions of the Reimbursement Agreement, by an instrument in writing, remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an event of default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time (a) if requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority of the aggregate principal component represented by the Certificates at the time Outstanding (or their attorneys duly authorized in writing), or (b) the Trustee shall cease to be eligible in accordance with the following sentence, and shall appoint a successor Trustee. The Trustee and any successor Trustee shall be a commercial bank with trust powers having a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000 (or be part of a bank holding company with a combined capital and surplus of at least \$75,000,000) and subject to supervision or examination by federal or state authorities and acceptable to the Credit Facility Provider. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the Authority, the City and the Credit Facility Provider and by giving notice, by first class mail, postage prepaid, of such resignation to the Owners at their addresses appearing on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the Authority and the City shall, subject to the provisions of the Reimbursement Agreement, promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the City and the Authority do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the City, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee. Any successor Trustee appointed under the Trust Agreement shall signify its acceptance of such appointment by executing and delivering to the City, the Authority and to its predecessor Trustee a

written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Trust Agreement; but, nevertheless, at the written request of the City or of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Trust Agreement and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Trust Agreement, including the Credit Facility (which shall be transferred in accordance with the terms thereof).

Any corporation, association or agency into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, provided that such entity meets the combined capital and surplus requirements of this Section, *ipso facto*, shall be and become successor trustee under the Trust Agreement and vested with all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything in the Trust Agreement to the contrary notwithstanding.

Compensation of the Trustee. The City shall from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Trust Agreement and reimburse the Trustee for all its reasonable advances and expenditures (which shall not include “overhead expenses” except as such expenses are included as a component of the Trustee’s stated annual fees) under the Trust Agreement, including but not limited to advances to and reasonable fees and reasonable expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations under the Trust Agreement; provided, however, that the Trustee shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds or accounts established under the Trust Agreement (except that such compensation or reimbursement may be made from the Costs of Issuance Account to the extent provided in the Trust Agreement). The Trustee may take whatever legal actions are lawfully available to it directly against the Authority or the City.

Except as otherwise expressly provided in the Trust Agreement, no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement or in the exercise of any of its rights or powers under the Trust Agreement.

Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, notice, request, requisition, resolution, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such

instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Owners of the Certificates pursuant to the Trust Agreement, unless such Owners shall have offered to the Trustee security or indemnity, reasonably satisfactory to the Trustee, against the reasonable costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. Under no circumstances shall the Trustee request or be entitled to indemnification from the City for taking actions required by and in accordance with the Trust Agreement, including, but not limited to, requesting amounts under the Credit Facility, causing payments of interest and principal evidenced by the Certificates to be made to the Owners thereof and carrying out purchases or prepayments of the Certificates in accordance with the terms of the Trust Agreement. The Trustee may consult with counsel, who may be counsel to the Authority or the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Trust Agreement in good faith in accordance therewith.

The Trustee shall not be responsible for the sufficiency of the Certificates or the Lease Agreement, or of the assignment made to it by the Assignment Agreement, or for statements made in the preliminary or final official statement relating to the Certificates, or of the title to the Property.

The Trustee shall not be required to take notice or be deemed to have notice of any default or event of default under the Trust Agreement, except failure of any of the payments to be made to the Trustee required to be made under the Trust Agreement or under the Lease Agreement, unless the Trustee shall be specifically notified in writing of such default, or an event of default by the City, the Authority or by the Owners of not less than 25% of the aggregate principal evidenced by the Certificates then Outstanding.

Whenever in the administration of its rights and obligations under the Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the City or a Certificate of the Authority, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it deems reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Certificates and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party hereto. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Authority or the City, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Authority or the City as freely as if it were not the Trustee under the Trust Agreement.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Trust Agreement and perform any rights and obligations required of it under the Trust Agreement by or through agents, attorneys or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its rights and obligations under the Trust Agreement, and the Trustee shall not be answerable for the negligence or misconduct of any such agent, attorney or receiver selected by it with reasonable care; provided, however, that in the event of any negligence or misconduct of any



such attorney, agent or receiver, the Trustee shall diligently pursue all remedies of the Trustee against such agent, attorney or receiver. The Trustee shall not be liable for any error of judgment made by it in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be answerable for the exercise of any trusts or powers under the Trust Agreement or for anything whatsoever in connection with the funds established under the Trust Agreement, except only for its own willful misconduct, negligence or breach of an obligation under the Trust Agreement.

The Trustee may, on behalf of the Owners, intervene in any judicial proceeding to which the Authority or the City is a party and which, in the opinion of the Trustee and its counsel, affects the Certificates or the security therefor, and shall do so if requested in writing by the Owners of at least 5% of the aggregate principal evidenced by Certificates then Outstanding, provided the Trustee shall have no duty to take such action unless it has been indemnified to its reasonable satisfaction against all risk or liability arising from such action.

The Trustee is additionally granted all protections provided to the Certificate Owners under the Lease Agreement.

Appointment of Co-Trustee. It is the purpose of the Trust Agreement that there shall be no violation of any law of any jurisdiction (including particularly the laws of the State of California) denying or restricting the right of banking corporations or associations to transact business as Trustee in such jurisdiction. It is recognized that in the case of litigation under the Trust Agreement, and in particular in case of the enforcement of the rights of the Trustee on default, or in the case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies granted to the Trustee or hold title to the properties, in trust, as granted in the Trust Agreement, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional institution as a separate or co-trustee. The following provisions are adopted to these ends.

In the event that the Trustee appoints an additional institution as a separate or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by the Trust Agreement to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate or co-trustee but only to the extent necessary to enable such separate or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate or co-trustee shall run to and be enforceable by either of them. Any co-trustee shall be bound by the standards of care, duties and obligations of the Trustee under the Trust Agreement as if such co-trustee were the Trustee. Any co-trustee shall be a bank or trust company doing business in the State of California and at all times shall have a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000 and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Should any instrument in writing from the City or the Authority be required by the separate trustee or co-trustee so appointed by the Trustee for more fully and certainly vesting in and

confirming to it such properties, rights, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the City or the Authority. In case any separate trustee or co-trustee, or a successor to either, shall become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new Trustee or successor to such separate trustee or co-trustee.

Credit Facility Provider Voting. Notwithstanding anything contained in the Trust Agreement, so long as the Credit Facility is in full force and effect and there is no Credit Facility Provider Failure, the Credit Facility Provider shall be deemed to be the sole owner of all Certificates for purposes of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Certificates are entitled to take pursuant to the Trust Agreement.

Auction Agent. The Authority shall appoint and employ an auction agent for Certificates in an ARS Mode in accordance with the provisions of Exhibit B to the Trust Agreement.

Broker-Dealers. The Authority shall appoint and employ the services of one or more broker-dealers for Certificates in an ARS Mode in accordance with the provisions of Exhibit B to the Trust Agreement. The duties of the broker-dealer shall be governed by the provisions of Exhibit B to the Trust Agreement.

## **AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT**

### Amendment or Supplement.

(a) The Trust Agreement and the rights and obligations of the Authority, the City, the Owners and the Trustee under the Trust Agreement may be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding with the written consent of the Credit Facility Provider so long as the Credit Facility is in full force and effect and there is no Credit Facility Provider Failure, when the prior written consents of the Owners of a majority of the aggregate principal evidenced by the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment or supplement shall (i) extend the stated Principal Payment Date of any Certificate or reduce the rate of interest evidenced thereby or extend the time of payment of such interest or reduce the amount of principal evidenced thereby or reduce the amount of any Mandatory Sinking Account Payment or change the prepayment terms and provisions or the provisions regarding delivery of notice of prepayment without the prior written consent of the Owner of each Certificate so affected, (ii) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement thereto without the prior written consent of the Owners of all Certificates then Outstanding, (iii) modify any of the rights or obligations of the Trustee without the prior written consent of the Trustee, or (iv) amend this section without the prior written consent of the Owners of all Certificates then Outstanding.

(b) The Trust Agreement and the rights and obligations of the Authority, the City, the Owners and the Trustee under the Trust Agreement may also be amended or supplemented at any time by an amendment of the Trust Agreement or supplement thereto which shall become binding upon execution, with written consent of the Credit Facility Provider, so long as there is no Credit

Facility Provider Failure but without the written consents of any Owners, but only to the extent permitted by law and after receipt of an unqualified approving Opinion of Counsel 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 in the Trust Agreement 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 in the Trust Agreement to or conferred therein on the Authority or the City, and which in either case shall not adversely affect the rights or 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 under the Trust Agreement which the Authority or the City may deem desirable or necessary and not inconsistent with the Trust Agreement, and which shall not adversely affect the rights or interests of the Owners;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of interest evidenced by the Certificates;

(iv) to provide for the execution and delivery of Additional Certificates in accordance with the provisions of the Trust Agreement; or

(v) for any other reason, provided such amendment or supplement does not adversely affect the rights or interests of the Owners; provided, however, that the Authority, the City and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this paragraph of the Trust Agreement have been met with respect to such amendment or supplement.

Disqualified Certificates. Certificates owned or held by or for the account of the City (but excluding Certificates held in any pension or retirement fund of the City) and the Authority shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in this Article, and the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as provided in this Article, the Trustee may determine that the Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Certificate and presentation of such Certificate for such purpose at the Principal Office of the Trustee a suitable notation as to such action shall be made on such Certificate. If the Trustee shall receive an Opinion of Counsel advising that new Certificates modified to conform to such action are necessary, modified Certificates shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the Principal Office of the Trustee without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Amendment by Mutual Consent. The provisions of this Article shall not prevent any Owner from accepting any amendment as to the particular Certificates owned by him, provided that due notation thereof is made on such Certificates.

## **DEFEASANCE**

### Discharge of Certificates and Trust Agreement.

(a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid (i) to the Owners of all Outstanding Certificates and the holders of all outstanding Parity Obligations the interest and principal evidenced thereby at the times and in the manner stipulated in the Trust Agreement and therein, and (ii) all other amounts due under the Trust Agreement and under the Lease Agreement and the Reimbursement Agreement, then such Owners shall cease to be entitled to the pledge of and lien on the amounts on deposit in the funds and accounts established under the Trust Agreement, as provided in the Trust Agreement, and all agreements and covenants of the Authority, the City, and the Trustee to such Owners under the Trust Agreement shall thereupon cease, terminate and become void and shall be discharged and satisfied.

(b) Any Outstanding Certificate or outstanding Parity Obligation shall be deemed to have been paid within the meaning and with the effect expressed in the Trust Agreement when the whole amount of the principal, premium, if any, and interest evidenced by such Certificate or outstanding Parity Obligation, as the case may be, shall have been paid or when (i) in case said Certificate or portion thereof has been selected for prepayment in accordance with Section 2.02 hereof prior to its stated Principal Payment Date, the City shall have given to the Trustee irrevocable instructions to give, in accordance with the provisions of the Trust Agreement, notice of prepayment of such Certificate, or portion thereof, (ii) there shall be on deposit with the Trustee, moneys, or (A) Permitted Investments described in clause (A) of the definition thereof, or (B) Permitted Investments described in clause (K) of the definition thereof, or any combinations thereof (“Defeasance Securities”), which Defeasance Securities shall not contain provisions permitting the redemption thereof other than at the option of the holder, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which shall be sufficient to pay when due the principal, premium, if any, and interest evidenced by such Certificate or Parity Obligation, as the case may be, and due and to become due on or prior to the prepayment date or its stated Principal Payment Date, as the case may be, and (iii) in the event the stated Principal Payment Date of such Certificate or Parity Obligation, as the case may be, will not occur, and said Certificate is not to be prepaid, within the next succeeding 60 days, the City shall have given the Trustee irrevocable instructions to give notice, as soon as practicable in the same manner as a notice of prepayment given pursuant to the Trust Agreement, to the Owner of said Certificate, or portion thereof, or Parity Obligation, as the case may be, stating that the deposit of moneys or Defeasance Securities required by (ii) above has been made with the Trustee and that said Certificate, or portion thereof, or Parity Obligation, as the case may be, is deemed to have been paid in accordance with this Section and stating such Principal Payment Date or prepayment date upon which moneys are to be available for the payment of the principal, premium, if any, and interest evidenced by said Certificate, or portion thereof, or Parity Obligation, as the case may be.

Neither the moneys nor the Defeasance Securities deposited with the Trustee the Trust Agreement nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for and pledged to, the payment of the

principal, premium, if any, and interest evidenced by said Certificate, or portions thereof, or Parity Obligation, as the case may be. If payment of less than all of the Certificates and Parity Obligations is to be provided for in the manner and with the effect expressed in this Section, the Trustee or the City, as applicable, shall select such Certificates, or portions thereof, or Parity Obligation, as the case may be, in the manner specified in the Trust Agreement for selection for prepayment of less than all of the Certificates, or Parity Obligation, as the case may be, in the principal amounts designated to the Trustee by the City.

(c) The Trustee may seek and is entitled to rely upon (i) an Opinion of Counsel reasonably satisfactory to the Trustee to the effect that the conditions precedent to a defeasance pursuant to this Section have been satisfied, and (ii) such other opinions, certifications and computations, as the Trustee may reasonably request, or accountants or other financial consultants concerning the matters described in (b) above.

(d) After the payment of all the interest, prepayment premium, if any, and principal evidenced by all Outstanding Certificates, Parity Obligations and all other amounts due under the Trust Agreement and under the Lease Agreement as provided above, the Trustee shall execute and deliver to the Authority and the City all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Trust Agreement, and the Trustee shall pay over or deliver to the City all moneys or securities held by it pursuant hereto which are not required for the payment of the interest, prepayment premium, if any, and principal evidenced by such Certificates, such Parity Obligations and all other amounts due under the Trust Agreement and under the Lease Agreement.

(e) Prior to any defeasance becoming effective under the Trust Agreement, (i) the City shall cause to be delivered (A) an executed copy of a report, addressed to the Trustee and the City, in form and in substance acceptable to the Trustee and the City, of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Defeasance Securities and cash, if any, satisfy the requirements of clause (ii) of subsection (b) of this Section (a "Verification"), (B) a copy of the escrow deposit agreement entered into in connection with such defeasance, which escrow deposit agreement shall provide that no substitution of Defeasance Securities shall be permitted except with other Defeasance Securities and upon delivery of a new Verification and no reinvestment of Defeasance Securities shall be permitted except as contemplated by the original Verification or upon delivery of a new Verification, and (C) a copy of an Opinion of Counsel, dated the date of such defeasance and addressed to the Trustee and the City, in form and in substance acceptable to the Trustee and the City, to the effect that such Certificates and Parity Obligations have been paid within the meaning and with the effect expressed in the Trust Agreement, all agreements and covenants of the Authority, the City and the Trustee to the Owners of such Certificates and Parity Obligations under the Trust Agreement have ceased, terminated and become void and have been discharged and satisfied.

Prior to the defeasance of any Certificates in the Short Term Mode becoming effective under this Article, the Trustee shall have received written confirmation from each rating agency then rating such Certificates that such defeasance would not, in and of itself, cause such rating agency to lower, withdraw or suspend its rating of such Certificates.

Unclaimed Moneys. Any moneys held by the Trustee in trust for the payment and discharge of the interest or principal evidenced by any of the Certificates and Parity Obligations which remain

unclaimed for two years after the date when such interest or principal evidenced by such Certificates and Parity Obligations have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal evidenced by such Certificates and Parity Obligations have become payable, shall, at the Written Request of the City be repaid by the Trustee to the City as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners of Certificates and the holders of Parity Obligations shall look only to the City for the payment of the interest and principal evidenced by such Certificates or Parity Obligations, as the case may be.

## MISCELLANEOUS

Benefits of Trust Agreement Limited to Parties. Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any person other than the Authority, the City, the Trustee, each Credit Facility Provider, the Remarketing Agent and the Owners any claim, remedy or right under or pursuant to the Trust Agreement, and any agreement, condition, covenant or term required to be observed or performed by or on behalf of the Authority or the City shall be for the sole and exclusive benefit of the Trustee, each Credit Facility Provider, the Remarketing Agent and the Owners.

Successor Deemed Included in all References to Predecessor. Whenever the Authority, the City or the Trustee, or any officer thereof, is named or referred to in the Trust Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Authority, the City or the Trustee, or such officer, and all agreements, conditions, covenants and terms required hereby to be observed or performed by or on behalf of the Authority, the City or the Trustee, or any officer thereof, shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Trust Agreement to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Certificates and the amount, payment date, number and date of owning the same may be proved by the registration books maintained by the Trustee pursuant to the provisions of the Trust Agreement.

Any declaration, request or other instrument in writing of the Owner of any Certificate shall bind all future Owners of such Certificate with respect to anything done or suffered to be done by the Authority, the City or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. Notwithstanding anything contained in the Trust Agreement to the contrary, no member, officer or employee of the City shall be individually or personally liable for

the payment of any moneys, including without limitation, the interest or principal represented by the Certificates, but nothing contained in the Trust Agreement shall relieve any member, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law, by the Lease Agreement or by the Trust Agreement.

Acquisition of Certificates by City or Authority. All Certificates acquired by the City or the Authority, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Content of Certificates. Every Certificate of the City and every Certificate of the Authority with respect to compliance with any agreement, condition, covenant or term contained in the Trust Agreement shall include (a) a statement that the person making or giving such certificate has read such agreement, condition, covenant or term and the definitions in the Trust Agreement relating thereto, (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based, (c) a statement that, in the opinion of the signer, the signer has made or caused to be made such examination or investigation as is necessary to enable the signer to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with, and (d) a statement as to whether, in the opinion of the signer, such agreement, condition, covenant or term has been complied with.

Any Certificate of the City and any Certificate of the Authority may be based, insofar as it relates to legal matters, upon an Opinion of Counsel, unless the person making or giving such certificate knows that the Opinion of Counsel with respect to the matters upon which each person's certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters, upon information which is in the possession of the City or the Authority upon a representation by an officer or officers of the City or the Authority, as the case may be, unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which such counsel's opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Funds and Accounts. Any fund or account required to be established and maintained in the Trust Agreement by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund, but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with sound corporate trust industry practice and with due regard for the protection of the security of the Certificates and the rights of the Owners.

The Trustee may commingle any of the moneys held by it under the Trust Agreement for investment purposes only; provided, however, that the Trustee shall account separately for the moneys in each fund or account established pursuant to the Trust Agreement.

Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms required in the Trust Agreement to be observed or performed by or on the part of the Authority, the City or the Trustee shall be contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms shall be null and void to the extent contrary to law and shall be deemed separable from the remaining agreements, conditions, covenants and terms of the Trust Agreement and shall in no way affect the validity hereof or of the Certificates,

and the Owners shall retain all the benefit, protection and security afforded to them under any applicable provisions of law. The Authority, the City and the Trustee hereby declare that they would have executed the Trust Agreement, and each and every Article, Section, paragraph, subsection, sentence, clause and phrase of the Trust Agreement and would have authorized the execution and delivery of the Certificates pursuant to the Trust Agreement irrespective of the fact that any one or more Articles, Sections, paragraphs, subsections, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

California Law. The Trust Agreement shall be construed and governed in accordance with the laws of the State of California.

Notice to Rating Agencies. The Trustee shall provide Fitch, if the Certificates are then rated by Fitch, and S&P, if the Certificates are then rated by S&P, with prompt written notice of (a) the appointment of any successor Trustee or Remarketing Agent, (b) any material amendments to the Trust Agreement, the Lease Agreement, the Site Lease or the Credit Facility (which notice shall be sent no later than 10 days prior to the effective date of such amendment), (c) any expiration, substitution, termination or extension of the Credit Facility (d) a conversion from one Mode to another Mode, (e) a mandatory tender, prepayment or defeasance of the Certificates, or (f) the prepayment in whole of the Certificates.

Effective Date. The Trust Agreement shall become effective upon its execution and delivery.

Execution in Counterparts. The Trust Agreement may be simultaneously executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.



## SUMMARY OF LEASE AGREEMENT

### DEFINITIONS

**“Additional Rental Payments”** means all amounts payable by the City as Additional Rental Payments pursuant to the Lease Agreement.

**“Asbestos Containing Materials”** means material in friable form containing more than 1% of the asbestiform varieties of (a) chrysotile (serpentine), (b) crocidolite (ricbeckite), (c) amosite (cummington-itegrinerite), (d) anthophyllite, (e) tremolite, and (f) actinolite.

**“Authority”** means the Riverside Public Financing Authority , a joint powers authority duly organized and existing under the laws of the State of California.

**“Bank Certificate”** has the meaning ascribed thereto in the Trust Agreement.

**“Base Rental Deposit Date”** means (a) with respect to Base Rental Payments, the interest components of which accrue at a Daily Rate or a Weekly Rate, the second Business Day next preceding each Interest Payment Date, and (b) with respect to Base Rental Payments, the interest components of which accrue at a rate other than a Daily Rate or a Weekly Rate, the 5th day next preceding each Interest Payment Date, provided if such date is not a Business Day, the first Business Day preceding the 5th day.

**“Base Rental Payments”** means all amounts payable to the Authority from the City as Base Rental Payments pursuant to the Lease Agreement.

**“Base Rental Payment Schedule”** means the schedule of principal components of the Base Rental Payments payable to the Authority from the City pursuant to the Lease Agreement and attached to the Lease Agreement as Exhibit C.

**“City”** means the City of Riverside , a body corporate and politic of the State of California.

**“Delivery Date”** means April 17, 2008.

**“Environmental Regulations”** means all laws and regulations, now or hereafter in effect, with respect to hazardous materials, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended (42 U.S.C. Section 9601, et seq.) (together with the regulations promulgated thereunder, “CERCLA”), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 6901, et seq.) (together with the regulations promulgated thereunder, “RCRA”), the Emergency Planning and Community Right-to-Know Act, as amended (42 U.S.C. Section 11001, et seq.) (together with the regulations promulgated thereunder, “Title III”), the Clean Water Act, as amended (33 U.S.C. Section 1321, et seq.) (together with the regulations promulgated thereunder, “CWA”), the Clean Air Act, as amended (42 U.S.C. Section 7401, et seq.) (together with the regulations promulgated thereunder, “CAA”) and the Toxic Substances Control Act, as amended (15 U.S.C. Section 2601 et seq.) (together with the regulations promulgated thereunder, “TSCA”), and any state or local similar laws and regulations and any so-called local, state or federal “superfund” or “superlien” law.

**“Excess Amount”** means the difference in each Rental Period between the Fair Rental Value of the Property and the Rental Payments actually paid by the City during such Rental Period, to the extent that such Rental Payments actually paid are less than the Fair Rental Value.

**“Fair Rental Value”** means, with respect to the Property, the annual fair rental value thereof, as set forth in the Lease Agreement.

**“Independent Insurance Consultant”** means the City’s Risk Manager, or a nationally recognized independent actuary, insurance company or broker that has actuarial personnel experienced in the area of insurance for which the City is to be self-insured, as may from time to time be designated by the City.

**“Lease Agreement”** means the Lease Agreement, as the same may be amended or supplemented pursuant to the provisions thereof.

**“Net Proceeds”** means any insurance proceeds or condemnation award paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

**“Parity Obligations”** means obligations of the City payable from Rental Payments the payment of which is on a parity with the payment of principal and interest with respect to the Certificates and shall include (i) all payments to a Credit Facility Provider under its Credit Facility Reimbursement Agreement and (ii) regularly scheduled payment under the Swap Agreement, excluding termination payments.

**“Permitted Encumbrances”** means, with respect to the Property, as of any particular time, (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to provisions of the Lease Agreement, permit to remain unpaid, (b) the Assignment Agreement, (c) the Lease Agreement, (d) the Site Lease, (e) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law as normally exist with respect to properties similar to the Property for the purposes for which it was acquired or is held by the City, (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Delivery Date which the City certifies in writing will not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Certificates by the Trust Agreement and the Assignment Agreement and to which the Authority and the City consent in writing, and (g) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Delivery Date which the City certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Certificates by the Trust Agreement and the Assignment Agreement and to which the Authority and the City consent in writing.

**“Property”** means the real property described in Exhibit A to the Lease Agreement, and all improvements thereon.

**“Rental Payments”** means, collectively, the Base Rental Payments and the Additional Rental Payments.

**“Rental Period”** means the period from the Delivery Date through February 28, 2009 and, thereafter, the twelve-month period commencing on March 1 of each year during the term of the Lease Agreement.

**“Site Lease”** means the Site and Facilities Lease, dated as of April 1, 2008, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with the provisions thereof and the Lease Agreement.

**“Swap Agreement”** means, collectively, the ISDA Master Agreement (Local Currency–Single Jurisdiction 1992), the U.S. Municipal Counterparty Schedule thereto, a Credit Support Annex, dated as of April 1, 2008, and a Confirmation, entered into on April 17, 2008, between Bank of America, N.A., as a qualified counterparty, and the City, as modified.

**“Termination Date”** means March 1, 2037, unless extended or sooner terminated as provided in the Lease Agreement.

**“Trust Agreement”** means the Trust Agreement, dated as of the date hereof, by and among the Trustee, the Authority and the City, as originally executed and as it may from time to time be amended or supplemented in accordance with the provisions thereof.

**“Trustee”** means the trustee appointed under the Trust Agreement and referred to therein as the Trustee.

## **LEASE OF PROPERTY; TERM**

### Lease of Property.

(a) The Authority hereby leases to the City and the City hereby leases from the Authority the Property, on the terms and conditions set forth in the Lease Agreement, and subject to all Permitted Encumbrances.

(b) The leasing of the Property by the City to the Authority pursuant to the Site Lease shall not effect or result in a merger of the City’s leasehold estate in the Property pursuant to the Lease Agreement and its fee estate therein as lessor under the Site Lease, and the Authority shall continue to have a leasehold estate in the Property pursuant to the Site Lease throughout the term thereof and the term of the Lease Agreement. The Lease Agreement shall constitute a sublease with respect to the Property. The leasehold interest in the Property granted by the City to the Authority pursuant to the Site Lease is and shall be independent of the Lease Agreement; the Lease Agreement shall not be an assignment or surrender of the leasehold interest in the Property granted to the Authority under the Site Lease.

### Term; Occupancy.

(a) The term of the Lease Agreement shall commence on the Delivery Date and shall end on the Termination Date, unless such term is extended or sooner terminated as provided in the Lease Agreement. If on the Termination Date the Certificates and Parity Obligations shall not be fully paid, or provision therefor made in accordance with the Trust Agreement, or the Trust Agreement shall not be discharged by its terms, or if the Rental Payments shall remain due and payable or shall have been abated at any time and for any reason, then the term of the Lease Agreement shall be

extended until the date upon which all Certificates and Parity Obligations shall be fully paid, or provision therefor made in accordance with Article IX of the Trust Agreement, the Trust Agreement shall be discharged by its terms and all Rental Payments shall have been paid in full, except that the term of the Lease Agreement shall in no event be extended more than ten years beyond such Termination Date, such extended date being the “Maximum Lease Term.” If prior to the Termination Date, all Certificates shall be fully paid, or provision therefor made in accordance with Article IX of the Trust Agreement, the Trust Agreement shall be discharged by its terms and all Rental Payments shall have been paid in full, the term of the Lease Agreement shall end simultaneously therewith.

(b) The City shall take possession of each portion of the Property on which a portion of the Project is to be constructed or installed when a Completion Certificate is filed with the Trustee with respect to such portion of the Project. Notwithstanding the foregoing, to the extent the City has beneficial use of a portion of the Property, including any portion of the Property on which a portion of the Project is to be constructed or installed, the City shall take possession of that portion of the Property with respect to which the City has beneficial use.

## **RENTAL PAYMENTS**

### Base Rental Payments.

(a) General. Subject to the provisions of the Lease Agreement, Base Rental Payments shall be paid by the City to the Authority for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Base Rental Payments are to be paid. Base Rental Payments shall be paid only to the extent determined by the City Treasurer to be allocable to the portion of the Property of which the City has taken possession, as described in the Lease Agreement, and from the proceeds of the sale of the Certificates deposited with the Trustee as capitalized interest, insurance proceeds, any liquidated damages of the types described in the Lease Agreement deposited to the Base Rental Payment Fund, or any other source of legally available funds and from funds made available under any Credit Facility pursuant to Section 3.11 of the Trust Agreement. A portion of the Base Rental Payments shall constitute principal components and a portion of the Base Rental Payments shall constitute interest components. It is expressly understood that the obligation of the City to pay Base Rental Payments under the Lease Agreement includes the obligation of the City to pay the Excess Amount, subject, however, to the specific limitations on such payment set forth in the Lease Agreement.

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

(b) Excess Amount. Notwithstanding anything contained in the Lease Agreement to the contrary, if, in any Rental Period, the sum of the Rental Payments exceeds the Fair Rental Value in such Rental Period, such excess Rental Payments shall remain an obligation of the City to be paid by the City in any future Rental Period, in which payment of such Rental Payments is not abated pursuant to the Lease, up to and including all Excess Amounts in future Rental Periods. Notwithstanding the foregoing, any Rental Payments which are unpaid upon expiration of the

Maximum Lease Term, shall be discharged and shall not be paid by the City to the Authority in any future year, provided, further, however, that if the amounts owing as unpaid Rental Payments is reduced as a result of the prepayment of Base Rental Payments pursuant to the Lease Agreement then, as of the date of such reduction, the discharged Rental Payments referred to above shall, to the extent allocable to Property remaining subject to the Lease Agreement on said date, be reinstated in an amount equal to the lesser of the full amount of such discharged Rental Payments or the amount of said reduction. The obligation to pay any portion of the Excess Amount shall not arise until the Rental Period during which such Excess Amount is required to be applied and in no event shall any Excess Amount be used to pay Rental Payments which would have accrued during any period of abatement with respect to such Rental Payments.

(c) Principal Components and Interest Components. Subject to the provisions of subsection (d) and the provisions of the Lease Agreement, the principal components of the Base Rental Payments shall be paid by the City in the amounts and on the Base Rental Deposit Dates specified in the Base Rental Payment Schedule. The interest components of the Base Rental Payments shall be paid by the City as and constitute interest paid on the principal components of the Base Rental Payments. The interest components of the Base Rental Payments evidenced by Certificates in the ARS Mode shall accrue at the ARS Rate, calculated as provided in the Trust Agreement. The interest components of the Base Rental Payments evidenced by Certificates in the Flexible Mode, the Daily Mode and the Weekly Mode shall accrue at the Flexible Rate, the Daily Rate or the Weekly Rate, respectively, calculated as provided in the Trust Agreement. The interest components of the Base Rental Payments evidenced by Certificates in the Fixed Rate Mode and the Term Rate Mode shall accrue at the Fixed Rate or the Term Rate, respectively, calculated as provided in the Trust Agreement. Initially the interest component of the Base Rental Payments shall be calculated at the Weekly Rate, all as provided in the Trust Agreement.

(d) Payments to Holders of Parity Obligations. If, as a result of the limitation contained in the Lease Agreement, during any Rental Period any amount that would have otherwise been payable to a holder of a Parity Obligation under the Trust Agreement was not so payable or was not paid in full, such amount shall become payable to such holder in the first Rental Period and each successive Rental Period in which there is sufficient Excess Amount available to pay such amount; provided, however, that any Excess Amount shall be deemed not to be available in respect of termination payments under the Swap Agreement if such Excess Amount is required during such Rental Period to pay any Rental Payments otherwise scheduled to be paid during such Rental Period.

(e) Payments other than Regularly Scheduled Payments. If the term of the Lease Agreement shall have been extended, the obligation of the City to pay Rental Payments shall continue to and including the Base Rental Deposit Date preceding the date of termination of the Lease Agreement (as so extended pursuant to the Lease Agreement). Upon such extension, the principal and interest components of the Base Rental Payments shall, subject to the provisions of the Lease Agreement, be established so that the principal components will in the aggregate be sufficient to pay all extended and unpaid principal components and the interest components will in the aggregate be sufficient to pay all extended and unpaid interest components as well as all remaining obligations, including Subordinate Obligations.

Additional Rental Payments. The City shall also pay, as Additional Rental Payments, such amounts as shall be required for the payment of the following:

(a) (i) any amount due to the Swap Provider pursuant to the terms of the Swap Agreement, or any Credit Facility Provider pursuant to the terms of its Credit Facility or any Liquidity Facility Provider, if any, pursuant to the terms of its Liquidity Facility or any Reserve Facility provider, if any, pursuant to the terms of its Reserve Facility, excluding amounts paid as Base Rental Payments described in the Lease Agreement, and (ii) if there has been an abatement of Base Rental Payments as described in the Lease Agreement during any Rental Period, any amount that would have otherwise been payable to the Swap Provider, Credit Facility Provider or the Liquidity Facility Provider, if any, or any Reserve Facility provider, if any, under the Lease, but which was not so paid, such amount to become payable to the Swap Provider or Credit Facility Provider or the Liquidity Facility Provider, if any, or any Reserve Facility provider, if any, in the first Rental Period during which such Rental Payments are not abated pursuant to the Lease Agreement following the shortfall in payments described in (i) or (ii) above and each successive Rental Period in which there is sufficient Fair Rental Value available to pay such amount, all taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein;

(b) Any amounts needed to replenish the Reserve Fund to the Reserve Requirement;

(c) all reasonable administrative costs of the City and Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the City or Authority under the Trust Agreement, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the City or Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Trust Agreement or the Lease Agreement or to defend the City or Authority and its members, officers, agents and employees;

(d) insurance premiums for all insurance required pursuant to the Lease Agreement;

(e) any net scheduled payment due under the Swap Agreement and, on a subordinate basis as provided below, any termination payment due under the Swap Agreement;

(f) any amounts with respect to the Lease Agreement or the Certificates required to be rebated to the federal government in accordance with Section 148(f) of the Code; and

(g) all other payments required to be paid by the City under the provisions of any Broker-Dealer Agreement, any Auction Agreement and any Remarketing Agreement the Lease Agreement or the Trust Agreement, including amounts due under the Reserve Facility which do not constitute a part of the Base Rental Payments due including fees and charges under those agreements.

Amounts constituting Additional Rental Payments payable under the Lease Agreement shall be paid by the City directly to the person or persons to whom such amounts shall be payable. The City shall pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof. To the extent that the Additional Rental Payments due in any Rental Period would cause the Rental Payments to exceed the Fair Rental Value of the Property, such excess shall constitute an Excess Amount which shall be paid in accordance with the provisions of the Lease Agreement, provided that termination payment due under the Swap Agreement shall be paid only if such Excess Amount is not

required during such Rental Period to pay any Rental Payments otherwise scheduled to be paid during such Rental Period.

Fair Rental Value. The parties hereto have agreed and determined that the Fair Rental Value of the Property as of the Delivery Date is not less than \$15,100,333. In making such determination of Fair Rental Value, consideration has been given, among other things, to the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the City and the general public. Payments of the Rental Payments for the Property during each Rental Period shall constitute the total rental for said Rental Period. The Rental Payments payable for each Rental Period, plus the undischarged portion of the Excess Amount, shall not exceed the Fair Rental Value.

Payment Provisions. Each installment of Base Rental Payments payable under the Trust Agreement shall be paid in lawful money of the United States of America to or upon the order of the Authority at the Principal Office of the Trustee, or such other place or entity as the Authority shall designate. Each Base Rental Payment shall be deposited with the Trustee no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. Any Base Rental Payment in respect of the Certificates which shall not be paid by the City when due and payable under the terms of the Lease Agreement shall bear interest from the date when the same is due under the Trust Agreement until the same shall be paid at the rate of 10% per annum. Any Base Rental Payment in respect of any Parity Obligations which shall not be paid by the City when due and payable under the terms of agreement or instrument evidencing such Parity Obligation shall bear interest from the date when the same is due thereunder until the same shall be paid at the rate per annum set forth in such agreement or instrument. Notwithstanding any dispute between the Authority and the City, the City shall make all Rental Payments when due without deduction or offset of any kind and shall not withhold any Rental Payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, shall be credited against subsequent Rental Payments due under the Lease Agreement or refunded at the time of such determination. Amounts required to be deposited by the City with the Trustee pursuant to the Lease Agreement on any date shall be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

Appropriations Covenant. The City covenants to take such action as may be necessary to include all Rental Payments estimated by the City, based on an assumed rate on the basis of anticipated market conditions reasonably determined by the City, to become due under the Lease Agreement in the applicable year, not to exceed the term of the Lease Agreement, as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments, plus the undischarged portion, if any, of the Excess Amount. The City will deliver to the Authority and the Trustee copies of the resolution approving the City budget and the portion of each proposed City budget relating to the payment of Rental Payments within ten days after the filing or adoption thereof. The City will deliver to the Authority and the Trustee a copy of the final budget within one month of publication thereof. The covenants on the part of the City in the Lease Agreement contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

Abatement.

(a) In the Event of Non-delivery. To the extent described below, the amount of Base Rental Payments and Additional Rental Payments due under the Lease Agreement shall be abated during any period in which by reason of delay in the completion of the components of the Project which are included in the components of the Property beyond the completion date set forth in the Lease Agreement there is substantial interference with the City's use and occupancy of such component of the Project. The amount of such abatement shall be such that the resulting Base Rental Payments and Additional Rental Payments do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the City, who may not be an employee of the City) for the use and occupancy of the Property and the completed portions of the improvements constituting the Project. Such abatement shall continue until the substantial completion of the components of the Project which are included in the components of the Property. Notwithstanding the foregoing, the City shall remain obligated to make Base Rental Payments and Additional Rental Payments to the extent there are proceeds of insurance pursuant to the Lease Agreement, proceeds of any completion or performance bonds or moneys paid to the City by the contractors or any other person as liquidated damages as a result of any defect or delay in completion of the Project or to the extent that amounts in the Reserve Fund or the Capitalized Interest Account within the Interest Fund are available to pay Base Rental Payments which would otherwise be abated under the Lease Agreement. Any amounts received by the City as liquidated damages shall be deposited by the City immediately upon receipt in the Base Rental Payment Fund.

(b) In the Event of Damage, Destruction, Condemnation or Title Defect. Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, Rental Payments shall be abated proportionately, and the City waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement shall continue in full force and effect. The amount of such abatement shall be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period shall not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period. Notwithstanding the foregoing, Rental Payments shall not abate to the extent of the fair rental value of sites included in the Property which continue to be available for use and occupancy by the City. The City and the Authority shall calculate such abatement and shall provide the Trustee with a certificate setting forth such calculation and the basis therefor. Such abatement shall continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement shall be extended as provided in therein, except that the term shall in no event be extended beyond the Maximum Lease Term.

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Trust Agreement or from proceeds of insurance, Rental Payments shall not be abated as provided above but, rather, shall be payable by the City as a special obligation payable solely from said funds and accounts.



Swap Agreement. The City and the Authority agree and acknowledge that obligations under the Swap Agreement to post collateral under certain circumstances or to make termination payments upon an early termination event or event of default under the Swap Agreement are payable on a subordinate basis to the Base Rental Payments. In the event any obligation of the City to post collateral or to make payments upon an early termination or event of default under the Swap Agreement on a subordinate basis to the Base Rental Payments shall arise, the City shall establish a fund as necessary for the purpose of satisfying such obligation. As provided and on the dates under and subject to the Lease Agreement, the City shall pay directly to the person or persons to whom such amounts shall be payable all payments due under the Swap Agreement.

**ACQUISITION, CONSTRUCTION AND INSTALLATION OF THE PROJECT;  
MAINTENANCE OF PROPERTY; ALTERATIONS AND ADDITIONS**

Acquisition, Construction and Installation of the Project. The Authority hereby appoints the City as its agent to carry out all phases of the acquisition, construction and installation of the Project. The City hereby accepts such appointment and, as such agent, hereby assumes all duties, rights, responsibilities and liabilities of the Authority regarding the acquisition, construction and installation of the Project. The City, as agent of the Authority, will, in all respects, supervise and provide for, or cause to be supervised and provided for, the acquisition, construction and installation of the Project.

In connection with the acquisition, construction and installation of the Project, payment of the Acquisition Costs shall be made from the moneys deposited with the Trustee in the Acquisition and Construction Fund, which shall be disbursed for such purposes in accordance and upon compliance with the Trust Agreement. In the event that there is at any time a deficiency in the Acquisition and Construction Fund to pay all Acquisition Costs in full, the amount of such deficiency shall be deposited therein by the City, from and only to the extent it has additional funds legally available to it for such purpose.

Maintenance and Utilities. Throughout the term of the Lease Agreement, as part of the consideration for rental of the Property, all improvement, repair and maintenance of the Property shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof. In exchange for the Rental Payments, the Authority agrees only to lease the Property as is, where is.

Additions to Property. Subject to the Lease Agreement, the City and any sublessee shall, at its own expense, have the right to make additions, modifications and improvements to the Property, provided that such additions, modifications and improvements shall not in any way damage the Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Property, upon completion of any additions, modifications and improvements shall be of a value which is at least equal to the value of the Property immediately prior to the making of such additions, modifications and improvements. To the extent that the removal of such additions, modifications or improvements would not cause material damage to the Property, such additions, modifications and improvements shall remain the sole property of the City or such sublessee, and neither the Authority nor the Trustee shall have any interest therein.

Installation of City's Equipment. The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon the Property. All such items shall remain the sole property of the City or such sublessee, and neither the Authority nor the Trustee shall have any interest therein. The City or such sublessee may remove or modify such equipment or other personal property at any time, provided that such party shall repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items. Nothing in the Lease Agreement shall prevent the City or any sublessee from purchasing items to be installed under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Property.

Completion Date; Certification. The City and the Authority expect that all portions of the Project will be substantially completed on or prior to January 1, 2010. Such date represents the anticipated completion date of the Project, and the parties agree and understand that the Project is expected to be completed prior to such date; provided, however, that such completion date shall be extended for an additional period if the City, or any contractor or contractors, are delayed by: (i) litigation brought against the City or the Authority which enjoins the construction of the Project; (ii) any act of God which the Authority or the City could not have reasonably foreseen and provided for; (iii) any strikes, boycotts, or similar obstructive actions by employee or labor organizations which are beyond the control of the Authority or the City and which the Authority or the City cannot overcome with reasonable effort and could not have reasonably foreseen and provided for; (iv) any war or declaration of the state of national emergency; or (v) the imposition by government action or authority of restrictions upon the procurement of labor or materials necessary for the completion of the Project.

Upon the completion of acquisition, construction, delivery and installation of any portion of the Project intended to be a part of the Property, the City shall deliver to the Trustee a Completion Certificate with respect thereto. A separate Completion Certificate will be filed with respect to the portion of the Project to be financed from the Certificates. On the date of filing a Completion Certificate for the final portions of the Project, all excess moneys remaining in the Acquisition and Construction Fund for the Certificates for which such Completion Certificate is delivered shall be applied in accordance with the provisions of the Trust Agreement.

If the Authority, for any reason whatsoever, cannot deliver possession of any component of the Project which is included in the Property by January 1, 2010, and as a result of which non-delivery the City is deprived of the use and occupancy of a substantial portion of such component of the Project, the Lease shall not be void or voidable, nor shall the Authority be liable to the City for any loss or damage resulting therefrom. In such event, however, Base Rental Payments and Additional Rental Payments, with respect to the period between the completion date thereof and the time when such component of the Project which is included in the Property is substantially completed, shall be payable solely to the extent and from the sources of payment identified in the Lease Agreement.

## INSURANCE

### Public Liability and Property Damage.

(a) Coverage. The City shall maintain or cause to be maintained, throughout the Term hereof, a standard comprehensive general public liability and property damage insurance policy or policies in protection of the City and the Authority and their respective officers, agents and employees as additional insureds under the policy or policies. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or operation of the Property.

(b) Limits. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person in each accident or event and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$500,000 for damage to property resulting from each accident or event (subject to a deductible clause of not to exceed \$250,000 or such higher amount as is consented to by the Credit Facility Provider). Such public liability and property damage insurance may, however, be in the form of a single limit policy covering all such risks in an amount equal to the aggregate minimum liability limits set forth herein.

(c) Joint or Self-Insurance. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City. Such liability insurance may be maintained by the City in the form of self-insurance or a risk pooling arrangement which complies with the Lease Agreement.

(d) Payment of Proceeds. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Worker's Compensation. The City shall also maintain worker's compensation insurance issued by a responsible carrier authorized under the laws of the State to insure its employees against liability for compensation under the Worker's Compensation Insurance and Safety Act in force in the State; or any act thereafter enacted as an amendment or supplement thereto, or in lieu thereof such insurance, or a part thereof, may be maintained by the City in the form of self-insurance which complies with the Lease Agreement.

### Hazard Insurance.

(a) Coverage. The City shall maintain or cause to be maintained, throughout the Term hereof, a policy or policies of insurance, issued by insurance providers rated no less than "A+" by Standard & Poor's Ratings Group and Moody's Investors Service, against loss or damage to the Property resulting from fire, lightning, vandalism, malicious mischief and such perils ordinarily defined as "extended coverage", excluding flood and earthquake; provided, however, that a flood and earthquake rider shall be purchased if the City, in its reasonable discretion, determines that such coverage is available from reputable insurers at commercially reasonable rates. Said policy or policies shall be maintained in an amount not less than the full replacement value of the Property, subject to a "deductible clause" not to exceed two hundred-fifty thousand dollars (\$250,000) for any one loss or, in the case of a flood and earthquake rider, ten percent (10%) of the coverage obtained or

such higher amount as is consented to by the Credit Facility Provider, and shall name the Trustee as loss payee and the Authority as an additional insured under the policy or policies. The term “full replacement value” as used in the Lease Agreement shall mean the actual replacement cost of the improvements located on the Property (including the cost of restoring the surface of the Property, but excluding the cost of restoring trees, plants and shrubs).

(b) Joint or Self-Insurance. Such insurance may be maintained as part of or in conjunction with any other insurance carried by the City. The City shall not maintain such hazard insurance in the form of self-insurance.

(c) Payment of Net Proceeds. The Net Proceeds of such insurance shall be paid to the Trustee and applied as provided in the Lease Agreement.

Rental Interruption Insurance.

(a) Coverage and Amount. The City shall maintain or cause to be maintained for the benefit of the Authority rental interruption insurance in an amount not less than an amount equal to twice the maximum annual Base Rental Payment during the Term of, to insure against loss of rental income from the Property caused by perils covered by the insurance required to be maintained as provided in the Lease Agreement. Such insurance shall be obtained not later than the Delivery Date for the Certificates and shall be increased as required in connection with each issue of Additional Certificates.

(b) Joint Insurance. Such insurance may be maintained as part of or in conjunction with any other rental interruption insurance carried by the City. The City may not maintain rental interruption insurance in the form of self-insurance. The insurance provider of the rental interruption insurance must be rated no less than “A+” by Standard & Poor’s and Moody’s.

(c) Payment of Proceeds. The proceeds of such rental interruption insurance shall be paid to the Trustee as loss payee and deposited in the Base Rental Payment Fund, to be held therein and credited towards the payment of the Base Rental Payments in the order in which such Base Rental Payments come due and payable.

Title Insurance. The City shall deliver on the Delivery Date a policy of title insurance for the Property approved by the Credit Facility Provider and issued by a title insurer approved by the Credit Facility Provider. In connection with any substitution of real property pursuant to the Lease Agreement, the City shall obtain title insurance on the Property, in the form of an ALTA owner’s policy with Western Regional exceptions. The title policy or policies in effect at any time with respect to the Property shall be in an amount at least equal to the aggregate Principal Component of unpaid Base Rental Payments, issued by a title insurer of recognized standing duly authorized to issue the same. The title policy or policies shall insure the City’s fee simple estate and the Authority’s and City’s leasehold estate in the substituted Property, subject only to Permitted Encumbrances. The proceeds of such insurance shall be paid to the Trustee as loss payee and applied as provided in the Lease Agreement. The City shall not maintain title insurance in the form of self-insurance.

General Insurance Provisions.

(a) Form of Policies. All policies of insurance required to be procured and maintained pursuant to the Lease, other than the worker's compensation insurance and the title insurance specified in the Lease Agreement, and any statements of self-insurance shall provide that the City and the Trustee shall receive 30 days' notice of each expiration, or any intended cancellation thereof or reduction of the coverage provided thereby. Insurance required to be procured and maintained regarding hazard insurance, regarding rental interruption insurance and regarding title insurance shall provide that all proceeds thereunder shall be payable to the Trustee as the loss payee. Except as otherwise provided in the Lease Agreement, all required insurance policies must be provided by a commercial insurance provider rated no less than A+ by Standard & Poor's Ratings Group and Moody's Investors Service. All policies shall name the City, the Authority, and the Trustee as additional insureds and the Trustee as loss payee.

(b) Payment of Premiums. The City shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease.

(c) Protection of the Trustee. The Trustee shall not be responsible for the sufficiency or adequacy of any insurance in the Lease Agreement required and, upon the receipt of the prior written consent of the Credit Facility Provider, shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the City.

(d) Evidence of Insurance. The City shall deliver certificates to the Trustee and the Credit Facility Provider within the 30 days prior to March 15 of each year during the Term of the Lease to the effect that the insurance policies required by the Lease are in full force and effect.

(e) Self-Insurance. Any self-insurance or risk pooling insurance arrangement ("Pooling") maintained by the City in respect of the hazards and risks described in the Lease Agreement shall afford reasonable protection to the Authority, the City and the Trustee. Before the City elects to provide self-insurance or Pooling under the Lease Agreement, and within the 30 days prior to March 15 of each year thereafter, there shall be filed with the Trustee a certificate of an actuary, independent insurance consultant selected by the City, or other qualified person selected by the City, who may be the City's Risk Manager, stating that, in the opinion of the signer, the method or plan of protection is sound and affords adequate protection to the Authority, the City and the Trustee against loss and damage from the hazards and risks covered thereby, and there shall also be filed with the Trustee a certificate of the City stating that such substitute method or plan has been implemented. Self-insurance or Pooling for property and casualty and liability risks, unless otherwise consented to by the Credit Facility Provider, shall comply with the following conditions:

(i) The self insurance or Pooling program must be approved by an independent insurance consultant, who may be the City's Risk Manager;

(ii) The self insurance or Pooling program must be maintained on an actuarially sound basis and the Credit Facility Provider will annually receive a certified actuarial statement of the City's Risk Manager attesting to the sufficiency of the program's assets;

(iii) The self insurance or Pooling fund must be held in a separate trust fund; and

(iv) In the event the self insurance or Pooling program is discontinued, the actuarial soundness of the claim reserve fund must be maintained.

The Trustee shall be fully protected in relying on the certificate provided in accordance with the Lease Agreement and shall not be responsible for the review or verification of such certificate.

The City shall provide adequate reserves to cover the amount of any deductible provisions of the insurance required to be maintained pursuant to the Lease Agreement.

Cooperation. The Authority shall cooperate fully with the City at the expense of the City in filing any proof of loss with respect to any insurance policy maintained pursuant to the Lease Agreement and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Property or any portion thereof.

## **DEFAULTS AND REMEDIES**

### Defaults and Remedies.

(a) (i) If the City shall fail (A) to pay any Rental Payment payable under the Lease Agreement when the same becomes due and payable, time being expressly declared to be of the essence in the Lease Agreement, or (B) to keep, observe or perform any other term, covenant or condition contained in the Lease Agreement or in the Trust Agreement to be kept or performed by the City, or (ii) upon the happening of any of the events specified in (b), the City shall be deemed to be in default under the Lease Agreement and it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement. The City shall in no event be in default in the observance or performance of any covenant, condition or agreement in the Lease Agreement on its part to be observed or performed, other than as referred to in (i)(A) or (ii) of the preceding sentence, unless the City shall have failed, for a period of 30 days or such additional time as is reasonably required, but in no event greater than 60 days to correct any such default after notice by the Authority to the City properly specifying wherein the City has failed to perform any such covenant, condition or agreement. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, shall, with the prior written consent of the Credit Facility Provider, have the option to do any of the following:

(1) To terminate the Lease Agreement in the manner provided therein on account of default by the City, notwithstanding any re-entry or re-letting of the Property as provided for in (2) below, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City. In the event of such termination, the City agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Authority all damages recoverable at law that the Authority may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Authority to protect the Authority's interest under the Lease Agreement shall of itself

operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the City shall be or become effective by operation of law or acts of the parties thereto, or otherwise, unless and until the Authority shall have given written notice to the City of the election on the part of the Authority to terminate the Lease Agreement. The City covenants and agrees that no surrender of the Property or of the remainder of the term of the Lease Agreement or any termination of the Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated by the Authority by such written notice.

(2) Without terminating the Lease Agreement, (x) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions hereof to be kept or performed by the City, regardless of whether or not the City has abandoned the Property, or (y) to exercise any and all rights of entry and re-entry upon the Property. In the event the Authority does not elect to terminate the Lease Agreement in the manner provided for in (1) above, the City shall remain liable and agrees to keep or perform all covenants and conditions to be kept or performed by the City and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of the Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and further agrees to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as provided for the payment of Rental Payments under the Lease Agreement, notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments specified in the Lease Agreement, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Authority elect to re-enter as provided in the Lease Agreement, the City irrevocably appoints the Authority as the agent and attorney-in-fact of the City to re-let the Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City, and the City indemnifies and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. The City agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-let the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Authority in effecting such re-letting shall constitute a surrender or termination of the Lease Agreement irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease Agreement shall vest in the Authority to be effected in the sole and exclusive manner provided for in (1) above. The City further agrees to pay the Authority the cost of any alterations or additions to the Property necessary to place the Property in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City hereby waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the

Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Property.

(b) If (i) the City's interest in the Lease Agreement or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority, as provided for in the Lease Agreement, (ii) the City or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to effect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City shall be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City shall make a general assignment for the benefit of the City's creditors, or (iii) the City shall abandon or vacate the Property, then the City shall be deemed to be in default under the Lease Agreement.

(c) In addition to the other remedies, upon the occurrence of an event of default, the Authority and its assignee shall be entitled to proceed to protect and enforce the rights vested in the Authority and its assignee by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the City and of its City Council, officers or employees shall be enforceable by the Authority or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority and its assignee shall have the right to bring the following actions:

(i) Accounting. By action or suit in equity to require the City and its City Council, officers and employees and its assigns to account as the trustee of an express trust.

(ii) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority or its assignee.

(iii) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's or its assignee's rights against the City (and its City Council, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided in the Lease Agreement.

Each and all of the remedies given to the Authority under the Lease Agreement or by any law now or thereafter enacted are cumulative and the single or partial exercise of any right, power or privilege shall not impair the right of the Authority to the further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" shall include, but not be limited to, re-letting by means of the operation by the Authority of the Property. If any statute or rule of law validly shall limit the remedies given to the Authority under the Lease Agreement, the Authority nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.



In the event the Authority shall prevail in any action brought to enforce any of the terms and provisions of the Lease Agreement, the City agrees to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority under the Lease Agreement.

Notwithstanding anything to the contrary contained in the Lease Agreement, the Authority shall have no right upon a default under the Lease Agreement by the City to accelerate Rental Payments.

(d) Notwithstanding anything in the Lease Agreement to the contrary, the termination of the Lease Agreement by the Authority and its assignees on account of a default by the City shall not effect or result in a termination of the lease of the Property by the City to the Authority pursuant to the Site Lease.

Waiver. Failure of the Authority to take advantage of any default on the part of the City shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Authority to insist upon performance by the City of any term, covenant or condition hereof, or to exercise any rights given the Authority on account of such default. A waiver of a particular default shall not be deemed to be a waiver of any other default or of the same default subsequently occurring. The acceptance of Rental Payments under the Lease Agreement shall not be, or be construed to be, a waiver of any term, covenant or condition of the Lease Agreement.

#### **EMINENT DOMAIN; PREPAYMENT**

Eminent Domain. If all of the Property (or portions thereof such that the remainder is not usable for public purposes by the City) shall be taken under the power of eminent domain, the term hereof shall cease as of the day that possession shall be so taken. If less than all of the Property shall be taken under the power of eminent domain and the remainder is usable for public purposes by the City at the time of such taking, then the Lease Agreement shall continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there shall be a partial abatement of the Rental Payments in accordance with the provisions of the Lease Agreement. So long as any Certificates shall be Outstanding, any award made in eminent domain proceedings for the taking of the Property, or any portion thereof, shall be paid to the Trustee and applied to the prepayment of Certificates as provided in the Trust Agreement. Any such award made after all of the Certificates, all of the Parity Obligations, and all other amounts due under the Trust Agreement, have been fully paid, shall be paid to the Swap Provider to pay Swap termination payments, if any, and after all termination payments have been fully paid, to the Authority and to the City as their respective interests may appear.

#### Prepayment.

(a) (i) The City may prepay all or a portion of the Base Rental Payments evidenced by Bank Certificates, from any source of available funds, on any date, by paying all or a portion, as elected by the City, of the principal components of the Base Rental Payments evidenced by Bank Certificates, and the accrued but unpaid interest component of such Base Rental Payments to be prepaid to the date of such prepayment, without premium.

(ii) As long as no Bank Certificates are Outstanding, the City may prepay all or a portion of the Base Rental Payments from any source of available funds, on any date on which the Certificates may be optionally prepaid, by paying (A) all or a portion (in an amount equal to an Authorized Denomination under the Trust Agreement), as elected by the City, of the principal components of such Base Rental Payments, (B) an amount equal to the accrued but unpaid interest component of such Base Rental Payments to be prepaid to the date of such prepayment, and (C) an amount equal to any premium, if any, to be paid upon the optional prepayment of the Certificates to be prepaid from the proceeds of such prepaid Base Rental Payments.

(iii) The City may prepay all or a portion of the Base Rental Payments from and to the extent of any Net Proceeds received with respect to all or a portion of the Property, deposited by the Trustee in the Base Rental Payment Fund and not used to repair or replace said property pursuant to the Lease and the Trust Agreement.

(iv) The City may prepay, from any source of available funds, all or any portion of the Base Rental Payments (other than Base Rental Payments evidenced by Bank Certificates) by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions set forth, in the Trust Agreement sufficient to make such Base Rental Payments when due or to make such Base Rental Payments through a specified date on which the City has a right to prepay such Base Rental Payments, and to prepay such Base Rental Payments on such prepayment date, at a prepayment price determined in accordance with the Lease Agreement.

(b) If less than all of the Base Rental Payments are prepaid pursuant to this Section then the Base Rental Payments shall be prepaid on a pro-rata basis and, as of the date of such prepayment pursuant to subsection (a) of this Section, or the date of a deposit pursuant to subsection (b) of this Section, the principal and interest components of the Base Rental Payments shall be recalculated in order to take such prepayment into account. The City agrees that if, following a partial prepayment of Base Rental Payments, the Property is damaged, destroyed or taken by eminent domain, or a defect in title to the Property is discovered, the City shall not be entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and the City shall not be entitled to any reimbursement of such Base Rental Payments.

(c) Prepayments of Base Rental Payments made pursuant to this Section shall be applied to the prepayment of Certificates, as provided in the Trust Agreement. Notwithstanding anything to the contrary contained in the Lease Agreement, as long as Bank Certificates are Outstanding, prepayments of Base Rental Payments shall be applied first to prepay such Bank Certificates.

(d) Before making any prepayment pursuant to this Section, the City shall give written notice to the Authority, the Credit Facility Provider and the Swap Provider specifying the date on which the prepayment will be made, which date shall be not less than 45 nor more than 65 days from the date such notice is given to the Authority.

## COVENANTS

Right of Entry. The Authority and its assignees shall have the right to enter upon and to examine and inspect the Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations under the Lease Agreement, and for all other lawful purposes.

Liens. In the event the City shall at any time during the term of the Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the City shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon or about the Property and which may be secured by a mechanics', materialmen's or other lien against the Property or the Authority's interest therein, and will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that, if the City desires to contest any such lien, it may do so as long as such contest is in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the City shall forthwith pay and discharge said judgment.

Quiet Enjoyment. The parties mutually covenant that the City, by keeping and performing the covenants and agreements contained the Lease Agreement, shall at all times during the term of the Lease Agreement peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Authority.

Authority Not Liable. The Authority and its directors, officers, agents and employees, shall not be liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Property. To the extent permitted by law, the City shall, at its expense, indemnify and hold the Authority and the Trustee and all directors, members, officers and employees thereof harmless against and from any and all claims by or on behalf of any person, firm, corporation or governmental authority arising from the acquisition, construction, occupation, use, operation, maintenance, possession, conduct or management of or from any work done in or about the Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Property or the occupancy or use thereof, but excepting the negligence or willful misconduct of the persons or entity seeking indemnity. The City also covenants and agrees, at its expense, to pay and indemnify and save the Authority and the Trustee and all directors, officers and employees thereof harmless against and from any and all claims arising from (a) any condition of the Property and the adjoining sidewalks and passageways, (b) any breach or default on the part of the City in the performance of any covenant or agreement to be performed by the City pursuant to the Lease Agreement, (c) any act or negligence of licensees in connection with their use, occupancy or operation of the Property, or (d) any accident, injury or damage whatsoever caused to any person, firm or corporation in or about the Property or upon or under the sidewalks and from and against all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any claim referred to in this section, but excepting the negligence or willful misconduct of the person or entity seeking indemnity. In the event that any action or proceeding is brought against the Authority, or the Trustee or any director, member, officer or employee thereof, by reason of any such claim, the City, upon notice from the Authority or the Trustee or such director, member, officer or employee thereof, covenants to resist or defend such action or proceeding by counsel reasonably satisfactory to the Authority or the Trustee or such director, member, officer or employee thereof.

Notwithstanding the fact that it is the intention of the parties that the Authority and the Trustee and all officers and directors thereof shall not incur any pecuniary liability by reason of the terms of the Lease Agreement, or the undertakings required of the Authority or the Trustee

thereunder or any director, officer or employee thereof, by reason of the execution and delivery of the Certificates, by reason of the execution or authorization of any document or certification in connection with the Certificates including, but not limited to, the Trust Agreement, the Lease Agreement, or any preliminary or final official statement, by reason of the performance or nonperformance of any act required of any of them by the Lease Agreement or the Trust Agreement or by reason of the performance or nonperformance of any act requested of any of them by the City, the Authority or the Trustee, including all claims, liabilities or losses arising in connection with the violation of any statutes or regulation pertaining to the foregoing; nevertheless, if the Authority or the Trustee or any officer or director thereof should incur any such pecuniary liability, then in such event the City shall indemnify and hold harmless the Authority and the Trustee, and all directors, officers and employees thereof, against all claims by or on behalf of any person, firm, corporation or governmental authority arising out of the same, or in connection with any action or proceeding brought thereon, but excepting the negligence or willful misconduct of the person or entity seeking indemnity, and upon notice from the Authority or the Trustee, the City shall defend the Authority and the Trustee in any such action or proceeding. This Section shall survive the termination of the Lease Agreement for any claim, proceeding or action arising from any event or omission occurring during the term of the Lease Agreement.

Assignment and Subleasing. Neither the Lease Agreement nor any interest of the City under the Lease Agreement shall be sold, mortgaged, pledged, assigned, or transferred by the City by voluntary act or by operation of law or otherwise; provided, however, that the Property may be subleased in whole or in part by the City with the prior written consent of the Authority and the Credit Facility Provider, provided further that, any such sublease shall be subject to all of the following conditions:

(a) the Lease Agreement and the obligation of the City to make all Rental Payments under the Lease Agreement shall remain the primary obligation of the City;

(b) the City shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority, the Credit Facility Provider and the Trustee a true and complete copy of such sublease;

(c) no such sublease by the City shall cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State of California;

(d) any sublease of the Property by the City shall explicitly provide that such sublease is subject to all rights of the Authority under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement upon a default by the City; and

(e) the City shall furnish the Authority, the Credit Facility Provider and the Trustee with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest evidenced by the Certificates to be included in gross income for federal income tax purposes.

Title to Property. Upon the termination or expiration of the Lease Agreement (other than as provided in Sections 6.01 and 7.01 of the Lease Agreement), and the first date upon which the Certificates are no longer Outstanding, all right, title and interest in and to the Property shall vest in the City. Upon any such termination or expiration, the Authority shall execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

Fair Rental Value. The City and the Authority have agreed and determined that such total rental to be paid under the Lease Agreement does not exceed the fair rental value of the Property during the Term of the Lease. In making such determination, consideration has been given to the fair rental value of the Property (including but not limited to costs of maintenance, taxes and insurance), the uses and purposes which may be served by the Property and the essential public benefits therefrom which will accrue to the City and the general public.

Representations of the City. The City represents and warrants to the Authority that (a) the City has the full power and authority to enter into, to execute and to deliver the Lease Agreement and the Trust Agreement, and to perform all of its duties and obligations thereunder, and has duly authorized the execution and delivery of the Lease Agreement and the Trust Agreement. Additionally, having held a public hearing within each county or city and county where the Project is to be located after notice of the hearing was duly published once at least five days prior to the hearing in a newspaper of general circulation in each affected county or city and county, the City finds and represents that the execution and delivery of the Certificates to finance the Project provides significant public benefit in accordance with the criteria specified in Section 6586 of the California Government Code.

Representation of the Authority. The Authority represents and warrants to the City that the Authority has the full power and authority to enter into, to execute and to deliver the Lease Agreement, the Assignment Agreement and the Trust Agreement, and to perform all of its duties and obligations under the Lease Agreement and thereunder, and has duly authorized the execution and delivery of the Lease Agreement, the Assignment Agreement and the Trust Agreement. Additionally, having held a public hearing within each county or city and county where the Project is to be located after notice of the hearing was duly published once at least five days prior to the hearing in a newspaper of general circulation in each affected county or city and county, the Authority finds and represents that the execution and delivery of the Certificates to finance the Project provides significant public benefit in accordance with the criteria as specified in Section 6586 of the California Government Code.

Compliance with Law, Regulations, Etc.

(a) The City has, after due inquiry, no knowledge and has not given or received any written notice indicating that the Property or the past or present use thereof or any practice, procedure or policy employed by it in the conduct of its business materially violates any applicable law, regulation, code, order, rule, judgment or consent agreement, including, without limitation, those relating to zoning, building, use and occupancy, fire safety, health, sanitation, air pollution, ecological matters, environmental protection, hazardous or toxic materials, substances or wastes, conservation, parking, architectural barriers to the handicapped, or restrictive covenants or other agreements affecting title to the Property (collectively, "Laws and Regulations"). Without limiting the generality of the foregoing, neither the City nor to the best of its knowledge, after due inquiry, any prior or present owner, tenant or subtenant of the Property has, other than as set forth in subsections (a) and (b) of this Section or as may have been remediated in accordance with Laws and Regulations, (i) used, treated, stored, transported or disposed of any material amount of flammable explosives, polychlorinated biphenyl compounds, heavy metals, chlorinated solvents, cyanide, radon, petroleum products, asbestos or any Asbestos Containing Materials, methane, radioactive materials, pollutants, hazardous materials, hazardous wastes, hazardous, toxic, or regulated substances or related materials, as defined in CERCLA, RCRA, CWA, CAA, TSCA and Title III, and the

regulations promulgated pursuant thereto, and in all other Environmental Regulations applicable to the Authority or the City, the Property or the business operations conducted by the Authority or the City thereon (collectively, "Hazardous Materials") on, from or beneath the Property, (ii) pumped, spilled, leaked, disposed of, emptied, discharged or released (collectively "Release") any material amount of Hazardous Materials on, from or beneath the Property, or (iii) stored any material amount of petroleum products at the Property in underground storage tanks.

(b) Excluded from the representations and warranties in subsection (a) of this Section with respect to Hazardous Materials are those Hazardous Materials in those amounts ordinarily found in the inventory of, or used in the maintenance of office buildings, the use, treatment, storage, transportation and disposal of which has been and shall be in compliance with all Laws and Regulations.

(c) No portion of the Property located in an area of high potential incidence of radon has an unventilated basement or subsurface portion which is occupied or used for any purpose other than the foundation or support of the improvements to the Property, respectively.

(d) The City has not received any notice from any insurance company which has issued a policy with respect to the Property or from the applicable state or local government agency responsible for insurance standards (or any other body exercising similar functions) requiring the performance of any repairs, alterations or other work, which repairs, alterations or other work have not been completed at the Property, respectively. The City has not received any notice of default or breach which has not been cured under any covenant, condition, restriction, right-of-way, reciprocal easement, agreement or other easement affecting the Property which is to be performed or complied with by it.

#### Environmental Compliance.

(a) Neither the City nor the Authority shall use or permit the Property or any part thereof to be used to generate, manufacture, refine, treat, store, handle, transport or dispose of, transfer, produce or process Hazardous Materials, except, and only to the extent, if necessary to maintain the improvements on the Property and then only in compliance with all Environmental Regulations, and any state equivalent laws and regulations, nor shall it permit, as a result of any intentional or unintentional act or omission on its part or by any tenant, subtenant, licensee, guest, invitee, contractor, employee or agent, the storage, transportation, disposal or use of Hazardous Materials or the Release or threat of Release of Hazardous Materials on, from or beneath the Property or onto any other property. Upon the occurrence of any Release or threat of Release of Hazardous Materials, the Authority or the City shall promptly commence and perform, or cause to be commenced and performed promptly, without cost to the Trustee, all investigations, studies, sampling and testing, and all remedial, removal and other actions necessary to clean up and remove all Hazardous Materials so released on, from or beneath the Property or other property, in compliance with all Environmental Regulations. Notwithstanding anything to the contrary contained in the Lease Agreement, underground storage tanks shall only be permitted subject to compliance with subsection (d) of this Section and only to the extent necessary to maintain the improvements on the Property.

(b) The City and the Authority shall comply with, and shall cause all tenants, subtenants, licensees, guests, invitees, contractors, employees and agents on the Property to comply with, all Environmental Regulations, and shall keep the Property free and clear of any liens imposed pursuant thereto (provided, however, that any such liens, if not discharged, may be bonded). The City and the

Authority shall cause each tenant under any lease, and use their best efforts to cause all of such tenant's subtenants, agents, licensees, employees, contractors, guests and invitees and the guests and invitees of all of the foregoing to comply with all Environmental Regulations with respect to the Property; provided, however, that notwithstanding that a portion of this covenant is limited to the City's and Authority's use of its best efforts, the Authority and the City shall remain solely responsible for ensuring such compliance and such limitation shall not diminish or affect in any way the Authority's or the City's obligations contained in subsection (c) of this Section. Upon receipt of any notice from any person with regard to the Release of Hazardous Materials on, from or beneath the Property, the City or the Authority, as appropriate, shall give prompt written notice thereof to the City or the Authority, as appropriate, the Trustee prior to the expiration of any period in which to respond to such notice under any Environmental Regulation.

(c) Irrespective of whether any representation or warranty contained in the Lease Agreement is not true or correct, the Authority and the City shall, to the extent permitted by law, defend, indemnify and hold harmless the Owners, its partners, depositors and each of its and their employees, agents, officers, directors, trustees, successors and assigns, from and against any claims, demands, penalties, fines, attorneys' fees (including, without limitation, attorneys' fees incurred to enforce the indemnification contained in this section), consultants' fees, investigation and laboratory fees, liabilities, settlements (five Business Days' prior notice of which the Authority or the Trustee, as appropriate, shall have delivered to the City), court costs, damages, losses, costs or expenses of whatever kind or nature, known or unknown, contingent or otherwise, occurring in whole or in part, arising out of, or in any way related to, (i) the presence, disposal, Release, threat of Release, removal, discharge, storage or transportation of any Hazardous Materials on, from or beneath the Property, (ii) any personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Materials, (iii) any lawsuit brought or threatened, settlement reached (five Business Days' prior notice of which the Authority or the Trustee, as appropriate, shall have delivered to the City), or governmental order relating to Hazardous Materials on, from or beneath the Property, (iv) any violation of Environmental Regulations or subsection (a) or (b) of this Section by either of them or any of their agents, tenants, employees, contractors, licensees, guests, subtenants or invitees, and (v) the imposition of any governmental lien for the recovery of environmental cleanup or removal costs. To the extent that either the Authority or the City is strictly liable under any Environmental Regulation, its obligation to the Owners and the other indemnitees under the foregoing indemnification shall likewise be without regard to fault on its part with respect to the violation of any Environmental Regulation which results in liability to any indemnitee. The obligations and liabilities under this subsection shall survive the payment of all Certificates and the discharge of the Trust Agreement.

(d) The City shall conform to and carry out a reasonable program of maintenance and inspection of all underground storage tanks, and shall maintain, repair and replace such tanks only in accordance with Laws and Regulations, including but not limited to Environmental Regulations.

No Condemnation. The City shall not condemn, and neither the City nor the Authority shall consent to the condemnation of, the Property or any interest of the City, the Authority or the Trustee therein. The City shall not abandon or vacate the Property.

## **NO CONSEQUENTIAL DAMAGES; USE OF THE PROPERTY; SUBSTITUTION OR RELEASE**

No Consequential Damages. In no event shall the Authority be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease Agreement or the City's use of the Property.

Use of the Property. The City will not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease Agreement. In addition, the City agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Property) with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; provided, however, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Authority, adversely affect the estate of the Authority in and to any of the Property or its interest or rights under the Lease Agreement.

Substitution or Release of the Property. The City shall have the right to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement. All costs and expenses incurred in connection with such substitution or release shall be borne by the City. Notwithstanding any substitution or release pursuant to this Section, there shall be no reduction in or abatement of the Base Rental Payments due from the City under the Lease Agreement as a result of such substitution or release. Any such substitution or release of any portion of the Property shall be subject to the following specific conditions, which are hereby made conditions precedent to such substitution or release:

(a) an independent certified real estate appraiser selected by the City shall have found (and shall have delivered a certificate to the City and the Trustee setting forth its findings) that the Property, as constituted after such substitution or release, (i) has an annual fair rental value greater than or equal to 105% of the maximum amount of Base Rental Payments payable by the City in any Rental Period, and (ii) has a useful life equal to or greater than the useful life of the Property, as constituted prior to such substitution or release;

(b) the City shall have obtained or caused to be obtained an ALTA title insurance policy or policies with respect to any substituted property in the amount of the fair market value of such substituted property (which fair market value shall have been determined by an independent certified real estate appraiser), of the type and with the endorsements described in the Lease Agreement;

(c) the City shall have provided the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest evidenced by the Certificates to be included in gross income for federal income tax purposes;

(d) if the Certificates are in a Term Rate Mode or a Fixed Rate Mode (as defined in the Trust Agreement) at the time of the substitution or release, the City shall have given, or shall have made arrangements to be given any notice of the occurrence of such substitution or release required to be given;

(e) the City, the Authority and the Trustee shall have executed, and the City shall have caused to be recorded with the Riverside County Recorder, any document necessary to reconvey to



the City the portion of the Property being substituted or released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Site Lease;

(f) the City shall have certified to the Trustee that the substituted real property is of approximately the same degree of essentially to the City as the portion of the Property for which it is being substituted; and

(g) the Credit Facility Provider shall have been given no less than ten days' prior written notice of such substitution or release and shall have consented thereto, if required by the applicable Reimbursement Agreement.

### **MISCELLANEOUS**

Net-Net-Net Lease. The Lease Agreement shall be deemed and construed to be a "net-net-net lease" and the City agrees that the Rental Payments shall be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever and notwithstanding any dispute between the City and the Authority.

Taxes. The City shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Property or the respective interests or estates therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the term of the Lease Agreement as and when the same become due.

The City or any sublessee may, at the City's or such sublessee's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority or the Trustee shall notify the City or such sublessee that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Authority in the Property will be materially endangered or the Property, or any part thereof, will be subject to loss or forfeiture, in which event the City or such sublessee shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

#### Amendments.

(a) The Lease Agreement and the Site Lease, and the rights and obligations of the Authority and the City thereunder, may be amended at any time by an amendment thereto which shall become binding upon execution by the City and the Authority, and the Owners of a majority of the principal evidenced by the Certificates then Outstanding, provided that no such amendment shall (i) extend the payment date of any Base Rental Payments, reduce the interest component or principal component of any Base Rental Payments or change the prepayment terms and provisions, without the prior written consent of the Owner of each Certificate so affected, (ii) reduce the percentage of the principal evidenced by the Certificates the consent of the Owners of which is required for the execution of any amendment of the Lease Agreement or the Site Lease, or (iii) modify any of the rights or obligations of the Credit Facility Provider without the prior written consent of the Credit Facility Provider.

(b) The Lease Agreement and the Site Lease, and the rights and obligations of the City and the Authority thereunder, may also be amended at any time by an amendment thereto which shall become binding upon execution by the City and the Authority, but 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 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 in the Lease Agreement or therein to or conferred in the Lease Agreement or therein on the Authority or the City, and which in either case shall not materially adversely affect the interests of the Credit Facility Provider or the Owners;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Lease Agreement or therein or in regard to questions arising under the Lease Agreement or thereunder which the Authority or the City may deem desirable or necessary and not inconsistent herewith or therewith, and which shall not materially adversely affect the interests of the Credit Facility Provider or the Owners;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest components of Base Rental Payments;

(iv) to provide for the execution and delivery of Additional Certificates in accordance with the provisions of the Trust Agreement or to provide for the substitution or release of a portion of the Property in accordance with the provisions of the Lease Agreement; or

(v) to make such other changes therein or modifications hereto or thereto as the Authority or the City may deem desirable or necessary, and which shall not materially adversely affect the interests of the Credit Facility Provider or the Owners.

(c) The Lease Agreement and the Site Lease, and the rights and obligations of the Authority and the City thereunder, may also be amended as of any Conversion Date by an amendment thereof which shall become binding on such Conversion Date, but without the written consents of any Owners, but only to the extent permitted by law and only if the Certificates have been remarketed by the Remarketing Agent pursuant to the Trust Agreement for purchase on such Conversion Date with such amended rights or obligations of the Authority and the City under the Lease Agreement and the Site Lease.

Third-Party Beneficiaries. The Credit Facility Provider is a third-party beneficiary of the Lease Agreement.

Assignment. The City and the Authority hereby acknowledge the assignment of the Lease Agreement, and the Base Rental Payments payable thereunder, to the Trustee pursuant to the Assignment Agreement.

References to Credit Facility Provider Effective. If a Credit Facility becomes effective, then all references in the Lease Agreement to the Credit Facility Provider and the Credit Facility shall become effective. If such Credit Facility ceases to be effective, and all obligations to the Credit Facility Provider under the Credit Facility have been paid in full, then all references in the Lease Agreement to the Credit Facility Provider, the Bank and the Credit Facility shall be of no effect.

## SUMMARY OF THE SITE LEASE

### QUIET ENJOYMENT

The parties intend that the Property will be leased back to the City pursuant to the Lease for the term thereof. It is further intended that, to the extent provided in the Site Lease and in the Lease, if an event of default occurs under the Lease, the Authority, or its assignee, will have the right, for the then remaining term of the Site Lease to (a) take possession of the Property, (b) if it deems it appropriate, cause an appraisal of the Property and a study of the then reasonable use thereof to be undertaken, and (c) relet the Property. The Authority at all times during the term of the Site Lease shall peaceably and quietly have, hold and enjoy all of the Property; provided, however, that the City shall have the right, during the construction and installation of the Project, to cause impacts incidental to such construction or installation to some or all of the existing improvements on the Property, provided such impacts shall not reduce the value of the Property or the full beneficial use of the Property as of March 1, 2010. Subject to the foregoing proviso and any rights the City may have under the Lease (in the absence of an event of default) to possession and enjoyment of the Property, the City covenants and agrees that it will not take any action to prevent the Authority from having quiet and peaceable possession and enjoyment of the Property during the term of the Site Lease and will, at the request of the Authority and at the City's cost, to the extent that it may lawfully do so, join in any legal action in which the Authority asserts its right to such possession and enjoyment.

### SPECIAL COVENANTS AND PROVISIONS

Waste. The Authority agrees that at all times that it is in possession of the Property, it will not commit, suffer or permit any waste on the Property, and that it will not willfully or knowingly use or permit the use of the Property for any illegal purpose or act.

Further Assurances and Corrective Instruments. The City and the Authority agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Property leased or intended so to be or for carrying out the expressed intention of the Site Lease, the Trust Agreement and the Lease.

Waiver of Personal Liability. All liabilities under the Site Lease on the part of the Authority shall be solely liabilities of the Authority as a joint powers authority, and the City hereby releases each and every director and officer of the Authority of and from any personal or individual liability under the Site Lease. No director or officer of the Authority shall at any time or under any circumstances be individually or personally liable under the Site Lease to the City or to any other party whomsoever for anything done or omitted to be done by the Authority under the Site Lease.

All liabilities under the Site Lease on the part of the City shall be solely liabilities of the City, and the Authority releases each and every member of the City Council, officer and employee of the City of and from any personal or individual liability under the Site Lease. No member of the City Council, officer or employee of the City shall at any time or under any circumstances be individually or personally liable under the Site Lease to the Authority or to any other party whomsoever for anything done or omitted to be done by the City under the Site Lease.

Taxes. The City covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Property.

Right of Entry. The City reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time to inspect the same.

Representations of the City. The City represents and warrants to the Authority and the Trustee as follows:

(a) the City has the full power and authority to enter into, to execute and to deliver the Site Lease, and to perform all of its duties and obligations under the Site Lease, and has duly authorized the execution of the Site Lease;

(b) the City has sufficient interest in the Property to lease it under the Site Lease and, in the event of a title defect in the Property that impairs the right to use and occupy the Property, the City covenants that it will exercise its power, including but not limited to, its condemnation powers to the extent permitted by law, to obtain the necessary rights in the Property and to cure such defect and limitation of the right to use and occupancy;

(c) except for Permitted Encumbrances, the Property is not subject to any dedication, easement, right of way, reservation in patent, covenant, condition, restriction, lien or encumbrance which would prohibit or materially interfere with the use of the Property as contemplated by the City; and

(d) all taxes, assessments or impositions of any kind with respect to the Property, except current taxes, have been paid in full.

Representations of the Authority. The Authority represents and warrants to the City and the Trustee that the Authority has the full power and authority to enter into, to execute and to deliver the Site Lease, and to perform all of its duties and obligations hereunder, and has duly authorized the execution and delivery of the Site Lease.

### **ASSIGNMENT, SELLING AND SUBLEASING**

Assignment, Selling and Subleasing. The Site Lease may be assigned or sold, and the Property may be subleased, as a whole or in part, by the Authority, without the necessity of obtaining the consent of the City, if an event of default occurs under the Lease. The Authority shall, within 30 days after such an assignment, sale or sublease, furnish or cause to be furnished to the City a true and correct copy of such assignment, sublease or sale, as the case may be.

The Authority shall assign all of its rights under the Site Lease to the Trustee appointed pursuant to the Trust Agreement.

Restrictions on City. The City agrees that, except with respect to Permitted Encumbrances, it will not mortgage, sell, encumber, assign, transfer or convey the Property or any portion thereof during the term of the Site Lease.

## APPENDIX D

### CITY AND COUNTY OF RIVERSIDE - ECONOMIC AND DEMOGRAPHIC INFORMATION

*The description of economic and demographic information of the City and County of Riverside set forth in this Appendix D is included in the Official Statement for information purposes only.*

#### **General**

The City is the county seat of the County of Riverside and is located in the western portion of the County about 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. Within 10 miles of the City are the cities of San Bernardino, Loma Linda, Corona, Norco, Fontana, Ontario, Rialto, Colton, Moreno Valley and Redlands, among others. These cities and the City are located in the Counties of Riverside and San Bernardino and comprise the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (the "MSA"). The MSA represents an important economic area of the State and of Southern California. It lies to the west and south respectively of the strategic San Gorgonio and Cajon Passes, from which three transcontinental railroads and interstate highways converge to connect the Los Angeles area with the other areas of the nation. The City is situated in close proximity to the metropolitan centers of Los Angeles and Orange Counties.

Riverside and San Bernardino Counties cover approximately 27,400 square miles, a land area larger than the State of Virginia. With a population of over 4 million, it ranks as one of the largest MSAs in the United States. Riverside County alone is larger than the State of New Jersey. The MSA, though small geographically in relation to the bi-county area, contains most of the two counties' population.

#### **Municipal Government**

The City was incorporated in 1883 and covers 85.6 square miles. The City is a charter city and has a council-manager form of government with a seven-member council being elected for four-year overlapping terms. The mayor is elected at large for a four-year term and is the presiding officer of the council, but does not have a vote except in case of a tie. The position of City Manager is filled by appointment of the council to serve as administrator of the staff and to carry out the policies of the council. Functions of the City government are carried out by close to 2,850 full and part-time personnel. The City operates and maintains a sewer, water and electric system. Other City services include police, fire, diversified recreation programs, parks, a museum and libraries.

## Population

As of January 1, 2007 the population of the City was estimated to be 291,398 and the County had a population of approximately 2,031,625. As of January 1, 2007, San Bernardino County had a population of approximately 2,028,013. The following table presents population data for both the City and the County.

**Table 1**  
**CITY OF RIVERSIDE AND COUNTY OF RIVERSIDE**  
**POPULATION**

<u>Year</u>	<u>City of Riverside</u>	<u>County of Riverside</u>
1960	84,332	306,191
1970	140,089	459,074
1980	165,087	663,923
1990	226,505	1,170,413
2000	255,166	1,545,387
2001	262,264	1,590,186
2002	270,944	1,653,847
2003	277,459	1,726,321
2004	281,775	1,807,624
2005	287,321	1,888,311
2006	287,820	1,953,330
2007	291,398	2,031,625

---

Sources: 1960-2000 U.S. Census; 2001-2007 California Department of Finance (Demographic Research Unit)

## Personal Income

Personal income is the income received by all persons from all sources. Personal income is the sum of net earnings by place of residence, rental income of persons, personal dividend income, personal interest income and personal current transfer receipts. Net earnings is earnings by place of work (the sum of wage and salary disbursements (payrolls), supplements to wages and salaries, and proprietors' income) less contributions for government social insurance, plus an adjustment to convert earnings by place of work to a place-of-residence basis. Personal income is measured before the deduction of personal income taxes and other personal taxes and is reported in current dollars (no adjustment is made for price changes). Per capita personal income is calculated as the personal income of residents of a given area divided by the resident population of the area.

The following table sets forth the per capita personal income in the County and the State for calendar years 2001 through 2005.

**Table 2**  
**COUNTY OF RIVERSIDE**  
**PER CAPITA PERSONAL INCOME**  
**Calendar Years 2001 through 2005**

<u>Year</u>	<u>County of Riverside</u>	<u>California</u>
2001	\$24,661	\$32,859
2002	24,789	32,769
2003	25,276	33,469
2004	26,361	35,380
2005	27,167	36,936

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

<sup>(1)</sup> Per capital personal income was computed using Census Bureau midyear population estimates. Estimates reflect County population estimates available as of March 2007.

### Education

The City is included within the boundaries of the Riverside Unified School District and the Alvard Unified School District, which also serves the County area southwest of the City. These two districts include 65 elementary, middle schools and high schools. Not all these schools are located within the boundaries of the City. There are also about 48 private or parochial schools for kindergarten through twelfth grade. Higher education is available at four institutions: Riverside Community College, University of California at Riverside, California Baptist University and La Sierra University. Also located in the City are the California School for the Deaf and the Sherman Institute, a federally-run school for Indians.

The following table sets forth public elementary and secondary school enrollment in the County for school years 2003 through 2007

**Table 3**  
**COUNTY OF RIVERSIDE**  
**PUBLIC SCHOOL ENROLLMENT**  
**School Years 2003 through 2007**

<u>Grades</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Elementary <sup>(1)</sup>	247,845	257,868	266,742	275,194	286,207
Secondary <sup>(2)</sup>	<u>101,762</u>	<u>106,989</u>	<u>114,222</u>	<u>119,989</u>	<u>126,852</u>
Total	<u>349,607</u>	<u>364,857</u>	<u>380,964</u>	<u>395,183</u>	<u>413,059</u>

Source: State Department of Education.

<sup>(1)</sup> Includes grades K-8 and un-graded elementary students.

<sup>(2)</sup> Includes grades 9-12 and un-graded secondary students.

The following table sets forth enrollment figures for colleges and universities in the City for school year 2006-07.

**Table 4**  
**CITY OF RIVERSIDE**  
**COLLEGE AND UNIVERSITY ENROLLMENT**  
**School Year 2006-07<sup>(1)</sup>**

<u>College or University</u>	<u>Enrollment</u>
Riverside Community College	29,486
University of California at Riverside	16,875
California Baptist University	3,409
La Sierra University	1,896

Source: U.S. Department of Education, National Center for Education Statistics.

<sup>(1)</sup> Data reflects Fall semester enrollment.

## **Employment**

The following table presents the annual average distribution of persons in various wage and salary employment categories for the MSA for calendar years 2002 through 2006. Within 10 miles of the City are the cities of San Bernardino, Loma Linda, Corona, Norco, Fontana, Ontario, Rialto, Colton, Moreno Valley and Redlands, among others. These cities and the City are located in the Counties of Riverside and San Bernardino and comprise the MSA. The MSA lays to the west and south respectively of the strategic San Gorgonio and Cajon Passes, from which three transcontinental railroads and interstate highways converge to connect the Los Angeles area with the other areas of the nation.



**Table 5**  
**RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA**  
**ANNUAL AVERAGE EMPLOYMENT COMPARISON**  
**Calendar Years 2002 through 2006**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Civilian Labor Force <sup>(1)</sup>	\$1,541,400	\$1,591,600	\$1,662,500	\$1,724,700	\$1,770,500
Employment	1,445,000	1,489,800	1,564,600	1,633,300	1,684,400
Unemployment	96,400	101,800	97,900	91,400	86,100
Unemployment Rate	6.3%	6.4%	5.9%	5.3%	4.9%
Wage and Salary Employment <sup>(2)</sup>					
Agriculture	20,300	20,300	18,700	18,300	17,200
Natural Resources and Mining	1,200	1,200	1,200	1,400	1,400
Construction	90,900	99,000	111,800	123,300	129,500
Manufacturing	115,400	116,100	120,100	121,000	124,000
Wholesale Trade	41,900	43,500	45,600	49,900	53,800
Retail Trade	137,500	142,700	153,800	165,700	171,500
Trans., Warehousing and Utilities	46,800	50,100	55,500	60,200	63,800
Information	14,100	13,900	14,000	14,500	15,200
Finance and Insurance	23,500	25,700	28,000	30,100	31,900
Real Estate and Rental and Leasing	15,900	16,900	17,700	18,900	20,000
Professional and Business Services	106,800	115,400	125,500	133,200	142,200
Educational and Health Services	112,400	115,800	118,400	119,900	122,700
Leisure and Hospitality	107,200	109,000	116,700	122,600	128,700
Other Services	38,100	38,400	39,300	40,800	42,600
Federal Government	16,900	17,000	17,300	18,700	18,800
State Government	26,600	26,600	26,500	27,000	27,300
Local Government	<u>169,300</u>	<u>167,900</u>	<u>168,700</u>	<u>174,800</u>	<u>178,100</u>
Total, All Industries	<u>\$1,084,800</u>	<u>\$1,119,400</u>	<u>\$1,178,700</u>	<u>\$1,240,300</u>	<u>\$1,288,400</u>

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

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

Source: State of California Employment Development Department.

The 25 largest employers in the County are shown below.

**Table 6**  
**COUNTY OF RIVERSIDE**  
**LARGEST EMPLOYERS**  
**(As of October, 2007)**

	<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
1.	Boston Scientific Corp	Temecula	Physicians
2.	C A State Transportation	Lake Elsinore	Government
3.	Conduit Networks Inc	Not Available	Computers-Networking
4.	Crossroads Truck Dismantling	Mira Loma	Automobile
5.	Desert Regional Medical Center	Palm Springs	Hospitals
6.	Desert Sands Unified School District	La Quinta	Schools
7.	Eisenhower Medical Center	Rancho Mirage	Hospitals
8.	Hemet Valley Medical System	Hemet	Hospitals
9.	La Quinta Resort & Club	La Quinta	Resorts
10.	Labtechniques	Rancho Mirage	Laboratories-Medical
11.	Marriott-Desert Springs Resort	Palm Desert	Hotels
12.	Morongo Casino Resort & Spa	Cabazon	Tourist
13.	Oasis Distributing	Thermal	Fruits
14.	Palm Springs Unified School District	Palm Springs	Schools
15.	Pechanga Development Corp	Temecula	Casinos
16.	Riverside Community College	Riverside	Schools-Universities
17.	Riverside Community Hospital	Riverside	Hospitals
18.	Riverside County Regional Med	Moreno Valley	Hospitals
19.	Riverside Forklift Training	Riverside	Trucks-Industrial
20.	Robertson's Ready Mix	Corona	Concrete-Ready
21.	Starcrest Products-California	Perris	Internet
22.	Sun World Intl Llc	Coachella	Fruits
23.	T Michael Intl	Perris	Internet
24.	University Of California	Riverside	Schools-Universities
25.	Watson Pharmaceuticals Inc	Corona	Drug

Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database.

## Housing

The following table sets forth estimates of the City's housing stock for calendar years 2003 through 2007.

**Table 7**  
**CITY OF RIVERSIDE**  
**HOUSING STOCK<sup>(1)</sup>**  
**Calendar Years 2003 through 2007**

Type	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Single family					
Detached	57,323	58,106	58,673	59,933	60,838
Attached	4,185	4,185	4,139	4,139	4,144
Multifamily					
2 to 4 units	5,824	5,826	5,826	5,832	5,840
5 or more units	20,770	20,801	22,382	22,639	23,147
Mobile homes	<u>2,409</u>	<u>2,431</u>	<u>2,431</u>	<u>2,477</u>	<u>2,477</u>
Total units	<u>90,511</u>	<u>91,349</u>	<u>93,451</u>	<u>95,020</u>	<u>96,446</u>

Source: California State Department of Finance.

<sup>(1)</sup> Housing units are estimated by adding new construction and annexations, and subtracting demolitions and conversions from the 2000 benchmark or a prior year's estimate.

## Construction Activity

The following table provides a summary of residential building permit valuations and nonresidential building permit valuations, and the number of new dwelling units authorized in the City during calendar years 2003 through 2007.

**Table 8**  
**CITY OF RIVERSIDE**  
**BUILDING PERMIT ACTIVITY**  
**Calendar Years 2003 through 2007**  
**(Dollars in Thousands)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>PERMIT VALUATION</b>					
New Single-family	\$140,055.6	\$205,436.7	\$333,223.8	\$200,821.0	\$88,700.6
New Multi-family	93,711.0	23,610.9	44,223.8	32,498.8	59,369.5
Res. Alterations/Additions	<u>19,772.5</u>	<u>22,225.7</u>	<u>22,817.8</u>	<u>17,139.3</u>	<u>183,372.3</u>
Total Residential	<u>\$253,539.1</u>	<u>\$251,273.3</u>	<u>\$400,265.4</u>	<u>\$250,459.2</u>	<u>\$166,512.4</u>
New Commercial	\$62,900.5	\$161,598.7	\$107,106.2	\$118,436.3	\$117,693.6
New Industrial	14,973.6	14,593.8	26,909.5	35,484.2	45,943.6
New Other	18,816.8	32,324.4	35,436.2	26,905.6	27,857.2
Com. Alterations/Additions	<u>45,913.7</u>	<u>40,374.2</u>	<u>56,320.9</u>	<u>63,389.2</u>	<u>67,889.5</u>
Total Nonresidential	<u>\$142,604.6</u>	<u>\$248,891.2</u>	<u>\$225,772.7</u>	<u>\$244,315.3</u>	<u>\$259,383.9</u>
<b>NEW DWELLING UNITS</b>					
Single Family	689	820	1,442	847	342
Multiple Family	<u>1,377</u>	<u>282</u>	<u>521</u>	<u>286</u>	<u>599</u>
TOTAL	<u>2,066</u>	<u>1,102</u>	<u>1,963</u>	<u>1,133</u>	<u>941</u>

Source: Construction Industry Research Board.

## Retail Sales

The following table sets forth taxable transactions for calendar years 2002 through 2006 in the City by type of business.

**Table 9**  
**CITY OF RIVERSIDE**  
**TAXABLE TRANSACTIONS**  
**Calendar Years 2002 through 2006**  
**(Dollars in Thousands)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Apparel stores	\$ 105,476	\$ 124,223	\$ 145,023	\$ 160,138	\$ 174,662
General merchandise stores	510,038	536,795	597,030	625,500	606,351
Food stores	136,076	145,308	154,562	168,015	176,052
Eating & drinking places	257,711	276,757	300,858	330,249	350,911
Home furnishings & appliances	81,844	93,977	102,243	108,873	119,217
Building materials & farm implements	346,277	395,175	517,865	584,760	573,736
Auto dealers and auto supplies	864,486	987,372	1,172,792	1,245,340	1,219,784
Service stations	192,914	222,575	266,658	306,008	342,810
Other retail stores	<u>396,808</u>	<u>427,978</u>	<u>461,968</u>	<u>491,080</u>	<u>519,454</u>
Retail Stores Totals	<u>\$2,891,630</u>	<u>\$3,210,160</u>	<u>\$3,718,999</u>	<u>\$4,019,963</u>	<u>\$4,082,977</u>
All other outlets	<u>769,277</u>	<u>764,423</u>	<u>884,770</u>	<u>930,291</u>	<u>951,095</u>
Total all outlets	<u>\$3,660,907</u>	<u>\$3,974,583</u>	<u>\$4,603,769</u>	<u>\$4,950,254</u>	<u>\$5,034,072</u>

Source: California State Board of Equalization.

## Community Facilities

Among the City's cultural institutions and activities are a convention center, a municipal art center, a museum, a library, an auditorium, the opera society and the symphony society. There are three major hospitals in the City: Parkview Community, Riverside Community and Kaiser Permanente.

## Transportation

The City is served by a variety of land and air transportation facilities. Light rail commuter service is provided by Metrolink to Los Angeles and Orange Counties. Interstate bus service is available via Greyhound and local bus service is provided by the Riverside Transit Agency. Most major trucking firms serve the City in addition to numerous local carriers. Overnight delivery can be scheduled to San Francisco, Los Angeles, San Diego and Sacramento.

Freight rail service to the City is provided by two major transcontinental railroads: the Santa Fe and Union Pacific. Amtrak-operated passenger train service is available in San Bernardino, approximately 15 miles north of the City.

Scheduled air transportation is available from the Ontario International Airport, approximately 18 miles west of the City. The City-operated Riverside Municipal Airport is a general aviation facility.

The City is served by the Riverside Freeway (State Route 91), which provides access to Orange County; Interstate 215, which connects the City to San Diego, San Bernardino and points beyond; and the Pomona Freeway (U.S. Highway 60), an east-west route.

To support transportation improvements, in November 1988 County voters approved Measure A, a one-half cent sales tax increase. Measure A was to expire in 2009, but in 2002, County voters approved extending Measure A until 2039. Measure A is expected to generate \$4.6 billion between 2009 and 2039. In 1990, voters of the adjacent San Bernardino County approved a similar program, and that sales tax was similarly extended by a vote of the electorate in November 2003.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX E

### PROPOSED FORM OF FINAL OPINION

April \_\_, 2008

City Council  
City of Riverside  
Riverside, California

*Re: \$\_\_\_\_\_ City of Riverside Variable Rate Refunding Certificates of Participation (Riverside Renaissance Projects), Series 2008*

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the City of Riverside, California (the "City") in connection with the authorization, execution and delivery by the City of that certain Lease Agreement, dated as of April 1, 2008 (the "Lease Agreement"), by and between the Riverside Public Financing Authority (the "Authority") and the City. We have also reviewed that certain Trust Agreement, dated as of April 1, 2008 (the "Trust Agreement"), by and among U.S. Bank National Association, as trustee (the "Trustee"), the Authority and the City. All capitalized terms used herein shall have the meaning given them in the Trust Agreement unless otherwise defined.

Pursuant to the Trust Agreement, the Trustee has agreed to execute and deliver the \$\_\_\_\_\_ City of Riverside Variable Rate Certificates of Participation (Riverside Renaissance Projects), Series 2008 (the "Certificates") evidencing proportionate interests of the Owners of the Certificates in base rental payments (the "Base Rental Payments") to be made by the City pursuant to the Lease Agreement. Pursuant to that certain Assignment Agreement (the "Assignment Agreement") dated as of April 1, 2008, by and between the Authority and the Trustee, the Authority has assigned to the Trustee as security for the Certificates the Authority's right to receive Base Rental Payments from the City under the Lease Agreement.

The Certificates are dated the Delivery Date. The Certificates mature on the dates and in the amounts set forth in the Trust Agreement. Interest due with respect to the Certificates is payable on the dates and at the rates per annum set forth in the Trust Agreement. The Certificates are registered Certificates in the form set forth in the Trust Agreement and are subject to optional, extraordinary and mandatory sinking fund prepayment prior to maturity in the manner and upon the terms set forth in the Trust Agreement.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The obligations of the City to pay Base Rental Payments in accordance with the terms of the Lease Agreement are valid and binding obligations payable from the funds of the City lawfully available therefor, except as the same may be limited by bankruptcy, insolvency,

reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against counties in the State of California. The obligations of the City to make Base Rental Payments under the Lease Agreement do not constitute debts of the City, the State of California or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and do not constitute a pledge of the faith and credit or taxing power of the City, the State of California or any political subdivision thereof.

2. The Lease Agreement and the Trust Agreement have been duly authorized, executed and delivered by the City and constitute valid and legally binding agreements of the City enforceable against the City in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against counties in the State of California, except that we express no opinion as to any provisions in the Lease Agreement or the Trust Agreement with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

3. Under existing statutes, regulations, rulings and judicial decisions, interest due with respect to the Certificates is excluded 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; however, it should be noted that, with respect to corporations, such interest will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations. The foregoing opinion is subject to the condition that the City complies with all requirements of the Code, that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portion of the Certificates designated as and comprising interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of the Certificates designated as and comprising interest to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The City has covenanted to comply with all such requirements.

4. The portion of the Certificates designated as and comprising interest is exempt from State of California personal income tax.

Except as expressly set forth in paragraphs (3) and (4), we express no opinion regarding any tax consequences with respect to the Certificates.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement, the Tax Certificate executed by the City and other documents related to the Certificates may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of the portion of each Certificate designated as and comprising interest if any such change occurs or action is taken or



omitted upon advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease Agreement, the Site Lease or the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement as to the Certificates terminates as of their date of execution and delivery. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the City, the Authority, the initial purchasers of the Certificates and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Certificates, and expressly disclaim any duty to advise the Owners of the Certificates with respect to matters contained in the Official Statement.

Respectfully submitted,

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX F

### BOOK ENTRY PROVISIONS

*The information in this Appendix F concerning The Depository Trust Company (“DTC”), New York, New York, and DTC's book-entry system has been obtained from DTC and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) redemption, tender or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

The Depository Trust Company, New York, New York, will act as securities depository for the Certificates. The Certificates 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 certificate will be issued for each maturity of the Certificates, 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 the 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 Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate (“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 Certificates 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Trust Agreement. For example, Beneficial Owners of the Certificates may wish to ascertain that the nominee holding the Certificates 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.

Prepayment notices shall be sent to DTC. If less than all of the Certificates within an issue are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 2008D Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price (if any) and interest payments on the Certificates 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 or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, prepayment price (if any) and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City 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.

A Beneficial Owner shall give notice to elect to have its Certificates purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Certificates by causing the Direct Participation to transfer the Participant's interest in the Certificates, on DTC's records, to the Tender Agent. The requirement for physical delivery of the Certificates in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Certificates are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Certificates to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered.

The information in this Appendix F concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

### **Discontinuation of the Book-Entry System**

In the event that DTC determines not to continue to act as securities depository by giving notice to the City and the Trustee, and discharges its responsibilities with respect thereto under applicable law and there is not a successor securities depository, or the City determines that it is in the best interest of the Beneficial Owners of the Certificates that they be able to obtain certificates, the Trustee will execute, transfer and exchange Certificates as requested by DTC and will deliver new Certificates in fully registered form in authorized denominations in the names of Beneficial Owners or DTC Participants.

In the event the book-entry system is discontinued, the principal amount of and premium, if any, payable with respect to the Certificates will be payable upon surrender thereof at the principal corporate trust office of the Trustee. The interest on Certificates will be payable by check mailed to the respective owners thereof at their addresses as they appear on the books maintained by the Trustee.

### **Transfer and Exchange of Certificates**

Any Certificate may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of the Trust Agreement, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Certificate for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. The Certificates may be exchanged at the corporate trust office of the Trustee for a like aggregate principal amount of the Certificates of other authorized denominations of the same series, tenor, maturity and interest rate by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Certificates for cancellation; provided that no transfer or exchange may occur during the period established by the Trustee for selection of the Certificates for prepayment, or of any Certificate or portion of a Certificate so selected for prepayment. The Trustee shall require the owner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

The foregoing description concerning DTC and DTC's book-entry system is based solely on information furnished by DTC. No representation is made herein by the City or the Underwriter as to the accuracy or completeness of such information.

None of the City, the Authority, the Trustee or the Underwriter can 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 Certificates 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. None of the City, the Authority or the Underwriter is 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 Certificates or an error or delay relating thereto.

[THIS PAGE INTENTIONALLY LEFT BLANK]

## APPENDIX G

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Riverside (the “City”), in connection with the execution and delivery of \$\_\_\_\_\_ City of Riverside Variable Rate Refunding Certificates of Participation (Riverside Renaissance Projects) Series 2008 (the “Certificates”). The Certificates are being executed pursuant to a Trust Agreement, dated as of April 1, 2008, by and among U.S. Bank National Association, as trustee (the “Trustee”), the Riverside Public Financing Authority (the “Authority”) and the City. The City covenants as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with the Rule.

**SECTION 2. Definitions.** In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Comprehensive Annual Financial 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 which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

“Central Post Office” means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Certificate.

“Disclosure Representative” shall mean the City Manager of the City, the Assistant City Manager of the City or their designee, or such other officer or employee as the City shall designate in writing from time to time.

“Dissemination Agent” shall mean, initially, the City acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Official Statement” shall mean the Official Statement relating to the Certificates, dated 16, 2008.

“Participating Underwriter” shall mean Banc of America Securities LLC, the original Purchaser of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Repository.

### SECTION 3. Provision of Annual Reports.

(a) The City shall, or, upon delivery of the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, not later than each April 1 of each year commencing April 1, 2009, provide to the Participating Underwriter and to each Repository an Annual Report which 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. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) business days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the City), file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

(d) Notwithstanding any other provision of this Disclosure Certificate, any of the required filings hereunder may be made through a Central Post Office.



SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

(a) The City's audited financial statements, prepared in accordance with generally accepted auditing standards for municipalities in the State of California. 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) The approved budget of the City for the current fiscal year.

(c) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 3 hereof, updates to the information presented in Tables 1, 2, 5, 6, 8, 9 and 12 set forth in Appendix A of the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Modifications to rights of Certificate holders.
- (iv) Optional, contingent or unscheduled certificate calls.
- (v) Defeasances.
- (vi) Rating changes.
- (vii) Adverse tax opinions or events affecting the tax-exempt status of the Certificates.
- (viii) Unscheduled draws on the debt service reserves reflecting financial difficulties.
- (ix) Unscheduled draws on the credit enhancements reflecting financial difficulties.
- (x) Substitution of the credit or liquidity providers or their failure to perform.

(xi) Release, substitution or sale of property securing repayment of the Certificates.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. 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. The Dissemination Agent may resign by providing thirty days written notice to the City. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City and shall have no duty to review any information provided to it by the City. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that (i) such amendment or waiver is made in connection with a change in circumstances arising from a change in legal requirements, law or the identity, nature or status of the obligated person or type of business conducted, or , in the opinion of nationally recognized bond counsel (ii) such amendment or waiver is permitted by the Rule, (iii) would have complied with the requirements of 15c2-12 (including any amendments or interpretations thereof) at the time of the primary offering, after taking into account any change in circumstances, and (iv) such amendment or waiver does not materially impair the interests of holders, as determined either by parties unaffiliated with the obligated party or by approving vote of Owners. In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next 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 shall 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 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

No Certificate holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

SECTION 11. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the City:	City of Riverside 3900 Main Street Riverside, California 92522 Attention: City Treasurer
--------------	---

To the Trustee:	U.S. Bank National Association 633 West Fifth Street, 24 <sup>th</sup> Floor Los Angeles, California 90071
-----------------	--

SECTION 12. Beneficiaries. This Disclosure Certificate solely to the benefit of the City, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Certificate has been executed by the undersigned on the date hereof, and such signature binds the City to the undertaking herein provided.

Dated: April \_\_\_\_, 2008

CITY OF RIVERSIDE

By: \_\_\_\_\_  
Its: Assistant City Manager

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Riverside

Name of Certificate Issue: \$\_\_\_\_\_ City of Riverside Variable Rate Refunding Certificates of Participation (Riverside Renaissance Projects) Series 2008

Date of Issuance: April \_\_\_, 2008

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Certificate executed by the City on the date of issuance of the Certificates. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

CITY OF RIVERSIDE

By: \_\_\_\_\_

[THIS PAGE INTENTIONALLY LEFT BLANK]



