

RATINGS: S&P — “AAA” (Insured)
 Fitch — “AAA” (Insured)
 S&P — “A+” (Underlying)
 Fitch — “AA-” (Underlying)
 (See “CONCLUDING INFORMATION — Ratings”
 herein.)

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 certain representations and compliance with certain covenants and requirements described herein, the interest (and original issue discount) due with respect to the Certificate 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 (and original issue discount) due with respect to the Certificates is exempt from State of California personal income tax. See “CONCLUDING INFORMATION — Tax Exemption” herein.

\$53,185,000
2003 CERTIFICATES OF PARTICIPATION
(CAPITAL IMPROVEMENT PROJECTS)
Evidencing Undivided Proportionate Interests of the Owners
Thereof in Lease Payments to be Made by the
CITY OF RIVERSIDE, CALIFORNIA
As Rental for Certain Property Pursuant to a
Lease Agreement with the
RIVERSIDE PUBLIC FINANCING AUTHORITY

Dated: Date of Delivery

Due: September 1, as set forth herein

The Certificates will be executed and delivered as fully registered certificates in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company (“DTC”), New York, New York. Purchasers will not receive certificates representing their interest in the Certificates. Individual purchases of the Certificates will be in principal amounts of \$5,000 or in any integral multiples of \$5,000. Interest payable with respect to the Certificates will be payable on March 1 and September 1 of each year, commencing March 1, 2004, and principal payable on the Certificates will be paid on the dates set forth in the Maturity Schedule below. Payments of principal of and interest with respect to the Certificates will be paid by U.S. Bank National Association, Los Angeles, California, as trustee (the “Trustee”), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Certificates.

The Certificates are being sold, executed and delivered (i) to provide funds to the City of Riverside (the “City”) to finance construction of multiple capital improvements, (ii) to fund, in whole or in part, a Reserve Account for the Certificates, and (iii) to pay certain costs of issuing the Certificates.

The Certificates are subject to optional, extraordinary and mandatory prepayment prior to maturity as described herein. See “THE CERTIFICATES” herein.

The Certificates evidence and represent proportionate undivided interests of the Owners thereof in the Lease 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 December 1, 2003 (the “Lease Agreement”), by and between the City, as lessee, and the Riverside Public Financing Authority (the “Authority”), as lessor. The City has covenanted in the Lease Agreement to make the Lease Payments for the Property as provided for therein, to include all such Lease Payments in each of its budgets and to make the necessary annual appropriations for all such Lease Payments. The Lease Payments are subject to abatement, however, as described herein. See “SECURITY FOR THE CERTIFICATES” and “RISK FACTORS” herein.

Payment of the principal of and interest with respect to the Certificates when due will be secured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Certificates. See “CERTIFICATE INSURANCE” herein.

Ambac

THE CITY’S OBLIGATION TO MAKE LEASE PAYMENTS IS AN OBLIGATION PAYABLE FROM THE CITY’S GENERAL FUND OR ANY OTHER SOURCE OF FUNDS LEGALLY AVAILABLE TO THE CITY TO MAKE LEASE PAYMENTS. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS CONSTITUTE 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. CAPITALIZED TERMS USED ON THIS COVER PAGE AND NOT OTHERWISE DEFINED SHALL HAVE THE MEANINGS SET FORTH HEREIN.

MATURITY SCHEDULE
(See inside cover page)

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, and for the Underwriter by its counsel, Nossaman, Guthner, Knox & Elliott, LLP, Irvine, California. It is anticipated that the Certificates in book-entry form, will be available for delivery to DTC in New York, New York, on or about December 22, 2003.

Citigroup

MATURITY SCHEDULE
\$30,235,000 Serial Certificates

<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2004	\$ 755,000	2.00%	1.05%	2014	\$1,470,000	5.00%	3.83%*
2005	1,105,000	2.00	1.25	2015	1,545,000	5.00	3.95*
2006	1,125,000	3.00	1.65	2016	1,620,000	4.00	4.12
2007	1,165,000	2.50	1.95	2017	1,685,000	4.50	4.25*
2008	1,190,000	3.00	2.30	2018	1,760,000	5.00	4.30*
2009	1,230,000	4.00	2.65	2019	1,850,000	5.00	4.39*
2010	1,275,000	3.00	2.93	2020	1,940,000	5.00	4.48*
2011	1,315,000	4.00	3.35	2021	2,035,000	5.00	4.56*
2012	1,365,000	3.50	3.50	2022	2,140,000	5.00	4.61*
2013	1,415,000	4.00	3.70	2023	2,250,000	5.00	4.65*

\$10,080,000 5.00% Term Certificates Due September 1, 2028 — Yield: 4.78%*

\$12,870,000 5.00% Term Certificates Due September 1, 2033 — Yield: 4.80%*

*Yield to call date.

CITY OF RIVERSIDE, CALIFORNIA

CITY COUNCIL

Ronald O. Loveridge, *Mayor*
Frank Schiavone, *Mayor Pro Tem*
Chuck Beaty, *Councilmember*
Ameal Moore, *Councilmember*
Joy Defenbaugh, *Councilmember*
Ed Adkison, *Councilmember*
Nancy Hart, *Councilmember*
Laura Pearson, *Councilmember*

CITY STAFF

George A. Carvalho, *City Manager*
Paul C. Sundeen, *Director of Finance*
Colleen Nicol, *City Clerk*
Michael J. Beck, *Deputy City Manager*
Brent A. Mason, *Assistant Director of Finance*
Gregory P. Priamos, Esq., *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

No dealer, salesperson or other person has been authorized by the City of Riverside to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described in it and, if given or made, such other information or representation must not be relied upon as having been authorized by the City of Riverside. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than those described on the cover page, nor shall there be any offer to sell, solicitation of any offer to buy or sale of such securities by a person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Certificates.

The information set forth herein has been obtained from the City of Riverside and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under 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 Official Statement is submitted in connection with the sale of the securities described in it and may not be reproduced or used, in whole or in part, for any other purposes. The information and expression of opinions contained in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale made by means of it shall, under any circumstances, create any implication that there have not been changes in the affairs of the City since the date of this Official Statement.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOUT THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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CITY OF RIVERSIDE
2003 CERTIFICATES OF PARTICIPATION
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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.

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 by the City of Riverside (the "City") of 2003 Certificates of Participation (Capital Improvement Projects) (the "Certificates"), in the aggregate principal amount of \$53,185,000.

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 by wards 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 appointments of the City Council. The City encompasses approximately 85.6 square miles in the western portion of Riverside County (the "County"), about 60 miles east of downtown Los Angeles and approximately 90 miles north of San Diego. The City is the county seat of the County. The current population of the City is approximately 274,100. For other selected information concerning the City, see "APPENDIX A - CITY OF RIVERSIDE GENERAL ECONOMIC AND FINANCIAL INFORMATION" hereto.

Authority for the Certificates

The Certificates are being executed and delivered pursuant to the provisions of a Trust Agreement, dated as of December 1, 2003 (the "Trust Agreement"), among the City, the Riverside Public Financing Authority (the "Authority") and U.S. Bank National Association, as trustee (the "Trustee").

Purpose

The proceeds of the sale of the Certificates will be used, together with other available moneys, (i) to provide funds to the City to finance, in part, multiple capital improvements in the City (the "Project"), (ii) to fund, in whole or in part, a Reserve Account for the Certificates, and (iii) to pay certain costs of issuance of the Certificates. See "THE PROJECT AND THE

PROPERTY” and “ESTIMATED SOURCES AND USES OF FUNDS” herein. The Project does not serve as security for the Certificates.

Security for the Certificates

The Certificates evidence and represent undivided fractional interests of the registered owners (the “Owners”) thereof in Lease Payments (as defined herein) to be made by the City to the Authority for the right to the use and occupancy of certain real property and improvements thereon, including certain components of the Project (the “Property”). The Property will be leased by the City from the Authority pursuant to a Lease Agreement, dated as of December 1, 2003 (the “Lease Agreement”), between the City, as lessee, and the Authority, as lessor. In order to facilitate the conveyance accomplished by the Lease Agreement, the City will first lease the Property to the Authority pursuant to a Property and Facilities Lease, dated as of December 1, 2003 (the “Site Lease”). See “THE PROJECT AND THE PROPERTY” herein.

In accordance with the Lease Agreement, the City is required to pay to the Trustee specified Lease Payments for the Property which are designed to be sufficient, in both time and amount, to pay, when due, the principal and interest with respect to the Certificates due on March 1 and September 1 of each year, commencing September 1, 2004. The City is also required to pay any taxes, assessment charges, utility charges, maintenance and repair costs of the Property. See “APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein.

The City has covenanted in the Lease Agreement to take all such actions as may be necessary to include all Lease 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 Lease Payments and Additional Payments. The covenants of the City constitute duties imposed by law. Additionally, the City has covenanted to maintain, or cause to be maintained, insurance on the Property. See “SECURITY FOR THE CERTIFICATES -- Insurance” herein.

The City has the right to incur other obligations payable from its general revenues without the consent of the Owners of the Certificates, including obligations payable from increased Lease Payments relating to additional improvements to the Project. See “APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Payment of the principal of and interest with respect to the Certificates when due will be secured by a Financial Guaranty insurance policy to be issued by Ambac Assurance Corporation (the “Insurer”) simultaneously with the delivery of the Certificates. See “CERTIFICATE INSURANCE” below and APPENDIX G – “SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY” attached hereto.

Abatement

Except to the extent of amounts on deposit in the Lease Payment Fund and the Reserve Account, or otherwise available from an insurance or eminent domain award, the amount of Lease Payments due under the Lease Agreement and, correspondingly, the amount available to pay the principal and interest components of 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. See “RISK FACTORS -- Abatement and Eminent Domain” herein. Amounts on deposit in the Lease Payment Fund and the Reserve Account, and proceeds from any insurance or eminent domain award, constitute a special fund for payment of Lease Payments,

and shall be available for such Lease 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 prepayment as described herein.

Assignment

Pursuant to an Assignment Agreement, dated as of December 1, 2003 (the "Assignment Agreement"), the Authority has assigned to the Trustee for the benefit of the Owners of the Certificates (i) its right to receive Lease Payments from the City under the Lease Agreement, (ii) its rights under the Lease Agreement and (iii) without any further act on the part of the Authority, any and all of the other rights of the Authority under the Lease Agreement as may be necessary to enforce payments of Lease Payments when due and otherwise to protect the interests of the Owners.

Limited Obligations

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS IS AN OBLIGATION PAYABLE EACH YEAR FROM THE CITY'S GENERAL FUND OR ANY SOURCE OF FUNDS LEGALLY AVAILABLE FOR THE PAYMENT OF LEASE 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.

Forward-Looking Statements

This Official Statement contains forward-looking statements regarding certain financial items (collectively, the "Forward-Looking Statements"). All statements other than statements of historical facts included in this Official Statement, including without limitation statements regarding the financial position, capital resources and status of the City, are Forward-Looking Statements. Although the City believes that the expectations reflected in such Forward-Looking Statements are reasonable, no assurance can be given that such expectations will prove to be correct. Important factors which could cause actual results to differ materially from expectations of the City (collectively, the "Cautionary Statements") are disclosed in this Official Statement. All Forward-Looking Statements attributable to the City are expressly qualified in their entirety by the Cautionary Statements.

Changes Since the Date of the Preliminary Official Statement

This Official Statement includes certain changes since the date of the Preliminary Official Statement. Significantly, the definition of "Permitted Investments" in APPENDIX B hereto has been revised to allow investment of the Reserve Fund through maturity with the permission of the Insurer, and the "Risk Management" Section of APPENDIX A has been revised to reflect the City's current coverage limits.

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 B - 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.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of owners of the Certificates to provide certain financial information and operating data relating to the City by not later than nine (9) months after the end of the City's Fiscal Year (presently June 30) in each year commencing with its report to be delivered not later than April 1, 2005 (the "Annual Report") (provided, however, that the City will disseminate its audited financial statement for Fiscal Year 2002/03 to the repositories no later than April 1, 2004) and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed, or caused to be filed, by the City with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed, or cause to be filed, by the City with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5). 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 F - FORM OF CONTINUING DISCLOSURE AGREEMENT." Failure of the City to provide the required ongoing information may have a negative impact on the value of the Certificates in the secondary market. The City failed to include certain statistical information in its annual reports required under a continuing disclosure obligation undertaken in connection with its 1999 certificates of participation. The City has since filed all required material and is now current on all filings required pursuant to its previous continuing disclosure undertaking.

THE PROJECT AND THE PROPERTY

The Project

The Project consists of construction and improvements on seven separate City projects, although the city is allowed under the Lease Agreement to substitute individual project components. The cost of the components of the Project are currently estimated as follows:

<u>Project Component</u>	<u>Estimated Cost</u>
Airport Fire Station	\$ 2,500,000
Park Improvements	2,000,000
City Hall Improvements	1,000,000
Orange Street Parking Garage	15,000,000
Sewer Improvements	14,500,000
Police Station	8,000,000
Library	6,000,000
Trails Projects	<u>1,000,000</u>
Total Cost	\$50,000,000

The following is a brief description of each component of the current Project.

Airport Fire Station. Construction on this approximately \$2,500,000 project is projected to begin in February 2004 and to be completed by January 2005.

Park Improvements. Park improvements in the amount of \$2,000,000 will be started in the City's Greenbelt area in January 2004.

City Hall Improvements. The third floor of City Hall will be renovated to provide for greater workplace efficiency and to provide space for "one stop" shopping for developers. The approximately \$1 million in improvements will commence in January 2004.

Orange Street Parking Garage. Land for this approximately \$15 million new construction project will be purchased and construction will begin in February 2004. The project is designed to provide greater parking access to the Downtown area.

Sewer Improvement Projects. The City has identified \$14,500,000 in improvements necessary for the continuing operation of the City's sewer system.

Police Station. A new Police Station to replace leased space and to provide more timely response outside the downtown area costing approximately \$8 million will begin construction in December 2003.

Library. A new library for the City's Arlington area will be financed with Certificate proceeds. The project will cost approximately \$6,000,000 and construction will begin April 2004.

Trails Projects. A coordinated system of trails projects will be seeded with \$1,000,000 of proceeds that will leverage available grant monies. Projects are expected to begin by June 2004.

No environmental review has been conducted yet for any component of the Project. Each component will undergo separate environmental review by the City, as lead agency. Commencement of work on the Project is contingent upon satisfaction of the environmental review process. The City does not currently expect the environmental review process to adversely impact development any component of the Project; provided, in the event any component of the Project is significantly delayed, the City will fund other comparable Projects. In the event the City elects to execute and deliver Additional Certificates to fund additional

components of the Project, the Lease Agreement may be amended to increase Lease Payments in an amount sufficient to secure such Additional Certificates.

The Property

Pursuant to the Site Lease, the City has leased the Property to the Authority, in consideration of a one-time upfront lease payment by the Authority and the Authority’s promise to lease the Property back to the City pursuant to the Lease Agreement. The Property consists of the following (provided, that with the consent of the Insurer properties of equivalent value may be substituted for those currently listed):

<u>Property Description</u>	<u>Acres</u>	<u>Square Footage</u>	<u>Total Value (1)</u>
City Hall (incl. Council Chambers)	4.18	112,704	\$ 24.5 million
Corporate Yard	31.84	72,700	2.3 million
Parking Garage 1	0.46	115,839	2.1 million
Parking Garage 2	0.41	54,870	2.1 million
Parking Garage 3	1.17	54,870	4.7 million
Central Library	1.48	59,400	7.9 million
Convention Center	4.58	54,740	7.0 million
Main Police Station	0.97	39,358	6.7 million
Police Patrolling Center	16.08	26,250	<u>4.5 million</u>
TOTAL			\$ 61.8 million

(1) Value of Property based upon an audit of City properties prepared for the City in 1999, with cost of living adjustments added.

Release of Property; Substitution

Under the Lease Agreement, the City may, from time to time, add other real property or improvements or substitute other real property or improvements for all or a portion of the initial Property, and the City may release all or a portion of the real property subject to the Lease Agreement, upon compliance with the terms of the Lease Agreement. Such terms require that (i) the Trustee is provided with a written Lease Supplement, and (ii) the City has satisfied either of the following conditions precedent:

(a) the Substituted Property consists of one or more of the components of the real property and improvements identified in the Lease Agreement and the City has provided to the Trustee each of the following:

(i) Certificates of insurance applicable to the Property (at and after the addition, substitution or release) which comply with the requirements of the Lease Agreement;

(ii) Written certification that the Substituted Property is only encumbered by Permitted Encumbrances;

(iii) Title insurance for the substituted property provided prior to the release of the Property or evidence that the existing title insurance policy is not adversely affected by such substitution; and

(iv) Prior written notice to each Rating Agency that has rated the Certificates of such substitution.

or (b) the City has obtained and provided to the Trustee each of the following with respect to the Substituted Property:

(i) Written confirmation by each municipal bond rating agency that has rated the Certificates that its then existing rating with respect to the Certificates will not be reduced or withdrawn as a result of such addition, substitution or release;

(ii) Certificates of insurance applicable to the Property (at and after the addition, substitution or release) which comply with the requirements of the Lease Agreement;

(iii) No prior liens on the Substituted Property which are unacceptable to the Insurer;

(iv) An opinion of nationally recognized bond counsel to the effect that such addition, substitution or release will not adversely affect the exclusion from gross income for federal income tax purposes or the exemption from State of California personal income taxation of interest component of the Lease Payments and that the Lease Agreement remains a valid and binding obligation of the City; and

(v) Title insurance for the Substituted Property provided prior to the release of the Released Property or evidence that the existing title insurance policy is not adversely affected by such substitution.

In addition to the foregoing permitted substitutions and release, on or after September 1, 2024, Property may be released from the encumbrance of the Lease Agreement provided that the City has certified to the Trustee that the following conditions are met with respect to the properties which remain encumbered by the Lease Agreement (the "Encumbered Properties") following such release:

(a) City has received written confirmation from each Rating Agency that has rated the Certificates that its then existing rating with respect to the Certificates will not be reduced or withdrawn as a result of such release;

(b) the useful life of the Encumbered Properties, following such release, at least equals the final maturity of the Certificates; and

(c) based upon insured value, the annual fair rental value of the Encumbered Properties, following such release, is at least equal to the maximum annual Lease Payments and Additional Payments to the final maturity of the Certificates, and the fair rental value of the Encumbered Properties does not exceed the portion of the Lease Payments and Additional Payments attributable to the Encumbered Properties, following such release.

See "APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Lease Agreement -- Release and Substitution."

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	\$53,185,000.00
Net Original Issue Premium	<u>1,407,954.05</u>
TOTAL SOURCES	\$54,592,954.05

USES:

Acquisition and Construction Fund(1)	\$50,000,000.00
Reserve Account	3,512,050.00
Costs of Issuance Account (2)	<u>1,080,904.05</u>
TOTAL USES:	\$54,592,954.05

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- (1) To be used to finance a portion of the Project (see "THE PROJECT AND THE PROPERTY" above).
 - (2) Includes Underwriter's discount, premium for the Insurance Policy and other costs of issuing the Certificates.

THE CERTIFICATES

General

The Certificates shall be delivered in the form of fully registered Certificates, without coupons, in denominations of \$5,000 or any integral multiple thereof, and shall be dated the date of delivery to the original purchaser thereof. The Certificates will mature on the dates and in the amounts set forth on the front cover of this Official Statement. The Certificates, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). 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 (defined below) will be the responsibility of DTC, and disbursement of such payments to the DTC Participants (defined below) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (defined below) will be the responsibility of the DTC Participants, as more fully described hereinafter. (See "Book-Entry Only System" below.)

Interest with respect to the Certificates (the "Interest Component") shall be payable on March 1 and September 1 of each year, commencing March 1, 2004, and continuing to and including the date of maturity or prior redemption, whichever is earlier. Principal represented by the Certificates (the "Principal Component") shall become payable on September 1 in each of the years and in the amounts set forth on the cover page of this Official Statement. Principal and premium, if any, with respect to the Certificates shall be payable upon presentation and surrender thereof at the corporate trust office of the Trustee in Los Angeles, California. Interest with respect to the Certificates shall be based on a 360-day year composed of twelve 30-day months and shall be payable by check from the Trustee mailed on each Interest Payment Date by first class mail to the registered Owners as of the close of business on the 15th calendar day of the month (whether or not such day is a Business Day) preceding an interest payment date

(the "Record Date") at their addresses shown on the registration books maintained by the Trustee. Upon the written direction filed with the Trustee prior to any Record Date (as defined herein) by the Owner of Certificates in any aggregate principal amount of \$1,000,000 or more, interest with respect to such Certificates shall be payable to the Owner thereof by federal wire transfer initiated by the Trustee on each succeeding Payment Date, to the account number of a bank or a trust company in the continental United States designated in such written direction. Any such written direction shall remain in effect unless and until revoked in writing by such Owner.

Any Certificate may be transferred upon presentation of such Certificate to the Trustee by the person in whose name it is registered, in person or by his duly authorized attorney. Upon surrender, together with a duly executed instrument of transfer in form acceptable to the Trustee, and payment of a sum sufficient to cover any tax or other governmental charge, the Trustee shall execute and deliver a new Certificate or Certificates of the same maturity, for a like aggregate principal amount. The Trustee shall not be required to transfer any Certificate during the period of 15 days before selection of Certificates for redemption, nor shall the Trustee be required to transfer any Certificate or portion thereof selected for redemption.

Certificates may be exchanged at the corporate trust office of the Trustee in Los Angeles, California, for a like aggregate principal amount represented by such Certificates of other authorized denominations of the same maturity. 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.

The Trustee shall not be required to exchange any Certificate during the period of 15 days before selection of Certificates for redemption, nor shall the Trustee be required to exchange any Certificate or portion thereof selected for prepayment.

Prepayment of the Certificates

Optional Prepayment. The Certificates maturing on or after September 1, 2014 shall be subject to optional prepayment prior to maturity, in whole or in part on any date on or after September 1, 2013, at the option of the City in the event the City elects to exercise its option to prepay Lease Payments, at a prepayment price equal to the Principal Component of Certificates called for prepayment, plus the Interest Component due with respect thereto to the prepayment date, without premium.

Extraordinary Prepayment. The Certificates are subject to extraordinary prepayment, in a manner selected by the City (treating each sinking account installment due with respect to the Certificates as a separate maturity for such purpose) and by lot within a maturity, in whole or in part, as the case may be, without premium, in an amount equal to the Principal Component thereof, together with the Interest Components due with respect thereto to the date fixed for prepayment on the first date for which notice of prepayment can be given by the Trustee following the transfer of Net Proceeds to the Prepayment Account.

Mandatory Sinking Fund Prepayment. (i) The Certificates maturing on September 1, 2028 shall be subject to mandatory prepayment, without premium, in an amount equal to the Principal Component thereof, together with the Interest Component due with respect thereto to the date fixed for prepayment on September 1, 2024 and on each September 1 thereafter to and including September 1, 2028 on the dates and in the amounts as follows:

Prepayment Date <u>(September 1)</u>	Principal <u>Amount</u>
2024	\$1,825,000
2025	1,915,000
2026	2,010,000
2027	2,110,000
2028 (maturity)	2,220,000

(ii) The Certificates maturing on September 1, 2033 shall be subject to mandatory prepayment, without premium, in an amount equal to the Principal Component thereof, together with the Interest Component due with respect thereto to the date fixed for prepayment on September 1, 2029 and on each September 1 thereafter to and including September 1, 2033 on the dates and in the amounts as follows:

Prepayment Date <u>(September 1)</u>	Principal <u>Amount</u>
2029	\$2,330,000
2030	2,445,000
2031	2,570,000
2032	2,695,000
2033 (maturity)	2,830,000

Selection of Certificates for Prepayment. If less than all Outstanding Certificates are to be prepaid from the Net Proceeds of any insurance or condemnation awards, the Trustee will select Certificates for prepayment among the various maturities of Certificates outstanding (treating each Sinking Account Installment due with respect to the Certificates as a separate maturity for such purpose) as directed by the City. If less than all Outstanding Certificates are to be optionally prepaid, the Trustee will select that amount from the maturity or maturities as directed by the City in writing. Within a maturity, the Trustee will select Certificates for prepayment by lot. Prepayment by lot will be in such manner as the Trustee determines; provided, however, that the portion of any Certificate to be prepaid will be in the principal amount of \$5,000 or an integral multiple thereof.

Notice of Prepayment. In the event of mandatory, extraordinary or optional prepayment of Certificates, the Trustee will give notice of prepayment to the respective Owners of Certificates designated for prepayment and such notice shall be given by first class mail, postage prepaid. Each notice of prepayment shall include (i) the date of the Certificates as set forth in the Trust Agreement; (ii) the rate of interest borne by each Certificate being prepaid; (iii) the Prepayment Date and the place or places where amounts due upon such prepayment will be payable; (iv) if less than all of the Certificates of a maturity are to be prepaid, the letters, numbers, CUSIP numbers or other distinguishing marks of such Certificates so to be prepaid; and (v) in the case of Certificates to be prepaid in part only, such notice shall also specify the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on said date there will become due and payable on each of said Certificates the prepayment price thereof or of said specified portion of the principal amount thereof in the case of a Certificate to be prepaid in part only, together with interest accrued thereon to the prepayment date, and that from and after such prepayment date interest thereon shall cease to accrue, and shall require that such Certificates be then surrendered at the address or addresses of the Trustee specified in the prepayment notice.

Notice of such prepayment will be mailed by first class mail to the respective registered Owners of any Certificates designated for prepayment at their addresses appearing on the registration books of the Trustee, at least thirty (30) days but not more than forty-five (45) days prior to the prepayment date; provided that neither the failure by the Trustee to mail such notice nor any defect in such notice shall affect the validity or sufficiency of the proceedings for the prepayment of the Certificates.

Effect of Prepayment. Notice of prepayment having been duly given as aforesaid, and moneys being held by the Trustee for payment of the Prepayment Price of, and interest accrued with respect to the prepayment date on, the Certificates (or portions thereof) so called for prepayment on the prepayment date designated in such notice, such Certificates shall become due and payable at the Prepayment Price specified in such notice plus interest accrued thereon to the date fixed for prepayment, interest with respect to the Certificates so called for prepayment shall cease to accrue, said Certificates (or portions thereof) shall cease to be entitled to any benefit or security under the Trust Agreement, and the Owners of said Certificates shall have no rights in respect thereof except to receive payment of said Prepayment Price and accrued interest to the date fixed for prepayment.

Purchase in Lieu of Prepayment. Any amounts which would otherwise be used for the purpose of paying the principal of and premium (if any) on certificates by optional or mandatory prepayment, may, at any time prior to giving notice of prepayment of any such Certificate and at the direction of the City, be applied to the purchase of Certificates at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Lease Payment Fund) as shall be directed by the City.

Additional Certificates

In addition to the Certificates, the Trust Agreement provides for the execution and delivery of Additional Certificates representing proportionate interests in certain rights under the Lease Agreement, including the right to receive additional Lease Payments made by the City thereunder, with the written consent of the Insurer but without the consent of the Owners, upon the satisfaction of certain conditions set forth in the Trust Agreement. The total annual Lease Payments and Additional Payments represented by the Certificates and any Additional Certificates hereafter executed and delivered may not exceed the annual fair rental value of the Property during the remainder of the Term of the Lease Agreement. Any Additional Certificates shall be payable on a parity with the Certificates, as provided in a Supplemental Trust Agreement authorizing the execution and delivery of such Additional Certificates. See "APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - The Trust Agreement."

Book-Entry System

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered certificates registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX F – BOOK-ENTRY PROVISIONS" herein.

The City and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium, if any, with respect to the Certificates paid to DTC or its nominee as the registered owner, or will distribute any prepayment 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. The City and the Trustee are not responsible or liable for the failure of DTC or any DTC 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.

SCHEDULE OF LEASE PAYMENTS

The table below shows the annual Lease Payments owed by the City. The Lease Payments are due fifteen days prior to each Interest Payment Date.

<u>Date</u> <u>(September 1 of)</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2004	\$ 755,000	\$ 1,672,329	2,427,329
2005	1,105,000	2,402,725	3,507,725
2006	1,125,000	2,380,625	3,505,625
2007	1,165,000	2,346,875	3,511,875
2008	1,190,000	2,317,750	3,507,750
2009	1,230,000	2,282,050	3,512,050
2010	1,275,000	2,232,850	3,507,850
2011	1,315,000	2,194,600	3,509,600
2012	1,365,000	2,142,000	3,507,000
2013	1,415,000	2,094,225	3,509,225
2014	1,470,000	2,037,625	3,507,625
2015	1,545,000	1,964,125	3,509,125
2016	1,620,000	1,886,875	3,506,875
2017	1,685,000	1,822,075	3,507,075
2018	1,760,000	1,746,250	3,506,250
2019	1,850,000	1,658,250	3,508,250
2020	1,940,000	1,565,750	3,505,750
2021	2,035,000	1,468,750	3,503,750
2022	2,140,000	1,367,000	3,507,000
2023	2,250,000	1,260,000	3,510,000
2024	1,825,000	1,147,500	2,972,500
2025	1,915,000	1,056,250	2,971,250
2026	2,010,000	960,500	2,970,500
2027	2,110,000	860,000	2,970,000
2028	2,220,000	754,500	2,974,500
2029	2,330,000	643,500	2,973,500
2030	2,445,000	527,000	2,972,000
2031	2,570,000	404,750	2,974,750
2032	2,695,000	276,250	2,971,250
2033	<u>2,830,000</u>	<u>141,500</u>	<u>2,971,500</u>
TOTAL	\$53,185,000	\$45,614,479	\$98,799,479

SECURITY FOR THE CERTIFICATES

General

Each Certificate evidences and represents a direct, undivided fractional interest in the principal component of the Lease Payments due under the Lease Agreement on the payment date or prepayment date of such Certificate, and the interest component of all Lease Payments (based on the stated interest rate with respect to such Certificate) to accrue from the Closing

Date to its payment date or prepayment date, as the case may be. The Authority, pursuant to the Trust Agreement and the Assignment Agreement, has assigned its rights and remedies under the Lease Agreement to the Trustee for the benefit of the Owners of the Certificates, including its right to receive Lease Payments thereunder. Principal of and interest with respect to the Certificates will be made from the Lease Payments for the use and possession of the Property, insurance or condemnation Net Proceeds pertaining to the Property to the extent that such Net Proceeds are not used for repair or replacement, amounts on deposit in the Lease Payment Fund held by the Trustee, interest or other income derived from the investment of the funds and accounts held by the Trustee for the City pursuant to the Trust Agreement, or in certain instances, from the Reserve Account established by the Trust Agreement. The Trustee will not have any obligation or liability to the Owners to make payments of principal, premium, if any, or interest with respect to the Certificates from any other source.

The City has covenanted under the Lease Agreement to make Lease Payments for the use and possession of the Property. So long as the Property is available for the City's use, the City has covenanted to take such action each year as may be necessary to include all Lease Payments in its annual budget and annually to appropriate an amount necessary to make such Lease Payments (see "Abatement" below). Pursuant to the Lease Agreement, the City is also obligated to pay, in each year (i) all taxes and assessments levied upon the Property, (ii) all premiums for insurance the City is required or permitted to maintain under the Lease Agreement, (iii) all expenses incidental to the execution, sale and delivery of the Certificates, (iv) all administrative expenses, compensation and indemnification of the Trustee and the Authority required to be paid by them in order to comply with the terms of the Lease Agreement or the Trust Agreement, and (v) amounts to be rebated to the federal government. The amounts payable to the Trustee are to be used to make the payments of principal and interest due with respect to the Certificates. The obligation of the City to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund or Reserve Account, 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.

Reserve Account

A Reserve Account is established under the Trust Agreement, to be funded from proceeds of the Certificates in the amount listed in the table entitled "ESTIMATED SOURCES AND USES OF FUNDS" hereof (the "Reserve Requirement"). Amounts in the Reserve Account are to be used only for the payment of Lease Payments to the extent amounts in the Lease Payment Fund are insufficient therefor or in the event of a full or partial defeasance of the Certificates. See "APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

At the option of the City, amounts to be held in the Reserve Account may be substituted, in whole or in part, by a Reserve Account Policy or Credit Facility deposited with the Trustee, in a stated amount equal to the amount so substituted, provided that the substitution of such Reserve Account Policy or Credit Facility will not result in a withdrawal or downgrading of any rating of the Certificates then in effect and, provided further that there shall have been delivered to the Trustee an opinion of Special Counsel to the effect that such event will not impair the exclusion from gross income for federal income tax purposes or from State of California personal income taxes of the interest due with respect to the Certificates. Such substituted moneys will be transferred at the direction of the City.

A Reserve Account Policy must have a maturity date which is equal to the last maturity of any Outstanding Certificate or Additional Certificate. A Credit Facility must either have a maturity date which is equal to the last maturity of any Outstanding Certificate or Additional Certificate or provide that it may be drawn upon in its full stated amount unless, prior to the expiration date of the Credit Facility, a substitute Credit Facility, which when combined with other amounts in the Reserve Account will equal the Reserve Requirement, has been delivered to the Trustee. Any Credit Facility must permit the Trustee to draw on such instrument in the full stated amount thereof in the event that the long-term obligations of the issuer thereof are rated less than "AA" by Standard & Poor's Corporation.

On September 1, 2024, the Trustee shall transfer from the Reserve Account to the Certificate Fund, to pay principal of or interest with respect to the Certificates when due, an amount such that the amount on deposit in the Reserve Account immediately following such transfer will equal to the Reserve Requirement with respect to the then Outstanding Certificates.

Appropriation; Use of Property

The City has covenanted to take such action as may be necessary to include all Lease Payments due under the Lease Agreement in each of its proposed annual budgets and to make the necessary appropriations for such Lease Payments, except to the extent such payments are abated (see "Abatement" below). The foregoing covenants on the part of the City 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 to 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 its covenants and agreements in the Lease Agreement.

The obligation of the City to pay Lease Payments shall constitute a current expense of the City and shall not in any way be construed to be a debt of the City, or the State, or any political subdivision thereof, in contravention of any applicable constitutional or statutory limitation or requirements concerning the creation of indebtedness by the City, the State, or any political subdivision thereof, nor shall such obligations constitute a pledge of general revenues, funds or moneys of the City beyond the Fiscal Year for which the City has appropriated funds to pay Lease Payments or an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Abatement

Lease Payments are to be paid by the City in each rental period for and in consideration of the right to use and occupy the Property during each such period. Generally, the amount of Lease Payments shall be abated during any period in which there is substantial interference with the use and occupancy by the City of all or a portion of the Property by condemnation, damage, destruction or title defect, except as otherwise described herein. The extent of such abatement shall be in proportion to the portions of the Property taken, damaged or destroyed, provided, however, that in the event such taking, damage or destruction results in a prepayment of the Certificates, the resulting Lease Payments will be sufficient to pay all of that portion of principal and interest with respect to the remaining Outstanding Certificates. Such abatement shall not result so long as moneys in the Lease Payment Fund and the Reserve Account, and Net Proceeds of an eminent domain award or insurance, are sufficient to make Lease Payments when and as due, it being declared in the Lease Agreement that such moneys and Net Proceeds constitute special funds for the payment of Lease Payments. Such abatement or adjustment, if any, shall continue for the period commencing with such taking, damage or

destruction and ending with the substantial completion of the work or repair or reconstruction, if any. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. See "Insurance" below for a discussion of rental interruption insurance to be provided by, or on behalf of, the City.

Notwithstanding these efforts, the moneys legally available to the Trustee following the occurrence of an event which gives rise to an abatement of Lease Payments, including moneys in the Reserve Account or proceeds of rental interruption insurance, if any, may not be sufficient to pay principal and interest represented by the Certificates in the amounts and at the rates set forth thereon. In such event, all Owners of Certificates would forfeit a pro rata portion of interest attributable to abated Lease Payments payable during the period of abatement and, to the extent Certificates mature or are subject to mandatory prepayment during a period of abatement, the Owners of such Certificates would forfeit a pro rata portion of principal attributable to such abated Lease Payments. **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.**

Assignment; Recourse on Default

Pursuant to the Assignment Agreement, the Authority will assign 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.

Should the City default under the Lease Agreement, the Trustee, as assignee of the Authority, may exercise any and all remedies authorized by law or granted pursuant to the Lease Agreement. The Lease Agreement expressly authorizes the Trustee, as assignee of the Authority, to reenter the Property for the purpose of removing persons and personal property and of reletting 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 Lease 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 -- Bankruptcy"; "-- Limitation as Enforcement of Remedies" and "- No Acceleration" herein.

The City may not mortgage, pledge, assign or transfer its interest in the Lease Agreement except as specifically provided in the Lease Agreement. The City has the right to sublet all or any portion of the Property from time to time but such subletting will not relieve the City of its obligations under the Lease Agreement.

Insurance

The Property is insured to the extent set forth herein under the heading "APPENDIX B - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -- Lease Agreement - Insurance" and insurance proceeds are required to be applied to the repair or replacement of the Property; or if the proceeds are insufficient to repair or replace the Property, the City may prepay the Lease Payments and thereby cause the prepayment of outstanding Certificates. The Lease

Agreement permits the City to satisfy certain of its insurance requirements through a self-insurance program or a self-insurance joint risk sharing pool.

The City shall additionally maintain use and occupancy or business interruption or rental income insurance against the perils of fire, lightning, vandalism, malicious mischief and such other perils ordinarily defined as "extended coverage" in an amount equal to not less than two (2) times the largest annual Lease Payment to be paid by the City under the Lease Agreement.

No assurance can be given that insurance proceeds will be adequate to avoid an interruption of Lease Payments. Under such a situation, an abatement of Lease Payments is likely to occur. See "Abatement" above.

Lease Payments

Lease Payments are required to be made by the City under the Lease Agreement fifteen (15) Business Days prior to each Interest Payment Date, commencing on February 13, 2004 (individually, a "Lease Payment Date"), for use and possession of the Property to the next occurring Lease Payment Date. The amount of such Lease Payment shall be credited with amounts on deposit in the Lease Payment Fund on such Lease Payment Date.

Lease Payments are required to be deposited in the Lease Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, on each Lease Payment Date the Trustee will withdraw from the Lease Payment Fund the amount of the Lease Payment then due and will apply such amounts to make principal and interest payments due with respect to the Certificates.

Additional Payments

The City is obligated under the Lease Agreement to pay when due, during the term of the Lease Agreement, in addition to the Lease Payments, all costs and expenses incurred by the Authority to comply with the provisions of the Trust Agreement, including without limitation all Costs of Issuance (as defined in the Trust Agreement), to the extent not paid from amounts on deposit in the Costs of Issuance Fund, compensation due to the Trustee and all reasonable costs and expenses of auditors, engineers and accountants.

In addition, throughout the term of the Lease Agreement, all improvement, repair and maintenance of the Property is 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, and shall pay for or otherwise arrange for the 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 lessee thereof. The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Property or the interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement.

Certificate Insurance

Payment of the principal of and interest with respect to the Certificates when due will be secured by a Financial Guaranty insurance policy to be issued by the Insurer simultaneously

with the delivery of the Certificates. See “CERTIFICATE INSURANCE” below and APPENDIX G – “SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY” attached hereto.

CERTIFICATE INSURANCE

The following information concerning the Insurer and the Insurance Policy has been furnished by the Insurer for use in this Official Statement, and has not been independently certified or verified by the City or the Underwriter. No representation is made by the City or the Underwriter as to the accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in the condition of the Insurer subsequent to the date of this Official Statement. Reference is made to APPENDIX G for a specimen of the Insurance Policy.

Payment Pursuant to Financial Guaranty Insurance Policy

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

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

In the event the Trustee has notice that any payment of principal of or interest with respect to a Certificate which has become Due for Payment and which is made to a Certificate holder by or on behalf of the City has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Financial Guaranty Insurance Policy. Specifically, the Financial Guaranty Insurance Policy does not cover: (1) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (2) payment of any redemption, prepayment or acceleration premium;

and (3) nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or paying agent, if any.

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

Upon payment of the insurance benefits, the Insurer will become the owner of the Certificate, appurtenant coupon, if any, or right to payment of principal or interest with respect to such Certificate and will be fully subrogated to the surrendering Certificate Owner's rights to payment.

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

The Insurer

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

The Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by the Insurer under policy provisions substantially identical to those contained in its Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the City, as issuer of the Certificates. No representation is made by the Insurer regarding the federal income tax treatment of payments that are made by the Insurer under the terms of the Policy due to non-appropriation of funds by the City.

The Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by the Insurer and presented under the heading "CERTIFICATE INSURANCE."

Available Information

The parent company of the Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended

(the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be read and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Commission at (800) SEC-0330 for further information on the public reference room. The Commission maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the Commission, including the Company. These reports, proxy statements and other information can also be read at the office of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

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

Incorporation of Certain Documents by Reference

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

1. The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
2. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
3. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
4. The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
5. The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
6. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;
7. The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;
8. The Company's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003;
9. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003;
10. The Company's Current Report on Form 8-K dated July 17, 2003 and filed on July 18, 2003;

11. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2003 and filed on August 14, 2003;

12. The Company's Current Report on Form 8-K dated October 16, 2003 and filed on October 17, 2003;

13. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2003 and filed on November 14, 2003; and

14. The Company's Annual Report amendment No. 1 on Form 10-K/A for the fiscal year ended December 31, 2002 and filed on November 19, 2003.

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

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

Appropriation

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 Lease 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 Lease Payments. However, the City may incur obligations payable from general revenues which have a priority over the Lease Payments, and the Lease Agreement does not prohibit the City from incurring additional obligations payable from general revenues on a parity with the Lease Payments. See "APPENDIX A -- CITY OF RIVERSIDE GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION" herein and the financial statements included in APPENDIX C 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 Lease Payments and other payments due under the Lease Agreement, except from amounts on deposit in the Lease Payment Fund. 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 Lease Payments when due (see “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” below).

No Limit on Additional Debt

The City has the ability to enter into other obligations which may constitute additional charges against its general revenues, and has previously issued certificates of participation. The City is also authorized to issue additional obligations secured by the Lease Payments, provided the Lease Agreement is amended to require additional Lease Payments sufficient to pay such obligations. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased.

Abatement and Eminent Domain

The obligation of the City to pay Lease Payments is in consideration for the right to the use and possession of the Property. The obligation of the City to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund and the Reserve Account created under the Trust Agreement) may be abated in whole or in part if the City does not have use and possession of the Property.

The amount of Lease Payments due under the Lease Agreement will be adjusted or abated during any period in which by reason of damage or destruction or eminent domain there is interference with the use and possession of the Property. Such adjustment or abatement will end with the substantial completion or replacement, repair or reconstruction of the Property. The Reserve Account will be funded by Certificate proceeds in the amount set forth in “ESTIMATED SOURCES AND USES OF FUNDS” herein and will be available, along with amounts on deposit in the Lease Payment Fund, in the event amounts received by the Trustee are insufficient to pay principal and interest on the Certificates as such amounts become due. If damage or destruction or eminent domain proceedings with respect to the Property result in abatement of Lease Payments and the resulting Lease Payments, together with moneys in the above-described amounts, are insufficient to make all payments of principal and interest due with respect to the Certificates during the period that the Property is being replaced, repaired or reconstructed, then such payments of principal and interest may not be made and no remedy is available to the Trustee or the Owners of the Certificates, under the Lease Agreement or Trust Agreement, for nonpayment under such circumstances.

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, due to the essential nature of the governmental functions of the Property, 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 LEASE PAYMENTS DUE OVER THE TERM OF THE LEASE AGREEMENT. THE CITY WILL ONLY BE LIABLE FOR LEASE

PAYMENTS ON AN ANNUAL BASIS AS THEY COME DUE, AND THE TRUSTEE WOULD BE REQUIRED TO SEEK SEPARATE JUDGMENTS FOR THE LEASE 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 LEASE PAYMENTS WERE DUE.

Loss of Tax Exemption

As discussed under “CONCLUDING INFORMATION - Tax Exemption” herein, the interest represented by the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date such Certificates were issued, as a result of future acts or omissions of the City in violation of its covenants in the Trust Agreement and the Lease Agreement. Should such an event of taxability occur, the Certificates are not subject to early prepayment and will remain outstanding until maturity or until prepaid under one of the prepayment provisions contained in the Trust Agreement. The Internal Revenue Service (the “IRS”) has initiated an expanded program for auditing tax-exempt bond issues, including both targeted and random 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 would be affected as a result of such an audit, or by an audit of similar obligations.

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 Lease Payments. The City is not obligated to maintain earthquake insurance with respect to the Property. Certain components of the Property were constructed prior to enactment of current seismic standards.

Portions of the City, including certain components of the Property, are located in a 100-year flood plain.

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

An environmental condition that may result in the reduction in the assessed value of parcels, with a corresponding reduction in property tax revenue, would be the discovery of hazardous substance that would limit the beneficial use of a property within the City, or the value of the Lease Property. 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 could adversely impact the property tax revenues received by the City and deposited in the general fund, which could significantly and adversely affect the operations and finances of the City.

Impact of State Budget

The State is experiencing serious budgetary shortfalls for the current fiscal year, and it is currently projected to experience budgetary shortfalls next fiscal year. The State General Fund Budget for fiscal year 2002/03 was adopted over two months late, and required the Legislature to close an approximately \$24 billion deficit. The impact of the State's budget on the City for Fiscal Year 2002/03 involved minor reductions or delays in receiving grants and/or certain State reimbursements. The Fiscal Year 2002/03 State budget ended with a deficit of over \$10 billion. The City cannot predict what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. The current projections from the Governor's office for Fiscal Year 2003/04 estimate a continued deficit of over \$8 billion, which could significantly increase depending on actions taken by the Governor or the Legislature. These developments at the State level will most likely adversely affect local governments, including the City. The State's revenue transfers to local governments, including vehicle license fee revenue backfill to the City, could be reduced or the State could decide to shift certain of its financial obligations to local governments.

On August 12, 2003, the Governor signed the budget bill for Fiscal Year 2003/04. In addition to suspending, deferring or eliminating certain State mandated local programs, the

budget reduced the vehicle license fee backfill to cities and counties by approximately \$662 million (reflecting the termination of backfill payments from the period of July 1, 2003 until the vehicle license fees are increased in October, 2003). However, Assembly Bill 1768 was subsequently adopted by the Legislature which requires the State to repay this transferred amount of vehicle license fees by August 15, 2006. The budget also created a one-half cent sales tax shift from cities and counties to repay deficit reduction bonds to be issued by the State, with a corresponding shift of property tax revenues back to local agencies. There can be no assurance that at some future date the State will not take action that reduces the amount of repayments to local governments.

The budget bills do not resolve the State's budget deficit. The 2003/04 budget requires the State to borrow approximately \$13 billion in Fiscal Year 2003/04. Certain litigation is challenging some of the revenue enhancements provided in the current budget, including the issuance of bonds by the State to borrow the required \$13 billion. If such litigation is either ultimately successful or significantly delays realization of such revenues, the result will be a material increase in the State budget deficit for Fiscal Year 2003/04. The Legislature must also address the expected deficit in the 2003/04 budget. It is therefore anticipated that there will be additional future legislation which attempts to address this situation. The City cannot predict what measures may be proposed or implemented for the current fiscal year or in the future. Given the magnitude of the State's budgetary deficit, it is possible that future legislation will further reduce or require a further shift of revenues previously available to the City. The City cannot predict what actions the Legislature will take to address such issues, or whether it will enact measures which shift revenues away from the City, and cannot predict the impact, if any, of such legislation on revenues in the City's General Fund.

In addition, pursuant to a special election held on October 7, 2003, Governor Davis was recalled and Arnold Schwarzenegger was elected to complete his term. Governor Schwarzenegger was sworn into office on November 17, 2003, and immediately announced a repeal of the vehicle license fee increase, and reinstating the General Fund backfill to cities and counties "as soon as administratively feasible," which may require legislative action. As of the date hereof no such legislative action has been taken, and local agencies have been informed that payment of the backfill will be reduced effective immediately. In addition, backfill payments which would otherwise have been paid to local agencies over the next three months will instead be first used to refund payments made at the increased level. The Governor's ability to repeal the increase has not been tested. In addition, the Governor is calling for implementation of a spending limit which could impact revenues available to local agencies, which limit has been placed on the March, 2004 ballot. The City is unable to predict at this time the impact of the repeal on the in-lieu fees received by the City relating to the vehicle license fee, or the impact of the recall process on the resolution of current or future State funding issues, although if the backfill payments are not reinstated the City will experience a significant loss of revenue. The City currently estimates that this lost revenue associated with vehicle license fees should not exceed \$11 million.

In connection with the City's ongoing policy of maintaining contingency reserves, the City has accumulated an available general fund balance of approximately \$50,000,000, representing 35% of fiscal year 2003/2004 budgeted expenditures. In the preparation of the budget for Fiscal Year 2004, the City Manager instructed Department heads and budget coordinators to build budgets from the "ground up," rather than building incrementally upon prior year amounts. The result in the General Fund was the elimination of 16.85 full-time equivalent employees, the reduction of various expenses, the delay in the purchase of certain equipment and the delay in additions to certain insurance reserve accounts.

Direct and Overlapping Indebtedness

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. In addition, other public agencies whose boundaries overlap those of the City could, without consent of the City, and in certain cases without the consent of the owners of the land within the City, impose additional taxes or assessment liens on the property within the City to finance public improvements to be located inside of or outside of the City. See “Limitations on Remedies Available; Bankruptcy” below.

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. Additionally, failure by major property owners to pay property taxes when due, may have an adverse impact on revenues available to pay Lease Payments. See “APPENDIX A - Assessed Valuation and Collections” hereto for a description of property tax collections and delinquencies within the City.

Substitution and Removal of Property

The Authority and the City may, under the terms of the Lease Agreement, substitute alternate real property for any portion of the Property or release a portion of the Property from the Lease Agreement, upon compliance with all of the conditions set forth in the Lease Agreement. After a substitution or release, the portion of the Property for which the substitution or release has been effected shall be released from the leasehold encumbrance of the Lease Agreement. See “THE PROJECT AND THE PROPERTY - Release of Property; Substitution” herein.

Early Redemption of Premium Certificates

Certificates purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Certificates”) will be treated for federal tax purposes as having amortizable premium. If such Premium Certificates are paid prior to maturity as described herein under “THE CERTIFICATES – Prepayment” or otherwise, not all of the amortized premium may be realized by the Owner. The Premium Certificates are treated as all other Certificates for purposes of selection for redemption prior to maturity as described herein.

CONSTITUTION 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, except under certain circumstances 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 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. 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 requirements that property be reassessed when it is purchased, newly constructed or undergoes a change in ownership. 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 A Litigation

In June 1978, Article XIII A of the California Constitution was amended by Proposition 13 to limit, among other things, a County assessor’s ability to adjust for inflation to 2% per year (see “Article XIII A of the California Constitution” above). On November 2, 2001, an Orange County Superior Court ruled in *County of Orange v. Orange County Assessment Appeals Board No. 3* (the “Orange County Litigation”) that the Orange County Assessor raised a homeowner’s assessment in violation of Article XIII A by increasing the assessment on the homeowner’s property by more than 2% per year, when the appreciation in prior years was less than 2% per year. Orange County raised assessments by more than 2% in a single year if the value of the property remained flat after a taxpayer purchased the property, and then increased by more than 2% in a subsequent year. Riverside County follows a similar process to that used by the Orange County Assessor. Comparable claims have been filed in other jurisdictions.

The City cannot predict the outcome of the Orange County Litigation. At this point in time, the Court’s ruling in the Orange County Litigation applies only to the particular assessment involved in the case, although in December, 2002, the Court certified class-action status of other similarly situated property owners in Orange County. However, if the Court’s ruling is applied generally, the loss of tax revenues to communities could be significant. Additionally, the ruling creates the possibility that all taxing agencies, including the City, would be required to give refunds for amounts collected above 2% per year for up to the last four years. Further, the City

cannot predict the effect, if any, that the outcome of the Orange County Litigation or the San Diego Claim would have on property tax revenues to be received by the City, although, if upheld and applied generally to Riverside County, the effect would be adverse.

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 2002/03 the City's appropriations limit was \$171,224,191, and its actual appropriations in Fiscal Year 2002/03 were approximately \$127,330,064. The City's appropriations limit for Fiscal Year 2003/04 has not yet been calculated, although its budgeted appropriations subject to the limit are approximately \$130,000,000. The City is subject to and is operating in conformity with Article XIII B.

Proposition 218

On November 5, 1996, California voters approved Proposition 218, which added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. The voter approval requirements of Proposition 218 reduce the City Council's

flexibility to deal with fiscal problems by raising revenue, and no assurances can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

At this time, the City management has determined that all current fees, taxes and assessments are in compliance with Proposition 218. However, the City's position is unclear regarding the extent to which Proposition 218 is impacted by a 1995 California Supreme Court ruling (the *Guardino* case) that upheld the voter approval requirements of a previously enacted state initiative (Proposition 62), particularly with regard to taxes imposed, extended or increased between November 5, 1986 and December 11, 1995.

Proposition 218 also extends the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees or charges.

Like its antecedents, Proposition 218 is likely to further undergo both judicial and legislative scrutiny before its impact on the City and its obligations can be determined. Certain provisions of Proposition 218 may be examined by the courts for their constitutionality under both State and federal constitutional law. The City is not able to predict the outcome of any such examination.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Certificates as well as the market for the Certificates. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218. While the City is unable to predict how Proposition 218 will be interpreted or whether and to what extent Proposition 218 may be held valid under the California and United States Constitutions, or to what extent this measure will affect the revenues in the City's General Fund, and while no assurances can be given regarding the impact of the application of Proposition 218, the City does not expect Proposition 218 to materially adversely affect its ability to pay the Lease Payments when due.

Unitary Property

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

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

Future Initiatives

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

CONCLUDING INFORMATION

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the City at a purchase price of \$54,394,542.84 (the principal amount of the Certificates, less an Underwriter's discount in the amount of \$198,411.21, and plus original issue premium of \$1,407,954.05). The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Certificates if any such Certificates are purchased. The Underwriter intends to offer the Certificates to the public initially at the prices and/or yields 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 reallow 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.

Professional Fees

In connection with the issuance of the Certificates, fees payable to Stradling Yocca Carlson & Rauth, a Professional Corporation, as Special Counsel, and U.S. Bank National Association, as Trustee, are contingent upon the issuance of the Certificates.

Legal Opinion

Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, will render an opinion substantially in the form of APPENDIX D 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. Special Counsel's fee for delivery of its opinion is contingent on successful execution and delivery of the Certificates. Certain matters will be passed upon for the City and the Authority by the City Attorney, and for the Underwriter by its counsel, Nossaman, Guthner, Knox & Elliott, LLP, Irvine, California.

Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, the portion of the Lease Payments designated as and comprising interest 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 portion of the Lease Payments designated as and comprising interest is exempt from present State of California personal income tax. Special Counsel notes that with respect to corporations, the portion of the Lease Payments designated as and comprising interest 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. A copy of the proposed opinion of Special Counsel is set forth in APPENDIX D hereto.

Special Counsel's opinion as to the exclusion from gross income for federal income tax purposes of the portion of the Lease Payments designated as and comprising interest is based upon certain representations of fact and certifications made by the City, the Authority, the Underwriter and others and is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Certificates to assure that the portion of the Lease Payments 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 Lease Payments 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.

Should the portion of the Lease Payments designated as and comprising interest become includable in gross income for federal income tax purposes, the Certificates are not subject to early redemption and will remain outstanding until maturity or until prepaid in accordance with the Trust Agreement.

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. Although Special Counsel has rendered an opinion that the portion of the Lease Payments designated as and comprising interest is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the 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.

Litigation

The City is not aware of any pending or threatened litigation concerning the validity of the Certificates or the Lease Agreement or challenging any action taken by the City or the Authority with respect to the Certificates or the Lease Agreement. Furthermore, the City is not aware of any pending or threatened litigation to restrain, enjoin, question or otherwise affect the Lease Agreement or the Trust Agreement or in any way contesting or affecting the validity or enforceability of any of the foregoing or any proceedings of the City taken with respect to any of the foregoing. Although there are a number of lawsuits and claims pending and threatened against the City, it is the opinion of the City that such litigation, claims and threatened litigation will not materially affect the City's finances or impair its ability to make Lease Payments or otherwise meet its obligations under the Lease Agreement.

APPENDIX A CITY OF RIVERSIDE GENERAL DEMOGRAPHIC AND FINANCIAL INFORMATION

The following information regarding the City and the surrounding area of Riverside County is presented as general background data. The Certificates are payable solely from the sources described herein (see "SECURITY FOR THE CERTIFICATES"). None of the taxing power of the City of Riverside, the County of Riverside, the State of California or any political subdivision thereof is pledged to the payment of the Certificates. See the information under the caption "THE CERTIFICATES."

General

The City is the county seat of Riverside County (the "County") 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 Primary Metropolitan Statistical Area (the "PMSA"). The PMSA represents an important economic area of the State and of Southern California. It lays to the west and south respectively of the strategic San Geronimo 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 27,400 square miles, a land area larger than the State of Virginia. As of July 2002, Riverside County had a population of approximately 1,677,100 and San Bernardino County had a population of approximately 1,811,700. With a population of over 3.4 million, the PMSA ranks as one of the largest Metropolitan Statistical Areas ("MSAs") in the United States. Riverside County alone is larger than the State of New Jersey. The PMSA, 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 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 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 approximately 2,642 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. The Police Department currently employs 356 sworn officers and the Fire Department employs 201 sworn fire fighters operating out of 13 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 and sewer 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.

Educational Facilities. The City is included within the boundaries of the Riverside Unified School District and the Alvord Unified School District, which also serves the County area southwest of the City. These two districts include 57 elementary and middle schools and high schools. There are also about 46 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 at Riverside. Also located in the City are the California School for the Deaf and the Sherman Institute, a federally-run school for Indians.

Leisure and Community Services. Among the City's cultural institutions and activities are a convention center, the Riverside Art Museum, a municipal 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.

Population

As of January 1, 2003 the population of the City was approximately 274,100, an increase of approximately 21% percent over the census population of the City in 1990. The following table presents population data for both the City and County.

POPULATION		
<u>Year</u>	<u>City of Riverside</u>	<u>Riverside County</u>
1950	46,764	170,046
1960	84,332	306,191
1970	140,089	459,074
1980	165,087	663,923
1990	226,505	1,170,413
2000	255,165	1,545,397
2001	261,200	1,583,600
2002	269,600	1,645,300
2003	274,100	1,705,500

Sources: 1950-2000 U.S. Census; California Department of Finance (Demographic Research Unit)

Accounting Policies and Financial Reporting

The accounts of the City are organized on the basis of funds and account groups, 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" contained in APPENDIX C 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, all its funds and the funds of certain other component entities of the City are audited annually by a certified public accounting firm. The firm of RSM McGladrey, Riverside, California, is the City's current auditor (the "Auditor"). The audited financial statements of the City for Fiscal Year 2001/02 are attached hereto as APPENDIX C. 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 and encumbrances are classified by the functions of general government, public safety, highways and streets, culture and recreation and community development. Amounts on deposit in the Lease Payment Fund held by the Trustee are pledged to payment of Lease Payments and are not available for other uses by the City.

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. See also "City Budget" below for estimated revenues and expenses for Fiscal Year 2003/04.

**CITY OF RIVERSIDE
GENERAL FUND
BALANCE SHEET
(As of June 30)**

(Amounts Expressed in Thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003⁽¹⁾</u>
ASSETS:					
Cash and investments	\$23,271	\$27,071	\$ 72,995	\$ 86,007	\$ 85,232
Receivables (net)					
Interest	712	641	1,312	1,015	975
Property taxes	6,882	6,868	7,637	7,907	8,139
Sales taxes	7,348	7,595	7,211	7,200	8,011
Utility	452	566	449	532	492
Accounts	2,088	4,144	4,579	2,985	3,304
Intergovernmental	2,344	2,238	2,776	3,350	2,416
Notes	25	125	92	64	33
Prepaid items	127	161	137	129	190
Due from other funds	5,995	6,117	5,414	48,32	8,860
Interfund receivable	100	5,463	4,110	3,762	3,715
Total Assets	<u>49,344</u>	<u>60,989</u>	<u>106,712</u>	<u>117,783</u>	<u>121,367</u>
LIABILITIES AND FUND BALANCES:					
Liabilities					
Accounts payable	3,075	1,557	4,282	4,131	2,726
Accrued payroll	1,105	1,727	3,739	4,415	5,652
Compensated absences	1,279	1,276		0	0
Retainage payable	32	7	82	60	169
Intergovernmental	25	48	105	117	128
Deferred revenue	6,153	6,401	7,794	7,884	8,423
Deposits	0	0	14,539	17,049	18,012
Due to other funds	0	0	250	250	50
Interfund Receivable	0	0	0	3,357	2,901
Total Liabilities	<u>11,669</u>	<u>11,016</u>	<u>30,791</u>	<u>37,223</u>	<u>38,061</u>
Fund Balance:					
Reserved for:					
Encumbrances	4,018	5,300	4,817	7,014	10,424
Interfund receivable	100	5,463	4,110	3,762	3,715
Prepaid items	127	161	137	107	180
Notes receivable	0	125	25	64	33
Unreserved, designated for economic contingencies	10,100	10,100	19,700	21,400	22,500
Unreserved, designated for future operations	12,204	15,000	35,487	36,559	19,034
Unreserved, designated for insurance	0	0	0	0	6,400
Unreserved:					
General Fund	11,126	13,924	11,645	11,654	21,010
Total fund balances	<u>37,675</u>	<u>49,973</u>	<u>75,921</u>	<u>80,560</u>	<u>83,306</u>
Total Liabilities and Fund Balances	<u>\$49,344</u>	<u>\$60,989</u>	<u>\$106,712</u>	<u>\$117,783</u>	<u>\$121,367</u>

Source: City Audited Financial Statements.

(1) Unaudited.

CITY OF RIVERSIDE
STATEMENT OF GENERAL FUND
REVENUES, EXPENDITURES AND BALANCES
(Fiscal Year Ending June 30)
(Amounts Expressed in Thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003⁽¹⁾</u>
Revenues:					
Taxes	\$63,664	\$ 69,294	\$ 72,503	\$ 76,455	\$ 82,624
Licenses and permits	4,796	5,707	6,871	6,094	7,243
Intergovernmental	15,381	17,661	19,799	22,782	19,897
Charges for services	6,744	7,152	7,872	7,854	8,872
Fines and forfeitures	1,701	2,075	2,153	2,164	1,903
Special assessments	3,573	3,656	3,646	3,633	3,906
Rental and Investment Income	4,072	2,925	10,618	4,489	3,478
Miscellaneous	1,455	3,087	2,455	2,024	1,926
Total Revenues	<u>101,386</u>	<u>111,557</u>	<u>130,474</u>	<u>125,495</u>	<u>129,849</u>
Expenditures:					
Current:					
General government	13,953	13,290	20,449	16,087	15,555
Public safety	72,687	76,386	84,134	91,245	96,487
Highways and streets	9,292	9,388	9,979	10,551	12,034
Culture and recreation	12,799	13,536	15,912	18,111	21,087
Total Expenditures	<u>108,731</u>	<u>112,600</u>	<u>130,474</u>	<u>135,994</u>	<u>145,163</u>
Revenues over (under) expenditures	(7,345)	(1,043)	(4,557)	(10,499)	(15,314)
Other Financing Sources (Uses):					
Transfers in	19,054	19,109	31,866	18,304	20,215
Transfers out	(11,854)	(5,934)	(3,049)	(3,354)	(3,466)
Sales of capital assets	115	133	100	188	1,311
Advances from other funds	335	0	1,588	0	0
Total other financing sources (uses)	<u>7,670</u>	<u>13,308</u>	<u>30,505</u>	<u>15,138</u>	<u>18,060</u>
Net change in fund balances	325	12,265	25,948	4,639	2,746
Fund balances, July 1, as restated	37,350	37,675	49,973	79,921	80,560
Residual equity transfers	0	33	0	0	0
Fund balances, June 30	<u>\$37,675</u>	<u>\$49,973</u>	<u>\$75,921</u>	<u>\$80,560</u>	<u>\$83,301</u>

Source: Annual City Audits.
(1) Unaudited.

Short-Term Obligations

The City currently has no outstanding short-term obligations.

Long-Term Obligations

General Obligation Debt. As of June 30, 2003, the City had no long-term general obligation bonded indebtedness outstanding and has never defaulted on any of its bonded indebtedness previously issued. On November 4, 2003, voters in the City approved the issuance of up to \$20,000,000 principal amount of general obligation bonds to finance fire facilities. The bonds have not yet been issued.

Lease Obligations. 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. Upon expiration of these leases, title to the projects vest in the City. Not including the Certificates, there is one issue aggregating \$4,650,000 in principal outstanding for such purposes. Total future minimum lease payments payable over the life of this issue are estimated to be \$6,145,450.

When required under these leases, the City carries commercial insurance for all risk coverage, including earthquake and rental interruption insurance.

SUMMARY OF LONG-TERM OBLIGATIONS

	Original <u>Issue</u>	Outstanding <u>Principal</u>	Est. Total Future <u>Payments</u>	Total FY 2003 <u>Payments</u>
1999 Certificates of Participation	\$6,360,000	\$4,650,000	\$6,145,000	\$881,260

Source: City of Riverside

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, 2003 were as follows:

<u>Years Ending June 30</u>	<u>Minimum Lease Payments</u>
2004	\$1,137
2005	1,067
2006	994
2007	953
2008 and thereafter	<u>2,260</u>
Total minimum lease payments	\$6,771

Budgetary Process and Administration

The City uses the following procedures when establishing the budgetary data reflected in its financial statements:

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 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. Budgets for the funds are adopted on a basis consistent with generally accepted accounting principles.

In connection with the City's ongoing policy of maintaining contingency revenues, the City has accumulated an available general fund balance of approximately \$52,000,000, representing 35% of fiscal year 2003/2004 budgeted expenditures. In the preparation of the budget for Fiscal Year 2004, the City Manager instructed Department heads and budget coordinators to build budgets from the "ground up," rather than building incrementally upon prior year amounts. The result in the General Fund was the elimination of 16.85 full-time equivalent employees, the reduction of various expenses, the delay in the purchase of certain equipment and the delay in additions to certain insurance reserve accounts. The following tables summarize the Fiscal Year 2002/03 City Budget and estimated actual results for Fiscal Year 2002/03, and summarizes the final Fiscal Year 2003/04 General Fund Budget of the City.

**CITY OF RIVERSIDE
GENERAL FUND BUDGET
(Fiscal Year 2002/03)
(000's Omitted)**

	2002/03 <u>Final Budget</u>	2002/03 <u>Actual</u>	<u>Variance</u>
Revenues			
Taxes	\$ 75,490	\$ 82,624	\$ 7,134
Licenses and permits	5,599	7,243	1,644
Intergovernmental	28,329	19,897	(9,432)
Changes for services	6,362	8,872	2,510
Fines and forfeitures	1,335	1,903	668
Special assessments	3,880	3,905	26
Rental and investment income	3,788	3,478	(310)
Miscellaneous	<u>1,977</u>	<u>1,925</u>	<u>(51)</u>
Total revenues	<u>127,760</u>	<u>129,849</u>	<u>2,089</u>
Expenditures			
General government	51,878	15,556	36,323
Allocated expenditures	(26,297)	(28,624)	327
Public Safety			
Police	66,170	62,723	3,447
Fire	31,213	27,124	4,089
Animal regulation	2,219	1,259	960
Building and zoning inspection	1,858	1,810	48
Street lighting	<u>3,584</u>	<u>3,671</u>	<u>13</u>
Total public safety	105,044	96,467	8,557
Highways and streets	29,020	13,746	15,274
Culture and recreation	<u>31,879</u>	<u>21,087</u>	<u>10,792</u>
Total expenditures	<u>217,821</u>	<u>146,875</u>	<u>70,846</u>
Deficiency of revenue under expenditures	<u>(90,061)</u>	<u>(17,026)</u>	<u>73,035</u>
Other financing sources (uses):			
Transfers in	20,110	20,215	105
Transfers out	3,314	(3,466)	(6,780)
Sales of capital assets	<u>1,235</u>	<u>1,311</u>	<u>76</u>
Total other financing sources (uses)	<u>24,659</u>	<u>18,060</u>	<u>(6,699)</u>
Net change in fund balances	(65,402)	1,034	65,436
Fund balance, as previously reported	74,778	74,776	0
Restatement	<u>0</u>	<u>5,784</u>	<u>5,784</u>
Fund balance, beginning, as restated	<u>74,778</u>	<u>80,560</u>	<u>5,784</u>
Fund balance, ending	<u>\$ 9,374</u>	<u>\$61,594</u>	<u>\$72,220</u>

Source: City of Riverside

**CITY OF RIVERSIDE
SUMMARY OF GENERAL FUND BUDGET
(Fiscal Year 2003/04)**

Revenues:		
	Taxes	\$ 83,979,000
	Transfers from Other Funds	19,649,485
	Intergovernmental	16,461,000
	Charges for Services	7,114,871
	Misc. Revenues	6,183,000
	Licenses and Permits	6,649,700
	Fines, Forfeitures, Misc.	<u>1,675,000</u>
	Total Revenues	141,712,056
Expenditures:		
	Police	61,649,338
	Fire	30,759,047
	Park and recreation	16,341,001
	Non-Departmental	14,294,571
	Public Works	12,623,489
	Finance	6,629,018
	Information System	9,605,471
	Planning	6,331,291
	Museum	1,408,295
	City Management Services	1,769,893
	City Attorney	2,972,153
	Allocated Expenditures	(30,094,243)
	Human Resources	3,011,926
	General Services	7,916,402
	Transfers	3,382,771
	Estimated Management Savings	<u>(2,900,000)</u>
	Total Expenditures	145,700,423
	Revenues Less Expenditures	(\$ 3,988,367)
	Reserved for Economic Uncertainty	<u>\$ 3,988,367</u>
	Total Revenues Less Expenditures	\$ 0

General Fund Reserves

The following chart illustrates the general fund reserves of the City for Fiscal Years 1992/93 through 2003/04:

**CITY OF RIVERSIDE
GENERAL FUND RESERVES
(As of June 30)
(000's Omitted)**

<u>Fiscal Year</u>	<u>Ending Fund Balance⁽¹⁾</u>	<u>Percent Change</u>
1993	\$11,522	--
1994	12,634	9.7%
1995	17,626	39.5
1996	14,768	(16.2)
1997	16,436	11.3
1998	20,769	26.4
1999	19,882	(4.2)
2000	24,130	21.4
2001	32,469	34.5
2002	45,170	39.2
2003	50,000	10.7
2004 ⁽¹⁾	46,000	(8.0)

Source: City of Riverside annual budgets.

(1) Budgeted.

Ad Valorem Property Taxes

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

The following tables illustrate the secured property tax revenues of the City for Fiscal Years 1992/93 through 2002/03:

**CITY OF RIVERSIDE
HISTORICAL SECURED PROPERTY TAX REVENUES⁽¹⁾
(As of June 30)
(000's omitted)**

<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</u>
1993	\$23,038	\$21,145	91.8%	\$2,592	\$23,737	103.0%	\$ 5,610
1994	22,255	20,473	92.0	1,587	22,060	99.1	6,763
1995	21,670	20,153	93.0	1,633	21,786	100.5	7,277
1996	23,086	21,787	94.4	535	22,322	96.7	8,135
1997	22,202	20,750	93.5	569	21,319	96.0	9,019
1998	22,429	21,055	93.9	584	21,639	96.5	9,810
1999	23,113	21,888	94.7	537	22,425	97.0	10,497
2000	24,241	23,431	96.7	626	24,057	99.2	9,994
2001	25,205	24,436	96.9	370	24,806	98.4	11,081
2002	25,237	23,098	91.5	513	23,611	93.6	12,707
2003	26,050	25,168	96.7	603	25,789	99.0	11,715

Source: Riverside County Auditor Controller's Office.

(1) Includes the City of Riverside Redevelopment Agency.

Taxable Property and Assessed Valuation

Set forth in the tables below are assessed valuation for secured and unsecured property within the City and tax levies and collections for the eleven most recent fiscal years.

CITY OF RIVERSIDE GROSS ASSESSED VALUE OF ALL TAXABLE PROPERTY (in thousands)

<u>Fiscal Year</u>	<u>Secured</u>	<u>Unsecured</u>	<u>Total</u>
1994	\$10,104,656	\$550,600	\$10,655,256
1995	10,241,199	541,042	10,782,241
1996	10,347,384	557,258	10,904,642
1997	10,135,216	548,897	10,684,113
1998	10,188,885	540,358	10,729,243
1999	10,158,747	576,029	10,734,776
2000	10,557,523	632,940	11,190,463
2001	11,269,877	686,215	11,956,092
2002	12,103,179	799,322	12,902,501
2003	13,071,415	980,529	14,051,945

Source: County of Riverside Assessor's Office.

The California 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. Six redevelopment project areas have been formed in the City. The following table sets forth total assessed valuations and redevelopment agency incremental values for the seven most recent fiscal years.

CITY OF RIVERSIDE TOTAL AND NET PROPERTY TAX VALUATIONS (In thousands)

<u>Fiscal Year</u>	<u>Total Assessed Valuation</u>	<u>Redevelopment Agency Incremental Value</u>	<u>Net Value</u>
1997/98	\$9,937,336	\$1,051,914	\$8,887,422
1998/99	10,028,945	1,113,258	8,915,687
1999/00	10,479,492	1,188,654	9,290,838
2000/01	11,202,233	1,263,684	9,938,459
2001/02	12,198,452	1,429,054	10,769,398
2002/03	13,275,868	1,638,530	11,637,338

Source: City of Riverside.

Direct and Overlapping Bonded Debt

The statement of direct and overlapping debt (the "Debt Report") set forth below was prepared by California Municipal Statistics, Inc. as of October 31, 2003. 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.

Direct and Overlapping Bonded Debt (As of October 31, 2003)

2003-04 Assessed Valuation: \$14,468,381,223
 Redevelopment Incremental Valuation: 2,040,524,787 (Estimate)
 Adjusted Assessed Valuation: \$12,427,856,436

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 11/1/03</u>
Metropolitan Water District	1.047%	\$ 4,651,769
Alvord Unified School District	70.850	36,105,160
Riverside Unified School District	86.922	52,153,200
Corona-Norco Unified School District	0.003	1,454
Jurupa Unified School District	0.002	605
Riverside Unified School District Community Facilities Districts	100.	24,605,000
City of Norco Community Facilities District No. 2001-1	10.880	3,551,232
City of Riverside Community Facilities Districts	100.	51,018,000
City of Riverside 1915 Act Bonds	100.	<u>28,865,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$200,951,420
 <u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Riverside County General Fund Obligations	14.664%	\$ 92,255,364
Riverside County Board of Education Certificates of Participation	14.664	2,048,179
Riverside City Community College District Certificates of Participation	34.717	4,235,474
Alvord Unified School District Certificates of Participation	70.850	17,638,108
Corona Norco Unified School District Certificates of Participation	0.003	1,083
Jurupa Unified School District Certificates of Participation	0.002	165
Moreno Valley Unified School District Certificates of Participation	4.141	1,342,098
Riverside Unified School District General Fund Obligations	86.922	25,867,987
City of Riverside General Fund Obligations	100.	<u>6,595,000</u> (2)
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$149,983,458
Less: Riverside County self-supporting obligations		<u>4,179,985</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$145,803,473
 GROSS COMBINED TOTAL DEBT		
		\$350,934,878 (3)
 NET COMBINED TOTAL DEBT		
		\$346,754,893

(1) Based on 2002-03 ratios.

(2) Excludes certificates of participation to be sold.

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

Ratios to 2003-04 Assessed Valuation:

Total Overlapping Tax and Assessment Debt..... 1.39%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$6,595,000)0.05%

Gross Combined Total Debt.....2.82%

Net Combined Total Debt.....2.79%

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

Source: California Municipal Statistics, Inc.

Largest Taxpayers

The ten largest property taxpayers as of June 30, 2003 are as follows:

CITY OF RIVERSIDE LARGEST TAXPAYERS (000s)

<u>Taxpayer</u>	<u>Assessed Valuation</u>	<u>Percent of Total</u>
Tyler Mall LTD Partnership	\$143,014	1.0%
Riverside Healthcare System	95,952	0.7
State Street Bank & Trust Co. of California	94,846	0.7
Rohr Incorporation	57,502	0.4
Lyon Corona Pointe	55,800	0.4
Calif State Teachers Retirement System	54,359	0.4
Pepsi Bottling Group	47,711	0.3
Press Enterprise	47,004	0.3
Mission Grove Park Apartments	43,567	0.3
Metal Container Corporation	<u>41,423</u>	<u>0.3</u>
	\$681,178	4.8%

Source: County of Riverside Assessor's Office.

Alternative Method of Tax Apportionment ("Teeter Plan")

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, although the City has elected not to participate in the Teeter Plan.

State Legislative Shift of Property Tax Allocation

Beginning in 1992/93, the State has required that local agencies remit a portion of property taxes received to augment school funding. For Fiscal Year 1992/93, this amount was approximately \$1,404,000. The City's property tax reduction in each following Fiscal Year has increased to approximately \$3,300,000 in Fiscal Year 2002/03. This reduction is expected to continue in future Fiscal Years. This reduction has historically been partially offset by an increase in vehicle licensing fees and an increase in sales tax made permanent by voters in November 1993. However, see "RISK FACTORS – Impact of State Budget" herein for a discussion of circumstances which will adversely impact certain of the City's receipts.

Other Local Taxes

In addition to ad valorem taxes on real property, the City receives the following local taxes:

Sales and Use Taxes. Sales tax is collected and distributed by the State Board of Equalization. Each local jurisdiction receives an amount equal to one percent of taxable sales within their jurisdiction. In addition, the City receives a portion of a one-half percent (1/2%) transportation sales tax increase approved by voters in 1988.

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.

The following table illustrates receipt of these other tax sources:

**CITY OF RIVERSIDE
OTHER TAX REVENUES BY SOURCE
(000'S omitted)**

Fiscal Year	Sales and Use Tax	Property Transfer Tax	Utility Users Tax	Street Light Excise Tax	Franchises	Transient Occupancy Tax	Special Assessments Levied	Total Taxes
1998	\$28,101	\$ 694	\$17,392	\$269	\$3,085	\$1,652	\$4,018	\$55,211
1999	30,481	936	17,552	312	3,787	1,920	4,060	59,048
2000	34,571	1,087	18,479	336	3,464	2,064	6,586	66,587
2001	35,850	1,213	19,613	382	3,746	2,344	5,258	68,406
2002	39,271	1,568	18,510	36	4,070	2,739	5,420	71,614
2003	41,915	2,024	19,928	99	3,811	2,868	6,323	76,968
2004 ⁽¹⁾	43,900	1,700	19,499	0	4,200	2,850	4,091	76,240

Source: City of Riverside Annual Financial Report.

(1) Budgeted.

In-Lieu Payments

A significant revenue source of the City is 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 the accompanying financial statements as "intergovernmental revenues."

CITY OF RIVERSIDE IN-LIEU PAYMENTS (Fiscal Year)

<u>Fiscal Year</u>	<u>In-Lieu Payment</u>
1997/98	\$10,206,312
1998/99	12,113,997
1999/00	12,422,389
2000/01	13,772,065
2001/02	14,848,312
2002/03	15,533,453
2003/04 ⁽¹⁾	13,800,000

Source: City of Riverside.
(1) Estimated.

In light of recent budget problems experienced by the State of California, the City is expected to lose approximately \$2,700,000 of In-Lieu Payments in Fiscal Year 2003/04, although such amounts are required to be repaid by the State by August, 2006. See "RISK FACTORS – Impact of State Budget" herein for a discussion of recent actions relating to the schedule license fee collections by the State and its potential impact on the City.

Retirement Programs

The City contributes to the California Public Employee's Retirement System (PERS), 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 PERS. Benefits vest after 5 years of service. Benefits for employees vary based upon final yearly compensation, safety or non-safety status and age at retirement. PERS also provides death and disability benefits.

City employees contribution rates are 8% (9% for public safety employees) of their monthly earnings. The City currently pays the employees contribution to PERS for both miscellaneous and safety employees. The employer PERS contribution rates are 3.3% for miscellaneous employees and 15.7% for safety employees. The City is required to contribute amounts necessary to fund the benefits for its members using the actuarial basis recommended by PERS. The contribution to PERS for Fiscal Year 2002/03 was approximately \$12,196,000. The City has budgeted a contribution of \$19,854,640 for Fiscal Year 2003/04.

The latest actuarial valuation, as of June 30, 2002, projected net assets available for benefits (at cost) to be \$9,552,710 greater than future benefits for current and retired miscellaneous City employees. For safety employees, the actuarial value of assets was \$52,915,944 less than the liability for benefits.

Employee Relations and Collective Bargaining

City employees are represented by five labor unions associations, the principal one being the Service Employees International Union, which represents approximately 42% of City full-time employees. Currently 80% all City employees are covered by negotiated agreements. Negotiated agreements have the following expiration dates:

**CITY OF RIVERSIDE
NEGOTIATED EMPLOYEE AGREEMENTS
(As of November, 2003)**

<u>Bargaining Unit</u>	<u>Contract Expiration Date</u>	<u>Number of Employees</u>
Service Employees International Union	6/30/04	813
Riverside Police Officers Assoc.	6/30/04	348
International Brotherhood of Electrical Workers	6/30/04	159
Riverside City Firefighters Assoc.	6/30/04	201
Service Employees Int. Union -- Refuse	6/30/04	37

Source: City of Riverside.

Since 1979 the City has not had an employee work stoppage.

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 \$25 million, with a \$250,000 deductible. Earthquake and flood insurance currently have deductibles of 5% and 2%, respectively, with a \$15 million limit. Workers’ compensation insurance coverage has a limit of \$25,000,000 with a deductible of \$3,000,000 per occurrence. There were no claims settled during fiscal years 2000, 2001 and 2003 above the self-insured amount. There was a single claim settled in 2002 above the self-insured amount relating to a worker’s compensation claim. The City is fully self-insured for general liability claims.

The following tables summarize the reserved balances in the Self-Insurance Fund for the last five years.

**CITY OF RIVERSIDE
SELF-INSURANCE FUND
(in thousands)**

<u>Fund</u>	<u>1998/99</u>	<u>1999/00</u>	<u>2000/01</u>	<u>2001/02</u>	<u>2002/03</u>
Worker's Compensation	\$9,374	\$9,975	\$10,708	\$12,578	\$13,801
Public Liability	6,201	6,248	7,351	7,388	6,899

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 in February, 2003 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 June 30, 2003, had a market value of \$383,611,348. The following table illustrates the investments as of June 30, 2003:

**CITY OF RIVERSIDE
INVESTMENT PORTFOLIO
(As of June 30, 2003)**

<u>Type</u>	<u>Market Value</u>	<u>Book Value</u>	<u>% of Portfolio</u>
Money Market Accounts*	\$98,354,035	\$98,354,035	25.90
Medium-Term Notes	70,561,385	68,284,978	17.98
Federal Agencies	210,312,420	209,039,047	55.04
Municipal Bonds	4,383,508	4,110,000	1.08

* Includes \$61,000,000 in the State of California Local Agency Investment Fund

Source: City of Riverside.

As of September 30, 2003, the average life of the City's investment portfolio was 2.88 years, compared to 2.57 years as of September 30, 2002.

Personal Income

The following table is based on effective buying income, as reported in the annual publication "Survey of Buying Power," published by Sales and Marketing Management. Effective buying income is defined as personal income less personal taxes and non-tax payments. Personal income includes wages and salaries, other labor-related income, proprietor's income, rental income, dividends, personal interest income and transfer payments. Deductions are then made for federal, state and local taxes, non-tax payments (such as fines and penalties) and personal contributions for social insurance. The following items are not included in the definition of effective buying income: (1) employer contributions to private pension funds, supplemental unemployment insurance funds and privately administered workers' compensation programs; (2) imputed personal income, which includes the imputed value of services provided by depository institutions and income earned by life insurance carriers and private noninsured pension funds on the principal amounts contributed by policy holders and pension beneficiaries; and (3) imputed rental income of owner-occupied nonfamily dwellings.

Between 1995 and 2001 the City's median household effective buying power increased approximately 15.2%, while at the same time, the County's increased approximately 21.1%, the State increased approximately 26.0% and there was growth of approximately 19.0% for the United States. The table below summarizes the total effective buying income and the median household effective buying income for the City, the County, the State and the United States from 1995 through 2002.

PERSONAL INCOME
For Calendar Years 1995 Through 2002

<u>Year and Area</u>	<u>Total Effective Buying Income (\$ in thousands)</u>	<u>Median Household Effective Buying Income</u>
1995		
City of Riverside	\$ 3,042,181	\$32,295
County of Riverside	17,823,798	30,951
State of California	477,640,503	34,533
United States	3,964,285,118	32,238
1996		
City of Riverside	3,036,507	32,777
County of Riverside	18,120,962	31,337
State of California	492,516,991	35,216
United States	4,161,512,384	33,482
1997		
City of Riverside	3,381,231	34,280
County of Riverside	19,477,361	32,690
State of California	524,439,600	36,483
United States	4,399,998,035	34,618
1998		
City of Riverside	3,583,867	34,835
County of Riverside	20,543,675	33,089
State of California	551,999,317	37,091
United States	4,621,491,738	35,377
1999		
City of Riverside	3,590,924	33,843
County of Riverside	22,453,426	35,145
State of California	590,376,663	39,492
United States	4,877,786,658	37,233
2000		
City of Riverside	3,735,911	37,395
County of Riverside	25,144,120	39,293
State of California	652,190,282	44,464
United States	5,230,824,904	39,129
2001		
City of Riverside	3,636,701	37,231
County of Riverside	23,617,301	37,480
State of California	650,521,407	43,532
United States	5,303,481,498	38,365
2002		
City of Riverside	3,874,905	37,406
County of Riverside	25,180,040	38,691
State of California	647,879,427	42,861
United States	5,340,682,818	38,035

Source: Sales and Marketing Management, Survey of Buying Power.

A comparison of effective buying income groupings per household for 2002 is shown in the following table:

INCOME GROUPINGS FOR 2002

<u>Percent of Households by EBI Group</u>	<u>City of Riverside</u>	<u>Riverside County</u>	<u>State of California</u>
\$ 20,000-34,999.....	24.3%	23.6%	21.1%
\$ 35,000-49,999.....	19.7	20.0	18.9
\$ 50,000 and over.....	33.5	34.8	40.5

Source: Sales and Marketing Management, Survey of Buying Power.

Education

The City is included within the boundaries of the Riverside Unified School District and the Alvord Unified School District, which also serves the County area southwest of the City. These two districts include 59 elementary and middle schools and high schools. There are also about 46 private or parochial schools for kindergarten through twelfth grade. Average daily attendance for the two public school districts is given below.

**COUNTY OF RIVERSIDE PUBLIC SCHOOL ENROLLMENT
1997-98 through 2002-03**

<u>Grades</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
K-8	205,572	211,973	219,433	228,348	237,880	247,845
9-12.....	<u>79,944</u>	<u>83,256</u>	<u>87,622</u>	<u>91,562</u>	<u>95,450</u>	<u>101,762</u>
Total.....	285,516	295,229	307,055	319,910	333,330	349,607

Source: State Department of Education.

Locally, higher education is available at four institutions: Riverside City College, which had an enrollment of approximately 26,191 in the Fall of 2003; University of California at Riverside, which had a graduate and undergraduate enrollment of approximately 15,934 in the Fall of 2003; California Baptist University, which had an enrollment of 2,359 in the Fall of 2003; and La Sierra University at Riverside, which had an enrollment of approximately 1,946 in the Fall of 2003. Also located in the City are the California School for the Deaf, which had an enrollment of 505 during the Fall of 2003, and the Sherman Institute, a federally-run school for Indians, which had an enrollment of 373 during the Fall of 2003.

Employment

Annual employment information is unavailable separately for the City. The following table summarizes the yearly averages for the labor force employment and unemployment figures for the County of Riverside, the State and the United States for calendar years 1996 through February 2003.

LABOR FORCE EMPLOYMENT AND UNEMPLOYMENT Yearly Average for Calendar Years 1996 through February 2003

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Rate</u>
1996				
Riverside County.....	615,600	565,200	50,400	8.2%
California.....	15,511,600	14,391,500	1,120,100	7.2
United States.....	133,943,000	126,708,000	7,236,000	5.4
1997				
Riverside County.....	642,900	594,800	48,100	7.5
California.....	15,947,200	14,942,500	1,004,700	6.3
United States.....	136,297,000	129,558,000	6,739,000	4.9
1998				
Riverside County.....	663,700	619,600	44,100	6.6
California.....	16,336,500	15,367,500	969,000	5.9
United States.....	137,673,000	131,463,000	6,210,000	4.5
1999				
Riverside County.....	696,300	658,500	37,800	5.4
California.....	16,596,500	15,731,700	864,800	5.2
United States.....	139,368,000	133,488,000	5,880,000	4.2
2000				
Riverside County.....	721,800	682,000	39,800	5.5
California.....	16,884,200	16,048,900	835,300	4.9
United States.....	140,863,000	135,208,000	5,655,000	4.0
2001				
Riverside County.....	759,300	719,600	39,700	5.2
California.....	17,182,900	16,260,100	922,800	5.4
United States.....	141,815,000	135,073,000	6,742,000	4.8
2002				
Riverside County.....	794,100	745,400	48,700	6.1
California.....	17,404,600	16,241,800	1,162,800	6.7
United States.....	143,669,000	134,992,000	8,677,000	6.0
2003*				
Riverside County.....	806,3000	759,500	46,800	5.8
California.....	17,515,400	16,304,500	1,210,900	6.9
United States.....	145,693,000	136,433,000	9,260,000	6.4

* As of February, 2003

Source: California Employment Development Department.

The following table presents the annual average distribution of persons in various wage and salary employment categories for Riverside-San Bernardino Primary Metropolitan Statistical Area ("PMSA") for 1999, 2000, 2001, 2002, and through February 2003.

**RIVERSIDE-SAN BERNARDINO PRIMARY METROPOLITAN STATISTICAL AREA
ANNUAL AVERAGE EMPLOYMENT COMPARISON**

<u>Industry</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003*</u>
Total, All Industries	960,300	1,010,100	1,050,700	1,078,700	1,083,700
Total Farm Production.....	21,300	21,700	20,900	20,900	18,000
Total Non-Farm	939,000	988,400	1,029,700	1,057,800	1,065,700
Total Private	755,800	796,300	829,500	845,400	848,400
Goods Producing	188,300	201,500	208,200	206,100	205,200
Natural Resources and Mining.....	1,300	1,300	1,200	1,100	1,100
Construction	71,700	80,100	88,400	90,300	90,800
Manufacturing	115,300	120,100	118,600	114,700	113,300
Service Producing.....	750,700	786,900	821,600	851,700	860,500
Trade, Transportation & Public					
Utilities.....	201,400	212,200	219,400	224,300	225,900
Trade (Wholesale).....	34,900	38,300	41,600	41,000	40,200
Trade (Retail)	121,800	127,400	132,200	137,700	140,500
Transportation, Warehousing and					
Utilities.....	44,800	46,400	45,600	45,600	45,200
Information	12,800	12,900	14,600	14,000	13,500
Financial Activities.....	34,800	34,800	38,200	39,800	40,300
Professional and Business Services....	89,400	97,000	101,700	105,600	106,000
Educational and Health Services	99,700	102,200	106,000	111,200	112,500
Leisure and Hospitality					
Other Services	95,800	100,800	104,400	106,100	105,900
Government	13,900	15,300	15,700	16,200	15,900
	183,100	192,100	200,200	212,400	217,300

Source: California Employment Development Department.

* Through February, 2003.

The ten largest employers in the County are shown below.

**COUNTY OF RIVERSIDE
LARGEST EMPLOYERS
(As of October, 2003)**

<u>Company</u>	<u>Employees in County</u>	<u>Total Employees</u>
County of Riverside	16,726	16,726
Univ. of California, Riverside	9,822	9,822
Riverside Unified School District	3,906	3,906
Riverside Community College	3,350	3,350
Kaiser Permanente Medical Center	2,886	101,345
City of Riverside	2,600	2,600
Jurupa Unified School District	1,792	2,109
Riverside County Office of Education	1,600	1,600
Alvord Unified School District	1,590	1,590
Fleetwood Enterprises	1,550	13,800

Source: Riverside Press-Enterprise.

Construction Activity

The total valuation of building permits issued in the City equaled \$342,031,204 in calendar year 2002. The following table provides a summary of residential building permit valuations and nonresidential building permit valuations, and the total number of all building permit valuations in the City during the past five years, including calendar year 2003.

**CITY OF RIVERSIDE BUILDING PERMIT ACTIVITY
For Calendar Years 1999 Through September 2003**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Residential					
Single Family.....	\$133,165,770	\$189,150,864	\$254,494,169	\$218,696,092	\$89,169,259
Multi-Family.....	49,402,436	54,910,880	2,718,970	0	93,711,012
Alter & Additions.....	<u>11,100,435</u>	<u>10,607,768</u>	<u>11,064,171</u>	<u>12,584,670</u>	<u>12,511,540</u>
Total Residential:.....	\$193,668,641	\$254,669,512	\$268,277,310	\$231,288,762	\$213,345,131
Nonresidential					
New Commercial.....	\$9,567,531	\$12,403,972	\$41,60,469	\$53,790,774	\$65,583,506 ⁽¹⁾
New Industrial	14,967,430	3,191,916	13,086,404	6,190,790	--
Other New Nonres.	7,308,670	5,697,892	9,976,964	17,948,322	0
Alter & Additions	<u>31,559,551</u>	<u>21,943,481</u>	<u>31,886,172</u>	<u>32,820,556</u>	<u>36,506,438</u>
Total Nonresidential..	<u>\$63,403,182</u>	<u>\$43,237,261</u>	<u>\$96,552,009</u>	<u>\$110,750,442</u>	<u>\$107,886,560</u>
Total All Building Permit Valuations	<u>\$257,071,823</u>	<u>\$297,906,773</u>	<u>\$364,829,319</u>	<u>\$342,031,204</u>	<u>\$321,231,691</u>

* Through September 2003

Source: City Building Department.

(1) Total includes new industrial construction.

Retail Sales

The following table indicates growth of taxable transactions for the period 1997 through the third quarter of 2002 in the City by type of business:

CITY OF RIVERSIDE TAXABLE TRANSACTIONS For Calendar Years 1997 Through 2002 (\$ in thousands of dollars)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002*</u>
Apparel stores	\$ 67,783	\$ 68,851	\$ 78,605	\$ 92,241	\$ 98,859	\$71,475
General merchandise stores	392,005	411,743	438,137	465,490	485,571	342,769
Food stores	124,750	121,359	125,986	133,363	134,502	102,246
Eating & drinking places....	183,560	196,734	209,049	223,253	239,811	192,808
Home furnishings & appliances.....	66,256	65,720	74,817	77,552	75,754	55,813
Building materials & farm implements.....	201,844	253,925	275,433	290,734	326,627	262,325
Auto dealers and auto supplies	428,380	505,421	580,804	698,147	780,641	647,434
Service stations.....	139,748	129,197	151,413	200,155	199,159	143,823
Other retail stores	<u>269,798</u>	<u>285,618</u>	<u>313,917</u>	<u>341,252</u>	<u>351,055</u>	<u>277,236</u>
Retail Stores Totals.....	1,874,394	2,038,568	2,248,161	2,522,187	2,691,979	2,095,929
All other outlets	<u>497,539</u>	<u>563,407</u>	<u>661,371</u>	<u>697,707</u>	<u>715,273</u>	<u>572,682</u>
Total all outlets.....	<u>\$2,371,933</u>	<u>\$2,601,975</u>	<u>\$2,909,532</u>	<u>\$3,219,894</u>	<u>\$3,407,252</u>	<u>\$2,668,611</u>

Source: California State Board of Equalization.

* Through 3rd Quarter.

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 Metropolitan Transportation Authority and 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 at San Bernardino, approximately 15 miles north of the City.

Scheduled air transportation is available from the Ontario International Airport, approximately 18 miles to the west. 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 Riverside County voters approved Measure A, a one-half cent sales tax increase. Measure A was to expire in 2009, but in 2002, Riverside 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.

Future development within Western Riverside County is expected to create traffic volume exceeding the capacity of the regional arterial highway system. The City, along with the County and thirteen other cities in the western portion of the County, have developed the Transportation Uniform Mitigation Fee ("TUMF") Program to provide funds to improve the system. The TUMF Program would place a uniform fee on new development to fund regional highway improvements necessitated by such development. The proposed fees are: new residential - \$6,650 per unit; multi-family housing - \$4,607 per unit; industrial development - \$1.45 per square foot; retail/commercial development - \$7.81 per square foot; and service/commercial projects - \$4.84 per square foot. Certain exemptions are provided in the ordinance.

APPENDIX B

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 Lease and the Trust Agreement for the complete terms thereof. Copies of the Lease Agreement, the Trust Agreement, the Site Lease and the Assignment Agreement are available upon request from the Authority.

DEFINITIONS

The following are summaries of definitions of certain terms used in this Summary of Principal Legal Documents. All capitalized terms not defined herein or elsewhere in the Official Statement have the meanings set forth in the Lease or the Trust Agreement.

“Additional Certificates” will mean any certificates of participation executed and delivered by the Trustee in accordance with the Trust Agreement subsequent to the Delivery Date for the Certificates which are secured on a parity with the Certificates.

“Additional Payments” will mean any amount payable by City under the terms of the Lease Agreement, other than the Lease Payments.

“Assignment Agreement” will mean that certain Assignment Agreement, dated as of December 1, 2003, by and between the Authority and the Trustee, pursuant to which the Authority absolutely assigns all of its right, title and interest in and to the Lease Agreement to the Trustee on behalf of the Owners of the Certificates and any Additional Certificates, as amended and supplemented from time to time.

“Authorized Representative of the Authority” will mean the Chairman of the Authority and any other person or persons designated by the governing board of the Authority and authorized to act on behalf of the Authority as certified by a written certificate signed on behalf of the Authority by the Chairman of the Authority and containing the specimen signature of each such person.

“Authorized Representative of the City” will mean the City Treasurer, his or her written designee, and any other person or persons designated by the City Council of the City and authorized to act on behalf of the City by a written certificate signed on behalf of the City by the Mayor of the City and containing the specimen signature of each such person.

“Bond Counsel” will mean an attorney or firm of attorneys of nationally recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code and acceptable to the City.

“Bond Insurance Policy” will mean the municipal bond insurance policy issued by the Insurer guaranteeing the scheduled payment of principal and interest evidenced and represented by the Certificates.

“Business Day” will mean any day other than (i) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city in which the principal corporate trust office of the Trustee is located are authorized to close, (ii) a day on which the New York Stock Exchange is closed, (iii) if a Credit Facility is then in effect, a day on which the issuer of the Credit Facility is authorized or required by law or executive order to close, or (iv) if a Reserve Account Policy is then in effect, a day on which the issuer of any Reserve Account Policy is authorized or required by law or executive order to close.

“Certificate” or “Certificates” will mean the \$53,185,000 2003 Certificates of Participation (Capital Improvement Projects) executed and delivered by the Trustee pursuant to the Trust Agreement.

“Certificate Fund” will mean the fund by that name established in the Lease Agreement.

“Certificate Year” will mean, with respect to the Certificates, (i) the period beginning on the Delivery Date of the Certificates and ending on December 1, 2004, and (ii) each successive twelve month (or shorter) period thereafter until there are no longer any Certificates Outstanding (December 2 to December 1 of the succeeding calendar year). Certificate Year with respect to any Additional Certificates will be as described in the applicable tax certificate.

“Code” will mean the Internal Revenue Code of 1986, as amended, and any regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

“Completion Certificate” will mean a certificate of an Authorized Representative of the City delivered pursuant to the Lease Agreement and in the form required by the Lease Agreement to the effect that the Project, or the portion thereof to which such certificate relates, has been completed.

“Component” means any portion of the Property designated in the Lease Agreement as a Component, as may be amended from time to time in accordance therewith.

“Continuing Disclosure Agreement” will mean that certain Continuing Disclosure Agreement dated as of December 1, 2003 entered into by and between the City and U. S. Bank National Association, as dissemination agent thereunder, and any and all modifications thereto made in accordance with its terms.

“Corporate Trust Office” will mean the office of the Trustee at the address specified in the Trust Agreement, provided, however for transfer, registration, exchange, payment and surrender of Certificates means care of the corporate trust office of U.S. Bank National Association in St. Paul, Minnesota.

“Cost” will mean and be deemed to include, with respect to the Project, together with any other proper item of cost not specifically mentioned herein, (a) costs of payment of, or reimbursement for, acquisition, design, construction, rehabilitation, installation, delivery and financing of the Project, including, but not limited to, the payment of real property rental, administrative costs and capital expenditures relating to acquisition, construction and installation, inspection costs, filing and recording costs, printing costs, reproduction and binding costs, fees and charges of the Trustee pursuant to the Trust Agreement and other financing documents, legal fees and charges (including the allocated costs and disbursements of in-house counsel, to the extent such services are not redundant with those provided by outside

counsel), financial, accounting and other professional consultant fees, costs of rating agencies or credit ratings, fees for the printing, execution, transportation and safekeeping of the Certificates or any Additional Certificates; (b) all other costs which the City will be required to pay under the terms of any contract or contracts for the acquisition, construction, delivery and installation of the Project, including, but not limited to, the cost of insurance; (c) any sums required to reimburse the City for advances made for any of the above items, or for any other costs incurred and for work done, which is properly chargeable to the Property; (d) any costs paid from the Net Proceeds to repair, restore or replace the Property; and (e) such other expenses not specified herein as may be necessary or incidental to the acquisition, construction, delivery and installation of the Project, the financing thereof and the placing of the same in use and operation. Cost as defined herein will be deemed to include the cost and expenses incurred by any agent of the City for any of the above mentioned items.

“Costs of Issuance” will mean all the costs of executing and delivering the Certificates or any Additional Certificates, including, but not limited to, City administrative costs and expenses directly attributable to the execution and delivery of the Certificates, or any Additional Certificates, all printing and document preparation expenses in connection with the Trust Agreement, the Lease Agreement, the Assignment Agreement, the Certificates, any Additional Certificates and the Official Statement pertaining to the Certificates or any Additional Certificates; rating agency fees; appraisal fees; market study fees; legal fees and expenses of counsel with respect to the financing of the Project; fees and costs associated with obtaining any Bond Insurance Policy, Credit Facility or Reserve Account Policy obtained in connection with an issue of Additional Certificates; any accounting, computer and other expenses incurred in connection with the Certificates or any Additional Certificates; the initial fees and expenses of the Trustee and its counsel and any paying agent (including, without limitation, origination fees and first annual fees payable in advance); the fees and expenses of the City’s financial advisor; the fees and expenses of disclosure counsel; and other fees and expenses incurred in connection with the execution and delivery of the Certificates or any Additional Certificates or the implementation of the financing for the Project, including amounts to reimburse the City for advances made for any of the foregoing, to the extent such fees and expenses are approved by the City.

“County” means the County of Riverside, State of California.

“Credit Facility” will mean an irrevocable and unconditional letter of credit, a standby purchase agreement, a line of credit or other similar credit arrangement issued by a Qualified Bank to satisfy all or a portion of the Reserve Requirement.

“Delivery Date” will mean, as applicable, the date on which the Certificates and any Additional Certificates are initially delivered.

“Depository” will mean The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Certificates, or any other securities depository acting as Depository.

“Fiscal Year” will mean the twelve month fiscal period of the City which commences on July 1 in every year and ends on June 30 of the succeeding year.

“Hazardous Substances” means any substance, waste, pollutants, or contaminants now or hereafter included in such (or any similar) term under any federal, state or local code, statute, regulation or ordinance now in effect or hereafter enacted or amended.

“Independent Counsel” means an attorney duly admitted to the practice of law before the highest court of the State and who is not an employee or officer of the Authority, the Trustee or the City.

“Insurance and Condemnation Fund” will mean the fund by that name established in the Lease Agreement.

“Insurer” will mean Ambac Assurance Corporation, a stock insurance company incorporated under the laws of the State of Wisconsin, or any successor thereto or assignee thereof.

“Interest Component” will mean any Lease Payment, or portion thereof, which is designated and paid as interest pursuant to the terms of the Lease Agreement; the Interest Component of a Certificate or an Additional Certificate is the proportionate interest in the Interest Component of the Lease Payments which is evidenced by such Certificate or Additional Certificate, as applicable.

“Interest Payment Date” will mean September 1 and March 1 of each year, commencing March 1, 2004, until the earlier of the maturity date or Redemption Date of the last Outstanding Certificates or Additional Certificates.

“Lease” means the Lease Agreement, by and between the City and the Authority, as amended and supplemented from time to time.

“Lease Agreement” will mean the Lease Agreement, dated as of December 1, 2003, by and between the Authority and the City, and any and all modifications, alterations, amendments and supplements thereto made in accordance with the provisions of the Lease Agreement and the Trust Agreement.

“Lease Payment” will mean the amount to be paid by the City for the right to the use and occupancy of the Property pursuant to the Lease Agreement, but does not include any Additional Payments.

“Lease Payment Date” will mean the fifteenth Business Day prior to each Interest Payment Date.

“Lease Payment Fund” will mean the fund by that name established in the Lease Agreement.

“Lease Supplement” means one or more amendments to the Lease Agreement executed substantially in the form attached in the Lease Agreement.

“Lease Term” will mean the period during which the Lease Agreement is in effect as specified in the Lease Agreement.

“Moody’s” will mean Moody’s Investors Service, Inc., a municipal bond rating service with offices in New York, New York, or any successor thereto.

“Net Proceeds” will mean the proceeds of any insurance required to be maintained pursuant to the Lease Agreement or condemnation proceeds paid with respect to the Property

and remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

“Nominee” will mean the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

“Outstanding,” when used with reference to any Certificates or Additional Certificates, will mean, as of any date, the Certificates or Additional Certificates theretofore or thereupon being executed and delivered under the Trust Agreement except:

- (i) Certificates or Additional Certificates canceled or delivered for cancellation by the Trustee on or prior to such date;
- (ii) Certificates (or portions of Certificates) or Additional Certificates (or portions of Additional Certificates) defeased as provided in the Trust Agreement;
- (iii) Certificates or Additional Certificates in lieu of or in substitution for which other Certificates or Additional Certificates, as applicable, will have been executed and delivered pursuant to the Trust Agreement; and
- (iv) Certificates or Additional Certificates of the type described in the Lease Agreement.

Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest with respect to the Certificates shall be paid by the Insurer pursuant to the Insurance Policy, the Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City.

“Owner” will mean the registered Owner of any Certificate or Additional Certificate, as applicable.

“Participants” will mean those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Certificates as securities depository.

“Paying Agent” will mean the Trustee or such other entity as is appointed by the City to make principal and interest payments with respect to the Certificates and any Additional Certificates.

“Permitted Encumbrances” means as of any particular time: (1) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Lease Agreement, permit to remain unpaid; (2) the Assignment Agreement, as it may be amended from time to time; (3) the Lease Agreement, as it may be amended from time to time; (4) the Site Lease as it may be amended from time to time; (5) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law after the Delivery Date for the Certificates which is being contested by the City in accordance with the Lease Agreement; (6) easements, rights of way, licenses, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Delivery Date for the Certificates and which the City certifies in writing on the Delivery Date for the Certificates will not materially impair the use of the Property for its intended purposes; and (7) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Delivery Date for the

Certificates, or existing on any real property substituted for the Property, to which the Authority, the Insurer and the City consent in writing and which the City certifies will not materially impair the use of the Property, or real property substituted for the Property, as the case may be for its intended purposes.

“Permitted Investments” means, if and to the extent permitted by law (the Trustee is entitled to rely upon investment direction of the City as a certification that such investment is a Permitted Investment):

(1) For all purposes including defeasance investments in refunding escrow accounts:

(a) cash (insured at all times by the Federal Deposit Insurance Corporation);

or

(b) obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are based 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

(c) obligations of Government-Sponsored Agencies that are not backed by the full faith and credit of the U.S. Government, including:

- Federal Home Loan Mortgage Corp. (FHLMC) Debt obligations
- Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
- Federal Home Loan Banks (FHL Banks)
- Federal National Mortgage Association (FNMA) Debt obligations
- Financing Corp. (FICO) Debt obligations
- U.S. Agency for International Development (U.S. A.I.D.) Guaranteed notes

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).

(2) For all purposes other than defeasance investments in refunding escrow accounts:

(a) 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 (PHA's), Federal Housing Administration and Federal Financing Bank;

(b) 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 rated “Aaa” by Moody’s or “AAA” by S&P 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 and senior debt obligations of other Government Sponsored Agencies approved by the Insurer;

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

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

(e) investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

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

(i) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of S&P or Moody’s or any successors thereto; or

(ii) (1) 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 (1)(b) 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 (2) 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;

(g) municipal obligations rated “Aaa/AAA” or general obligations of states with a rating of at least “A2/A” or higher by both Moody’s and S&P;

(h) investment agreements approved in writing by the Insurer (supported by appropriate opinions of counsel);

(i) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name; and

(j) other forms of investments (including repurchase agreements) approved in writing by the Insurer.

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

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

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

(b) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest.

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

“Person” will mean natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

“Prepayment” will mean any payment made by the City pursuant to the Lease Agreement as a prepayment of Lease Payments.

“Principal Component” will mean, with respect to a Lease Payment, the portion thereof which is designated and paid as principal pursuant to the terms of the Lease Agreement; the Principal Component of a Certificate or an Additional Certificate is the proportionate interest in the Principal Component of the Lease Payments which is evidenced by such Certificate or an Additional Certificate, as applicable.

“Principal Component Payment Date” will mean September 1 of each year in which a Principal Component of a Certificate or an Additional Certificate is due.

“Project” will mean all City buildings and capital improvements to be acquired, constructed and installed with proceeds of the Certificates.

“Project Fund” will mean the fund by that name which is established in the Lease Agreement.

“Property” means collectively, the Site and all buildings and capital improvements located thereon.

“Qualified Bank” will mean a financial institution whose long-term unsecured debt obligations are rated not less than AA by Standard & Poor’s and Aa by Moody’s and who is consented to in writing by the Insurer.

“Rating Agency” will mean Moody’s if Moody’s then rates the Certificates and Standard & Poor’s if Standard & Poor’s then rates the Certificates and any of their respective successors and assigns that then rate the Certificates.

“Rebate Fund” will mean the fund by that name established in the Lease Agreement.

“Rebate Regulations” will mean any final, temporary or proposed Treasury Regulations promulgated under the Code.

“Record Date” will mean the fifteenth calendar day of the month preceding each Interest Payment Date, whether or not such fifteenth day is a Business Day.

“Released Property” means the certain real property and improvements identified as Released Property in any Lease Supplement duly executed by the City and the Trustee, and acknowledged by the Authority, pursuant to the Lease Agreement.

“Rental Interruption Insurance” will mean the policy of insurance required to be maintained pursuant to the Lease Agreement.

“Representation Letter” will mean a representation letter from the City and the Trustee to the Depository, as described in the Lease Agreement.

“Reserve Account Policy” will mean a policy of insurance or surety bond issued by a municipal Insurer, obligations insured by which have a rating by the Rating Agency which at the time of issuance is the highest rating then issued by said Rating Agency and to which the Insurer has given its prior written consent, to satisfy all or a portion of the Reserve Requirement.

“Reserve Requirement” will mean, as of the date of calculation, an amount certified by the City to the Trustee to be the least of (i) an amount equal to the maximum amount of Lease Payments due on the fifteenth Business Day preceding any September 1 and the next preceding March 1 with respect to Outstanding Certificates and Additional Certificates, (ii) an amount equal to 10% of the proceeds (within the meaning of the Code) of all Certificates and Additional Certificates, or (iii) an amount equal to 125% of the average annual Lease Payments due with respect to Outstanding Certificates and Additional Certificates; provided, however, that with the prior written approval of the Insurer such Reserve Requirement or a portion thereof may be provided by one or more Reserve Account Policies or Credit Facilities upon the filing by the City with the Trustee of (x) written evidence that the use of such Reserve Account Policies or Credit Facilities to satisfy the Reserve Requirement or any portion thereof will not by itself result in the downgrading or withdrawal of any credit rating then in effect with respect to the Certificates or Additional Certificates Outstanding, and (y) an opinion of Bond Counsel to the effect that such event will not impair the exclusion from gross income for federal income tax purposes or from State personal income taxes of the Interest Component of each Lease Payment.

“Serial Certificates” will mean, with respect to the Certificates, the Certificates maturing on September 1 in each of the years 2004 through 2023 and with respect to any Additional

Certificates, the Additional Certificates so designated in the Supplemental Trust Agreement relating to such Additional Certificates.

“Sinking Account Installment” will mean the Principal Component of Certificates required to be paid on any Sinking Account Installment Date pursuant to the Lease Agreement or the Principal Component of any Additional Certificates required to be paid on a Sinking Account Installment Date pursuant to the Supplemental Trust Agreement relating thereto.

“Sinking Account Installment Date” will mean, with respect to the Term Certificates, September 1 of each year, commencing September 1, 2024 and terminating September 1, 2033 and, with respect to any Additional Certificates, the date or dates so specified with respect to such Additional Certificates in the Supplemental Trust Agreement relating thereto.

“Site” means, collectively, the real property described from time to time in the Lease Agreement, as may be amended and supplemented from time to time in accordance with the provisions of the Lease Agreement.

“Site Lease” means the Site and Facilities Lease dated as December 1, 2003, by and between the Lessor and the Lessee.

“Standard & Poor’s” or “S&P” will mean Standard & Poor’s Rating Group, a municipal bond rating service with offices in New York, New York, or any successor thereto.

“State” will mean the State of California.

“Substituted Property” means the certain real property and improvements identified as Substituted Property in any Lease Supplement duly executed by the City and the Trustee, and acknowledged by the Authority, pursuant to the Lease Agreement.

“Supplemental Trust Agreement” will mean any agreement supplemental to or amendatory of the Trust Agreement.

“Tax Certificate” will mean the certificate by that name to be executed by the City on a Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

“Term” will mean the term of the Lease as established by the Lease Agreement.

“Term Certificates” will mean the Certificates maturing on September 1, 2028 and 2033, respectively, and, with respect to any Additional Certificates, the Additional Certificates so designated in the Supplemental Trust Agreement relating to such Additional Certificates.

“Title Insurance” will mean the policy or policies of insurance required to be provided pursuant to the Lease Agreement.

“Treasury Regulations” will mean the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to the Code.

“Trust Agreement” means the Trust Agreement, dated as of December 1, 2003, by and among U.S. Bank National Association, as trustee, the City and the Authority, as amended and supplemented from time to time.

“Trust Estate” will mean, as set forth in the Granting Clauses of the Trust Agreement, all right, title and interest of the Authority in and to the Lease Payments, the Site Lease, the Lease Agreement and all amounts from time to time deposited in the funds, accounts and subaccounts created pursuant to the Trust Agreement (other than the Rebate Fund), including, without limitation, to the extent set forth in the Trust Agreement, investment earnings thereon, and any additional property that may from time to time, by delivery or by writing of any kind, be subjected to the lien of the Trust Agreement by the City, the Authority, or by anyone on their behalf.

“Trustee” will mean U.S. Bank National Association, and its successor or assigns which may at any time be substituted in its place pursuant to the provisions of the Trust Agreement.

SUMMARY OF LEASE AGREEMENT

REPRESENTATIONS, COVENANTS AND WARRANTIES

Representations, Covenants and Warranties of the City. The City represents, covenants and warrants to the Authority as follows:

(a) Due Organization and Existence. The City is duly organized and validly existing under and by virtue of its charter, the Constitution and laws of the State, with the power and authority to own, lease and acquire real and personal property and equipment.

(b) Authorization; Enforceability. The City’s charter, the Constitution and laws of the State authorize the City to enter into the Lease Agreement, the Site Lease, the Trust Agreement and the Continuing Disclosure Agreement and to enter into the transactions contemplated by and to carry out its obligations under all of the aforesaid agreements, and the City has duly authorized and executed all of the aforesaid agreements. The Lease Agreement, the Site Lease, the Trust Agreement and the Continuing Disclosure Agreement constitute the legal, valid and binding obligations of the City, enforceable in accordance with their respective terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the rights of creditors generally.

(c) No Conflicts or Default; No Liens or Encumbrances. Neither the execution and delivery of the Lease Agreement, the Site Lease, the Trust Agreement or the Continuing Disclosure Agreement, nor the fulfillment of or compliance with the terms and conditions thereof, nor the consummation of the transactions contemplated thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the City is now a party or by which the City is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the City or upon the Property, except for Permitted Encumbrances and the pledges and assignments contained in the Trust Agreement and the Assignment Agreement.

(d) Execution and Delivery. The City has duly authorized and executed the Lease Agreement and the Trust Agreement in accordance with its charter, the Constitution and laws of the State.

(e) Indemnification of the Authority and the Trustee. To the extent permitted by law, the City covenants to defend, indemnify and hold harmless the Authority, the Insurer, the Trustee and their respective assigns, board members and employees (collectively, the "Indemnified Party") against any and all losses, claims, damages or liabilities, joint or several, including fees and expenses incurred in connection therewith, to which such Indemnified Party may become subject under any statute or at law or in equity or otherwise in connection with the transactions contemplated by the Lease Agreement or the Trust Agreement, and will reimburse any such Indemnified Party for any legal or other expenses incurred by it in connection with investigating any claims against it and defending any actions, insofar as such losses, claims, damages, liabilities or actions arise out of the transactions contemplated by the Lease Agreement or the Trust Agreement. In particular, without limitation, to the extent permitted by law, the City will indemnify and save the Indemnified Party harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on, the Site or the Property by the City including, without limitation, as a result of the use, storage, presence, disposal or release of any Hazardous Substances by City or persons other than the Indemnified Party on or about the Site, (ii) any breach or default on the part of the City in the performance of any of its obligations under the Lease Agreement, (iii) any act of negligence of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Property, (iv) any act of negligence of any assignee or sublessee of the City (except an Indemnified Party) with respect to the Site or the Property, or (v) the completion of the Property or the authorization of payment of the Costs by the City. No indemnification is made under this section or elsewhere in the Lease Agreement for claims, losses or damages, including legal fees and expenses arising out of the willful misconduct, negligence, or breach of duty under the Lease Agreement by the Authority, the Insurer, or the Trustee, or their respective officers, board members, agents, employees, successors or assigns.

(f) General Tax and Arbitrage Covenant. The City covenants that, notwithstanding any other provision of the Lease Agreement, it will make no use of the proceeds of the Certificates or any Additional Certificates or of any other amounts, regardless of the source, or of any property or take any action, or refrain from taking any action that may cause the obligations of the City under the Lease Agreement to be "arbitrage bonds" within the meaning of Section 148 of the Code, or under applicable Treasury Regulations promulgated thereunder or to cause the Interest Component of the Lease Payments to become subject to State of California personal income taxation.

(g) Fee Ownership; Essentiality. The City represents that it is and will continue to be fee owner of the Property and that the Property is essential to the provision of City administrative services within the boundaries of the City and the Authority.

In addition, the City covenants that it will not make any use of the proceeds of the obligations provided in the Trust Agreement or of any other funds of the City, or take or omit to take any other action that would cause the obligations of the City under the Lease Agreement to be "private activity bonds" within the meaning of Section 141 of the Code, or "federally guaranteed" within the meaning of Section 149(b) of the Code. To that end, so long as necessary to maintain the exclusion from gross income for federal income tax purposes of the Interest Component of the Lease Payments, the City will comply with all requirements of such

Sections and all regulations thereunder and under Section 103 of the Code, to the extent that such requirements are, at the time, applicable and in effect.

Representations, Covenants and Warranties of the Authority. The Authority represents, covenants and warrants to the City as follows:

(a) Due Organization and Existence; Enforceability. The Authority is a joint powers authority duly organized, validly existing and in good standing under and by virtue of the laws of the State, has the power to enter into the Lease Agreement, the Assignment Agreement and the Trust Agreement; is possessed of full power to own and hold real and personal property, and to lease and sell the same; and has duly authorized the execution and delivery of the Lease Agreement, the Assignment Agreement, the Site Lease and the Trust Agreement. The Lease Agreement, the Assignment Agreement, the Site Lease and the Trust Agreement constitute the legal, valid and binding obligations of the Authority, enforceable in accordance with their respective terms, except to the extent limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the rights of creditors generally.

(b) No Encumbrances. The Authority will not sell, assign, pledge or encumber the Lease Agreement, the Lease Payments, the Additional Payments or any other amounts derived from the Site or the Property or from its other rights under the Lease Agreement, except for Permitted Encumbrances and except as expressly provided under the terms of the Lease Agreement, the Assignment Agreement and the Trust Agreement.

(c) No Conflicts or Defaults; No Liens or Encumbrances. Neither the execution and delivery of the Lease Agreement, the Assignment Agreement, the Site Lease or the Trust Agreement, nor the fulfillment of or compliance with the terms and conditions thereof, nor the consummation of the transactions contemplated thereby, conflicts with or results in a breach of the terms, conditions or provisions of the formation documents of the Authority or any restriction or any agreement or instrument to which the Authority is now a party or by which the Authority is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Authority or upon the Site or the Property, except for Permitted Encumbrances and except by the pledges and assignments contained in the Trust Agreement and the Assignment Agreement.

(d) Execution and Delivery. The Authority has duly authorized and executed the Lease Agreement, the Assignment Agreement and the Trust Agreement in accordance with the Constitution and laws of the State.

(e) General Tax and Arbitrage Covenant. So long as no Event of Default has occurred, the Authority covenants that, notwithstanding any other provision of the Lease Agreement, it will make no use of the proceeds of the Certificates or any Additional Certificates or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action that may cause the obligations of the City under the Lease Agreement to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code or to cause the Interest Component of the Lease Payments to become subject to State of California personal income taxation.

In addition, so long as no Event of Default has occurred, the Authority covenants that it will not make any use of the proceeds of the obligations provided in the Trust Agreement or of

any other funds of the City or take or omit to take any other action that would cause such obligations to be “private activity bonds” within the meaning of Section 141 of the Code, or “federally guaranteed” within the meaning of Section 149(b) of the Code. To that end, so long as no Event of Default has occurred, so long as necessary to maintain the exclusion from gross income for federal income tax purposes of the Interest Component of the Lease Payments, the Authority will comply with all requirements of such Sections and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Code, to the extent that such requirements are, at the time, applicable and in effect.

(f) **Maintenance of Existence.** The Authority covenants and agrees that during the term of the Lease Agreement it will maintain its existence as a joint powers authority, will not dissolve or otherwise dispose of all or substantially all of its assets, if any, will not become a general or limited partner in any partnership or a joint venturer in any joint venture and will not combine or consolidate with or merge into any other entity or permit one or more other entities to consolidate with or merge into it, unless such action (A) will not cause a merger of the City’s leasehold estate in the Property and the successor thereto is a public agency which expressly agrees to assume all rights and responsibilities of the Authority under the Assignment Agreement, the Trust Agreement and the Lease Agreement and (B) is consented to in writing by the Insurer.

ACQUISITION, CONSTRUCTION AND INSTALLATION OF THE PROJECT

Deposit of Certificate Proceeds. On the Delivery Date for the Certificates and on the Delivery Date for any Additional Certificates, the Authority agrees to pay or cause to be paid to the Trustee the amount specified in the Trust Agreement, which moneys will be deposited with the Trustee as provided in the Trust Agreement, or in the case of Additional Certificates as provided in any Supplemental Trust Agreement which relates to such Additional Certificates.

Acquisition, Construction and Installation of the Project. The City agrees to acquire, construct, deliver and install the Project, or to cause all components thereof to be acquired, constructed, delivered and installed, with the proceeds of the Certificates paid to the City by the Authority pursuant to the Trust Agreement and the Authority will have no responsibility with respect thereto.

Payment of Costs. Payment of the Costs will be made from the moneys deposited with the Trustee in the Project Fund as provided in the Lease Agreement and the Trust Agreement, which will be disbursed from the Project Fund in accordance and upon compliance with the Trust Agreement.

Completion Date; Certification. Upon the completion of acquisition, construction, delivery and installation of all components of the Project, the City will deliver to the Trustee a Completion Certificate with respect thereto. On the date of filing the Completion Certificate, all excess moneys remaining in the Acquisition and Construction Account of the Project Fund will be applied to any lawful purpose of the City in accordance with the provisions of the Trust Agreement.

Substitution and Release. The City will have the right from time to time to add other real property and improvements (subject only to Permitted Encumbrances) or to substitute other real property or improvements (subject only to Permitted Encumbrances) for all or a portion of the Property or to release a portion of the real property or improvements constituting the

Property, if it has (i) provided the Trustee with a written Lease Supplement, and (ii) satisfied either of the following conditions precedent:

(a) the Substituted Property consists of one or more of the components of the real property and improvements identified in the Lease Agreement and the City has provided to the Trustee each of the following:

(i) Certificates of insurance applicable to the Property (at and after the addition, substitution or release) which comply with the requirements of the Lease Agreement; and

(ii) Written certification that the Substituted Property is only encumbered by Permitted Encumbrances; and

(iii) Title insurance for the substituted property provided prior to the release of the Property or evidence that the existing title insurance policy is not adversely affected by such substitution; and

(iv) Prior written notice to each Rating Agency that has rated the Certificates of such substitution.

(b) the City has obtained and provided to the Trustee each of the following with respect to the Substituted Property:

(i) Written confirmation from each Rating Agency that has rated the Certificates that its then existing rating with respect to the Certificates will not be reduced or withdrawn as a result of such addition, substitution or release;

(ii) Certificates of insurance applicable to the Substituted Property (at and after the addition, substitution or release) which comply with the requirements of the Lease Agreement;

(iii) No prior liens on the Substituted Property which are unacceptable to the Insurer;

(iv) An opinion of Bond Counsel to the effect that such addition, substitution or release will not adversely affect the exclusion from gross income for federal income tax purposes and the exemption from State personal income taxation of the Interest Component of the Lease Payments and that the Lease, as amended, remains a legal, valid and binding obligation of the City; and

(v) Title insurance for the Substituted Property provided prior to the release of the Released Property or evidence that the existing title insurance policy is not adversely affected by such substitution.

In addition to the foregoing permitted substitutions and release, on or after September 1, 2024, properties may be released from the encumbrance of the Lease provided that the City has certified to the Trustee that the following conditions are met with respect to the properties which remain encumbered by the Lease (the "Encumbered Properties") following such release:

(A) City has received written confirmation from each Rating Agency that has rated the Certificates that its then existing rating with respect to the Certificates will not be reduced or withdrawn as a result of such release;

(B) the useful life of the Encumbered Properties, following such release, at least equals the final maturity of the Certificates; and

(C) based upon insured value, the annual fair rental value of the Encumbered Properties, following such release, is at least equal to the maximum annual Lease Payments and Additional Payments to the final maturity of the Certificates, and the fair rental value of the Encumbered Properties does not exceed the portion of the Lease Payments and Additional Payments attributable to the Encumbered Properties, following such release.

In connection with any release pursuant to the foregoing paragraph, the City will cause Exhibit A to each of the Lease, the Site Lease and the Assignment Agreement (each as defined in the Lease) to be amended to reflect the release of the Released Property and will have such amendments recorded for the Released Property in the County of Riverside recorder's office.

In connection with a substitution or release, all interests of the Authority, and its assignee, in the portion of the Released Property will terminate and the Authority and its assignee will execute and record with the County Recorder of the County of Riverside all documents deemed necessary by the City to evidence such termination of interest. Upon satisfaction of the requirements of either (a) or (b) above, the Trustee also will execute a Lease Supplement and, if necessary, a Supplemental Trust Agreement, and will not impose on the City any further conditions or prerequisites to the requested addition, substitution or release. The City will cause the Lease Supplement to be recorded in the real property records of the City.

All costs and expenses incurred in connection with such addition, substitution or release will be borne by the City. No addition, substitution or release will be, by itself, the basis for any reduction in or abatement of the Lease Payments due from the City under the Lease Agreement.

Further Assurances and Corrective Instruments. The Authority and the City agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto 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 Lease Agreement.

AGREEMENT TO LEASE; TERM OF LEASE; LEASE PAYMENTS

Lease. The Authority by the terms of the Lease Agreement leases the Property to the City upon the terms and conditions set forth in the Lease Agreement. The Lease Agreement will not operate as a merger of the Lessee's leasehold estate in the Property pursuant to the Lease Agreement and its fee estate in the Property and will not cause the extinguishment of the leasehold granted to the Lessor under the Site Lease.

The City will continue to have and hold a fee estate in said Property throughout the term of the Lease.

Term. The Term of the Lease Agreement will commence on the Delivery Date for the Certificates and will end on September 1, 2033, unless extended pursuant to the Lease Agreement, or unless terminated prior thereto upon the earliest of any of the following events:

Payment of All Lease Payments. The payment by the City of all Lease Payments required under the Lease Agreement and all Additional Payments required under the Lease Agreement and the occurrence of the first date upon which the Certificates are no longer Outstanding under the Trust Agreement; or

Prepayment. The optional prepayment of all Lease Payments in accordance with the Lease Agreement and the payment of all Additional Payments due through such prepayment date and the occurrence of the first date upon which the Certificates are no longer Outstanding under the Trust Agreement.

Extension of Lease Term. The Term of the Lease Agreement may be extended up to September 1, 2043. If on the final maturity date of the Certificates or any Additional Certificates all Interest Components and Principal Components represented thereby will not be fully paid, or if the Lease Payments or Additional Payments due under the Lease Agreement will have been abated at any time as permitted by the terms of the Lease Agreement, then the Term will be extended until all Certificates, Additional Certificates and all other amounts payable under the Lease Agreement or under the Trust Agreement will be fully paid, except that the Term will in no event be extended beyond September 1, 2043.

Lease Payments.

Time and Amount. Subject to the provisions of the Lease Agreement regarding abatement in event of loss of use of any portion of the Site and regarding prepayment of Lease Payments, the City unconditionally and irrevocably agrees to pay to the Authority, its successors and assigns, as annual rental for the right to the use and possession of the Site, the Lease Payments (denominated into Interest Components and Principal Components) and the Additional Payments. The Lease Payments are intended to be sufficient in both time and amount to pay when due the Principal Components and Interest Components represented by the Certificates and any Additional Certificates, and are due and payable in arrears and in immediately available funds on the fifteenth Business Day prior to each September 1 and March 1, commencing March 1, 2004. In the event that any Additional Certificates are executed and delivered pursuant to the Trust Agreement, the City and the Trustee will execute an amendment to the Lease Agreement to state the Lease Payments due thereunder as a result of the execution and delivery of such Additional Certificates.

Credits. Any amount held in the Lease Payment Fund or the Interest Account of the Certificate Fund on the date any Lease Payment is made by the City (other than amounts required for payment of past due Principal Components or Interest Components with respect to any Certificates or Additional Certificates that have matured or been called for redemption and have not been presented for payment or amounts which have been paid with respect to a prior Lease Payment Date but not yet distributed to Owners) and available for payment of Lease Payments will be credited towards the Lease Payment then due and payable. No payment need be made by the City on any Lease Payment Date if the amounts then held in the Lease Payment Fund and the Interest Account of the Certificate Fund (other than those amounts excluded under the prior sentence and amounts transferred from the Reserve Account which causes the balance therein to be less than the Reserve Requirement) and available for payment of Lease Payments are at least equal to the Lease Payment then required to be paid.

Rate on Overdue Payments. In the event the City should fail to make any Lease Payments required by the Lease Agreement, or any portion of any such Lease Payment, the Lease Payment or portion thereof in default will continue as an obligation of the City until the amount in default will have been fully paid, and the City agrees to pay the same with interest thereon, to the extent permitted by law, from the date such amount was originally payable at the rate equal to the original interest rate payable with respect to each Certificate or Additional Certificate, as applicable, represented by such delinquent Lease Payment.

No Withholding. Notwithstanding any dispute between the Authority and the City, other than a dispute arising under the Lease Agreement as a result of which the City has concluded that it may not legally pay the Lease Payments in dispute, the City will make all Lease Payments and Additional Payments when due and will not withhold any Lease Payments or Additional Payments pending the final resolution of such dispute.

Fair Rental Value. The Lease Payments and the Additional Payments (as defined in the Lease Agreement) will be paid by the City in consideration of the right to the use and possession of the Property during each such period for which said rental is to be paid. The parties hereto 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 Agreement. 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.

Budget and Appropriation. The City will take all such actions as may be necessary to include all Lease Payments in each of its annual budgets for its general fund during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments and Additional Payments. The covenants of the City in the Lease Agreement constitute duties imposed by law and each and every public official of the City will 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.

To the extent that the amount of such payment becomes known after the adoption of the annual budget, such amounts will be included and maintained in such budget as amended. The City covenants to take such action as is necessary to include such amounts in a supplemental budget of the City.

The obligation of the City to pay Lease Payments and Additional Payments under the Lease Agreement will constitute a current expense of the City payable from all legally available funds and will not in any way be construed to be a debt of the City, or the State, or any political subdivision thereof, in contravention of any applicable constitutional or statutory limitation or requirements concerning the creation of indebtedness by the City, the State, or any political subdivision thereof, nor will anything contained in the Trust Agreement or Lease Agreement constitute a pledge of general revenues, funds or moneys of the City or an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Assignment of Lease Payments. Certain of the Authority's rights under the Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the City under the Lease Agreement, have been assigned to the Trustee, subject to

certain exceptions, pursuant to the Assignment Agreement, to which assignment the City consents. The Authority directs the City, and the City agrees, to pay to the Trustee at the Trustee's corporate trust office, or to the Trustee at such other place as the Trustee will direct in writing, all Lease Payments and Prepayments thereof payable by the City under the Lease Agreement. The Authority will not assign or pledge the Lease Payments or other amounts derived from the Property or from its other rights under the Lease Agreement except as expressly provided under the terms of the Lease Agreement or the Assignment Agreement. The Authority will not assign its duties and obligations under the Lease Agreement except as expressly provided under the Assignment Agreement and the Trust Agreement.

Use and Possession. The total Lease Payments and Additional Payments due in any Fiscal Year will be for the right to the use and possession of the Property for such Fiscal Year. During the Term of the Lease Agreement, the City will be entitled to the right to the exclusive use and possession of the Property, subject only to the Permitted Encumbrances.

Abatement of Lease Payments and Additional Payments. Except to the extent that proceeds of the type described in the following paragraph are available, the amount of Lease Payments and Additional Payments will be abated during any period in which there is substantial interference with the use or possession of all or a portion of the Property by the City by condemnation, damage, destruction or title defect. The amount of such abatement will be such that the resulting Lease Payments, exclusive of the amounts described in the following paragraph, do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the City, who is not an employee of the City) for the use and possession of the portion of the Property for which no substantial interference has occurred. Such abatement will continue for the period of the substantial interference with the use or possession of the Property. In the event of any such interference with use or possession, the Lease Agreement will continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such interference.

Notwithstanding a substantial interference with the use or possession of all or a portion of the Property, the City will remain obligated to make Lease Payments (i) in an amount not to exceed the fair rental value during each Fiscal Year for the portion of the Property not damaged, destroyed, interfered with or taken, as determined by an independent real estate appraiser selected by the City (who is not an employee of the City); (ii) to the extent that moneys derived from any person or company as a result of any delay in the reconstruction, replacement or repair of the Property, or any portion thereof, are available to pay the amount which would otherwise be abated; or (iii) to the extent that moneys are available in the Certificate Fund (including the Reserve Account) or the Lease Payment Fund to pay the amount which would otherwise be abated, in which event the Lease Payments will be payable from such amounts as an obligation of the City payable from a special fund.

Additional Payments. Subject to the provisions of the Lease Agreement regarding abatement in event of loss of use of any portion of the Site and prepayment of Lease Payments, the City will also pay such amounts (called the "Additional Payments") as will be required to be paid by the Authority for the payment of all amounts, costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Lease Agreement or any assignment thereof, the Trust Agreement, its interest in the Property and the lease of the Property to the City, including but not limited to payment of all taxes and assessments levied on the Site, all insurance premiums with respect to the insurance the City is obligated to maintain under the Lease, amounts to be rebated to the federal government, and fees, costs and expenses and all administrative costs of the Authority related to the Certificates, any Reserve

Credit Facility, including, without limiting the generality of the foregoing, salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Authority under the Trust Agreement, fees of auditors, accountants, attorneys or architects, and all other necessary administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement; but not including in Additional Payments amounts required to pay the principal and interest in respect of the Certificates.

Such Additional Payments will be billed to the City by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been paid by the Authority or by the Trustee on behalf of the Authority, for one or more of the items above described, and that such amount is then payable by the City within fifteen (15) days after receipt of the bill by the City. The City reserves the right to audit billings for Additional Payments although exercise of such right will in no way affect the duty of the City to make full and timely payment for all Additional Payments.

Net-Net-Net Lease. The Lease Agreement will be deemed and construed to be a “net-net-net lease” and the City agrees that the Lease Payments will be an absolute net return to the Authority, free and clear of any expenses, charges, counterclaims or set-offs whatsoever, except as expressly provided therein.

INSURANCE

Public Liability and Property Damage.

Coverage. The City will maintain or cause to be maintained, throughout the Term of the Lease Agreement, 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 will 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.

Limits. Said policy or policies will 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). 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 therein.

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.

Payment of Proceeds. The proceeds of such liability insurance will be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds will have been paid.

Worker's Compensation. The City will 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 now in force in the State; or any act hereafter 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.

Coverage. The City will maintain or cause to be maintained, throughout the Term of the Lease Agreement, a policy or policies of insurance, issued by insurance providers rated no less than "A+" by Standard & Poor's Ratings Group, against loss or damage to the Site 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 will 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 will 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, and will 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 this section will mean the actual replacement cost of the improvements located on the Site (including the cost of restoring the surface of the Site, but excluding the cost of restoring trees, plants and shrubs).

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 will not maintain such hazard insurance in the form of self-insurance.

Payment of Net Proceeds. The Net Proceeds of such insurance will be paid to the Trustee and applied as provided in the Lease Agreement.

Rental Interruption Insurance.

Coverage and Amount. The City will 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 Lease Payment during the Term of the Lease Agreement, 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 will be obtained not later than the Delivery Date for the Certificates and will be increased as required in connection with each issue of Additional Certificates.

Joint Insurance. Such insurance may be maintained as part of or in conjunction with any other rental interruption insurance carried by the City. If the City discontinues provision of rental interruption insurance through the current self-insurance pool, the insurance provider of the substituted rental interruption insurance must be rated no less than "A+" by Standard & Poor's and such insurance provider will be subject to the consent of the Insurer.

Payment of Proceeds. The proceeds of such rental interruption insurance will be paid to the Trustee as loss payee and deposited (1) first in the Reserve Account to make up any deficiencies therein, and (2) second, in the Lease Payment Fund, to be held therein and

credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

Title Insurance. The City will obtain on the Delivery Date for the Certificates that policy of title insurance approved by the Insurer and delivered on the Delivery Date. In connection with any substitution of real property pursuant to the Lease Agreement, the City will obtain title insurance on the Property, in the form of a CLTA Owner's Policy with Western Regional Exceptions. The title policy or policies in effect at any time with respect to the Site will be in an amount at least equal to the aggregate Principal Component of unpaid Lease Payments, issued by a company of recognized standing duly authorized to issue the same. The title policy or policies will 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 will be paid to the Trustee as loss payee and applied as provided in the Lease Agreement. The City will not maintain title insurance in the form of self-insurance.

General Insurance Provisions.

Form of Policies. All policies of insurance required to be procured and maintained pursuant to the Lease Agreement, other than the worker's compensation insurance and the title insurance specified in the Lease Agreement and any statements of self-insurance will provide that the City and the Trustee will 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 pursuant to the provisions of the Lease Agreement regarding hazard insurance, rental interruption insurance and title insurance will provide that all proceeds thereunder will be payable to the Trustee as the loss payee. Except as otherwise provided in the foregoing insurance sections, all required insurance policies must be provided by a commercial insurance rated A by Best or in the two highest rating categories of S&P. All policies will name the Lessee, the Lessor, and the Trustee as additional insureds and the Trustee as loss payee.

Payment of Premiums. The City will pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement.

Protection of the Trustee. The Trustee will not be responsible for the sufficiency or adequacy of any insurance required in the Lease Agreement and, upon the receipt of the prior written consent of the Insurer, will 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.

Evidence of Insurance. The City will deliver certificates to the Trustee within the 30 days prior to October 15 of each year during the Term of the Lease Agreement to the effect that the insurance policies required by the Lease Agreement are in full force and effect.

Self-Insurance. Any self-insurance or risk pooling insurance arrangement ("Pooling") maintained by the City pursuant to the Lease Agreement will 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 October 15 of each year thereafter, there will 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 will 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 may be approved in writing by the Insurer on an exception basis provided that the following minimum conditions are met:

The self insurance or Pooling program must be approved by an independent insurance consultant, who may be the City's Risk Manager;

The self insurance or Pooling program must be maintained on an actuarially sound basis and the Insurer will annually receive a certified actuarial statement of the City's Risk Manager attesting to the sufficiency of the program's assets;

The self insurance or Pooling fund must be held in a separate trust fund by an independent trustee;

In the event the self insurance or Pooling program is discontinued, the actuarial soundness of the claim reserve fund must be maintained.

The Trustee will be fully protected in relying on the certificate provided in accordance with the Trust Agreement and will not be responsible for the review or verification of such certificate.

The City will 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 will 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 Trust Agreement and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Property or any portion thereof.

DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

Application of Net Proceeds.

Deposit in Insurance and Condemnation Fund. Pursuant to the Trust Agreement, the Trustee will deposit the Net Proceeds of any hazard insurance required by the Lease Agreement and the proceeds of the title insurance required by the Lease Agreement in the Insurance and Condemnation Fund promptly upon receipt thereof. The City and/or the Authority will transfer to the Trustee any other Net Proceeds received by the City and/or Authority in the event of any taking by eminent domain or condemnation with respect to the Property, for deposit in the Insurance and Condemnation Fund.

Disbursement for Replacement or Repair of the Site. Upon receipt of the prior written consent of the Insurer, the certification described in paragraph (i) below and the requisition described in paragraph (ii) below, the Trustee will disburse moneys in the Insurance and Condemnation Fund to the person, firm or corporation named in the requisition as provided in the Trust Agreement.

Certification. An Authorized Representative of the City must provide to the Authority, the Insurer and the Trustee a certificate stating that:

Sufficiency of Net Proceeds. The Net Proceeds available for such purpose, together with any other funds supplied by the City for such purpose, are sufficient to repair or replace the Property to a use which will have an annual fair rental value not less than the maximum the annual Lease Payments and Additional Payments (assuming that the annual Additional Payments due in the future will equal the maximum annual Additional Payments prior to such date) due under the Lease Agreement, and

Timely Completion. In the event that damage, destruction, title defect or taking results in an abatement of Lease Payments or Additional Payments, such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds as described in the Lease Agreement, together with other legally available funds, will be available to pay in full all Lease Payments and Additional Payments coming due during such period.

Requisition. An Authorized Representative of the City must state with respect to each payment to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid, and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation.

Any balance of the Net Proceeds remaining after such replacement or repair has been completed will be disbursed as provided in the Trust Agreement.

Disbursement for Prepayment. If an Authorized Representative of the City notifies the Trustee in writing of the City's determination that the certification provided in the Lease Agreement cannot be made or the Insurer or the City determine that replacement or repair of any portion of the Property is not economically feasible or in the best interest of the City, then the City, with the prior written consent, or at the direction, of the Insurer, will deposit with the Trustee from legally available funds an amount which, when combined with the Net Proceeds, will prepay sufficient Lease Payments (and result in a corresponding prepayment of Certificates and Additional Certificates) such that the fair rental value of the remaining portion of the Property is no less than an amount equal to the Principal Components and Interest Components due with respect to the Certificates and Additional Certificates to remain Outstanding under the Trust Agreement after such Net Proceeds and such deposit by the City are applied to prepay Certificates and Additional Certificates under the Trust Agreement. The Trustee will promptly transfer the Net Proceeds in respect of such portion to the Prepayment Account of the Certificate Fund as provided in the Trust Agreement and apply them to the redemption of the Certificates and Additional Certificates as provided in the Trust Agreement and prepayment of Lease Payments as provided in the Lease Agreement.

COVENANTS WITH RESPECT TO THE PROPERTY

Use of the Property. The City represents and warrants that it has an immediate essential need for all of the Property, which need is not expected to be temporary or to diminish in the foreseeable future, and the City covenants that, for the term of the Lease, it will continue to use the Property to serve its administrative needs.

Leasehold Interest in the Property.

City Holds Fee Interest During Term. During the term of the Lease, the City will hold a fee interest in the Property.

Fee Interest Transferred to City at End of Term. On the day of the expiration of the term of the Site Lease as provided therein, the City's fee interest in the Property pursuant to the Lease and all right, title and interest of the Authority in the Property will be transferred to and vest in the City, free and clear of any interest of the Authority or its assigns, without the necessity of any additional document of transfer.

Option to Prepay Lease Payments. The City may exercise an option to prepay all or a portion of the Lease Payments in accordance with the Lease Agreement and, by prepaying Lease Payments in the amounts necessary to cause the termination of the Term as provided in the Lease Agreement, terminate the Authority's leasehold interest in the Property under the Lease and all right, title and interest of the Authority in the Property. If the City elects to prepay a portion of the Lease Payments, and if the Lease Payments have been allocated to Components of the Property in the Lease Agreement, then it may specify to which Component of the Site such prepayment is applicable.

Quiet Enjoyment. Subject only to the Permitted Encumbrances, during the Term of the Lease Agreement the Authority will provide the City with quiet use and enjoyment of the Property, and the City will during such Term peaceably and quietly have and hold and enjoy the Property, without suit, trouble or hindrance from the Authority, or any person or entity claiming under or through the Authority except as expressly set forth in the Lease Agreement or the Trust Agreement. The Authority will, at the request of the City, join in any legal action in which the City asserts its right to such possession and enjoyment to the extent the Authority may lawfully do so. Notwithstanding the foregoing, the Authority will have the right of access to the Property as provided in the Lease Agreement.

Installation of City's Personal Property. The City may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon any portion of the Property, so long as such installation will not materially adversely affect the fair rental value of the Property. All such items will remain the sole personal property of the City, regardless of the manner in which the same may be affixed to such portion of the Property, in which neither the Authority nor the Trustee will have any interest, and may be modified or removed by the City at any time; provided that the City will repair and restore any and all damage to such portion of the Property resulting from the installation, modification or removal of any such items of equipment. Nothing in the Lease Agreement will prevent the City from purchasing items to be installed pursuant to this section, provided that no lien or security interest attaching to such items will attach to any part of the Property.

Access to the Property. The City agrees that the Authority, and the Authority's successors and assigns, will have (1) the right at all reasonable times to enter upon the Property or any portion thereof to examine and inspect the Property, and (2) such rights of access to the Property as may be reasonably necessary to cause the proper maintenance of the Property in the event of failure by the City to perform its obligations under the Trust Agreement.

Maintenance, Utilities, Taxes and Assessments.

Maintenance; Repair and Replacement. Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Property, all repair and maintenance of the Property will be the responsibility of the City, and the City will pay for or otherwise arrange for the 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 sublessee thereof. The City will provide or cause to be provided all security service, custodial service, power, gas, telephone, light, heating and water, and all other public utility services for the Property. In exchange for the Lease Payments, the Authority agrees to provide only the Property.

Tax and Assessments; Utility Charges. The City will also pay or cause to be paid all taxes and assessments, including but not limited to utility charges of any type or nature charged to the Authority or the City or levied, assessed or charged against any portion of the Property or the respective interests or estates therein; provided that, with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City will 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.

Contests. The City may, at its 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; provided that prior to such nonpayment it will furnish the Authority, the Insurer and the Trustee with the opinion of an Independent Counsel to the effect that, by nonpayment of any such items, the interest of the Authority in such portion of the Property will not be materially endangered and that the Property will not be subject to loss or forfeiture. Otherwise, the City will promptly pay such taxes, assessments or charges or make provisions for the payment thereof in form satisfactory to the Authority and the Insurer. The Authority will cooperate fully in such contest, upon the request and at the expense of the City.

Modification of the Property.

Additions, Modifications and Improvements. The City will, at its own expense, have the right to make additions, modifications and improvements to any portion of the Property if such additions, modifications or improvements are necessary or beneficial for the use of such portion of the Property, so long as such additions, modifications or improvements do not adversely affect the fair rental value of the Property. Such additions, modifications or improvements will not in any way damage any portion of the Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law or in any way which would impair the exclusion from gross income for federal income tax purposes of the Interest Components of the Lease Payments or diminish the fair rental value of the Property; and the Property, upon completion of any additions, modifications or improvements made pursuant to this section, will be of a value which is not less than the value of the Property immediately prior to the making of such additions, modifications or improvements.

No Liens. Except for Permitted Encumbrances, the City will not permit any mechanic's or other lien to be established or remain against the Property for labor or materials furnished in connection with any additions, modifications or improvements made by the City pursuant to this section; provided that if any such lien is established and the City will first notify or cause to be notified the Authority and the Insurer of the City's intention to do so, the City may

in good faith contest any lien filed or established against the Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and will provide the Authority and its assigns with full security against any loss or forfeiture which might arise from the nonpayment of any such lien, in form satisfactory to the Authority and the Insurer. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

Liens. Except as expressly permitted by the Lease Agreement, the City will not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, liens, charges, encumbrances or claims, as applicable, on or with respect to the Property, other than Permitted Encumbrances and other than the respective rights of the Authority and the City as therein provided. Except as expressly provided in the Trust Agreement, the City will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, if the same will arise at any time; provided that the City may in good faith contest such lien or claim if it desires to do so, so long as such contest will not materially, adversely affect the rights of the City and the Authority to the Property or the payment of Lease Payments or Additional Payments under the Lease Agreement. The City will reimburse the Authority and its assigns for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Authority's Disclaimer of Warranties. THE AUTHORITY AND TRUSTEE MAKE NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE CITY OF THE PROPERTY OR ANY PORTION THEREOF. THE CITY ACKNOWLEDGES THAT THE AUTHORITY OR TRUSTEE IS NOT A MANUFACTURER OF THE PROPERTY OR OF ANY PORTION THEREOF, AND IS NOT A DEALER THEREIN, AND THAT THE CITY IS LEASING THE PROPERTY AS IS. In no event will the Authority or Trustee be liable for incidental, indirect, special or consequential damages, in connection with or arising out of the Lease Agreement, the Site Lease, the Assignment Agreement or the Trust Agreement for the existence, furnishing, functioning or City's use and possession of the Property.

City's Right to Enforce Warranties of Manufacturers, Vendors or Contractors. The Authority irrevocably appoints the City its agent and attorney-in-fact during the Term, so long as the City will not be in default under the Lease Agreement, to assert from time to time whatever claims and rights, including without limitation, warranty claims, claims for indemnification and claims for breach of any representations, respecting the Site or the Property which the Authority may have against any vendor or contractor, or any agents thereof. The City's sole remedy for the breach of any such warranty, indemnification or representation will be against the vendor or contractor with respect thereto, and not against the Authority, nor will such matter have any effect whatsoever on the rights and obligations of the Authority with respect to the Lease Agreement, including the right to receive full and timely Lease Payments and to cause the City to make all other payments due under the Lease Agreement. The City will be entitled to retain any and all amounts recovered as a result of the assertion of any such claims and rights. The Authority will, upon the City's request and at the City's expense, do all things and take all such actions as the City may request in connection with the assertion of any such claims and rights.

The City expressly acknowledges that neither the Authority nor the Trustee makes, or has made, any representation or warranty whatsoever as to the existence or availability of such warranties of the manufacturer, vendor or contractor with respect to any portion of the Property.

ASSIGNMENT, SUBLEASING AND AMENDMENT

Assignment by the Authority. Except as expressly provided in the Lease Agreement, in the Assignment Agreement and in the Trust Agreement, the Authority will not assign the Lease Agreement, or any right, title or interest of the Authority in and to the Lease Agreement, to any person, firm or corporation.

Assignment and Subleasing by the City.

Assignment. The Lease Agreement may not be assigned by the City unless (A) the City obtains the prior written consent of the Insurer, and (B) the City receives an opinion of Bond Counsel stating that such assignment does not adversely affect the exclusion from gross income for federal income tax purposes or the exemption from State personal income taxation of the Interest Components of the Lease Payments. In the event that the Lease Agreement is assigned by the City, the obligation to make Lease Payments and Additional Payments and perform the other covenants of the City under the Lease Agreement will remain the primary obligation of the City.

Sublease. The City may sublease any portion of the Site, with the prior written consent of the Authority and the Insurer, subject to all of the following conditions:

the Lease Agreement and the obligation of the City to make Lease Payments and Additional Payments and perform the other covenants of the City under the Lease Agreement will remain primary obligations of the City;

the City will, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease, provided, however, the Trustee will have no duty to review the form or adequacy of such sublease for any purpose;

no sublease will cause the Interest Components of the Lease Payments due with respect to the Site to become subject to federal income taxes or State personal income taxes; and

any sublease will be terminable by the Authority upon the occurrence of an Event of Default or abatement event under the Lease Agreement.

No consent of the Authority may be given under this subsection (b) unless the City will have provided the Authority with opinions of Independent Counsel with respect to the matters set forth in clause (i) above and the opinion of Bond Counsel with respect to the matters set forth in clause (iii) above.

Amendments and Modifications. The Lease Agreement may be amended or any of its terms modified in accordance with the Trust Agreement, with the prior written consent of the Trustee, the Insurer, the City and the Authority.

EVENTS OF DEFAULT AND REMEDIES

Defaults and Remedies.

(a) If the City will fail to pay any Lease Payments or Additional Payments or other amount payable under the Lease Agreement when the same becomes due and payable, time being expressly declared to be of the essence of the Lease Agreement, or the City will fail 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 for a period of thirty (30) days after notice of the same has been given to the City by the Authority, Insurer or the Trustee or for such additional time as is reasonably required, in the discretion of the Trustee with the prior written consent of the Insurer, to correct the same, or upon the happening of any of the events specified in subsection (b) of this Section (any such case above being an "Event of Default"), the City will be deemed to be in default under the Lease Agreement and it will be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, may do any of the following, but only subject to the prior written consent of the Insurer, and will do any of the following, at the direction of the Insurer:

(i) To terminate the Lease Agreement in the manner provided in the Lease Agreement on account of default by the City, notwithstanding any re-entry or re-letting of the Property as provided for in subparagraph (ii) 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 located within 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 rent 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 will of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the City will be or become effective by operation of law or acts of the parties to the Trust Agreement, or otherwise, unless and until the Authority will 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 will be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice.

Without terminating the Lease Agreement, (A) to collect each installment of rent and other amounts as they become due, and enforce any other terms or provision of the Lease Agreement to be kept or performed by the City, regardless of whether or not the City has abandoned the Property, or (B) to exercise any and all rights of re-entry upon the Property. In the event the Authority does not elect to terminate the Lease Agreement in the manner provided for in subparagraph (i) above, the City will remain

liable and agrees to keep or perform all covenants and conditions in the Lease Agreement contained to be kept or performed by the City and, if the Property is not re-let, to pay the full amount of the rent and other amounts 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 rent and other amounts that results therefrom; and further agrees to pay said rent and other amounts and/or rent and other amounts, including without limitation, any rent deficiency, punctually, at the same time and in the same manner as above provided for the payment of rent and other amounts under the Lease Agreement (without acceleration), notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years rental or other amounts in excess of the rental or other amounts specified, 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 entry or re-entry or obtaining possession of the Property. Should the Authority elect to enter or re-enter as provided, 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 located in the City, for the account of and at the expense of the City, and the City exempts 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 and to do all other acts to maintain or preserve the Property as the Authority deems necessary or desirable 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 will 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 will vest in the Authority to be effected in the sole and exclusive manner provided for in sub-paragraph (i) above. The City in the Lease Agreement further waives the right to any rental or other amounts obtained by the Authority in excess of the rental and other amounts specified and conveys and releases such excess to the Authority as compensation to the Authority for its services in re-letting the Property or any part thereof.

The City 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 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 (1) 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 prior written consent of the Insurer, as provided for in the Lease Agreement, or (2) the City or any assignee will 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 will be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City will make a general or any assignment for the benefit of the City's creditors, or if (3) the City will abandon or vacate the Property, then the City will be deemed to be in default under the Lease Agreement.

(c) The Authority will in no event be in default in the performance of any of its obligations under the Lease Agreement or imposed by any statute or rule of law unless and until the Authority will have failed to perform such obligations within thirty (30) days or such additional time as is reasonably required to correct any such default after notice by the City to the Authority and to the Insurer properly specifying wherein the Authority has failed to perform any such obligation. In the event of default by the Authority, the City will be entitled to pursue any remedy provided by law.

(d) In addition to the other remedies set forth in this section, upon the occurrence of an event of default as described in this section, the Authority, subject to the direction of the Insurer, will proceed to protect and enforce the rights vested in the Authority by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the City and of its trustees, officers or employees will be enforceable by the Authority by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority may, with the prior written consent of the Insurer, and will, at the direction of the Insurer, bring the following actions:

(i) Accounting. By action or suit in equity to require the City and its trustees, 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.

(iii) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's rights against the City (and its board, 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 Authority as provided in the Lease Agreement.

The exercise of any rights or remedies under the Lease Agreement will not permit acceleration of Lease Payments.

Each and all of the remedies given to the Authority under the Lease Agreement or by any law now or hereafter enacted are cumulative and the single or partial exercise of any right, power or privilege under the Lease Agreement will not impair the right of the Authority to other or further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in this section will 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 will

limit the remedies given to the Authority under the Lease Agreement, the Authority nevertheless will be entitled to whatever remedies are allowable under any statute or rule of law.

In the event the Authority will 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, whether or not a lawsuit has been filed and whether or not any lawsuit culminates in a judgment.

Waiver. Failure of the Authority to take advantage of any default on the part of the City will not be, or be construed as, a waiver thereof, nor will 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 of the Lease Agreement, or to exercise any rights given the Authority on account of such default. A waiver of a particular default will not be deemed to be a waiver of the same or any subsequent default. The acceptance of rent under the Lease Agreement will not be, or be construed to be, a waiver of any term, covenant or condition of the Lease Agreement.

No Remedy Exclusive. No remedy conferred in the Lease Agreement upon or reserved to the Authority is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Lease Agreement or now or hereafter existing at law or in equity. In order to entitle the Authority to exercise any remedy reserved to it in the Trust Agreement it will not be necessary to give any notice, other than such notice as may be required in the Trust Agreement or by law.

Agreement to Pay Attorneys Fees and Expenses. In the event either party to the Lease Agreement should default under any of the provisions of the Lease Agreement and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement of performance or observance of any obligation or agreement on the part of the defaulting party contained in the Lease Agreement, the defaulting party agrees that it will pay on demand to the nondefaulting party the reasonable fees and disbursements of such entity's attorneys and such other expenses so incurred by the nondefaulting party.

No Additional Waiver Implied by One Waiver. In the event any agreement contained in the Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach under the Lease Agreement.

Application of the Proceeds Following Default. All amounts received by the Authority in such event (other than recovered fees and expenses described above) will be deposited by the Trustee in the Lease Payment Fund for application in accordance with the Trust Agreement.

Trustee and Certificate Owners to Exercise Rights. Such rights and remedies as are given to the Authority under the Lease Agreement have been assigned by the Authority to the Trustee under the Assignment Agreement and the Trust Agreement, to which assignment the City consents. Such rights and remedies will be exercised by the Trustee, the Insurer, the Certificate Owners and owners of any Additional Certificates as provided in the Trust Agreement.

PREPAYMENT OF LEASE PAYMENTS

Security Deposit. Notwithstanding any other provision of the Lease Agreement, the City may, on any date, secure the payment of any unpaid Lease Payment attributable to the Property by an irrevocable deposit by it with the Trustee of cash and/or Permitted Investments of the type described in paragraph 1(b) of the definition thereof, which are adequate in the opinion of an independent certified public accountant to provide for payment of such unpaid Lease Payment as it becomes due and payable under the Lease Agreement (a "Security Deposit") and provided that such Security Deposit meets all the terms and provisions established for defeasance of the Certificates set forth in the Trust Agreement.

In the event that the City has secured the payment of all unpaid Lease Payments attributable to the Property in accordance with the terms and provisions of the immediately preceding paragraph, and provided that the City has made arrangements acceptable to the Trustee and the Insurer to pay any Additional Payments due under the Lease Agreement, all obligations of the City under the Lease Agreement, and all security provided by the Lease Agreement for said obligations, will cease and terminate, excepting only the obligation of the City to make, or cause to be made, Lease Payments from such deposit. Said deposit will be deemed to be and will constitute a special fund for the payment of Lease Payments in accordance with the provisions of the Lease Agreement. The Authority will execute and deliver such further instruments and take such further action as may reasonably be requested by the City for carrying out the leasehold interest transfer for which a security deposit is made under the Lease Agreement.

Extraordinary Prepayment From Net Proceeds. The City will be obligated to prepay the Lease Payments in whole or in part on any date, from and to the extent of any Net Proceeds transferred to the Prepayment Account pursuant to the Trust Agreement. The City and the Authority agree that such proceeds will be credited towards the City's obligations under the Lease Agreement such that approximately equal annual Lease Payments will prevail with respect to the Property following such prepayment and, if the Lease Payments have been allocated to discrete Components of the Property in the Lease Agreement, the Lease Payments with respect to the Component or Components from which such Net Proceeds were delivered will be reduced accordingly.

Optional Prepayment. Subject to the terms and conditions of this section and to the prior written consent of the Insurer, the Authority grants an option to the City to prepay in whole or in part the Principal Components of Lease Payments relating to the Property, to the extent, on the dates and at the prepayment prices provided in the Trust Agreement as such Agreement may be amended from time to time with respect to Additional Certificates. The City will execute said option by giving written notice to the Trustee thereof at least 45 days (or such shorter period as approved by the Trustee in its sole discretion) prior to the date of prepayment of Certificates and Additional Certificates from such prepayment and depositing with said notice cash in the minimum amount of (1) accrued interest on the Principal Component of Lease Payments to be prepaid to the date of prepayment of Certificates and Additional Certificates with the proceeds of such prepayment, plus (2) the Principal Component of any Lease Payments to be prepaid, plus (3) the applicable prepayment premium described in the Trust Agreement as such Agreement may be amended from time to time with respect to Additional Certificates.

Sinking Fund Redemption. The City and the Authority acknowledge that the Term Certificates are subject to mandatory redemption from the Principal Components of Lease Payments on the dates, at the times and in the amounts provided in the Trust Agreement.

Credit for Amounts on Deposit. In the event of prepayment of all the Lease Payments in full and the payment in full of all due and payable Additional Payments, such that the Trust Agreement will be discharged by its terms as a result of such prepayment, all amounts then on deposit in the Lease Payment Fund and the Certificate Fund will be credited toward the amounts then required to be so prepaid.

Effect of Prepayment.

(a) In Whole. In the event that the City prepays all remaining Lease Payments pursuant to the Lease Agreement and the Certificates are no longer Outstanding under the Trust Agreement and the City has paid in full all Additional Payments due under the Lease Agreement, the City's obligations under the Lease Agreement will thereupon cease and terminate, including but not limited to the City's obligation to continue to pay Lease Payments under the Lease Agreement.

(b) In Part. In the event the City prepays less than all of the remaining Principal Component of the Lease Payments pursuant to the Lease Agreement, the amount of such prepayment will be applied to reduce the Principal Component of the Lease Payments corresponding to the resulting prepayment of the Principal Component with respect to the Certificates and the Additional Certificates.

INSURER TERMS

Third Party Beneficiary. The Insurer is deemed to be a third party beneficiary of the Lease Agreement.

City Payment Requirement. Subject to the provisions of the Lease Agreement, the City covenants and agrees to pay or cause to be paid all amounts required to be paid by the Authority under the Trust Agreement.

MISCELLANEOUS

Notices. All notices, certificates or other communications under the Trust Agreement to the Authority, the Insurer and City will be in writing and will be sufficiently given and will be deemed given when delivered or mailed by certified mail, postage prepaid, to the parties listed in the Trust Agreement.

Binding Effect. The Lease Agreement will inure to the benefit of and will be binding upon the Authority and the City and their respective successors and assigns.

Severability. In the event any provision of the Lease Agreement will be held invalid or unenforceable by a court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision of the Lease Agreement.

Applicable Law. The Lease Agreement will be governed by and construed in accordance with the laws of the State.

SUMMARY OF TRUST AGREEMENT

ASSIGNMENT; DECLARATION OF TRUST; REPRESENTATIONS AND RECITALS

Declaration of Trust by Trustee. The Trustee declares that it holds and will hold the Trust Estate upon the trusts set forth in the Trust Agreement solely and exclusively for the use and benefit of the Certificate Owners and the Owners of any Additional Certificates, in accordance with the terms of the Trust Agreement.

Deposit of Moneys. In order to induce the City to act as the agent of the Authority for purposes of constructing the Project and to provide the funds necessary to finance the Project, the Authority has executed the Lease Agreement and has consented to the Trustee's execution and delivery of the Certificates and has deposited the net proceeds of the sale of the Certificates with the Trustee. Upon receipt of such initial deposit, the Trustee will transfer the amounts received from the Authority as specified in the Trust Agreement.

Conditions Precedent Satisfied. The City declares that all acts, conditions and things required by law to exist, happen and be performed precedent to and in connection with the execution, delivery and entering into of the Trust Agreement and the Certificates have happened and have been performed in regular and due time, form and manner as required by law.

Due Authorization and Execution. Each of the parties represents and warrants that it has full legal authority and is duly empowered to enter into the Trust Agreement, and has taken all actions necessary to authorize the execution and delivery of the Trust Agreement.

TERMS AND PROVISIONS OF THE CERTIFICATES AND ADDITIONAL CERTIFICATES

Preparation of Certificates and Additional Certificates.

Pursuant to the Trust Agreement, the Authority directs the Trustee to execute and deliver to the original purchaser or purchasers thereof Certificates evidencing undivided proportionate interests in the Lease Agreement, including the right to receive the Lease Payments to be paid by the City under the Lease Agreement. The Certificates will originally be registered in the name of the Nominee. Additional Certificates may either be in book-entry form subject to the provisions of the Trust Agreement or in physical form subject to the provisions thereof. Each Certificate and Additional Certificate will represent an undivided proportionate interest in the Principal Component of the Lease Payments due and payable on certain Principal Component Payment Dates and in the Interest Component of the Lease Payments due and payable on each Interest Payment Date to and including each maturity date or Redemption Date. The Certificates will be designated "2003 Certificates of Participation (Capital Improvement Projects)". Additional Certificates will be designated as set forth in a written certificate of an Authorized Representative of the City to the Trustee.

If at any time after the Delivery Date of the Certificates the City determines it necessary, the City may, subject to the prior written consent of the Insurer, provide for the execution and delivery of and sell Additional Certificates secured on a parity with the Certificates provided that the conditions set forth in the Trust Agreement are satisfied. The City will not direct the Trustee at any time while any Certificate or Additional Certificate is Outstanding to

execute and deliver certificates of participation payable from the Lease Payments except as provided in the Trust Agreement.

Payments from Trust Estate Only; Distribution of Trust Estate.

All amounts payable with respect to the Certificates and the Additional Certificates pursuant to the Trust Agreement will be paid only from the income of and proceeds from the Trust Estate and only to the extent that the Trustee will have actually received sufficient income or proceeds from the Trust Estate to make such payments in accordance with the terms of the Trust Agreement. Each Owner of a Certificate or Additional Certificate agrees to look solely to the income of and the proceeds from the Trust Estate to the extent available for distribution to such Owner as provided in the Trust Agreement, and each Certificate Owner and each Owner of any Additional Certificate agrees that the Trustee is not personally liable to any Owner for any amounts payable under the Trust Agreement or subject to any liability under the Trust Agreement except liability under the Trust Agreement as a result of negligence or willful misconduct by the Trustee.

So long as the Lease Agreement will be in effect, all Lease Payments, insurance or condemnation proceeds and other payments of any kind constituting a part of the Trust Estate payable to the Trustee with respect to the Property, will be paid directly to the Trustee for distribution, in accordance with the Trust Agreement.

Description of the Certificates and Additional Certificates.

The Certificates will be dated as of their Date of Delivery and the Principal Components evidenced thereby will become due as set forth in the body of this Official Statement.

Interest with respect to each Certificate and Additional Certificate will accrue from the Interest Payment Date next preceding the date of execution thereof, unless (i) it is executed on an Interest Payment Date, in which event interest will accrue from the date of execution thereof, (ii) it is executed after a Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest with respect thereto will be payable from such Interest Payment Date, or (iii) it is executed prior to the close of business on the first Record Date, in which event interest with respect thereto will be payable from the dated date of such Certificate or Additional Certificate, as applicable; provided, however, that, if at the time of execution of any Certificate or Additional Certificate interest with respect thereto is in default, interest with respect thereto will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment or from the dated date of such Certificate or Additional Certificate, as applicable, if no interest has been paid or made available for payment. Except as otherwise expressly provided in the Trust Agreement, interest with respect to the Certificates and Additional Certificates will accrue on overdue Principal Components at the same rate as borne by the particular Certificates or Additional Certificates.

Interest with respect to any Certificate or Additional Certificate will be payable on each Interest Payment Date following the Delivery Date therefor to the Owner thereof as of the close of business on the Record Date, such interest to be paid by check, mailed by the Trustee to the Owner first class mail, postage prepaid, on such Interest Payment Date, at his address as it appears on the registration books maintained by the Trustee pursuant to the Trust Agreement or, in the case of an Owner of Certificates representing at least \$1,000,000 in aggregate

Principal Components or an Owner of Additional Certificates representing at least \$1,000,000 in aggregate Principal Components, by wire transfer in immediately available funds to an account in the United States designated in writing by such Owner to the Trustee prior to the applicable Record Date. Interest Components with respect to the Certificates and any Additional Certificates will be computed on the basis of a 360-day year comprised of 12 months of 30 days each. Payments of defaulted Interest Components will be paid in the same manner as payment is made on a regular Interest Payment Date on the payment date fixed therefor by the Trustee to the Owners of the Certificates and Owners of any Additional Certificates as of a special record date to be fixed by the Trustee, notice of which payment date and special record date will be given to the Owners of the Certificates and the Owners of any Additional Certificates not less than ten days prior thereto. Principal Components and premium, if any, due with respect to any Certificate and Additional Certificate are payable at the location designated by the Nominee, or, at any time the Certificates and Additional Certificates are not in book-entry form pursuant to the Trust Agreement, upon surrender thereof at the Corporate Trust Office of the Trustee.

The Certificates and any Additional Certificates will be delivered in fully registered form and, except as otherwise provided in the Trust Agreement, in the denominations of \$5,000 or any integral multiple thereof. Unless the Authority will otherwise direct in writing, the Certificates and any Additional Certificates will be lettered and numbered in such manner as the Trustee will deem adequate and appropriate for recordkeeping purposes. Subject to the provisions of the Trust Agreement, the Certificates will be substantially in the form set forth in the Trust Agreement and any Additional Certificates will be substantially in the form set forth in the Supplemental Trust Agreement executed with respect to such Additional Certificates.

The Trustee will maintain, or cause to be maintained at its principal corporate trust office a system by which a record of the names and addresses of the Owners of any Certificates and Additional Certificates as of any particular time can be kept; and the Trustee will, upon written request of the City, furnish such information to the City.

Medium of Payment.

The Certificates and any Additional Certificates will be payable, with respect to Interest Components, Principal Components and premium, if any, in lawful money of the United States of America.

Execution and Exchange.

Subject to the provisions of the Trust Agreement, the Certificates and any Additional Certificates will be executed in the name of, and by, the Trustee, as trustee under the Trust Agreement, by the manual signature of an authorized signatory of the Trustee.

Subject to the provisions of the Trust Agreement, upon surrender of a Certificate or an Additional Certificate at the corporate trust office of the Trustee in St. Paul, Minnesota with a written instrument of transfer satisfactory to the Trustee, duly executed by such Owner or his duly authorized attorney, the Trustee will, at the option of such Owner and upon payment by such Owner of any charges which the Trustee may make, exchange such Certificates or Additional Certificates, as applicable, for Certificates or Additional Certificates of the same issue representing the same aggregate amount of Principal Components and the same maturity and interest rate.

Negotiability, Transfer and Registry.

Each Certificate and Additional Certificate will be transferable only upon the books of the Trustee which will be kept for that purpose at the Corporate Trust Office of the Trustee, by the Certificate Owner or Owner of any Additional Certificates in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by such Owner or his duly authorized attorney. Upon the transfer of any such Certificate or Additional Certificate, the Trustee will deliver in the name of the transferee a new Certificate or Additional Certificate of like maturity and representing the same issue and aggregate amount of Principal Components as the surrendered Certificate or Additional Certificate, as applicable.

Except as otherwise expressly provided in the Trust Agreement, the Trustee and the City may deem and treat the person in whose name any Certificate or Additional Certificate will be registered upon the books of the Trustee as the absolute Owner of such Certificate or Additional Certificate, whether such Certificate or Additional Certificate will be overdue or not, for the purpose of receiving payment of, or on account of, the Principal Components, premium, if any, and Interest Components due with respect to such Certificate or Additional Certificate and for all other purposes; and all such payments so made to any such Owner or upon his order will be valid and effectual to satisfy and discharge the liability upon such Certificate or Additional Certificate to the extent of the sum or sums so paid; and neither the City nor the Trustee will be affected by any notice to the contrary.

Regulations with Respect to Exchanges and Transfers. In all cases in which the privilege of exchanging Certificates and Additional Certificates or transferring Certificates and Additional Certificates is exercised, the Trustee will execute and deliver Certificates and Additional Certificates in accordance with the provisions of the Trust Agreement. All Certificates surrendered in any such exchanges or transfers will forthwith be cancelled by the Trustee. For every such exchange or transfer of Certificates and Additional Certificates, whether temporary or definitive, the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. The Trustee will not be required to transfer or exchange any Certificates or Additional Certificates which has matured or been called for redemption (except for any unredeemed portion thereof) or any Certificates or Additional Certificates during the period of 15 days before the selection of Certificates or Additional Certificates for redemption.

Certificates and Additional Certificates Mutilated, Destroyed, Stolen or Lost. In case any Certificate or Additional Certificate will become mutilated or be destroyed, stolen or lost, the Trustee will execute and deliver, a new Certificate or Additional Certificate of the same issue and of like maturity and Principal Component as the Certificate or Additional Certificate so mutilated, destroyed, stolen or lost, in exchange and substitution for such mutilated Certificate or Additional Certificate, upon surrender and cancellation of such mutilated Certificate or Additional Certificate, or in lieu of and substitution for the Certificate or Additional Certificate, destroyed, stolen or lost, upon receipt by the Trustee of evidence satisfactory to the Trustee that such Certificate or Additional Certificate has been destroyed, stolen or lost and proof of ownership thereof, and upon furnishing the Trustee and the Insurer with indemnity satisfactory to the Trustee and the Insurer and complying with such other regulations as the Trustee may prescribe and paying such expenses as the Trustee may incur. All Certificates or Additional Certificates so surrendered to the Trustee will be cancelled by it. Any such new Certificates or Additional Certificates executed and delivered in substitution for Certificates or Additional Certificates alleged to be destroyed, stolen or lost will be equally secured by and entitled to

equal and proportionate benefits, with all other Certificates and Additional Certificates delivered under the Trust Agreement, in any moneys or securities held by the Trustee for the benefit of the Certificate Owners and Owners of Additional Certificates. Notwithstanding any other provision of the Trust Agreement, in lieu of delivering a new Certificate or Additional Certificate in exchange and substitution for a Certificate or Additional Certificate which has been mutilated, lost, destroyed or stolen, and which has matured or been prepaid, or has been selected for prepayment, the Trustee may make payment of the principal or interest with respect to such Certificate or Additional Certificate upon receipt of indemnity satisfactory to the Trustee.

Temporary Certificates and Additional Certificates; Form of Certificates. So long as the Certificates and any Additional Certificates are in book-entry form, they may be typewritten or in any other form acceptable to the City and the Depository. At any time during which the Certificates and any Additional Certificates are not in book-entry form, the definitive Certificates and Additional Certificates will be lithographed or printed with steel engraved borders. Until the definitive Certificates and Additional Certificates are prepared, the Trustee may execute and deliver, in the same manner as is provided in the Trust Agreement, in lieu of definitive Certificates and Additional Certificates, one or more temporary certificates substantially of the tenor of the definitive Certificates and Additional Certificates, as applicable, in any authorized denomination, and with such omissions, insertions and variations as may be appropriate to temporary certificates. The Trustee at the expense of the City will execute and, upon the surrender of such temporary Certificates and Additional Certificates and the cancellation of such surrendered temporary Certificates and Additional Certificates, will, without charge to the Owners thereof, in exchange therefor, deliver definitive Certificates and Additional Certificates, representing the same aggregate amount of Principal Components and of like maturity as the temporary Certificates and Additional Certificates.

All temporary Certificates and Additional Certificates surrendered either in exchange for another temporary Certificate or Additional Certificate, as applicable, or for a definitive Certificate or Additional Certificate, as applicable, will be forthwith cancelled by the Trustee and destroyed.

Prepayment of Certificates and Additional Certificates. The Certificates and Additional Certificates will be prepayable at such times, in such amount, upon such terms and upon such notice as are provided in the body of this Official Statement.

Payment of Prepaid Certificates and Additional Certificates. Notice having been given in the manner provided in the Trust Agreement, the Certificates or portions thereof and/or the Additional Certificates or portions thereof so called for prepayment will become due and payable on the Prepayment Date so designated at the Prepayment Price for such Certificate and/or Additional Certificate, and, upon presentation and surrender thereof at the office specified in such notice, the Prepayment Price of such Certificate and/or Additional Certificate to be prepaid will be paid as provided in the Trust Agreement. If there will be called for prepayment less than all of a Certificate or Additional Certificate, the Trustee will execute and deliver, upon the surrender of such Certificate or Additional Certificate, at the expense of the City, for the balance not prepaid of the Principal Component of any Certificate or Additional Certificate so surrendered, Certificates or Additional Certificates of the same issue and of like maturity and interest rate in any of the authorized denominations. If, on the Prepayment Date, moneys for the prepayment of all the Certificates or portions thereof and/or the Additional Certificates or portions thereof to be prepaid together with interest to the Prepayment Date will be held by the Trustee so as to be available therefor on said date and if notice of prepayment will have been given as aforesaid, then from and after the Prepayment Date the Interest

Components due with respect to such Certificates or portions thereof and/or the Additional Certificates or portions thereof so called for prepayment will cease to accrue and become payable.

On each such Prepayment Date other than a Sinking Account Installment Date, the Trustee will give written notice to the City and the Authority of the Certificates and Additional Certificates selected for prepayment in accordance with the Trust Agreement, and the City will recompute the amount of Lease Payments to become due in each remaining year of the Lease Agreement following a prepayment of the Certificates and Additional Certificates so that such Lease Payments will be in amounts sufficient to pay when due the remaining Outstanding Certificates in full, and will notify the Authority and the Trustee in writing of the amount of such Lease Payments.

Cancellation of Certificates and Additional Certificates. All Certificates and Additional Certificates paid or prepaid, either at or before maturity, will be delivered to the Trustee when such payment or prepayment is made, and such Certificates and Additional Certificates will thereupon be promptly cancelled and destroyed. Upon the cancellation of any Certificates or Additional Certificates by the Trustee, upon the written request of an Authorized Representative of the City, the Trustee will execute a certificate of cancellation and destruction in duplicate by the signature of one of its authorized officers describing the Certificates or Additional Certificates so cancelled. One executed certificate will be filed with the City, and the other executed certificate will be retained by the Trustee. The Trustee may charge the City for its reasonable costs of permanent recordkeeping, including microfilming.

Nonpresentment of Certificates and Additional Certificates. Except as otherwise provided in the Trust Agreement, in the event any Certificate or Additional Certificate will not be presented for payment when the Principal Component thereof becomes due, if funds sufficient to pay such Certificate or Additional Certificate will be held by the Trustee for the benefit of the Owner thereof, all liability to the Owner thereof for the payment of the Principal Component and Interest Component due with respect to such Certificate or Additional Certificate, as applicable, will forthwith cease and be completely discharged and thereupon it will be the duty of the Trustee to hold such funds (subject to the provisions of the Trust Agreement), without liability for interest thereon, for the benefit of the Owner of such Certificate or Additional Certificate, as applicable, who will thereafter be restricted exclusively to such funds for any claim of whatever nature on, or with respect to, such Certificate or Additional Certificate.

Unclaimed Money. All money which the Trustee will have received from any source and set aside for the purpose of paying any of the Certificates and any Additional Certificates will be held in trust for the respective Owners of such Certificates and Additional Certificates, but any money and earnings thereon which will be so set aside or deposited by the Trustee and which will remain unclaimed by the Owners of such Certificates and Additional Certificates for a period of two years after the date on which the payment with respect to which such money is set aside became due and payable will be paid to the City. Thereafter, the Owners of such Certificates and any Additional Certificates will look only to the City for payment and then only to the extent of the amount so received by the City from the Trustee without any interest thereon, and the Trustee and the Insurer will have no responsibility with respect to such money.

Additional Certificates. At any time after the Delivery Date of the Certificates, the City may provide for the execution and delivery of and sell Additional Certificates secured on a parity with the Certificates, in such Principal Components as it deems necessary for its public

purposes (evidenced by a resolution to that effect passed by the City's City Council), subject to the following conditions precedent to such execution, delivery and sale:

The City will be in compliance with all covenants set forth in the Lease Agreement and the Trust Agreement and a certificate to that effect will have been filed with the Trustee upon which Trustee may absolutely rely;

The City will have obtained and provided to the Trustee the written consent of the Insurer;

The City will have obtained and provided to the Trustee written confirmation from each Rating Agency that its then existing rating with respect to the Certificates and any Additional Certificates will not be reduced or withdrawn as a result of such execution and delivery of Additional Certificates;

The City will have delivered to the Trustee a certificate to the effect that, based on insured value, the Property, including the then existing improvements on the Property (i) has an annual fair rental value during the remainder of the term of the Lease, as supplemented, which is equal to or greater than the total annual Lease Payments and Additional Payments (assuming that the annual Additional Payments due in the future will equal the average annual Additional Payments prior to the date of execution and delivery of such Additional Certificates) required to be paid under the Lease during any year of the remainder of the term following the execution and delivery of the Additional Certificates, and (ii) has a useful life at least equal to the remaining term of the Lease, as supplemented; provided, if the Additional Certificates are being executed and delivered solely for the purpose of making repairs, replacements, additions or improvements to the Property, insured value will not be required if the City will have certified in writing to the Trustee that it has entered into a fixed price construction contract for the repairs, replacements, additions or improvements to the Property, which contract includes a scheduled completion date and provides for liquidated damages sufficient to pay the portion of Lease Payments attributable thereto for each day from the scheduled completion date to the date on which such repairs, replacements, additions or improvements are accepted by the City, and deposited with the Trustee a sufficient amount of capitalized interest to pay the interest due with respect to the Additional Certificates until such scheduled completion date;

The City will have obtained and provided to the Trustee a certificate stating that the City holds certificates of insurance relating to the Property (as it will be comprised at and after the execution and delivery of such Additional Certificates) which comply with the requirements of the Lease Agreement;

Provision will have been made for the deposit into the Reserve Account of an amount equal to the amount necessary to increase the balance therein to the combined Reserve Requirement for the Certificates and any Additional Certificates, as calculated at the time such Additional Certificates are to be executed and delivered;

Provision will have been made for the execution and delivery of a supplement to the Lease Agreement setting forth the total Lease Payments to be paid by the City following the execution and delivery of the Additional Certificates;

Provision will have been made for the execution and delivery of a Supplemental Trust Agreement setting forth the terms of the Additional Certificates, including but not limited to (i) the purpose for which such Additional Certificates are to be executed and delivered and the

funds into which the proceeds thereof are to be deposited on the Delivery Date of the Additional Certificates (including provision for any deposit required to be made to the Reserve Account, (ii) the aggregate principal amount of Additional Certificates to be executed and delivered, (iii) redemption premiums, if any, and the redemption terms, if any, for such Additional Certificates, and (iv) such other provisions as are necessary or appropriate and not inconsistent with the Trust Agreement;

The City will have obtained and provided to the Trustee an opinion of Bond Counsel to the effect that (i) the execution and delivery of such Additional Certificates will not adversely affect the exclusion from gross income for federal income tax purposes or the exemption from State of California personal income taxation of the Interest Component of the Certificates and any Additional Certificates previously issued on a tax-exempt basis, and (ii) following the execution and delivery of such Additional Certificates, the Lease Agreement and the Trust Agreement, including any supplements to such agreements, will constitute the valid and legally binding agreements of the City enforceable in accordance with their terms;

The City will have provided the Insurer written notice of the proposed execution and delivery of such Additional Certificates at the addresses indicated in the Trust Agreement and will have received prior written consent of the Insurer with respect to such Additional Certificates; provided that any Additional Certificates being delivered to refund any outstanding Certificates shall not require the prior written consent of the Insurer if, following the delivery of the Additional Certificates, the aggregate maximum annual Lease Payments during any remaining year that the Additional Certificates will be outstanding do not exceed maximum annual Lease Payments prior to such refunding; and

The execution and delivery of such Additional Certificates will have been duly authorized by the City and the Authority and certified copies of the resolutions authorizing such execution and delivery will have been delivered to the Trustee.

So long as the City complies with the foregoing provisions, nothing in the Trust Agreement or the Lease Agreement will be construed to prohibit the execution and delivery of Additional Certificates for the purpose of effecting a refunding of any Outstanding Certificate or Additional Certificate; provided, however, that the City need not obtain the appraisal required under (d) above if the effect of such refunding is to reduce the total Lease Payments owed by the City in each Fiscal Year during the remaining Term of the Lease Agreement, as certified by the City to the Trustee.

ESTABLISHMENT AND ADMINISTRATION OF FUNDS AND ACCOUNTS

Establishment of Funds; Disposition of Proceeds of Certificates and Additional Certificates.

Pursuant to the Trust Agreement, there are established with the Trustee the following special trust funds and accounts to be designated as follows and each such fund and account will be kept by the Trustee separate and apart from all other funds and accounts:

The Project Fund, in which there is established an Authority Rental Payment Account, a Costs of Issuance Account and an Acquisition and Construction Account;

The Certificate Fund, in which there is established an Interest Account, a Principal Account, a Redemption Account and a Reserve Account;

The Lease Payment Fund;

The Insurance and Condemnation Fund (which need not be established by the Trustee until deposits are required to be made therein); and

(e) The Rebate Fund, in which there will be established an Earnings Account, a Rebate Account and an Alternative Penalty Account.

At the written direction of the City, the Trustee will establish subaccounts or additional Accounts in the foregoing Funds and Accounts in connection with the execution and delivery of any Additional Certificates in order that a separate accounting of the proceeds of such Additional Certificates may be maintained. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Trust Agreement.

Project Fund.

Costs of Issuance Account. There will be paid into the Costs of Issuance Account the amount required to be so paid by the provisions of the Trust Agreement and Costs of Issuance will be paid from amounts on deposit therein by the Trustee in accordance with written instructions to be given to the Trustee by an Authorized Representative of the City substantially in the form set forth in the Trust Agreement. Any unexpended proceeds of the Certificates or any issue of Additional Certificates, as applicable, remaining in the Costs of Issuance Account on the date which is 180 days after the Delivery Date for the Certificates or such Additional Certificates, respectively, or such earlier date as is specified in writing by an Authorized Representative of the City, will be transferred by the Trustee in the case of any proceeds of the Certificates to the Interest Account of the Certificate Fund and in the case of any proceeds of Additional Certificates to the Acquisition and Construction Account.

Acquisition and Construction Account. In connection with the execution and delivery of the Certificates and any Additional Certificates, there will be paid into the Acquisition and Construction Account the amount so required to be paid by the Trust Agreement and the Cost of the Project will be paid from the amounts on deposit in such account. The Trustee will make payments of the Cost of the Project from the Acquisition and Construction Account in the amounts, at the times, in the manner, and on the other terms and conditions set forth in this subsection. No such payment will be made until the Trustee will have received a requisition signed by an Authorized Representative of the City substantially in the form set forth in the Trust Agreement. Upon receipt of a requisition in the form provided, the Trustee is authorized to act thereon without further inquiry and will not be responsible for the contents of such requisition or the application of such funds except for ascertaining that it has been signed by an Authorized Representative of the City. The Trustee will issue its check or, upon request, a wire transfer, for each payment required by a requisition to the extent funds are available in the Acquisition and Construction Account.

Completion of Project. The completion of the acquisition, construction, delivery and installation of the Project, or the portion thereof to be completed with the proceeds of the Certificates, will be evidenced by the filing of a Completion Certificate of an Authorized Representative of the City, which will be filed with the Trustee, stating (1) that the acquisition, construction, delivery and installation of the Project, or the applicable portion thereof, has been

completed substantially in accordance with the plans and specifications applicable thereto and that the Project, or the applicable portion thereof, 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 will be retained in the Acquisition and Construction Account of the Project Fund.

Yield Restriction. If any moneys which are proceeds of an issue of Additional Certificates remain in the Project Fund on the date which is three years after the Delivery Date for such issue of Additional Certificates, all such amounts will immediately be invested at the written direction of the City in Permitted Investments which are tax-exempt obligations the interest on which is not a specific preference item for purposes of the alternative minimum tax or in Permitted Investments the yield (as defined in the Tax Certificate) on which does not exceed the yield on the issue of Additional Certificates from which such proceeds were derived, unless the Trustee is provided with an opinion of Bond Counsel stating that another investment of such amounts will not cause the Interest Component of any Lease Payment to be included in gross income for federal income tax purposes.

Transfer of Surplus. Upon the filing of a Completion Certificate with respect to the Certificates, the Trustee will transfer from the Acquisition and Construction Account and deposit in the Reserve Account any amount certified by the City to be necessary to increase the amount on deposit therein to the Reserve Requirement. Thereafter, and at the written direction of an Authorized Representative of the City, the Trustee will (i) transfer any balance in the Acquisition and Construction Account to the Interest Account or the Principal Account of the Certificate Fund to pay the Principal Components and Interest Components due with respect to the Certificates and any Additional Certificates on the next Interest Payment Date, or (ii) retain any balance in the Acquisition and Construction Account to be used for any capital requirements of the City, whether or not related to the Project, upon such terms and conditions as will not in the opinion of Bond Counsel impair the exclusion from gross income for federal income tax purposes of the Interest Component of any Lease Payment.

Lease Payment Fund.

Pursuant to the Trust Agreement, there will be paid into the Lease Payment Fund the amount required to be so paid by the provisions of the Trust Agreement, all Lease Payments, other than Prepayments, and any proceeds of Rental Interruption Insurance received by the Trustee with respect to the Lease Agreement immediately upon their receipt. The Trustee will apply amounts deposited to the Lease Payment Fund as follows:

(a) on the Business Day next preceding each Interest Payment Date, the Trustee will transfer to the Interest Account of the Certificate Fund the amount necessary to increase the balance therein to an amount equal to the Interest Component due with respect to the Certificates and any Additional Certificates on such Interest Payment Date;

(b) on the Business Day next preceding each Principal Component Payment Date on which a portion of the Principal Components is due at maturity or upon a Sinking Account Installment Date, the Trustee will transfer to the Principal Account of the Certificate Fund the amount necessary to increase the balance therein to an amount equal to the Principal Components, including Sinking Account Installments, due with respect to the Certificates and any Additional Certificates on such Principal Component Payment Date;

(c) on the date of receipt of any delinquent Lease Payments, the Trustee will transfer to the Reserve Account of the Certificate Fund the amount certified by the City (such amount to be consented to in writing by the Insurer) needed to increase the amount therein to the Reserve Requirement; and

(d) any amounts remaining in the Lease Payment Fund after the transfers referred to in (a), (b) and (c) above will remain in the Lease Payment Fund until all Certificates, Additional Certificates and all other amounts due under the Trust Agreement and under the Lease Agreement are paid, redeemed or defeased, in which case all such amounts will be paid to the City.

Certificate Fund.

Interest Account. Moneys transferred to the Interest Account from the Lease Payment Fund and the Reserve Account will be applied to pay the Interest Components due on each Interest Payment Date.

Principal Account. Moneys transferred to the Principal Account from the Lease Payment Fund and the Reserve Account will be applied to pay the Principal Components at maturity or upon a Sinking Account Installment Date.

To the extent that the Trustee has insufficient funds on deposit in the Interest Account and the Principal Account of the Certificate Fund (including amounts transferred from the Reserve Account) to pay the Principal Components and Interest Components due with respect to the Certificates and any Additional Certificates as a result of an abatement of Lease Payments pursuant to the Lease Agreement, each Owner of a Certificate and each Owner of an Additional Certificate remaining Outstanding will be paid a pro rata portion of the Interest Components and Principal Components of the Lease Payments actually received that corresponds to his proportionate interest in the Lease Payments.

Redemption Account. The Trustee will apply moneys in the Redemption Account as provided in the Trust Agreement. Amounts in the Redemption Account will be applied to pay the Redemption Price of Certificates and Additional Certificates pursuant to the Trust Agreement and of any Additional Certificates as specified in the Supplemental Trust Agreement for such Additional Certificates. All expenses in connection with any redemption will be paid by the City.

The Trustee will deposit in the Redemption Account as received, all Prepayments and any amounts to be transferred to the Redemption Account in accordance with the Trust Agreement. All of said moneys will be set aside in the Redemption Account for the purpose of redeeming the Certificates and any Additional Certificates in advance of their maturity and will be applied on or after the Redemption Date for such Certificates and Additional Certificates to the payment of the Redemption Price due with respect to the Certificates and Additional Certificates to be redeemed upon presentation and surrender of such Certificates and Additional Certificates. Any excess amounts remaining in the Redemption Account following the redemption or redemptions to be made with such amounts will be transferred to the Lease Payment Fund.

Reserve Account.

(i) The Reserve Requirement will be maintained by the Trustee in the Reserve Account, which will be kept separate and apart from all other funds and money held by the Trustee, until the Lease Payments are paid in full pursuant to the terms of the Lease Agreement and until the Trust Agreement is discharged and satisfied in accordance with its terms. The Trustee will apply moneys in the Reserve Account as provided in the Trust Agreement.

(ii) If on the Business Day prior to any Interest Payment Date the amount in the Interest Account of the Certificate Fund will be less than the amount required for the Interest Components due with respect to the Certificates and any Additional Certificates on said Interest Payment Date, the Trustee will withdraw from the Reserve Account and deposit in the Interest Account the amount necessary to make up the deficiency on such Business Day. In the event of any such transfer, the Trustee will, within five days thereafter, provide written notice to the City and the Insurer of the amount and date of such transfer.

(iii) If on the Business Day prior to any Principal Component Payment Date the amount in the Principal Account of the Certificate Fund will be less than the amount required to pay the Principal Components payable on the Certificates and any Additional Certificates on such Principal Component Payment Date, the Trustee will, after making any transfers required by the preceding paragraph, withdraw from the Reserve Account and deposit in the Principal Account the amount necessary to make up the deficiency on such Business Day. In the event of any such transfer, the Trustee will, within five days thereafter, provide written notice to the City and the Insurer of the amount and date of such transfer.

(iv) If the amount on deposit in the Reserve Account is less than the Reserve Requirement on any Interest Payment Date, the Authority will pay, from delinquent Lease Payments or Additional Payments, an amount sufficient to restore the Reserve Account to the Reserve Requirement.

(v) Except as permitted by the following sentence, in the event the amount on deposit in the Reserve Account exceeds the Reserve Requirement, the Trustee will not less frequently than semiannually on or before each September 1 and each March 1, transfer such amounts (a) to the Rebate Fund, if any deposit is then required to be made pursuant to the Trust Agreement, and (b) to the Lease Payment Fund for application in accordance with the Trust Agreement. In the event that a Reserve Account Policy or Credit Facility is provided to satisfy all or a portion of the Reserve Requirement, any cash on deposit in the Reserve Account which is no longer needed to satisfy the Reserve Requirement will be transferred by the Trustee, at the written direction of an Authorized Representative of the City, to the Project Fund for application in accordance with the Trust Agreement, to a special account to be established for the payment of the fees related to the Reserve Account Policy or Credit Facility, or to the City's General Fund provided that there will have been delivered to the Trustee, the City and the Authority an opinion of Bond Counsel to the effect that such transfer to the City's General Fund will not impair the exclusion from gross income for federal income tax purposes of the Interest Component of any Lease Payment. For purposes of determining the amount on deposit at any time, the Trustee will value all Permitted Investments in the Reserve Account in accordance with the Trust Agreement.

Notwithstanding the foregoing, on September 1, 2024, the Trustee will transfer from the Reserve Account to the Certificate Fund, to pay Interest Components or Principal Components of the Certificates, as due, such amount such that the amount on deposit in the Reserve Account immediately following such transfer will equal the Reserve Requirement with respect to the then Outstanding Certificates.

A Reserve Account Policy must have a maturity date which is equal to the last maturity of any Outstanding Certificate or Additional Certificate. A Credit Facility must either have a maturity date which is equal to the last maturity of any Outstanding Certificate or Additional Certificate or provide that it may be drawn upon in its full stated amount unless prior to the expiration date of the Credit Facility a substitute Credit Facility, which when combined with the other amounts in the Reserve Account will equal the Reserve Requirement, has been delivered to the Trustee. Any Credit Facility must permit the Trustee to draw on such instrument in the full stated amount thereof in the event that the long-term obligations of the issuer thereof is rated less than AA by Standard & Poor's or Aa by Moody's.

(vi) Moneys in the Reserve Account will be used solely for the purpose of:

(A) making up deficiencies in the Interest Account as provided in the Trust Agreement;

(B) making up deficiencies in the Principal Account as provided in the Trust Agreement;

(C) making the transfers as provided in the Trust Agreement;

(D) with respect to the amounts in any subaccount therein established for the Certificates or any Additional Certificates, providing for the payment of the final Lease Payments represented by the issue of Certificates or Additional Certificates for which such subaccount was created, in which event the Trustee will transfer such amounts on deposit in the Reserve Account to the Lease Payment Fund to be applied as a credit against such final Lease Payments; or

(E) providing for the defeasance pursuant to the Trust Agreement or the Prepayment of all Lease Payments attributable to the Certificates or an issue of Additional Certificates, in which case the amounts in the subaccount of the Reserve Account established for such issue, or in the case of a partial defeasance the amount in the subaccount that will no longer be required as a part of the Reserve Requirement following the defeasance, will be transferred to the Redemption Account to be applied to the defeasance or redemption of the applicable issue of Certificates or Additional Certificates or portion thereof.

Insurance and Condemnation Fund.

Application of Net Proceeds. There will be paid into the Insurance and Condemnation Fund the Net Proceeds of the hazard insurance maintained pursuant to the Lease Agreement and any condemnation awards constituting Net Proceeds. In the event that the City, with the prior written consent of the Insurer, elects to restore the Property as provided

in the Lease Agreement, then such Net Proceeds will be disbursed in accordance with requisitions submitted to the Trustee by an Authorized Representative of the City. Promptly upon determining that the restoration of the Property is complete, the Authorized Representative of the City will so notify the Trustee in writing that the restoration is complete. Any balance of Net Proceeds remaining after the final disbursement to restore the Property, and, in the event the City or the Insurer elect not to restore the Property as provided in the Lease Agreement, all Net Proceeds will be transferred by the Trustee to the Redemption Account and applied to the redemption of Certificates and any Additional Certificates on a pro rata basis pursuant to the Trust Agreement.

Application of Title Insurance Proceeds. The Net Proceeds of any Title Insurance obtained in accordance with the Lease Agreement and received by the Trustee in respect of the Property upon receipt will be deposited in the Insurance and Condemnation Fund and will be applied and disbursed by the Trustee as follows:

If the City determines that the title defect giving rise to such proceeds has not materially affected the operation of the Property and will not result in an abatement of Lease Payments payable by the City under the Lease Agreement, at the written direction of an Authorized Representative of the City, with the prior written consent of the Insurer, such proceeds will be transferred into the Reserve Account of the Certificate Fund to the extent that the amount therein is less than the Reserve Requirement. Amounts not required to be so deposited will, with the prior written consent of the Insurer, be remitted to the City and used for any lawful purpose.

If any portion of the Property has been affected by such title defect, and if the City determines that such title defect will result in an abatement of Lease Payments payable by the City under the Lease Agreement, then the Trustee, at the written direction of an Authorized Representative of the City, with the prior written consent of the Insurer, will immediately transfer such proceeds to the Redemption Account of the Certificate Fund and such proceeds will be applied to the redemption of Certificates and any Additional Certificates on a pro rata basis pursuant to the Trust Agreement.

If the Insurer successfully challenges the determination made by the City under the first subsection above, the Insurer may direct Trustee to transfer title insurance proceeds to the Redemption Account for redemption of Certificates.

Rebate Fund.

Establishment of Rebate Fund. All money at any time deposited in the Rebate Account or the Alternative Penalty Account of the Rebate Fund will be held by the Trustee in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account, the Alternative Penalty Account and the Earnings Account will be established for the Certificates and each issue of Additional Certificates. All amounts on deposit in the Rebate Fund will be governed by the Trust Agreement and the Tax Certificate, unless the City obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of the Interest Component of each Lease Payment will not be adversely affected for federal income tax purposes if such requirements are not satisfied.

Deposits of Money.

All moneys required to be held by the Trustee under the provisions of the Trust Agreement will be deposited with the Trustee. All moneys deposited under the provisions of the Trust Agreement with the Trustee constituting a part of the Trust Estate will be held in trust for the Owners of Certificates and the Owners of any Additional Certificates and applied only in accordance with the provisions of the Trust Agreement.

All moneys deposited with the Trustee will be credited to the particular fund, account or subaccount to which such moneys belong.

Investment of Certain Accounts.

Moneys held in all funds, accounts and subaccounts will be invested and reinvested by the Trustee in Permitted Investments held in the name of the Trustee which mature not later than such times as the City will determine to be necessary to provide moneys when needed for payments to be made from such funds, accounts and subaccounts and in any event in the case of the Reserve Account not later than five (5) years from date of investment; provided that moneys in the Reserve Account may be invested in investment agreements approved in writing by the Insurer to the final maturity of the Certificates so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Trust Agreement. Moneys in the Rebate Fund will be invested only in obligations of, or obligations the payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America and which have a maturity no longer than the date on which such amounts will be required to make any payments to the United States required by the Trust Agreement. The Trustee will make all such investments of moneys held by it in accordance with written instructions received from an Authorized Representative of the City two days in advance of the investment. In the absence of such written instructions from the City, the Trustee will invest in investments described in subparagraph (4) of the definition of "Permitted Investments."

The Trustee will be entitled to rely conclusively upon the written instructions of the City directing investments in Permitted Investments as to the fact that each such investment is permitted by the laws of the State, and will not be required to make further investigation with respect thereto. With respect to any restrictions set forth in the definition of Permitted Investments which embody legal conclusions of law (e.g., the existence, validity and perfection of security interests in collateral), the Trustee will be entitled to rely conclusively on an opinion of counsel or upon a representation of the provider of such Permitted Investment obtained at the City's expense.

Except as specifically provided in the Trust Agreement, the Trustee will not be liable to pay interest on any moneys received by it, but will be liable only to account to the City for earnings derived from funds that have been invested.

Any income or interest earned on any moneys or investments in the Project Fund will be deposited in the Acquisition and Construction Account of the Project Fund, if any, until all amounts in the Project Fund have been expended. All earnings on amounts in the Certificate Fund will be deposited in the Lease Payment Fund except for income or interest earned on amounts in each subaccount of the Reserve Account in excess of the yield on the Certificates or Additional Certificates for which such subaccount was created which will be deposited in the appropriate subaccount of the Earnings Account of the Rebate Fund. Additionally, any income or interest earned on any moneys or investments in any Fund, Account or subaccount other

than the Project Fund and the Certificate Fund will remain in the respective Funds, Accounts and subaccounts. In crediting interest earnings, the Trustee will post earnings to the appropriate subaccount of each of the foregoing Funds, Accounts and subaccounts so that earnings on the proceeds of the Certificates and each issue of Additional Certificates are separately maintained and not commingled.

Nothing herein will prevent any Permitted Investments acquired as investments of funds held under the Trust Agreement from being issued or held in book-entry form on the books of the Department of the Treasury of the United States of America.

The Trustee may act as principal or agent in the acquisition or disposition of an investment.

To the extent that Permitted Investments are registrable securities, they will be registered in the name of the Trustee or its nominee.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Trust Agreement.

Valuation and Sale of Investments. Obligations purchased as an investment of moneys in any Fund, Account or subaccount created under the provisions of the Trust Agreement will be deemed at all times to be a part of such Fund, Account or subaccount and any profit realized from the liquidation of such investment will be credited to, and any loss resulting from the liquidation of such investment will be charged to, the computation of net interest earned on the moneys and investments of such Fund, Account or subaccount.

In computing the amount in any Fund or Account created under the provisions of the Trust Agreement for any purpose provided therein, obligations purchased as an investment of moneys therein will be valued at the lower of cost or the market value thereof, exclusive of accrued interest, and amounts in the Reserve Account will be so valued on or about the thirty-fifth calendar day preceding each Interest Payment Date.

Except as otherwise provided in the Trust Agreement, the Trustee will sell or present for redemption or transfer as provided in the next sentence any obligation so purchased as an investment whenever it will be requested in writing by an Authorized Representative of the City so to do or whenever it will be necessary in order to provide moneys to meet any payment or transfer from any Fund, Account or subaccount held by it. In lieu of such sale or presentment for redemption, the Trustee may, in making the payment or transfer from any Fund, Account or subaccount mentioned in the preceding sentence, transfer such investment obligations or interest appertaining thereto if such investment obligations will mature or be collectable at or prior to the time the proceeds thereof will be needed and such transfer of investment obligations may be made in book-entry form. Except for its own negligence or willful misconduct, the Trustee will not be liable or responsible for making any such investment in the manner provided in the Trust Agreement or for any loss resulting from any such investment or the sale or liquidation thereof.

COVENANTS, EVENTS OF DEFAULT, REMEDIES OF OWNERS AND LIMITATIONS OF LIABILITY

Trustee to Enforce Lease Agreement; Notice of Nonpayment. Subject to, and pursuant to, the provisions of the Trust Agreement, the Trustee covenants and agrees with the Certificate Owners and the Owners of any Additional Certificates to enforce the Lease Agreement and the Site Lease against the City. In the event of delinquency in the payment of Lease Payments due by the City pursuant to the Lease Agreement, the Trustee will on the Business Day following such delinquency give written notice of the delinquency and the amount thereof to the City and to the Insurer.

Assignment of Rights. Pursuant to the Assignment Agreement, the Authority has absolutely transferred, assigned and set over to the Trustee all of the Authority's right, title and interest in and to the Lease Agreement (other than its rights to indemnification and the payment of certain of its reasonable costs and expenses), including without limitation all of the Authority's right to receive Lease Payments from the City under the Lease Agreement, its right to receive the Net Proceeds relating to the Property, its right to enforce payment of such Lease Payments when due, or otherwise protect its interests and enforce its rights under the Lease Agreement and the Site Lease.

Events of Default. Any event of default under the Lease Agreement will be an "Event of Default" under the Trust Agreement and the term "Events of Default" will mean, whenever it is used in the Trust Agreement, any one or more of such events.

Application of Funds. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Lease Agreement will be applied by the Trustee in the order following upon presentation of the Certificates and any Additional Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid

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First, to the payment of the reasonable costs and expenses of the Trustee including those of its agents, attorneys and advisors and thereafter, to the Certificate Owners and the Owners of any Additional Certificates in declaring such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel;

Second, to the payment to the Persons entitled thereto of all Interest Components then due in the order of the due date thereof and, if the amount available will not be sufficient to pay in full any Interest Component maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto without discrimination or preference;

Third, to the payment to the Persons entitled thereto of the unpaid Principal Components which will have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on each overdue Principal Component at the rate represented by the respective Certificate or Additional Certificate to which such Principal Component relates, and, if the amount available will not be sufficient to pay in full all the Certificates and Additional Certificates due on any date, then to the payment thereof ratably, according to the amounts of Principal Component due on such date to the Persons entitled thereto, without any discrimination or preference;

Fourth, to the payment to the Insurer of all amounts payable to it and not otherwise paid pursuant to clauses first, second and third above as such amounts are certified by the Insurer to the Trustee, upon which the Trustee may conclusively rely; and

Fifth, if there will exist any remainder after the foregoing payments, such remainder will be paid to the City.

Institution of Legal Proceedings. If one or more Events of Default will happen and be continuing, the Trustee in its discretion may, with the prior written consent of the Insurer, and upon the written request of the Insurer or the Owners of not less than a majority of the aggregate of the Certificates and Additional Certificates then Outstanding, with the prior written consent of the Insurer, and upon being indemnified to its reasonable satisfaction therefor, will, proceed to protect or enforce its rights and the rights of the Owners of Certificates and Additional Certificates by enforcing any of the remedies provided in the Lease Agreement or as otherwise provided by law.

Non-Waiver. Nothing in the Trust Agreement or in the Certificates or Additional Certificates, will affect or impair the obligation of City to pay or prepay the Lease Payments in accordance with and subject to the terms and provisions of the Lease Agreement. No delay or omission of the Trustee or any Certificate Owner or Owner of Additional Certificates to exercise any right or power arising upon the happening of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Trust Agreement to the Trustee, the Insurer or to the Certificate Owners or Owners of Additional Certificates may be exercised from time to time and as often as will be deemed expedient by the Trustee, the Insurer, the Certificate Owners or Owners of Additional Certificates.

Remedies Not Exclusive. No remedy conferred in the Trust Agreement upon or reserved to the Trustee, the Insurer or the Certificate Owners or Owners of Additional Certificates is intended to be exclusive of any other remedy, and every such remedy will be cumulative and will be in addition to every other remedy given under the Trust Agreement or now or hereafter existing, at law or in equity or by statute or otherwise.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, will have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Trust Agreement, whether upon its own discretion or upon the request of the Owners of the required percentages of Certificates and Additional Certificates as set forth in the Trust Agreement, it will have full power, with the prior written consent of the Insurer, in the exercise of its discretion for the best interests of the Certificate Owners and Owners of any Additional Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee will not discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, without the prior written consent of the Insurer or the Owners of a majority in aggregate Principal Components of the Certificates and Additional Certificates Outstanding, with the prior written consent of the Insurer.

Limitation on Owners' Right to Sue. No Certificate Owner or Owner of any Additional Certificate will have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Certificate Owner or Owner of any Additional Certificate will have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of the required percentages of Certificates and Additional

Certificates as set forth in the Trust Agreement will have made written request upon the Trustee to exercise the powers granted to the Trustee under the Trust Agreement; (c) said Certificate Owner or Owner of any Additional Certificate will have tendered to the Trustee satisfactory indemnity, in the opinion of the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee will have refused or omitted to comply with such request for a period of 60 days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee; and (e) said Certificate Owner will have obtained the prior written consent of the Insurer, provided the Insurer is not then in payment default under the Bond Insurance Policy.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Certificate Owner or Owner of any Additional Certificate of any remedy under the Trust Agreement; it being understood and intended that no one or more Certificate Owner or Owner of any Additional Certificate will have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner therein provided, and that all proceedings at law or in equity with respect to an Event of Default will be instituted, had and maintained in the manner therein provided and for the equal benefit of all Owners of the Outstanding Certificates and Additional Certificates.

Notwithstanding the foregoing provisions of this section or any other provision of the Trust Agreement, the right of any Certificate Owner or Owner of any Additional Certificate to receive payment of said Owner's proportionate interest in the Lease Payments as the same become due will not be impaired or affected without the consent of such Owner.

Reconstruction; Application of Net Proceeds. If any useful portion of the Property will be destroyed or is damaged by fire or other casualty, or title to, or the temporary use of, such portion will be taken under the exercise of the power of eminent domain, the City will, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair, reconstruction, restoration or replacement thereof, unless it is determined under the provisions of the Lease Agreement that such repair, reconstruction, restoration or replacement is not to be undertaken. If such repair, reconstruction, restoration or replacement is to be undertaken, Net Proceeds of any hazard insurance or condemnation awards paid on account of such damage or destruction or taking will be held by the Trustee in the Insurance and Condemnation Fund, and made available for, and to the extent necessary be applied to, the cost of the repair, reconstruction, restoration or replacement of the Property or portion thereof damaged, destroyed or taken. Pending such application, such proceeds will be invested by the Trustee, upon written direction of an Authorized Representative of the City received two days prior to the date of making such investment, in Permitted Investments which mature not later than such times as the City will determine to be necessary to provide moneys when needed to pay such cost of repair, reconstruction, restoration or replacement.

Accounts and Reports.

(a) The Trustee will keep proper books of record and account in which complete and correct entries will be made of its transactions relating to the Property, the Project and each Fund, Account and subaccount established under the Trust Agreement and the Principal Components of the Certificates and Additional Certificates and which will at all reasonable times during business hours and upon reasonable prior notice be subject to the inspection of the City and Owners of at least 25% of the aggregate Principal Components of Certificates and Additional Certificates Outstanding.

(b) The Trustee will provide the City on or before the twentieth day after the end of each month with a copy of its customary cash and asset statements relating to each Fund, Account or subaccount held by it under the Trust Agreement; provided that the Trustee will not be obligated to provide an accounting for any accounts that have had no activity since the last reporting date and that have a balance of zero.

No Obligation by the City to Owners. Except for the payment of Lease Payments when due in accordance with the Lease Agreement and any other payment due and owing by the City under the Trust Agreement or under the Lease Agreement and the performance of the other covenants and agreements of the City contained in the Lease Agreement or under the Trust Agreement, the City will have no obligation or liability to any of the other parties or to the Certificate Owners or Owners of any Additional Certificates with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates or any Additional Certificates, or the distribution of Lease Payments to the Certificate Owners and the Owners of any Additional Certificates by the Trustee.

No Obligation with Respect to Performance by Trustee. The Trustee acknowledges that neither the City nor the Authority will have any obligation or liability to any of the other parties or to the Certificate Owners or Owners of any Additional Certificates with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

No Liability to Owners for Payment. Except as provided in the Trust Agreement, the Authority will not have any obligation or liability to the Certificate Owners or Owners of any Additional Certificates with respect to the payment of the Lease Payments by the City when due, or with respect to the performance by the City of any other covenant by it in the Lease Agreement.

Possession and Enjoyment. From and after the execution of the Lease Agreement, the City will during the term of the Lease Agreement peaceably and quietly have and hold and enjoy the Property, without suit, trouble or hindrance from the Trustee, except as expressly set forth in the Lease Agreement and the Trust Agreement. The Trustee will, at the written request of the City and at the City's cost and to the extent indemnified to its satisfaction, join in any legal action in which the City asserts its right to such possession and enjoyment, to the extent Trustee lawfully may do so in accordance with the provisions of the Trust Agreement and the Lease Agreement.

Federal Tax Covenants. Notwithstanding any other provision of the Trust Agreement, absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of the Interest Components with respect to the Certificates and any Additional Certificates executed and delivered on a tax-exempt basis will not be adversely affected, the City covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income.

CONCERNING THE TRUSTEE AND PAYING AGENT

Employment of Trustee. In consideration of the recitals set forth in the Trust Agreement and for other valuable consideration, the Trustee therein agrees to receive, hold, invest and disburse the moneys to be paid to it pursuant to the Lease Agreement or otherwise for credit to the various funds, accounts and subaccounts established by the Trust Agreement; to execute and deliver the Certificates and each issue of Additional Certificates; to apply and disburse the Trust Estate and other moneys received pursuant to the Lease Agreement to the

Certificate Owners and Owners of any Additional Certificates; and to perform certain other functions, all as therein provided and subject to the terms and conditions of the Trust Agreement.

Trustee Acceptance of Duties. The Trustee will signify its acceptance of the duties and obligations imposed upon it by executing and delivering the Trust Agreement; and by executing such acceptance the Trustee will be deemed to have accepted such duties and obligations with respect to all the Certificates and Additional Certificates thereafter delivered, but only, however, upon the terms and conditions set forth therein. No duties, covenants or obligations, fiduciary or otherwise, other than those described in the Trust Agreement will be implied against the Trustee. In case an Event of Default has occurred (which has not been cured or waived), the Trustee may, with the prior written consent of the Insurer, exercise such of the rights and powers vested in it by the Trust Agreement, and will 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 his own affairs. The Trustee will recognize any notice of an Event of Default provided by the Insurer.

Evidence on Which Trustee May Act.

(a) The Trustee, upon receipt of any notice, resolution, requisition, request, consent, order, certificate, report, opinion, bond, or other paper or document (including facsimile copies thereof) furnished to it pursuant to any provision of the Trust Agreement, will examine such instrument to determine whether it conforms to the requirements of the Trust Agreement and will be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may or may not be of counsel to the City, and, absent negligence or willful misconduct, the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Agreement in good faith and in accordance therewith. Any action taken or omitted to be taken by the Trustee in good faith pursuant to the Trust Agreement upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the Owner of any Certificate or Additional Certificate will be conclusive and binding upon all future Owners of the same Certificate or Additional Certificate and upon Certificates or Additional Certificates, as applicable, executed and delivered in exchange therefor or in place thereof. Except as otherwise expressly provided in the Trust Agreement, the Trustee will not be bound to recognize any person as an Owner of any Certificate or to take any action at his request unless such person is the registered owner of a Certificate or Additional Certificate as shown on the registration books.

(b) Whenever the Trustee will 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 therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized Representative of the City, and such certificate will be full warrant for any action taken or suffered in good faith under the provisions of the Trust Agreement upon the terms thereof; but in its discretion the Trustee may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable, but will in no case be bound to secure the same. The Trustee may accept a certificate of an Authorized Representative of the City or an Authorized Representative of the Authority to the effect that an authorization in the form therein set forth has been adopted by the City or the Authority, as the

case may be, as conclusive evidence that such authorization has been duly adopted, and is in full force and effect.

(c) Except as otherwise expressly provided in the Trust Agreement, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision of the Trust Agreement by the City to the Trustee will be sufficiently executed in the name of the City by an Authorized Representative of the City.

Obligations of Trustee. Upon the payment of all amounts due with respect to the Certificates and any Additional Certificates and other amounts due under the Trust Agreement and under the Lease Agreement from whatever source following a termination of the Lease Agreement or upon a defeasance of all Certificates and any Additional Certificates Outstanding and after the payment by the City of all reasonable expenses, charges, fees, reimbursement obligations, counsel fees and other disbursements of the Trustee and the Insurer as set forth in the Trust Agreement and in the Lease Agreement, the Trustee will convey or relinquish all of its interests in the Property to the City free and clear of all liens thereon which Trustee may have.

Compensation. The City has agreed in the Lease Agreement to pay to the Trustee from time to time reasonable compensation for all services rendered under the Trust Agreement and also all reasonable expenses, charges, counsel fees (including the allocated costs and disbursements of in-house counsel, to the extent such services are not redundant with those provided by outside counsel) and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of its powers and duties under the Trust Agreement. The Trustee's right to compensation will not be limited by any provision at law in regards to the compensation of a Trustee of an express trust and will survive the termination of the Trust Agreement and the resignation or removal of the Trustee. Upon an Event of Default, but only upon an Event of Default, the Trustee will have a first lien with right to payment prior to payment on account of principal of, premium, if any, and interest due with respect to any Certificate and Additional Certificate, upon the amounts held under the Trust Agreement for the foregoing reasonable fees, charges and expenses incurred by it.

Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by giving not less than 30 days' written notice to the City, the Insurer and the Owners of the Certificates and Additional Certificates Outstanding, specifying the date when such resignation will take effect, and such resignation will take effect upon the later of the day specified in such notice or the day on which a successor appointed by the City or the Owners will have accepted its appointment as successor trustee.

Removal of Trustee. So long as no Event of Default will have occurred and then be continuing, the Trustee may be removed upon 30 days' written notice by the City or by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Owners of a majority in aggregate principal amount of the Certificates and any Additional Certificates then Outstanding or their attorneys-in-fact duly authorized and the Insurer. The Insurer may remove the Trustee at any time with or without cause.

Appointment of Successor Trustee.

(a) In case at any time the Trustee will resign or will be removed pursuant to the Trust Agreement or will become incapable of acting, or will be adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, will be appointed, or if any public officer will take charge or control of the Trustee or of its property or

affairs, a successor will be appointed by the City; provided, nevertheless, if no successor has been appointed within 60 days of the Trustee's notice of resignation or removal, as the case may be, the Trustee may petition a court of competent jurisdiction to appoint a Trustee.

(b) Any Trustee appointed under the provisions of this section in succession to the Trustee will be a financial institution subject to supervision and examination by federal or state banking authorities doing business and having its principal office in a city in which a Federal Reserve Bank is located or in the State and having the power of a trust company in the State and having (or if such trustee is a member of a bank holding company its parent bank holding company has) capital stock and surplus aggregating at least \$50,000,000.

(c) Immediately upon appointment, a successor Trustee will mail notice to the Owners of the Certificates and any Additional Certificates Outstanding of its appointment.

Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under the Trust Agreement will execute, acknowledge and deliver to its predecessor Trustee an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, will become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee; but the Trustee ceasing to act will nevertheless, on the written request of the successor Trustee, execute, acknowledge and deliver such instrument of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under the Trust Agreement, and will pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions in the Trust Agreement set forth. Should any deed, conveyance or instrument in writing from the City or the Authority be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, power and duties, any and all such deeds, conveyances and instruments in writing will, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the City or the Authority.

Merger or Consolidation. Any bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it will be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company satisfies the requirements above and is a bank or trust company organized under the laws of any state of the United States or a national banking association and will be authorized by law to perform all the duties imposed upon it, will be the successor to the Trustee without the execution or filing of any paper or the performance of any further act.

Adoption of Authorized Signature. In case any of the Certificates or Additional Certificates contemplated to be delivered under the Trust Agreement will have been executed but not delivered, any successor Trustee may, but will not be required to, adopt the authorized signature of any predecessor Trustee so executing such Certificates or Additional Certificates and deliver such Certificates or Additional Certificates so executed; and in case any of the said Certificates or Additional Certificates will not have been executed, any successor Trustee may, but will not be required to, execute such Certificates or Additional Certificates in the name of the successor Trustee, and in all such cases such certificate will have the full force which it is

anywhere in said Certificates or Additional Certificates or provided in the Trust Agreement that the certificate of the Trustee will have.

Trustee Liability.

No provision in the Trust Agreement will 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. The Trustee will be entitled to interest on all funds advanced by it at the maximum rate permitted by law.

The Trustee will not be responsible for the sufficiency of the security for the Certificates or any Additional Certificates executed and delivered under the Trust Agreement or intended to be secured or the tax status of interest thereon and the Trustee will not be bound to ascertain or inquire as to the observance or performance of any covenants, conditions or agreements on the part of the City under the Lease Agreement.

The Trustee, in its individual or any other capacity and its employees and officers, may become the Owner or pledgee of Certificates or Additional Certificates secured by the Trust Agreement with the same rights which it would have if not the Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the City with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee will represent the Owners of the majority in aggregate principal amount of the Certificates and Additional Certificates then Outstanding. The Trustee, either as principal or agent, may engage in or be interested in any financial or other transaction with the City or Authority.

The permissive right of the Trustee to do things enumerated in the Trust Agreement will not be construed as a duty and it will not be answerable for other than its negligence or willful misconduct. Absent negligence or willful misconduct, the Trustee will not be liable for an error of judgment.

The Trustee will not be required to take notice or be deemed to have notice of any Event of Default under the Trust Agreement except failure by the City to make any of the Lease Payments to the Trustee required to be made by the City pursuant to the Lease Agreement or failure by the City or the Authority to file with the Trustee any document required by the Trust Agreement or the Lease Agreement to be so filed subsequent to the delivery of the Certificates, unless the Trustee will be specifically notified in writing of such default by the City, the Authority, the Insurer or by the Owners of at least 25% in aggregate principal amount of Certificates and Additional Certificates then Outstanding and all notices or other instruments required by the Trust Agreement to be delivered to the Trustee must, in order to be effective, be delivered in accordance with the provisions of the Trust Agreement, and in the absence of such notice so delivered, the Trustee may conclusively assume there is no Event of Default except as aforesaid.

The Trustee will not be liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of a majority in aggregate principal amount of the Outstanding Certificates and Additional Certificates, and the Insurer relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Trust Agreement.

The recitals, statements and representations in the Trust Agreement or in the Certificates and any Additional Certificates have not been made by the Trustee; and the Trustee will be under no responsibility for the correctness thereof, except such recitals of the Trustee as are contained in the Trust Agreement.

All moneys held by the Trustee will be held in trust for the benefit of the Owners of Certificates, but need not be segregated from other funds unless specifically required by the Trust Agreement.

The Trustee is authorized and directed to execute in its capacity as Trustee the Assignment Agreement.

Every provision of the Trust Agreement, the Lease Agreement and the Assignment Agreement relating to the conduct or liability of the Trustee will be subject to the provisions of the Trust Agreement

In acting as Trustee under the Trust Agreement, the Trustee acts solely in its capacity as Trustee under the Trust Agreement and not in its individual or personal capacity, and all persons, including without limitation the Owners, the City and the Authority, having any claim against the Trustee, except claims for the Trustee's negligence or willful misconduct, or the negligence or willful misconduct of its employees, agents or officers, will look only to the funds and accounts held by the Trustee under the Trust Agreement for payment, except as otherwise provided in the Trust Agreement. Under no circumstances will the Trustee be liable in its individual or personal capacity for the obligations evidenced by the Certificates.

The Trustee makes no representation or warranty, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City or the Authority of the Property or any portion thereof, or any other representation or warranty with respect to the Property or any portion thereof. In no event will the Trustee be liable for incidental, indirect, special or consequential damages in connection with the Trust Agreement, or the Lease Agreement or the existence, furnishing or functioning of the Property or use of the Property, except claims for the Trustee's negligence or willful misconduct, or the negligence or willful misconduct of its employees, agents or officers.

The Trustee may execute any of its powers or duties under the Trust Agreement through its attorneys, agents or receivers and will not be answerable for the actions of such attorneys, agents or receivers if selected by it with reasonable care.

The Trustee makes no representations with respect to any information, statement, or recital in, and will have no liability with respect to, any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Certificates.

Indemnification. Pursuant to the Trust Agreement, the City agrees, to the extent permitted by law, to indemnify, defend and save the Trustee harmless in accordance with the provisions of the Lease Agreement and against any loss, liability or expense which it may incur in the performance of its duties and powers under the Trust Agreement or the Lease Agreement which are not due to its negligence or willful misconduct. The Trustee's right to indemnification will survive the termination of the Trust Agreement and the resignation or removal of the Trustee.

Agents. The Trustee may execute any of its other trusts or powers or perform its duties through attorneys, agents or receivers, provided that the Trustee will be liable for the negligence or willful misconduct of such attorneys, agents and receivers incurred within the scope of their employment.

Tax Matters. The Trustee makes no covenant, representation or warranty concerning the current or future tax status of interest with respect to the Certificates. The Trustee need only keep accurate records of all investments and funds, and send rebate payments to the United States in accordance with explicit instructions from the City.

AMENDMENTS

Mailing. Except as provided in otherwise in the Trust Agreement, any provision for the mailing for a notice or other paper to Certificate Owners and any Owners of Additional Certificates will be fully complied with only if it is mailed first class United States mail, postage prepaid to each Owner of Certificates and any Additional Certificates then Outstanding at his address, if any, appearing upon the registry books of the Trustee.

Powers of Amendment. The Trust Agreement and the rights and obligations provided in the Trust Agreement may be modified or amended at any time by a Supplemental Trust Agreement, entered into among the Trustee, the Authority and the City, subject to the receipt of the prior written consent of the Insurer, but without the consent of any Certificate Owners or the Owners of any Additional Certificates, and the Assignment Agreement and the Lease Agreement may be amended with the consent of the parties thereto, with the prior written consent of the Insurer, and in the case of the Assignment Agreement, the City and in the case of the Lease Agreement the Trustee but without the consent of the Certificate Owners or the Owners of any Additional Certificates, but only (1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Trust Agreement, the Assignment Agreement or the Lease Agreement, or (2) in regard to questions arising under the Trust Agreement, the Lease Agreement or the Assignment Agreement which the City and the Trustee may deem necessary or desirable and not inconsistent with the Trust Agreement, the Lease Agreement or the Assignment Agreement, and which will not adversely affect the interests of the Owners of the Certificates or any Additional Certificates, or (3) to provide for the substitution of property in accordance with the Lease Agreement, or (4) to provide for the execution and delivery of Additional Certificates in accordance with the provisions of the Trust Agreement, or (5) for any other reason, provided such modification or amendment does not adversely affect the interests of the Owners of the Certificates or any Additional Certificates.

Any other modification or amendment of the Trust Agreement and of the rights and obligations of the Trustee and of the Owners of the Certificates or any Additional Certificates under the Trust Agreement, in any particular, may be made only by a Supplemental Trust Agreement, entered into among the Trustee, the Authority and the City and the written consent, given as provided in the Trust Agreement, of the Owners of at least a majority in aggregate principal amount of the Certificates and Additional Certificates Outstanding at the time such consent is given and of the Insurer. Any other modification or amendment to the Assignment Agreement or the Lease Agreement may be made only with the written consent, given as provided in the Trust Agreement, of the Owners of at least a majority in aggregate principal amount of the Certificates or Additional Certificates Outstanding at the time such consent is given and of the Insurer. No such modification or amendment will permit a change in the terms of redemption or maturity of the Principal Components of any Outstanding Certificates or Additional Certificates or payment of any Interest Component or a reduction in the Principal

Component or the Redemption Price thereof, or in the rate of interest thereon or which will have a materially adverse effect on the security interest of the Owner without the consent of the Owner of such Certificate or Additional Certificate and of the Insurer, or will reduce the percentages or otherwise affect the classes of Certificates or Additional Certificates the consent of the Owners of which is required to effect any such modification or amendment, or will change or modify any of the rights or obligations of the Trustee without the written consent of the Trustee.

Consent of Owners. The Trustee, the Authority and the City may at any time enter into a Supplemental Trust Agreement or amendment to the Lease Agreement or the Assignment Agreement making a modification or amendment requiring the consent of Owners of Certificates or Additional Certificates under the provisions of the Trust Agreement to take effect when and as provided in this section; provided however, no such amendment or modification will adversely affect the rights or obligations of the Trustee without its prior written consent. A copy of such Supplemental Trust Agreement or amendment to the Lease Agreement or the Assignment Agreement (or brief summary thereof or reference thereto in form approved by Bond Counsel), together with a request to Owners of Certificates or Additional Certificates to approve the same will be mailed to each Certificate Owner or Owner of any Additional Certificates (but failure to mail such copy and request will not affect the validity of the Supplemental Trust Agreement or amendment to the Lease Agreement or the Assignment Agreement when consented to as in this section provided). Such Supplemental Trust Agreement or amendment to the Lease Agreement or the Assignment Agreement will not be effective unless and until (i) there will have been filed with the Trustee (a) the written consents of the Owners of the percentages of Outstanding Certificates and Additional Certificates specified in the Trust Agreement and of the Insurer, and (b) an opinion of Bond Counsel, stating that such Supplemental Trust Agreement or amendment to the Lease Agreement or the Assignment Agreement has been duly and lawfully entered into by the City or the Authority, as applicable, and filed with the City and the Trustee in accordance with the provisions of the Trust Agreement, is authorized or permitted by the Trust Agreement, and is valid and binding upon the parties thereto in accordance with its terms.

Each such consent will be effective only if accompanied by proof of the Owner, at the date of such consent, of the Certificates or Additional Certificates with respect to which such consent is given, which proof will be such as is permitted by the Trust Agreement. A certificate or certificates executed by the Trustee and filed with the City stating that it has examined such proof and that such proof is sufficient in accordance with the Trust Agreement will be conclusive that the consents have been given by the Owners of the Certificates and any Additional Certificates described in such certificate or certificates of the Trustee. Any such consent will be binding upon the Owner of the Certificates and any Additional Certificates giving such consent and, anything in the Trust Agreement to the contrary notwithstanding, upon any subsequent Owner of such Certificates or Additional Certificates and of any Certificates or Additional Certificates issued in exchange therefor (whether or not such subsequent Owner thereof has notice thereof) unless such consent is revoked in writing by the Owner of such Certificates or Additional Certificates giving such consent or a subsequent Owner thereof by filing with the Trustee, prior to the time when the written statement of the Trustee provided for is filed, such revocation, if such Certificates or Additional Certificates are held by the signer of such revocation in the manner permitted by the Trust Agreement. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the City to the effect that no revocation thereof is on file with the Trustee. At any time after the Owners of the required percentages of Certificates or Additional Certificates and the Insurer will have filed their consents to the Supplemental Trust Agreement or amendment to the Lease Agreement or the

Assignment Agreement, the Trustee will make and file with the City a written statement that the Owners of such required percentages of Certificates and Additional Certificates have filed such consents. Such written statements will be conclusive that such consents have been so filed.

At any time after the filing of the required consents, notice will be given by the City to the Owners of Certificates and any Additional Certificates stating in substance that the Supplemental Trust Agreement or amendment to the Lease Agreement or the Assignment Agreement has been consented to by the Owners of the required percentages of Certificates and Additional Certificates and the Insurer by mailing such notice to the Owners of Certificates and any Additional Certificates (but failure to receive such notice will not prevent such Supplemental Trust Agreement or amendment to the Lease Agreement or the Assignment Agreement from becoming effective and binding as in this section provided). The City will file with the Trustee proof of the mailing of such notice. A record, consisting of the Certificates or statements required or permitted by this section to be made by the Trustee, will be proof of the matters therein stated. Such Supplemental Trust Agreement or amendment to the Lease Agreement or the Assignment Agreement making such amendment or modification will be deemed conclusively binding upon the City, the Trustee, the Authority and the Owners of all Certificates and Additional Certificates at the expiration of 20 days after the filing with the Trustee of the proof of the mailing of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Trust Agreement or amendment to the Lease Agreement or the Assignment Agreement in a legal action or equitable proceeding for such purpose commenced within such 20 day period; provided, however, that the City during such 20 day period and any such further period during which any such action or proceeding may be pending will be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Trust Agreement or amendment to the Lease Agreement or the Assignment Agreement as they may deem expedient.

Modifications by Unanimous Consent. Subject to the terms and provisions of the Trust Agreement and the rights and obligations of the Trustee and of the Owners of the Certificates and Additional Certificates under the Trust Agreement may be modified or amended in any respect upon entering into by the parties thereto of a Supplemental Trust Agreement with the consent of the Trustee and the Owners of all the Certificates and any Additional Certificates then Outstanding and of the Insurer, such consent to be given as provided in the Trust Agreement except that no notice to such Owners by mailing will be provided.

Exclusion of Certificates and Additional Certificates. Certificates or Additional Certificates owned or held by or for the account of the City or the Authority will not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Certificates and Additional Certificates provided for in the Trust Agreement, and neither the City nor the Authority will be entitled with respect to such Certificates and Additional Certificates to give any consent or take any other action provided for in the Trust Agreement. At the time of any consent or other action taken under the Trust Agreement, the City will furnish the Trustee a certificate of an Authorized Representative of the City, upon which the Trustee may rely, describing all Certificates and Additional Certificates so to be excluded.

Notation on Certificates and Additional Certificates. Certificates and Additional Certificates executed and delivered after the effective date of any action taken may, and if the City so determines will, bear a notation by endorsement or otherwise in form approved by the City as to such action, and in that case upon demand of the Owner of any Certificate or Additional Certificate Outstanding at such effective date and presentation of his Certificate or

Additional Certificate, as applicable, for the purpose at the Corporate Trust Office of the Trustee or upon any transfer or exchange of any Certificate or Additional Certificate Outstanding at such effective date, suitable notation will be made on such Certificate or Additional Certificate or upon any Certificates or Additional Certificate issued upon any such transfer or exchange by the Trustee as to any such action. If the City will so determine, new Certificates or Additional Certificates so modified as in the opinion of Bond Counsel and the City to conform to such action will be prepared, executed and delivered, and upon demand of the Owner of any Certificate or Additional Certificate then Outstanding will be exchanged, without cost to such Owner, for Certificates or Additional Certificate, as the case may be, of the same issue and maturity then Outstanding, upon surrender of such Certificates or Additional Certificates, as the case may be.

BOOK-ENTRY SYSTEM

Book-Entry System; Limited Obligation of Authority. The Certificates will and any issue of Additional Certificates so designated by an Authorized Representative of the City will be initially delivered in the form of a separate single fully registered Certificate or Additional Certificate (which may be typewritten) for each of the maturities of the Certificates and applicable Additional Certificates. Upon initial delivery, the ownership of each such Certificate and Additional Certificate will be registered in the registration books kept by the Trustee in the name of the Nominee as nominee of the Depository. Except as provided in the Trust Agreement, all of the Outstanding Certificates and applicable Additional Certificates will be registered in the registration books kept by the Trustee in the name of the Nominee.

With respect to Certificates and Additional Certificates registered in the registration books kept by the Trustee in the name of the Nominee, the City, the Authority and the Trustee will have no responsibility or obligation to any such Participant or to any Person on behalf of which such a Participant holds an interest in the Certificates or Additional Certificates. Without limiting the immediately preceding sentence, the City, the Authority and the Trustee will have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the Certificates or Additional Certificates, (ii) the delivery to any Participant or any other Person, other than an Owner as shown in the registration books kept by the Trustee, of any notice with respect to the Certificates or Additional Certificates, including any notice of redemption, (iii) the selection by the Depository and its Participants of the beneficial interests in the Certificates or Additional Certificates to be redeemed in the event the Certificates or Additional Certificates are redeemed in part, or (iv) the payment to any Participant or any other Person, other than an Owner as shown in the registration books kept by the Trustee, of any amount with respect to principal of, premium, if any, or interest due with respect to the Certificates or Additional Certificates. Except as otherwise expressly provided in the Trust Agreement, the City, the Authority and the Trustee may treat and consider the Person in whose name each Certificate and Additional Certificate is registered in the registration books kept by the Trustee as the holder and absolute owner of such Certificate and Additional Certificate for the purpose of payment of Principal Components, premium, if any, and Interest Components with respect to such Certificate, for the purpose of giving notices of redemption and other matters with respect to such Certificate and Additional Certificate, for the purpose of registering transfers with respect to such Certificate and Additional Certificate, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest due with respect to the Certificates and Additional Certificates only to or upon the order of the respective Owner, as shown in the registration books kept by the Trustee, or their respective attorneys duly authorized in writing, and all such payments will be valid and effective to satisfy and discharge fully the City's obligations with respect to payment of

the Principal Components, premium, if any, and Interest Components due with respect to the Certificates and Additional Certificates to the extent of the sum or sums so paid. No Person other than an Owner, as shown in the registration books kept by the Trustee, will receive a Certificate or Additional Certificates evidencing the obligation of the City to make payments of principal, premium, if any, and interest pursuant to the Trust Agreement. Upon delivery by the Depository to the Trustee, the City and the Authority of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions therein with respect to Record Dates, the word Nominee in the Trust Agreement will refer to such new nominee of the Depository.

Transfers Outside Book-Entry System. In the event (i) the Depository determines not to continue to act as securities depository for the Certificates or an issue of Additional Certificates, or (ii) the City determines that the Depository will no longer so act, then the City following delivery of a written notice of removal to the Depository will discontinue the book-entry system with the Depository. If the City fails to identify another qualified securities depository to replace the Depository then the Certificates or Additional Certificates so designated will no longer be restricted to being registered in the registration books kept by the Trustee in the name of the Nominee, but will be registered in whatever name or names Persons transferring or exchanging Certificates will designate, in accordance with the provisions of the Trust Agreement.

Payments to the Nominee. Notwithstanding any other provisions of the Trust Agreement to the contrary, so long as any Certificate or Additional Certificate is registered in the name of the Nominee, all payments with respect to Principal Components, premium, if any, and Interest Components due with respect to such Certificate or Additional Certificate and all notices with respect to such Certificate or Additional Certificate will be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

Initial Depository and Nominee. The initial Depository will be The Depository Trust Company, New York, New York. The initial Nominee will be Cede & Co., as Nominee of The Depository Trust Company, New York, New York.

MISCELLANEOUS

Defeasance.

One or more of the Certificates and/or Additional Certificates may be paid and discharged in any one or more of the following ways:

(a) by paying or causing to be paid the Principal Component and the Interest Components with respect to said Certificate(s) and Additional Certificate(s), as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Lease Payment Fund and the Certificate Fund applicable to the Outstanding Certificate(s) or Additional Certificate(s) to be paid and discharged, is fully sufficient to pay the Outstanding Certificate(s) or Additional Certificate(s), as applicable, to be paid and discharged, including the Principal Component and the Interest Component thereof; or

(c) by depositing with the Trustee, in trust, Permitted Investments of the type described in paragraph (l) of the definition thereof in such amount as certified by an independent certified public accountant will be sufficient, together with the interest to accrue thereon, to pay and discharge the Outstanding Certificate(s) and Additional Certificate(s) to be paid and discharged (including the Principal Component, any applicable premium, and the Interest Component thereof) at or before their respective maturity or Redemption Dates.

Notwithstanding that any Certificates or Additional Certificates will not have been surrendered for payment, all obligations of the Authority, the Trustee and the City under the Trust Agreement with respect to those Certificates or Additional Certificates paid, as provided in the above subsections (a) (b) or (c), will cease and terminate and will no longer be Outstanding under the Trust Agreement, except only the obligation of the Trustee to pay or cause to be paid from funds deposited therefor to the Owners of the Certificates and Additional Certificates not so surrendered and paid all sums due thereon and to transfer title to the Property to City as provided in the Trust Agreement and except the obligation of the City to comply with the covenants set forth in the Trust Agreement.

Any funds held by the Trustee, at the time of one of the events described above in subsections (a), (b) or (c) will have occurred as to all Outstanding Certificates and Additional Certificates, which are not required for the payment to be made to Owners, or for payments owed to the Trustee and the Insurer under the Trust Agreement or under the Lease Agreement or otherwise, will be paid over to the City.

Notwithstanding anything in the Trust Agreement to the contrary, in the event that a Principal Component and/or Interest Component due with respect to a Certificate will be paid by the Insurer pursuant to the Bond Insurance Policy, such Certificate will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations to the registered Certificate Owner will continue to exist and will run to the benefit of the Insurer, and the Insurer will be subrogated to the rights of such registered Certificate Owner.

Evidence of Signatures of Certificate Owners and Ownership of Certificates.

Any request, consent, revocation of consent or other instrument which the Trust Agreement may require or permit to be signed and executed by the Owners of Certificates or any Additional Certificates may be in one or more instruments of similar tenor, and will be signed or executed by such Owners of Certificates or any Additional Certificates in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Certificates or any Additional Certificates, will be sufficient for any purpose of the Trust Agreement (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable: the fact and date of the execution by any Owner of Certificates or any Additional Certificates or his attorney of such instruments may be proved by a guarantee of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the person signing such request or other instrument 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. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature guarantee, certificate or affidavit will also constitute sufficient proof of his authority.

The ownership of Certificates and any Additional Certificates and the amount, numbers and other identification, and date of holding the same will be proved by the registry books.

Any request or consent by an Owner of Certificates and Additional Certificates will bind all future Owners of Certificates and Additional Certificates in respect of anything done or suffered to be done by the Authority, the City or the Trustee in accordance therewith.

Moneys Held for Particular Certificates and Additional Certificates. The amounts held by the Trustee for the payment of the Interest Components, Principal Components or premium due on any date with respect to particular Certificates or Additional Certificates will, on and after such date and pending such payment, be set aside on its books and held in trust, without responsibility for investment thereof, by it for the Owners of the Certificates or Additional Certificates entitled thereto.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Trust Agreement will be retained in its possession and will be subject at all reasonable times during business hours on any Business Day and upon reasonable prior notice to the inspection of the City, any Owner of 25% of the Certificates and Additional Certificates and their agents and representatives, any of whom may make copies thereof.

Parties Interested in the Trust Agreement. Nothing in the Trust Agreement expressed or implied is intended or will be construed to confer upon, or to give to, any person or corporation, other than the City, the Authority, the Insurer, the Trustee and the Owners of the Certificates and any Additional Certificates, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the Trustee will be for the sole and exclusive benefit of the Trustee, the Insurer and the Owners of the Certificates and any Additional Certificates.

Severability of Invalid Provisions. If any one or more of the covenants or agreements provided in the Trust Agreement should be contrary to law, then such covenant or covenants or agreement or agreements will be deemed severable from the remaining covenants and agreements, and will in no way affect the validity of the other provisions of the Trust Agreement.

Recording and Filing. The City will be responsible for the recording and filing of the Site Lease, Lease Agreement and financing statements (or continuation statements in connection therewith) or of any supplemental instruments or documents of further assurance as may be required by law in order to perfect the security interests created by the Trust Agreement and the Assignment Agreement.

California Law. The Trust Agreement will be construed and governed in accordance with the laws of the State of California.

Binding on Successors. The Trust Agreement will be binding upon and inure to the benefit of the parties and their respective successors and assigns.

PROVISIONS RELATING TO MUNICIPAL BOND INSURANCE POLICY

Rights of the Insurer. Notwithstanding any provision of the Trust Agreement to the contrary, the rights of the Insurer to direct or consent to City, Trustee or Owner actions under the Trust Agreement shall be suspended during any period in which the Insurer is in default in its payment obligations under the Insurance Policy and shall be of no force or effect in the event the Insurance Policy is no longer in effect or the Insurer asserts that the Insurance Policy is not in effect or the Insurer shall have provided written notice that it waives such rights.

Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer under the Trust Agreement without the prior written consent of the Insurer.

The Insurer is a third-party beneficiary of the Trust Agreement, the Lease and the Site Lease and may enforce any right, remedy or claim given, conferred or granted under the Trust Agreement.

Nothing in the Trust Agreement expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the City, the Trustee, the Insurer, and the Owners, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the City shall be for the sole and exclusive benefit of the Trustee, the Insurer and the Owners.

Unless other provided in the Trust Agreement, the Insurer's consent shall be required in addition to Owner consent, when required, for the following purposes; (i) execution and delivery of any supplement hereto or any amendment, supplement or change to or modification of the Lease, the Site Lease or the Assignment Agreement, (ii) removal of the Trustee and selection and appointment of any successor trustee, and (iii) initiation or approval of any action not described in (i) or (ii) above which requires Owner consent.

Any reorganization or liquidation plan with respect to the City must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Owners who hold Insurer-insured Certificates absent a default by the Insurer under the applicable Insurance Policy insuring such Certificates.

Notwithstanding any other provision of the Trust Agreement, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Trust Agreement, the Trustee shall consider the effect on the Owners as if there were no Insurance Policy.

The Trustee may be removed at any time at the request of the Insurer for any breach of the provisions of the Trust Agreement.

The Insurer shall receive prior written notice of any resignation by the Trustee.

Notwithstanding any other provision of the Trust Agreement, no removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the Insurer, is appointed.

Claims Under Insurance Policy: Payments by and to Insurer. As long as the Insurance Policy shall be in full force and effect, the City and the Trustee agree to comply with the following provisions:

1. at least one (1) day prior to all Interest Payment Dates, the Trustee will determine whether there will be sufficient funds in the funds and accounts established under the Trust Agreement to pay the principal of or interest with respect to the Certificates on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such funds and accounts, the Trustee shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Certificates to which such deficiency is applicable and whether such Certificates will be deficient as to principal or interest, or both. If the Trustee has not so notified the Insurer one (1) day prior to an Interest Payment Date, the Insurer will make payments of principal or interest due with respect to the Certificates on or before the first day next following the date on which the Insurer shall have received notice of nonpayment from the Trustee;
2. the Trustee shall, after giving notice to the Insurer as provided in (a) above, make available to the Insurer and, at the Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for the Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books maintained by the Trustee and all records relating to the funds and accounts maintained under the Agreement;
3. the Trustee shall provide the Insurer and the Insurance Trustee with a list of Owners of Certificates entitled to receive principal or interest payments from the Insurer under the terms of the Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks to the Owners of Certificates entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal upon Certificates surrendered to the Insurance Trustee by the Owners of Certificates entitled to receive full or partial principal or payments from the Insurer;
4. the Trustee shall, at the time it provides notice to the Insurer pursuant to (a) above, notify Owners of Certificates entitled to receive the payment of principal or interest with respect thereto from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or a part of the interest payments next coming due upon proof of Certificate Owner entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of such Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Certificates (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Certificates to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Certificates for payment thereon first to the Trustee who shall note on such Certificates the portion of the principal paid by the Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal;

5. in the event that the Trustee has actual notice that any payment of principal or interest with respect to a Certificate which has become due for payment and which is made to an Owner of Certificates by or on behalf of the City has been deemed a preferential transfer and theretofore recovered from its Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time the Insurer is notified, notify all Certificate Owners that in the event that any Certificate Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal and interest with respect to the Certificates which have been made by the Trustee, and subsequently recovered from Owners of Certificates and the dates on which such payments were made; and
6. in addition to those rights granted the Insurer under the Trust Agreement, the Insurer shall, to the extent it makes payment of principal or interest with respect to Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest with respect to Certificates to the Owners of the Certificates, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the Certificate Registrar maintained by the Trustee upon surrender of the Certificates by the Owners thereof together with proof of the payment of principal thereof.

Information to be Provided to the Insurer. While the Insurance Policy is in effect, the Insurer shall be provided with the following information by the City or the Trustee, as applicable:

1. As soon as practicable after the approval or acceptance thereof, a copy of the City's annual audited financial statements and annual budget;
2. A copy of any notice to be given to the Owners, including, without limitation, notice of any prepayment of or defeasance of the Certificates, and any certificate rendered pursuant to the Trust Agreement relating to the security for the Certificates;
3. A copy of any notice sent with respect to the Continuing Disclosure Agreement;
4. A copy of the certificate regarding insurance coverages as required by the Lease;
5. Notification of any failure of the City to provide relevant notices and certificates pursuant to the Trust Agreement or the Lease; and
6. Notwithstanding any other provision of the Trust Agreement, the Trustee or the City, as applicable, shall immediately notify the Insurer if at any time there are insufficient moneys to make any payments of principal and interest as required under the Trust Agreement and immediately upon the occurrence of an Event of Default under the Trust Agreement.

The notice address of the Insurer is set forth in the Trust Agreement. In the case of notices, then a copy of such notice shall also be sent to the attention of General Counsel Office.

The City will permit the Insurer to discuss the affairs, finances and accounts of the City or any information the Insurer may reasonably request regarding the security for the Certificates with appropriate officers of the City. The Trustee or the City will permit the Insurer to have access to the Property and the have access to and to make copies of all books and records relating to the Certificates at any reasonable time.

Trustee-Related Provisions.

The Trustee or Paying Agent, if any, may be removed at any time, at the request of Insurer.

Insurer will receive prior written notice of any Trustee or Paying Agent resignation.

Every successor Trustee appointed pursuant to the Trust Agreement will be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having (or if such successor Trustee is a member of a bank holding company system, its parent bank holding company has) a reported capital and surplus of not less than \$75,000,000 and acceptable to Insurer. Any successor Paying Agent, if applicable, will not be appointed unless Insurer approves such successor in writing.

Notwithstanding any other provision of the Trust Agreement, in determining whether the rights of the Certificate owners will be adversely affected by any action taken pursuant to the terms and provisions of the Trust Agreement, the Trustee and the City will consider the effect on the Certificate owners as if there were no Insurance Policy.

Notwithstanding any other provision of the Trust Agreement, no removal, resignation or termination of the Trustee or Paying Agent, if any, will take effect until a successor, acceptable to Insurer, will be appointed.

Parties Interested in the Trust Agreement. Nothing in the Trust Agreement expressed or implied is intended or will be construed to confer upon, or to give to, any person or entity, other than the City, the Trustee, Insurer, the Paying Agent, if any, and the registered owners of the Certificates, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation of the Trust Agreement, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the City will be for the sole and exclusive benefit of the City, the Trustee, Insurer, the Paying Agent, if any, and the registered owners of the Certificates.

To the extent that the Trust Agreement confers upon or gives or grants to Insurer any right, remedy or claim under or by reason of the Trust Agreement, Insurer is explicitly recognized as being a third-party beneficiary under the Trust Agreement and may enforce any such right, remedy or claim conferred, given or granted under the Trust Agreement.

Termination of Insurance Provisions. The provisions of the Trust Agreement and Lease Agreement relating to the Insurer (other than provisions which relate to the Insurer's rights as subrogee and any other provisions providing for approval, consents or direction by the

Insurer) will apply only so long as the Insurance Policy remains in effect and no default in payment has occurred thereunder.

SUMMARY OF SITE LEASE

Pursuant to the Site Lease, the City has leased the Site and facilities located thereon, as described in the Site Lease, to the Authority, as lessee thereunder, without an option to purchase the Site or facilities located thereon. The term of the Site Lease ends on the earlier of (i) November 15, 2043, or (ii) the date on which the Certificates and Additional Payments have been paid in full, unless sooner terminated pursuant to the terms of the Site Lease. The Authority agrees therein to use the Property solely for the purpose of leasing the Property back to the City or others pursuant to the Lease Agreement, provided that in event of default the Authority may exercise the remedies of the Property.

SUMMARY OF ASSIGNMENT AGREEMENT

Pursuant to the Assignment Agreement, the Authority sells, assigns and transfers to the Trustee, for the benefit of the Owners of the Certificates, all of its right, title and interest under the Lease Agreement, including its right to receive Lease Payments from the District; its rights to revenues pledged under, and as defined in the Trust Agreement; its right to receive proceeds of condemnation of, and insurance on, the Project; and its right to enforce payment of such Lease Payments when due and otherwise to protect its interests and enforce its rights under the Lease Agreement in the event of a default by the District. The Assignment Agreement provides that the Lease Payments will be applied, and the rights so assigned will be exercised, by the Trustee as provided in the Trust Agreement.

APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2001/2002



600 Anton Boulevard
Suite 700
Costa Mesa, CA 92626-7651

Independent Auditors' Report

The Honorable Members of City Council
City of Riverside, California:

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 City of Riverside, California (the City), as of and for the year ended June 30, 2002, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Riverside'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, 2002 and the respective changes in financial position and cash flows, where applicable, thereof 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2002 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 2 through 16 and the pension plan supplementary information on page 46 are not a required part of the basic financial statements but are supplementary information required by the 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 of Riverside's basic financial statements. The *combining and individual fund financial statements and schedules* are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The *introductory section and statistical section* have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

KPMG LLP

September 30, 2002



Management's Discussion and Analysis

As management of the City of Riverside (the City), we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2002. 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 difference between the two 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, 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, Parking Authority of the City of Riverside, Riverside Municipal Improvements Corporation, and the Riverside Civic Center Authority. 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.

The government-wide financial statements can be found on pages 17-18 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 City maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Redevelopment Agency Debt Service Fund, both of which are considered to be major funds. Data from the other seventeen 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 51-62 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 basic governmental fund financial statements can be found on pages 19-23 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 its Electric, Water, Sewer, Refuse, Airport and for its 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, its central stores and for 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.

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 three 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 63-72 in this report.

The basic proprietary fund financial statements can be found on pages 24-28 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 29 of this report.

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 30 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	
	2002	2001	2002	2001	2002	2001	2002	2001
Current and other assets	\$ 284,915	\$ 266,681	\$ 328,863	\$ 294,087	\$ 613,778	\$ 560,768		
Capital assets, net	478,043	447,923	618,263	569,426	1,096,306	1,017,349		
Total assets	<u>762,958</u>	<u>714,604</u>	<u>947,126</u>	<u>863,513</u>	<u>1,710,084</u>	<u>1,578,117</u>		
Current liabilities	106,480	104,075	33,620	52,079	140,100	156,154		
Long-term liabilities	135,216	135,729	403,498	328,771	538,714	464,500		
Total liabilities	<u>241,696</u>	<u>239,804</u>	<u>437,118</u>	<u>380,850</u>	<u>678,814</u>	<u>620,654</u>		
Net assets:								
Invested in capital assets, net of related debt	465,803	422,886	293,936	279,165	759,739	686,736		
Restricted	115,352	106,320	38,535	31,154	153,887	137,474		
Unrestricted	<u>(59,893)</u>	<u>(54,406)</u>	<u>177,537</u>	<u>172,344</u>	<u>117,644</u>	<u>133,253</u>		
Total net assets	<u>\$ 521,262</u>	<u>\$ 474,800</u>	<u>\$ 510,008</u>	<u>\$ 482,663</u>	<u>\$ 1,031,270</u>	<u>\$ 957,463</u>		

The City's assets exceeded liabilities by \$1,031,270 at June 30, 2002, an increase of \$73,807 from June 30, 2001.

By far the largest portion of the City's net assets (73 percent) reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. 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 (15 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$117,644) may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, \$177,537 is held by the business type activities; the governmental activities reflect a negative \$59,893. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents \$98,192 of negative unrestricted net assets for 2002 and was \$97,809 in the prior year. The remaining governmental activities of the City have positive unrestricted net assets of \$38,299, mostly attributable to the City's General Fund.

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 government's total net assets increased by \$73,807 during the current fiscal year. This is due to growth in both the governmental (\$46,462) and business type (\$27,345) activities. This is primarily due to continued investment by the City in its infrastructure, which is largely funded by grants and dedicated revenue sources. Growth also occurred in restricted funds held for future capital projects. Lastly, business type unrestricted assets grew based on municipal services charges for service exceeding the current years operating expenditures.

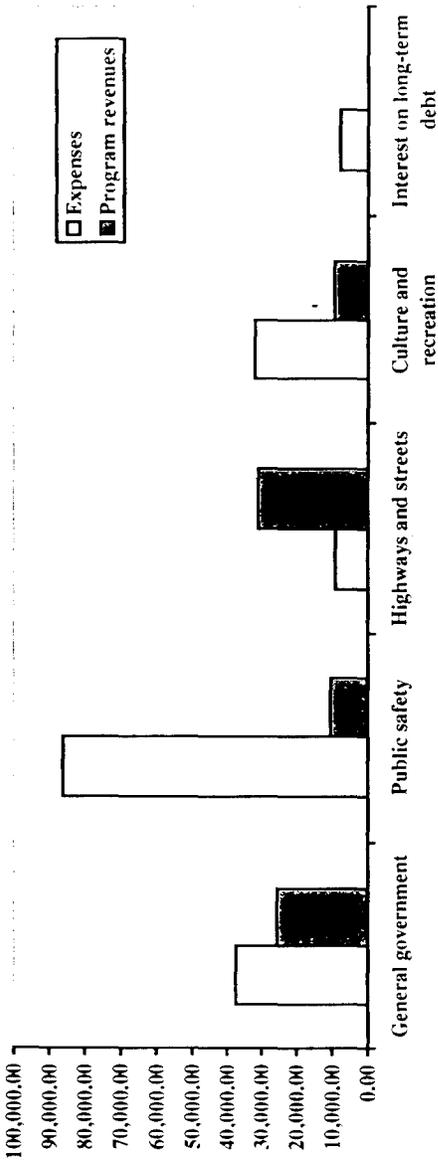
The following condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2002 shows total net assets increasing by \$73,807. The prior fiscal year is also presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid the reader in their understanding of the results of the current year's activities.

	Governmental Activities		Business Type Activities		Total
	2002	2001	2002	2001	
Revenues:					
Charges for services	\$ 49,682	\$ 61,778	\$ 278,401	\$ 319,012	\$ 380,790
Property taxes	29,471	26,186			26,186
Sales taxes	38,467	35,037			35,037
Other taxes and fees	40,205	39,856			39,856
Grants and contributions not restricted to specific programs			12,638	19,501	19,501
Other	42,922	39,290	31,287	27,122	66,411
Total revenues	<u>200,747</u>	<u>202,147</u>	<u>322,326</u>	<u>365,635</u>	<u>567,782</u>
Expenses:					
General government	47,245	60,688			60,688
Public safety	80,944	71,285			71,285
Highways and streets	6,819	12,277			12,277
Culture and recreation	29,607	10,512			10,512
Interest on long-term debt	7,727	8,083			8,083
Electric			215,131	251,185	251,185
Water			28,978	27,460	27,460
Sewer			19,214	19,463	19,463
Refuse			10,821	11,069	11,069
Airport			1,045	892	892
Transportation			1,735	1,580	1,580
Total expenses	<u>172,342</u>	<u>162,845</u>	<u>276,924</u>	<u>311,649</u>	<u>474,494</u>
Increase in net assets before Transfers	28,405	39,302	45,402	53,986	93,288
Transfers					
Transfers	18,057	17,527	(18,057)	(17,527)	--
Increase in net assets	46,462	56,829	27,345	36,459	93,288
Net assets – beginning	474,800	417,971	482,663	446,204	864,175
Net assets – ending	<u>\$ 521,262</u>	<u>\$ 474,800</u>	<u>\$ 510,008</u>	<u>\$ 482,663</u>	<u>\$ 957,463</u>

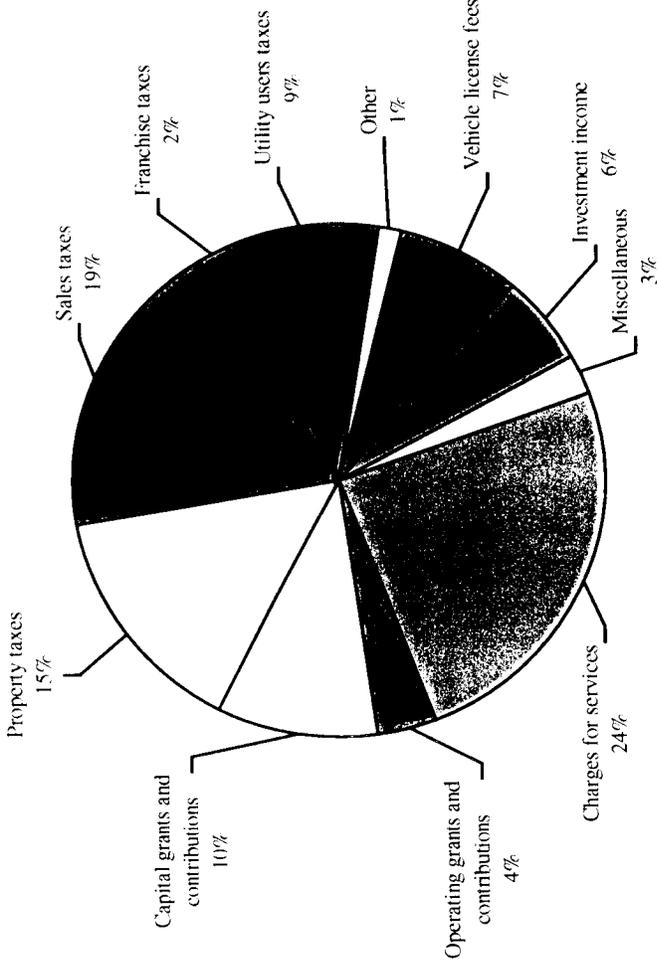
Governmental activities. Governmental activities increased the City's net assets by \$46,462, accounting for 63 percent of the total growth in net assets. The prior fiscal period increased net assets by \$56,829. Key elements of this year's increase in relation to the prior year are as follows:

- Charges for services decreased by \$12,096 and General government expenses decreased by \$13,433. During fiscal year 2001, an energy retrofit program initiated throughout the City caused Charges for services and General government expenses to both increase by about \$7,000; this activity was not duplicated in fiscal year 2002. The remaining decrease in the above categories was largely caused by an approximately \$3,000 reduction in one time highway and street revenue.
- Sales taxes increased by \$3,430, hitting another record year due to the continued growth of retail sales.
- Property taxes increased by \$3,285 reflecting increased assessed values generated by the strong housing market and redevelopment efforts.
- While significant variances between years exist between the various expense functions, the total increase was \$9,497, which is primarily attributed to additional public safety personnel and salary and other benefit improvements.

Expenses and Programs Revenues – Governmental Activities



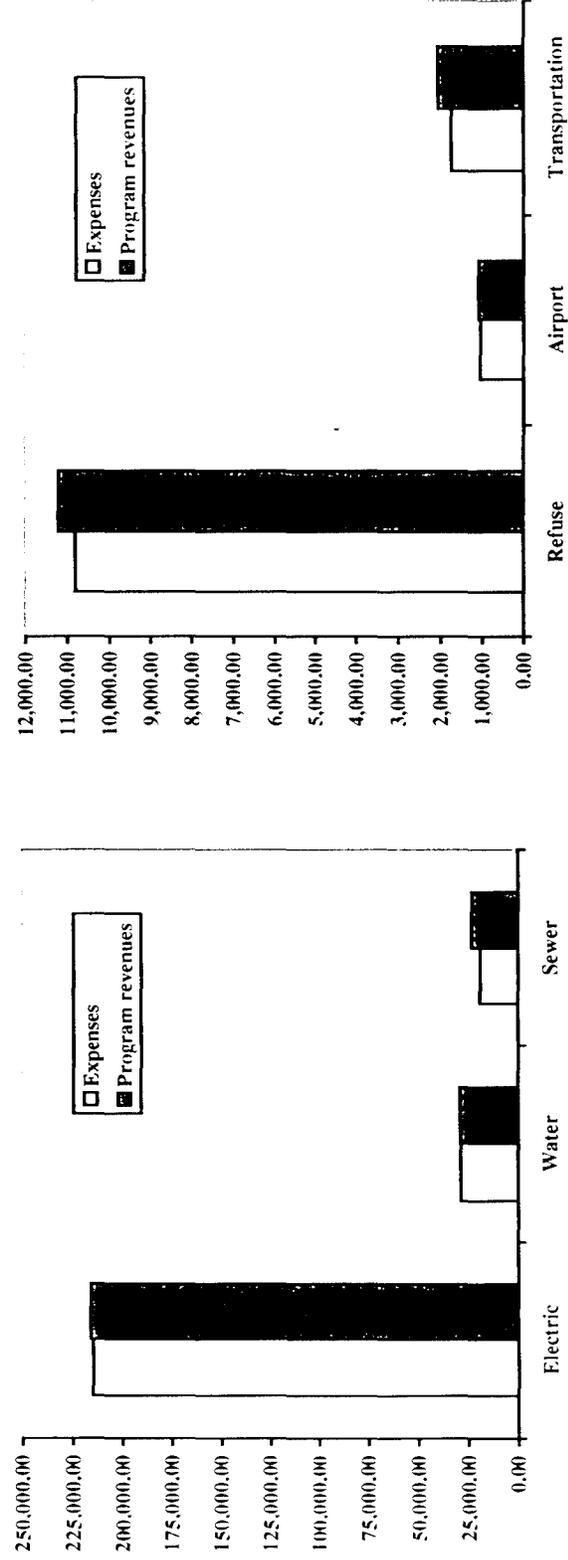
Revenues by Source – Governmental Activities



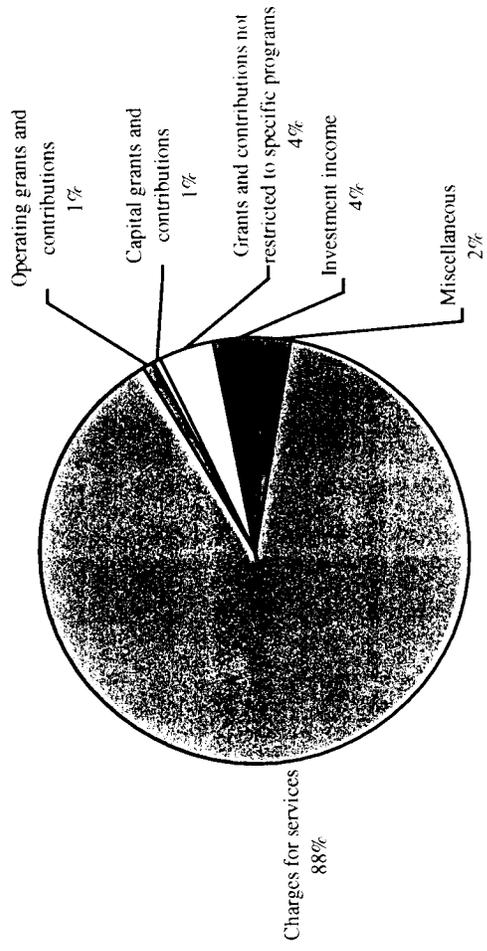
Business type activities. Business type activities increased the City's net assets by \$27,345, accounting for 37 percent of the total growth in net assets. Net assets increased in the prior fiscal period by \$36,459. Key elements of this year's increase in relation to the prior year are as follows:

- The most substantial changes from the prior year's amounts are in charges for service and electric expenses. The City's Electric Utility participates, as circumstances require, in the purchase and sale of excess power not required by its customer base. The prior year's level of trading activity was substantially greater due to California energy crisis. As the market has settled, the level of trading activity has slowed. This slowed the overall growth in net assets, as this trading activity was profitable for the City. Additionally, increased personnel costs due to the salary and benefit improvements were not recovered, as rates remained stable during the current year.
- Capital contributions to the Electric and Water utilities were lower in the current year than the prior year by \$2,790 and \$4,065, respectively. The prior year's contributions for both utilities was higher than usual due to specific, non-routine projects. The level of traditional developer capital contributions was consistent between years.

Expenses and Programs Revenues – Business Type Activities



Revenues by Source – Business Type Activities



Financial Analysis of the City's Funds

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

Governmental funds. The 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.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$185,468, an increase of \$5,339 in comparison with the prior year. Approximately three-quarters of this amount (\$144,665) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$16,882), 2) to pay debt service (\$11,486), and 3) for a variety of other restricted purposes (\$12,435).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$63,829, of which \$57,959 was designated for future operations and economic contingencies. The total fund balance reached \$74,776.

The fund balance of the City's general fund increased by \$4,639 during the current fiscal year. This is due to the continued strength of the local economy, which translates into development-oriented revenues and significant taxable sales. Revenues finished approximately \$16.4 million above the original budgeted amounts. Departments experienced savings from their budgeted allocations, of approximately \$35.7 million. It is important to note, however, that most of these expenditure savings are designated for capital projects and the spending authority is continued to the next fiscal year. These committed monies are reflected as a designation of fund balance. Also, an additional \$1.7 million was set-aside in the economic contingency portion of the fund balance, increasing that balance to \$21.4 million.

The Redevelopment debt service fund has a total fund balance of \$9,955, all of which is reserved for the payment of debt service. A net decrease in the fund balance occurred during the current year (\$925), as fewer funds were required to meet near term debt service payments.

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 \$85,550, \$27,932 and \$64,315, respectively. The total growth in net assets for these funds was \$2,284, \$16,014 and \$7,643, respectively, demonstrating the adequacy of the current rate structure for these funds.

General Fund Budgetary Highlights

The increase from the total original budgeted expenditures to the final amounted to \$14,257 and can be generally summarized as follows:

- The Police department added appropriations of \$4,102, primarily for grant funded operational charges;
- The Fire department added appropriations of \$1,694, primarily for grant funded operational charges;
- The Park and Recreation department added appropriations of \$3,804, primarily for grant funded improvement projects;
- Non-departmental appropriations were added in the amount of \$2,833, for grant funded community programs; and
- Other miscellaneous appropriations were added in the remaining departments throughout the year in the amount of \$1,824.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2002 amounted to \$1,096,306 (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 \$78,957 (\$30,120 for governmental activities including internal service funds and \$48,837 for business type activities).

Major capital improvements during the current fiscal year included new infrastructure consisting primarily of the addition of a new bridge and street improvements totaling \$31,957, various park improvements totaling \$4,090, Electric department system upgrades of \$18,758, Water department system upgrades of \$9,141, and Sewer department system upgrades of \$1,241.

Construction in progress totaled \$75,511 at June 30, 2002. Of this amount, \$39.2 million reflects the progress to date on the installation of four natural gas turbine generators by the City's Electric Utility. Depreciation expense during the fiscal year was \$16,220 for governmental activities and \$23,341 for business type activities.

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

	Governmental Activities		Business Type Activities		Total
	2002	2001	2002	2001	
Land	\$ 114,337	\$ 114,337	\$ 30,425	\$ 30,298	\$ 144,762
Buildings and improvements	55,233	55,035	138,439	140,214	193,672
Improvements other than Buildings	18,664	17,030	369,712	357,922	388,376
Machinery and equipment	16,011	15,261	9,043	10,347	25,054
Infrastructure	268,931	245,669			268,931
Construction in progress	4,867	591	70,644	30,645	75,511
Total	<u>\$ 478,043</u>	<u>\$ 447,923</u>	<u>\$ 618,263</u>	<u>\$ 569,426</u>	<u>\$ 1,096,306</u>

Additional information on the City's capital assets can be found in note 5 on page 36 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$473,311. Of this amount, \$473,176 represents bonds secured solely by specified revenue sources (i.e., revenue bonds) and \$135 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

City of Riverside's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental Activities		Business Type Activities		Total
	2002	2001	2002	2001	
Revenue Bonds	\$ 117,555	\$ 122,425	\$ 355,621	\$ 299,244	\$ 473,176
Special assessment debt with Government commitment	135	195	0	0	135
Total	<u>\$ 117,690</u>	<u>\$ 122,620</u>	<u>\$ 355,621</u>	<u>\$ 299,244</u>	<u>\$ 473,311</u>

The City's total debt increased by \$49,519 (11.0 percent) during the current fiscal year due to the issuance of \$67,215 in new utility revenue bonds offset by scheduled debt service payments.

The City's Electric and Water Utilities both maintain a "AA" rating from Standard & Poor's and a "Aa" rating from Fitch for their revenue bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total assessed valuation. The current debt limitation for the City is \$1,651,192, all of which is excess because the City has no outstanding general obligation debt.

Additional information on the City's long-term debt can be found in note 7 on page 38 of this report

Economic Factors and Next Year's Budget and Rates

- The assessment roll for the City increased 8.93% between fiscal year 2002 and fiscal year 2003.
- Sales taxes increased between fiscal year 2001 and 2002 by 10%.
- Employment in the Inland Empire is up 3% over the prior year, although unemployment is also up to 5.1% as of May 2002 compared to 4.4% for May 2001.
- The voters of the City of Riverside passed Measure C in March 2002, providing for a special parcel tax amounting to \$1.2 million each year for each of the next ten (10) years, with revenue restricted for library purposes.
- Effective November 1, 2002, City electric rates will increase 3.4%. Rates will increase to help fund the new 40 MW generation station and to maintain customer service.
- The State of California is facing a significant budget deficit.

At the time of budget preparation for fiscal year 2003, the economic outlook for the City was considered to be good, but recent months have suggested that revenue estimates were too conservative. The General Fund Budget for fiscal year 2003 of \$143 million contemplates the use of approximately \$12 million of the beginning fund balance. If the positive revenue trend continues, the General Fund balance will not decrease as much as currently budgeted. The most significant unknown factor is the effect of the State deficit on local revenue.

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 Office of the Finance Director, 3900 Main Street City of Riverside, CA 92522.

City of Riverside
Statement of Net Assets
June 30, 2002
(amounts expressed in thousands)

	Governmental Activities	Business type Activities	Total
Assets:	\$ 199,309	\$ 126,483	\$ 325,792
Cash and investments			
Receivables (net of allowances for uncollectibles)	32,870	35,859	68,729
Inventories	2,214	0	2,214
Nuclear material inventory	0	1,097	1,097
Prepaid items	147	4,379	4,526
Deferred charges	0	38,661	38,661
Internal balances	(9,476)	9,476	0
Land and improvements held for resale	7,179	0	7,179
Restricted assets:			
Cash and cash equivalents	0	33,250	33,250
Cash and cash equivalents at fiscal agent	0	11,657	11,657
Investments at fiscal agent	24,432	67,175	91,607
Other	0	826	826
Capital leases receivable	28,240	0	28,240
Capital assets (net of accumulated depreciation)	478,043	618,263	1,096,306
Total assets	762,958	947,126	1,710,084
Liabilities			
Accounts payable and other current liabilities	41,154	19,284	60,438
Accrued interest payable	2,117	0	2,117
Deferred revenue	29,139	2,046	31,185
Deposits	17,318	3,432	20,750
Current liabilities payable from restricted assets	0	8,858	8,858
Claims and judgments payable	16,752	0	16,752
Noncurrent liabilities:			
Due within one year	4,740	14,600	19,340
Due in more than one year	130,476	388,898	519,374
Total liabilities	241,696	437,118	678,814
Net Assets	465,803	293,936	759,739
Invested in capital assets, net of related debt			
Restricted for:			
Capital projects	94,061	0	94,061
Debt service	7,097	35,504	42,601
Other purposes	14,194	3,031	17,225
Unrestricted	(59,893)	177,537	117,644
Total net assets	\$ 521,262	\$ 510,008	\$ 1,031,270

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, 2002
(amounts expressed in thousands)

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Indirect Expenses Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business type Activities	Total
Governmental activities:								
General government	\$ 37,454	\$ 9,791	\$ 20,265	\$ 3,394	\$ 1,937	\$ (21,649)	\$	\$ (21,649)
Public safety	86,140	(5,196)	5,855	2,937	1,667	(70,485)		(70,485)
Highways and streets	9,074	(2,255)	18,891	59	12,079	24,210		24,210
Culture and recreation	31,947	(2,340)	4,671	867	3,845	(20,224)		(20,224)
Interest on long-term debt	7,727	0	0	0	0	(7,727)		(7,727)
Total governmental activities	<u>172,342</u>	<u>0</u>	<u>49,682</u>	<u>7,257</u>	<u>19,528</u>	<u>(95,875)</u>		<u>(95,875)</u>
Business type activities:								
Electric	215,131		216,106	0	0		\$ 975	975
Water	28,978		29,527	0	0		549	549
Sewer	19,214		20,457	1,050	1,877		4,170	4,170
Refuse	10,821		11,220	0	0		399	399
Airport	1,045		1,089	0	0		44	44
Transportation	1,735		116	1,942	0		323	323
Total business type activities	<u>276,924</u>		<u>278,515</u>	<u>2,992</u>	<u>1,877</u>		<u>6,460</u>	<u>6,460</u>
Total	<u>\$ 449,266</u>		<u>\$ 328,197</u>	<u>\$ 10,249</u>	<u>\$ 21,405</u>	<u>(95,875)</u>		<u>(89,415)</u>

General revenues:

Taxes:			
Sales	38,467	0	38,467
Property	29,471	0	29,471
Utility users	18,510	0	18,510
Franchise	4,070	0	4,070
Other	2,777	0	2,777
Vehicle license fees	14,848	0	14,848
Grants and contributions not restricted to specific programs	0	12,638	12,638
Investment income	11,058	12,780	23,838
Miscellaneous	5,079	5,624	10,703
Special item - Water legal settlement	0	7,900	7,900
Transfers	18,057	(18,057)	0
Total general revenues and transfers	<u>142,337</u>	<u>20,885</u>	<u>163,222</u>
Change in net assets	<u>46,462</u>	<u>27,345</u>	<u>73,807</u>
Net assets - beginning	<u>474,800</u>	<u>482,663</u>	<u>957,463</u>
Net assets - ending	<u>\$ 521,262</u>	<u>\$ 510,008</u>	<u>\$ 1,031,270</u>

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

Balance Sheet
 Governmental Funds
 June 30, 2002
 (amounts expressed in thousands)

Assets:	Redevelopment		Other		Total	
	General	Debt Service	Governmental Funds	Governmental Funds	Governmental Funds	Governmental Funds
Cash and investments	\$ 86,007	\$ 4,092	\$ 90,558	\$ 180,657	\$ 180,657	\$ 180,657
Cash and investments at fiscal agent	0	5,945	18,487	24,432	24,432	24,432
Receivables (net)						
Interest	1,015	75	934	2,024	2,024	2,024
Property taxes	7,907	0	190	8,097	8,097	8,097
Sales taxes	1,416	0	0	1,416	1,416	1,416
Utility billed	532	0	0	532	532	532
Accounts	2,985	252	386	3,623	3,623	3,623
Intergovernmental	3,350	0	4,030	7,380	7,380	7,380
Notes	64	0	9,318	9,382	9,382	9,382
Special assessments	0	0	135	135	135	135
Capital lease receivable	0	28,240	0	28,240	28,240	28,240
Prepaid items	129	2	16	147	147	147
Due from other funds	4,832	0	1,031	5,863	5,863	5,863
Interfund receivable	3,762	229	153	4,144	4,144	4,144
Land and improvements held for resale	0	0	7,179	7,179	7,179	7,179
Total assets	111,999	38,835	132,417	283,251	283,251	283,251

Liabilities and fund balances	Redevelopment		Other		Total	
	General	Debt Service	Governmental Funds	Governmental Funds	Governmental Funds	Governmental Funds
Accounts payable	4,131	551	3,735	8,417	8,417	8,417
Accrued payroll	4,415	0	162	4,577	4,577	4,577
Retainage payable	60	0	809	869	869	869
Intergovernmental	117	0	0	117	117	117
Deferred revenue	7,844	28,269	10,715	46,828	46,828	46,828
Deposits	17,049	0	264	17,313	17,313	17,313
Due to other funds	250	0	1,751	2,001	2,001	2,001
Interfund payable	3,357	60	14,244	17,661	17,661	17,661
Total liabilities	37,223	28,880	31,680	97,783	97,783	97,783

Fund balances:	Redevelopment		Other		Total	
	General	Debt Service	Governmental Funds	Governmental Funds	Governmental Funds	Governmental Funds
Reserved for:						
Encumbrances	7,014	0	9,868	16,882	16,882	16,882
Interfund receivable	3,762	0	0	3,762	3,762	3,762
Debt service	0	9,955	1,531	11,486	11,486	11,486
Prepaid items	107	0	13	120	120	120
Notes receivable	64	0	1,310	1,374	1,374	1,374
Land and improvements held for resale	0	0	7,179	7,179	7,179	7,179
Unreserved, designated for economic contingencies	21,400	0	0	21,400	21,400	21,400
Unreserved, designated for future operations	36,559	0	0	36,559	36,559	36,559
Unreserved:						
General fund	5,870	0	0	5,870	5,870	5,870
Special revenue funds	0	0	12,168	12,168	12,168	12,168
Capital projects funds	0	0	67,211	67,211	67,211	67,211
Permanent fund	0	0	1,457	1,457	1,457	1,457
Total fund balances	74,776	9,955	100,737	185,468	185,468	185,468
Total liabilities and fund balances	\$ 111,999	\$ 38,835	\$ 132,417	\$ 283,251	\$ 283,251	\$ 283,251

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, 2002
 (amounts expressed in thousands)

Amounts reported for governmental activities in the statement of net assets are different because:	
Total fund balances - governmental funds	\$185,468
Capital assets net of accumulated depreciation used in governmental activities that are not current financial resources and, therefore, are not reported in the funds.	476,138
Other long-term assets that do not meet the "availability" criteria for revenue recognition and therefore, are deferred in the funds.	18,149
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(163,496)
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.	<u>5,003</u>
Net assets of governmental activities	<u>\$521,262</u>

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
Governmental Funds

For the fiscal year ended June 30, 2002
(amounts expressed in thousands)

	General	Redevelopment Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 76,455	\$ 11,887	\$ 5,537	\$ 93,879
Licenses and permits	6,094	0	6,223	12,317
Intergovernmental	22,782	0	24,628	47,410
Charges for services	7,854	0	12	7,866
Fines and forfeitures	2,164	0	182	2,346
Special assessments	3,633	0	1,787	5,420
Rental and investment income	4,489	1,919	6,609	13,017
Miscellaneous	2,024	341	2,451	4,816
Total revenues	125,495	14,147	47,429	187,071
Expenditures:				
Current:				
General government	16,087	276	11,385	27,748
Public safety	91,245	0	0	91,245
Highways and streets	10,551	0	0	10,551
Culture and recreation	18,111	0	5,724	23,835
Capital outlay	0	0	41,058	41,058
Debt service:				
Principal	0	2,745	2,830	5,575
Interest	0	7,252	533	7,785
Repayment of advances	0	599	0	599
Total expenditures	135,994	10,872	61,530	208,396
Revenues over (under) expenditures	(10,499)	3,275	(14,101)	(21,325)
Other financing sources (uses):				
Transfers in	18,304	2,844	10,157	31,305
Transfers out	(3,354)	(7,044)	(2,850)	(13,248)
Sales of capital assets	188	0	0	188
Loss on sale of land held for resale	0	0	(35)	(35)
Bond proceeds	0	0	8,454	8,454
Total other financing sources (uses)	15,138	(4,200)	15,726	26,664
Net change in fund balances	4,639	(925)	1,625	5,339
Fund balances, beginning	70,137	10,880	99,112	180,129
Fund balances, ending	\$ 74,776	\$ 9,955	\$ 100,737	\$ 185,468

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, 2002
 (amounts expressed in thousands)

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

Net change in fund balances-total governmental funds \$5,339

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.

29,963

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.

4,467

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 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. This amount is the net effect of these differences in the treatment of long-term debt and related items.

6,218

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.

475

Change in net assets of governmental activities

\$46,462

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 fiscal year ended June 30, 2002
(amounts expressed in thousands)

	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance with Final Budget	
	Original	Final		Final Budget	Favorable (Unfavorable) Variance with Final Budget
Revenues:					
Taxes	\$ 71,835	\$ 71,835	\$ 76,455	\$ 4,620	
Licenses and permits	5,347	5,347	6,094	747	
Intergovernmental	16,797	27,475	22,782	(4,693)	
Charges for services	6,501	6,716	7,854	1,138	
Fines and forfeitures	1,865	1,865	2,164	299	
Special assessments	3,450	3,515	3,633	118	
Rental and investment income	2,311	2,311	4,489	2,178	
Miscellaneous	990	2,353	2,024	(329)	
Total revenues	109,096	121,417	125,495	4,078	
Expenditures:					
General government:					
Mayor	196	201	201	0	
Council	52	52	31	21	
Manager	947	1,332	807	525	
Attorney	542	515	33	482	
Clerk	420	454	362	92	
Planning	5,044	4,998	4,179	819	
Human Resources	2,752	2,545	2,401	144	
Administrative Services	9,911	9,911	7,347	2,564	
Finance	6,890	6,948	6,050	898	
Information System	11,008	11,955	8,352	3,603	
Non-departmental	12,723	15,537	10,869	4,668	
Sub-total	50,485	54,448	40,632	13,816	
Allocated expenditures	(24,181)	(24,181)	(24,545)	364	
Total general government	26,304	30,267	16,087	14,180	<i>continued</i>
Public safety:					
Police	57,862	61,963	59,329	2,634	
Fire	26,685	28,381	25,298	3,083	
Animal regulation	2,151	2,151	1,508	643	
Building and zoning inspection	1,735	1,739	1,650	89	
Street lighting	3,585	3,585	3,460	125	
Total public safety	92,018	97,819	91,245	6,574	
Highways and streets	\$ 12,803	\$ 13,192	\$ 10,551	\$ 2,641	
Culture and recreation	26,336	30,440	18,111	12,329	
Total expenditures	157,461	171,718	135,994	35,724	
Deficiency of revenue under expenditures	(48,365)	(50,301)	(10,495)	39,802	
Other financing sources (uses):					
Transfers in	18,259	18,845	18,304	(541)	
Transfers out	(2,802)	(3,804)	(3,354)	450	
Sales of capital assets	34	34	188	154	
Total other financing sources (uses)	15,491	15,075	15,138	63	
Net change in fund balances	(32,874)	(35,226)	4,639	39,865	
Fund balance, beginning	70,137	70,137	70,137	0	
Fund balance, ending	\$ 37,263	\$ 34,911	\$ 74,776	\$ 39,865	

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

City of Riverside
Statement of Net Assets
Proprietary Funds
June 30, 2002
(amounts expressed in thousands)

Assets	Governmental				Governmental Activities- Internal Service Funds
	Electric	Water	Sewer	Other Enterprise Funds	
Current assets:					
Cash and investments	\$ 45,030	\$ 28,879	\$ 48,504	\$ 4,070	\$ 126,483
Receivables (net of allowances for uncollectibles)					\$ 18,652
Interest	602	335	538	73	1,548
Utility billed	10,611	1,515	654	384	13,164
Utility unbilled	8,149	1,579	752	447	10,927
Accounts	5,856	937	2,010	89	8,892
Intergovernmental	96	19	0	239	354
Notes	0	0	974	0	974
Nuclear materials inventory	1,097	0	0	0	1,097
Inventory	0	0	0	0	0
Prepaid items	4,371	0	7	1	4,379
Due from other funds	50	0	0	0	50
Restricted assets:					
Cash and investments	3,465	0	0	0	3,465
Cash and investments at fiscal agent	56,462	22,370	0	0	78,832
Revenue bond current debt service account	10,746	4,542	3,629	0	18,917
Revenue bond future debt service account	7,837	0	0	0	7,837
Landfill capping surcharge	0	0	0	3,031	3,031
Other	826	0	0	0	826
Total current assets	155,198	60,176	57,068	8,334	280,776
Non-current assets:					
Deferred charges	31,357	1,485	268	5,551	38,661
Interfund receivable	28	84	14,251	0	14,363
Capital assets:					
Land	5,839	14,477	3,048	7,061	30,425
Buildings	12,206	12,214	161,855	2,135	188,410
Accumulated depreciation-buildings	(2,287)	(1,526)	(45,530)	(628)	(49,971)
Improvements other than buildings	369,162	224,708	31,193	6,198	631,261
Accumulated depreciation-improvements other than buildings	(176,343)	(76,727)	(6,238)	(2,242)	(261,550)
Machinery and equipment	12,509	6,261	5,009	8,797	32,576
Accumulated depreciation-machinery and equipment	(9,030)	(4,550)	(4,208)	(5,745)	(23,533)
Construction in progress	52,253	18,387	0	5	70,645
Total non-current assets	295,694	194,813	159,648	21,132	671,287
Total assets	450,892	254,989	216,716	29,466	952,063

continued

City of Riverside
Statement of Net Assets
Proprietary Funds
June 30, 2002
(amounts expressed in thousands)

Liabilities	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities-Internal Service Funds
Current liabilities:						
Accounts payable	6,745	1,186	147	622	8,700	494
Accrued payroll	4,684	2,085	1,438	955	9,162	517
Retainage payable	1,011	313	0	0	1,324	0
Intergovernmental	89	9	0	0	98	0
Claims and judgments	0	0	0	0	0	16,752
Deferred revenue	291	201	1,316	238	2,046	460
Deposits	3,113	319	0	0	3,432	5
Due to other funds	0	0	0	0	0	3,912
Capital leases-current	11	11	51	27	100	0
Water stock acquisitions-current	0	150	0	0	150	0
Total current liabilities	15,944	4,274	2,952	1,842	25,012	22,140
Current liabilities payable from restricted assets:						
Revenue bonds	7,840	3,845	2,665	0	14,350	0
Accrued interest	2,906	697	964	0	4,567	0
Deferred revenue	4,291	0	0	0	4,291	0
Total current liabilities payable from restricted assets	15,037	4,542	3,629	0	23,208	0
Noncurrent liabilities:						
Revenue bonds	232,684	71,100	37,487	0	341,271	0
Loan payable	0	0	6,966	0	6,966	0
Capital leases	0	0	227	244	471	0
Decommissioning liability	34,855	0	0	0	34,855	0
Water stock acquisitions	0	971	0	0	971	0
Interfund payable	0	0	0	4,937	4,937	0
Landfill capping	0	0	0	4,364	4,364	0
Total noncurrent liabilities	267,539	72,071	44,680	9,545	393,835	0
Total liabilities	298,520	80,887	51,261	11,387	442,055	22,140
Net Assets						
Invested in capital assets, net of related debt	43,100	137,795	97,733	12,902	291,530	1,905
Restricted for:						
Debt service	23,722	8,375	3,407	0	35,504	0
Other purposes	0	0	0	3,031	3,031	0
Unrestricted	85,550	27,932	64,315	2,146	179,943	3,098
Total net assets	\$ 152,372	\$ 174,102	\$ 165,455	\$ 18,079	\$ 510,008	\$ 5,003

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, 2002
(amounts expressed in thousands)

	Electric	Water	Sewer	Other Enterprise Funds	Total Enterprise Funds	Governmental Activities- Internal Service Funds
Operating revenues:						
Charges for services	\$ 216,106	\$ 29,527	\$ 20,457	\$ 12,311	\$ 278,401	\$ 13,061
Operating expenses:						
Personal services	10,561	5,745	5,543	3,604	25,453	2,226
Contractual services	1,797	879	410	2,372	5,458	189
Maintenance and operation	170,193	6,009	2,952	3,839	182,993	227
General	8,939	6,245	2,509	1,567	19,260	1,694
Materials and supplies	336	179	696	399	1,610	80
Insurance	212	187	277	178	854	9,074
Depreciation and amortization	12,787	5,378	4,352	1,388	23,905	608
Total operating expenses	204,825	24,622	16,739	13,347	259,533	14,098
Operating income (loss)	11,281	4,905	3,718	(1,036)	18,868	(1,037)
Nonoperating income (expenses):						
Operating grants	0	0	1,050	1,942	2,992	0
Interest income	6,670	2,384	3,399	327	12,780	1,197
Other	4,255	1,068	16	123	5,462	257
Gain on retirement of capital assets	223	43	7	3	276	58
Capital improvement fees	0	0	1,877	0	1,877	0
Interest expense and fiscal charges	(10,306)	(4,356)	(2,475)	(254)	(17,391)	0
Total nonoperating income (expenses)	842	(861)	3,874	2,141	5,996	1,512
Income before operating transfers, capital contributions and special item	12,123	4,044	7,592	1,105	24,864	475
Capital contributions	5,485	7,044	0	109	12,638	0
Transfers in	0	0	51	190	241	0
Transfers out	(15,324)	(2,974)	0	0	(18,298)	0
Total before special item	2,284	8,114	7,643	1,404	19,445	475
Special item - Water legal settlement	0	7,900	0	0	7,900	0
Change in net assets	2,284	16,014	7,643	1,404	27,345	475
Total net assets - beginning	150,088	158,088	157,812	16,675	482,663	4,528
Total net assets - ending	\$ 152,372	\$ 174,102	\$ 165,455	\$ 18,079	\$ 510,008	\$ 5,003

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

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2002
(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	\$ 218,194	\$ 29,449	\$ 18,710	\$ 12,420	\$ 278,773	\$ 12,978
Cash paid to employees for services	(10,496)	(5,553)	(5,512)	(3,607)	(25,168)	(2,208)
Cash paid to other suppliers of goods or services	(181,012)	(13,356)	(6,191)	(8,566)	(209,125)	(9,329)
Other receipts	4,255	1,068	(809)	123	4,637	257
Net cash provided by operating activities	30,941	11,608	6,198	370	49,117	1,698
Cash flows from noncapital financing activities:						
Transfers in	0	0	51	190	241	0
Transfers out	(15,324)	(2,974)	0	0	(18,298)	0
Operating grants	0	0	1,050	1,844	2,894	0
Net cash provided (used) by noncapital financing activities	(15,324)	(2,974)	1,101	2,034	(15,163)	0
Cash flows from capital and related financing activities:						
Proceeds from revenue bonds	48,615	19,706	0	0	68,321	0
Issuance costs	(571)	(286)	0	0	(857)	0
Purchase of fixed assets	(51,275)	(12,189)	(1,330)	(467)	(65,261)	(766)
Purchase of nuclear fuel	(944)	0	0	0	(944)	0
Proceeds from the sale of fixed assets	285	89	7	3	384	58
Principal paid on long-term obligations	(7,396)	(3,306)	(3,007)	(23)	(13,732)	0
Interest paid on long-term obligations	(9,593)	(2,870)	(2,483)	(254)	(15,200)	0
Capital improvement fees	0	0	1,877	0	1,877	0
Contributed capital	2,498	10,236	0	109	12,843	0
Net cash provided (used) for capital and related financing activities	(18,381)	11,380	(4,936)	(632)	(12,569)	(708)
Cash flows from investing activities:						
Purchase of investments	(8,114)	(1,115)	0	0	(9,229)	0
Income from investments	6,996	2,492	3,672	349	13,509	1,301
Interfund receivables	0	0	(7,270)	(741)	(8,011)	0
Payments received on interfund payables	0	21	0	0	21	(2,348)
Net cash provided (used) by investing activities	(1,118)	1,398	(3,598)	(392)	(3,710)	(1,047)
Net change in cash and cash equivalents	(3,882)	21,412	(1,235)	1,380	17,675	(57)
Cash and cash equivalents, beginning (including \$40,626 for Electric and \$4,477 for Water in restricted accounts)	87,427	30,251	53,368	5,721	176,767	18,709
Cash and cash equivalents, ending (including \$38,515 for Electric and \$22,784 for Water in restricted accounts)	\$ 83,545	\$ 51,663	\$ 52,133	\$ 7,101	\$ 194,442	\$ 18,652
Schedule of noncash financing and investing activities:						
Contribution in aid	\$ 2,987	\$ 4,708	\$ 0	\$ 0	\$ 7,695	\$ 0

continued

City of Riverside
Proprietary Funds
Statement of Cash Flows
For the fiscal year ended June 30, 2002
(amounts expressed in thousands)

	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	\$ 11,281	\$ 4,905	\$ 3,718	\$ (1,036)	\$ 18,868	\$ (1,037)
Other receipts	4,255	1,068	16	123	5,462	257
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	12,787	5,378	4,352	1,388	23,905	608
Amortization (burn) of nuclear fuel	1,612	0	0	0	1,612	0
(Increase) in utility billed receivable	(1,135)	(98)	(90)	(67)	(1,390)	0
Decrease in utility unbilled receivable	386	61	15	8	470	0
(Increase) decrease in accounts receivable	1,478	63	(860)	14	695	5
(Increase) decrease in intergovernmental receivable	1,479	(16)	1	195	1,659	(82)
Decrease in notes receivable	0	1	282	0	283	0
(Increase) in prepaid items	(183)	0	(6)	0	(189)	0
(Increase) in nuclear materials inventory	(73)	0	0	0	(73)	0
Decrease in inventory	0	0	0	0	0	15
Increase (decrease) in accounts payable	(1,639)	(204)	(154)	31	(1,966)	(55)
Increase (decrease) in accrued payroll	64	192	31	(3)	284	18
Increase in retainage payable	951	252	0	0	1,203	0
Decrease in intergovernmental	(214)	(10)	0	0	(224)	0
Increase (decrease) in deferred revenue	(4,446)	7	(1,107)	1	(5,545)	0
Increase in deposits	1,010	9	0	0	1,019	5
(Decrease) in due to other funds	0	0	0	(211)	(211)	(354)
Increase in claims and judgments	0	0	0	0	0	2,318
Increase in decommissioning liability	3,328	0	0	0	3,328	0
(Decrease) in landfill capping	0	0	0	(73)	(73)	0
Net cash provided by operating activities	\$ 30,941	\$ 11,608	\$ 6,198	\$ 370	\$ 49,117	\$ 1,698

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

City of Riverside
Statement of Fiduciary Net Assets
Fiduciary Fund-Agency Fund
June 30, 2002
(amounts expressed in thousands)

	Assessment Districts
Assets:	
Cash and investments	\$ 5,346
Cash and investments at fiscal agent	10,957
Interest receivable	68
Property tax receivables	98
Total assets	<u>16,469</u>
Liabilities:	
Accounts payable	11
Held for bond holders	16,458
Total liabilities	<u>\$ 16,469</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 considered to be financially accountable. Blended component units are legally separate entities. In substance, they are part of the City's operations and their data is combined with that of the City's. The City has no component units which 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.

Parking Authority of the City of Riverside (Parking Authority) was established in 1972 to provide parking facilities throughout the City. The City Council is the governing body of the Parking Authority and ex-officio board members include the Mayor, Mayor Pro-Tempore, City Clerk, City Treasurer and the City Attorney.

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. The Directors are appointed by the City Council and receive no compensation.

Riverside Civic Center Authority (Civic Center Authority) was created in 1971 by a Joint Exercise of Powers Agreement between the City and Riverside County for the purpose of providing financing for the construction of City Hall and the Riverside Convention Center. The Civic Center Authority is governed by a five-member commission, three appointed by the City and two by the County. The Civic Center Authority's property is leased to the City and, upon termination of the Agreement, all property will automatically vest with the City. At the present, all outstanding debt has been retired and dissolution is underway.

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 primary government 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.

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

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, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied and become an enforceable lien 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.

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. 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.

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 cash is received by the government, 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 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 fund is used to account for no-commitment debt issued to finance various improvements within the city.

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 three months 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 balance sheet 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. 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 first-in/first-out (FIFO) 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, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government 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. 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 mill per kilowatt-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 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 deferred 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

Amounts held in the trust account are classified as restricted assets in the accompanying balance sheet. To date, the Electric Utility has set aside \$34,855 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. 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 off-set by deferred revenue.

O. Deferred Revenues

Governmental and proprietary funds report deferred revenue on their balance sheets. Deferred revenues arise in governmental funds when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government 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 deferred revenue for June 30, 2002 relates to unearned revenue on a capital lease. See Note 4.

P. 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.

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.

Q. 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 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.

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 payments are specified by debt indenture provisions. 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 which 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.

3. Deposits and Investments

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

Pooled investments	\$ 360,893
Cash and investments at fiscal agent	<u>114,221</u>
	475,114
Pooled cash	<u>3,495</u>
	<u>\$ 478,609</u>

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

Cash and investments	\$ 325,792
Restricted cash and cash equivalents	33,250
Restricted cash and cash equivalents at fiscal agent	11,657
Restricted investments at fiscal agent	<u>91,607</u>
Total per statement of net assets	462,306
Agency cash and investments	<u>16,303</u>
	<u>\$ 478,609</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.

Interest income earned on pooled cash and investments is allocated monthly to funds based on the beginning and month-end cash balances. Interest income from cash and investments held at fiscal agents is credited directly to the related account. At year end, cash deposits in the City's bank accounts had a general ledger balance of \$20,521; actual cash in the account was \$1,138 due to a timing difference for deposits in transit and other outstanding items. The bank balance was 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. These funds are classified in Category 2 as described in "Credit Risk, Carrying Amount and Market Value of Deposits and Investments". At year end the City maintained \$81 in operating cash in the City's vault.

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:

- Securities of the U.S. Government, or its agencies
- Small Business Administration Loans
- Negotiable Certificates of Deposit
- Bankers Acceptances
- Commercial Paper of "prime" quality
- Local Agency Investment Fund (State Pool) Deposits
- Passbook Savings Account Demand Deposits
- Repurchase Agreements
- Mutual Funds
- Medium-Term Corporate Notes

Credit Risk, Carrying Amount and Market Value of Deposits and Investments

Cash and non-negotiable certificates of deposit are classified in three categories of custodial credit risk as follows: Category 1 - insured or collateralized with securities held by the City or its agent in the City's name; Category 2 - collateralized with securities held by the pledging financial institution's trust department or agent in the City's name; Category 3 - uncollateralized.

All City investments subject to custodial credit risk are insured or registered, or securities held by the City or its agent in the City's name (category 1).

Investment in pools managed by other governments or in mutual funds are not required to be categorized by custodial credit risk.

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS

(amounts expressed in thousands)

Pooled investments by custodial credit risk at fair value consisted of the following at June 30, 2002:

Categorized:	
<u>Description</u>	
Money Market Funds	\$ 20,521
U.S. Federal Agency Obligations:	
Federal National Mortgage Assn.	30,434
Federal Home Loan Bank	148,449
Federal Home Loan Mortgage Corporation	44,433
Federal Farm Credit Bank	15,177
Medium Term Notes	35,934
Taxable Municipal Bonds	4,481

Investments at

Fiscal Agent:	
Federal National Mortgage Assn.	8,144
Federal Home Loan Bank	18,500
Federal Home Loan Mortg. Corp.	<u>4,300</u>
	<u>\$330,373</u>

Uncategorized:

(1) State of California Local Agency Investment Fund (2)	61,464
(1) Investments at Fiscal Agent:	
Money Market Funds	54,974
Investment Agreements	26,863
Cash	<u>1,440</u>
Total Investments	<u>\$475,114</u>

(1) Not subject to categorization
(2) Fair value of the City's position in the pool is not the same as the value of its pool shares.

The majority of the City's investment instruments are highly rated Federal agency or Corporate securities with minimal credit risk. It is the City's intention to hold all securities to maturity because the portfolio is highly liquid and well diversified.

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 equivalent to the debt service owed by the Redevelopment Agency on the lease revenue bonds issued for the purchase and renovation of the building. The future minimum lease payments to be received are as follows:

2003	\$ 2,169
2004	2,199
2005	2,221
2006	2,249
2007	2,273
Thereafter	<u>45,967</u>
Total Due	57,078
Less: Amount applicable to interest	<u>(28,838)</u>
Total capital lease receivable	<u>\$28,240</u>

5. Capital Assets

The following is a summary of changes in the capital assets during the fiscal year ended June 30, 2002.

Governmental activities:	Balance, Beginning of Year	Additions	Deletions And Transfers	Balance, End of Year
Undepriciable Capital Assets:	\$ 114,337	\$ -	\$ -	\$ 114,337
Land				
Construction in progress	591	4,867	(591)	4,867
Depreciable Capital Assets:				
Buildings and Improvements	78,093	1,799	-	79,892
Improvements other than Buildings	36,966	3,228	-	40,194
Machinery and Equipment	48,894	5,511	(3,399)	51,006
Infrastructure	<u>364,550</u>	<u>31,957</u>	-	<u>396,507</u>
Subtotal	<u>643,431</u>	<u>47,362</u>	<u>(3,990)</u>	<u>686,803</u>
Less accumulated depreciation for:				
Buildings and Improvements	(23,058)	(1,601)	-	(24,659)
Improvements other than Buildings	(19,936)	(1,594)	-	(21,530)
Machinery and Equipment	(33,633)	(4,330)	2,968	(34,995)
Infrastructure	<u>(118,881)</u>	<u>(8,695)</u>	-	<u>(127,576)</u>
Subtotal	<u>(195,508)</u>	<u>16,220</u>	<u>2,968</u>	<u>(208,760)</u>
Governmental activities capital assets, net	<u>\$447,923</u>	<u>\$31,142</u>	<u>\$ (1,022)</u>	<u>\$478,043</u>

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2002

amounts expressed in thousands.

	Balance, Beginning Of Year	Additions	Deletions and Transfers	Balance, End of Year
Business type activities:				
Undepriciable Capital Assets:				
Land	\$ 30,298	\$ 127	\$ -	\$ 30,425
Construction in progress	30,645	74,161	(34,162)	70,644
Depreciable Capital Assets:				
Buildings and Improvements	185,890	2,531	(11)	188,410
Improvements other than Buildings	603,303	28,320	(362)	631,261
Machinery and Equipment	32,401	1,350	(1,175)	32,576
Subtotal	882,537	106,489	(35,710)	953,316
Less accumulated depreciation for:				
Buildings	(45,676)	(4,300)	5	(49,971)
Improvements other than Buildings	(245,381)	(16,455)	287	(261,549)
Machinery and Equipment	(22,054)	(2,588)	1,109	(23,533)
Subtotal	(313,111)	(23,343)	1,401	(335,053)
Business type activities capital assets, net	<u>\$569,426</u>	<u>\$ 83,146</u>	<u>\$ (34,309)</u>	<u>\$618,263</u>

Estimated useful lives used to compute depreciation are as follows:

Buildings and Improvements	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	\$ 922
Public safety	2,953
Highways and streets, including depreciation of general infrastructure assets	10,073
Culture and recreation	<u>2,272</u>
Total depreciation expense - governmental activities	<u>\$16,220</u>

Business type activities:	
Electric	\$12,800
Water	5,370
Sewer	4,350
Refuse	37
Airport	220
Special Transportation	<u>200</u>
Total depreciation expense - business type activities	<u>\$23,340</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. Internal service funds have been established to account for and finance the uninsured risks of loss. The City purchases commercial insurance for claims in excess of self-insured amounts. The City carries commercial insurance up to \$15,000 for general liability claims greater than \$750 per occurrence. Workers' compensation insurance coverage is of an unlimited amount with a deductible of \$500 per occurrence. There were no claims settled during fiscal years 2000 and 2001 above the self-insured amounts. There was a single claim settled in 2002 above the self-insured amount, related to a worker's compensation claim.

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.

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

Changes in the funds' claims liability amounts in fiscal years 2002 and 2001 are:

	Workers' Compensation	Unemployment Compensation	Public Liability	Total
Balance, July 1, 2000	\$ 8,238	\$ 111	\$ 6,207	\$ 14,556
Add:				
Claims incurred	2,391	0	2,546	4,937
Less:				
Claim payments	<u>(2,336)</u>	<u>(32)</u>	<u>(2,691)</u>	<u>(5,059)</u>
Balance, June 30, 2001	8,293	79	6,062	14,434
Add:				
Claims incurred estimate	2,732	0	3,348	6,080
Less:				
Claim payments	<u>(1,538)</u>	<u>(3)</u>	<u>(2,221)</u>	<u>(3,762)</u>
Balance, June 30, 2002	<u>\$ 9,487</u>	<u>\$ 76</u>	<u>\$ 7,189</u>	<u>\$ 16,752</u>

7. Long-Term Obligations

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year
Governmental Activities:				
Redevelopment Agency bonds	\$ 113,980		(\$ 2,100)	\$ 111,880
Lease Revenue Bonds:				
Civic Center Authority bonds	2,070		(2,070)	0
Parking Authority bonds	760		(235)	525
Riverside Municipal Improvements Corporation Certificates of Participation	5,615		(465)	5,150
Assessment bonds	195		(60)	135
Capital Leases	7,316	\$ 110	(996)	6,430
Notes payable	11,629		(533)	11,096
Total	<u>\$ 141,565</u>	<u>\$ 110</u>	<u>(\$ 6,459)</u>	<u>\$ 135,216</u>

Business type activities:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year
Revenue Bonds	\$ 299,244	\$ 67,215	(\$ 10,838)	\$ 355,621
Loans Payable	7,315		(349)	6,966
Capital leases	653		(82)	571
Water Stock Acquisition Rights	1,202		(81)	1,121
Total	<u>\$ 308,414</u>	<u>\$ 67,215</u>	<u>(\$ 11,350)</u>	<u>\$ 364,279</u>

Advance Refundings:

In prior years the City and the Redevelopment Agency 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 or the Redevelopment Agency's financial statements. At fiscal year end \$16,060 of bonds outstanding are considered defeased (including \$11,730 of Redevelopment Agency bonds).

On July 11, 2001, \$14,325 of Special Tax Refunding bonds were sold for Highlander Community Facilities District 90-1 with a true interest cost of 4.73% to advance refund \$16,980 of previously outstanding bonds. The City completed the advance refunding to utilize excess prior bond proceeds and to reduce aggregate debt service payments over the next 15 years by \$10,377 and to obtain an economic gain (difference between present value of the old and new debt service payments) of \$3,959.

On December 12, 2001, the City of Riverside Public Financing Authority, sold Special Tax Refunding bonds of \$16,730 with a true interest cost of 4.46% and \$1,620 of subordinate bonds with a true interest cost of 5.48%. These bonds were sold to advance refund \$18,090 of previously outstanding bonds of the Orangecrest and Mission Grove Community Facilities District 86-1. The City completed the advance refunding to reduce aggregate debt service payments for the Orangecrest District over the next 15 years by \$5,651 and to obtain an economic gain (difference between present value of the old and new debt service payments) of \$3,603, and for the Mission Grove District over the next eight years by \$1,382 and to obtain an economic gain (difference between present value of the old and new debt service payments) of \$566.

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

Remaining revenue bond debt service payments will be made from revenues of the Electric, Water, and Sewer Utility Enterprise Funds. Annual debt service requirements to maturity are as follows:

Fiscal Year	Electric Utility Fund			Water Utility Fund		
	Principal	Interest	Total	Principal	Interest	Total
2003	\$ 7,840	\$ 11,564	\$ 19,404	\$ 3,845	\$ 2,795	\$ 6,640
2004	10,780	11,123	21,903	4,010	2,628	6,638
2005	14,140	10,579	24,719	4,045	2,597	6,642
2006	14,775	9,940	24,715	4,075	2,565	6,640
2007	15,475	9,241	24,716	4,115	2,530	6,645
2008-2012	87,520	33,840	121,360	21,285	11,926	33,211
2013-2017	67,965	12,297	80,262	21,500	7,468	28,968
2018-2022	16,220	3,048	19,268	5,995	4,287	10,282
2023-2027	3,760	94	3,854	7,685	2,589	10,274
2028-2032				6,360	745	7,105
Premium						
(Discount)	2,049		2,049	(7,970)		(7,970)
Total	\$240,524	\$101,726	\$342,250	\$74,945	\$40,130	\$115,075

Redevelopment Agency Bonds:

\$24,810 1994 Downtown/Airport Project Area, Series A Tax Exempt bonds, \$4,085 serial bonds, 4.60% to 6.00%, due in annual installments from \$90 to \$610 through October 1, 2009; \$5,250 term bonds, 6.00%, due in annual installments from \$675 to \$1,090 through October 1, 2015; \$13,140 term bonds, 6.375%, due in annual installments from \$1,190 to \$2,155 through October 1, 2023; \$2,335 term bonds, 6.50%, due a single installment on October 1, 2024

\$13,285 1991 Public Financing Authority Revenue Bonds, Series A, Multiple Project Areas: \$1,470 serial revenue bonds 7.15% to 7.6%, due in annual installments from \$100 to \$145 through February 1, 2003; and \$4,175 term bonds, 8.0%, due in annual installments from \$155 to \$450 through February 1, 2018 (portion not refunded)

\$24,065

615

Fiscal Year	Sewer Utility Fund		
	Principal	Interest	Total
2003	\$ 2,665	\$ 2,248	\$ 4,913
2004	2,800	2,097	4,897
2005	2,970	1,937	4,907
2006	3,120	1,780	4,900
2007	3,285	1,584	4,869
2008-2012	20,120	4,177	24,297
2013-2017	4,745	119	4,864
Bond premium	447		447
Total	\$40,152	\$13,942	\$54,094

30,330

\$31,600 1993 Tax Allocation Refunding Bonds, Merged Project Area: \$6,975 serial bonds 4.0% to 5.40%, due in annual installments from \$155 to \$1,015 through August 1, 2008; and \$24,190 term bonds, 5.625%, due in annual installments from \$1,070 to \$2,300 through August 1, 2023

\$4,305 1994 Downtown/Airport Project Area, Series B Taxable bonds: \$45 term bonds, 7.50%, due in annual installments from \$5 to \$25 through October 1, 1999; \$295 term bonds, 8.30%, due in annual installments from \$35 to \$75 through October 1, 2004; \$470 term bonds, 8.65%, due in annual installments from \$80 to \$110 through October 1, 2009; \$3,495 term bonds, 8.80%, due in annual installments from \$120 to \$395 through October 1, 2024

4,175

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

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:

Fiscal Year	Principal	Interest	Total
2003	\$ 2,265	\$ 6,193	\$ 8,458
2004	2,400	6,086	8,486
2005	2,525	5,969	8,494
2006	2,690	5,843	8,533
2007	2,835	5,705	8,540
2008-2012	17,085	26,018	43,103
2013-2017	23,220	20,485	43,705
2018-2022	31,385	12,692	44,077
2023-2027	25,875	3,113	28,988
2028-2032	1,600	41	1,641
Total	<u>\$111,880</u>	<u>\$ 92,145</u>	<u>\$204,025</u>

Principal
 Outstanding

\$12,090 1994 Public Financing Authority, Tax Allocation Refunding Bonds, Multiple Project Areas issued through the Association of Bay Area Government Bond Pool: 4.7% to 6.4%, due in annual installments from \$175 to \$840 through December 1, 2024

\$ 10,660

\$17,025 1999 University Corridor/Sycamore Canyon Merged Project Area, Tax Allocation Bonds, Series A: 3.4% to 4.7% due in annual installments from \$40 to \$570 through August 1, 2014; \$4,810 term bonds at 4.75% due August 1, 2021; and \$6,010 term bond sat 5.0% due August 1, 2027

16,645

\$6,055 1999 University Corridor/Sycamore Canyon Merged Project Area, Subordinate Tax Allocation Bonds, Series B: 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

5,920

\$20,395 1999 Casa Blanca Project Area, Tax Allocation Bonds, Series A: 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.

19,470
\$111,880

Parking Authority of the City of
 Riverside Bonds:

\$3,450 1974 Parking Authority Lease Revenue Bonds: 7.0%, due in annual installments from \$255 to \$270 through August 15, 2003

Remaining revenue bond debt service payments will be made from revenues of the Parking Authority reporting entity. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2003	\$ 255	\$ 28	\$ 283
2004	270	9	279
Total	<u>\$ 525</u>	<u>\$ 37</u>	<u>\$ 562</u>

Principal
 Outstanding

Riverside Municipal Improvements Corporation
 Certificates of Participation:

\$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

\$ 5,150

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

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:

Fiscal Year	Principal	Interest	Total
2003	\$ 500	\$ 381	\$ 881
2004	530	346	876
2005	570	308	878
2006	610	266	876
2007	660	221	881
2008-2012	2,280	355	2,635
Total	<u>\$ 5,150</u>	<u>\$ 1,877</u>	<u>\$ 7,027</u>

Assessment Bonds are recorded as long-term obligations in the accompanying financial statements pursuant to GASB Statement No. 6, "Accounting and Financial Reporting for Special Assessments." In the event of property owner default, the City may take actions to assume secondary liability for all or part of these bonds until such time as foreclosure proceedings are consummated.

Assessment Bonds:

\$1,394 1983 City of Riverside Improvement Bonds, 1915 Fairmount Business Park Assessment District: 9.7% to 10.0%, due in annual installments from \$65 to \$70 through July 2, 2003

Remaining assessment bond debt service payments will be made from unrestricted revenues of the Debt Service Funds. Annual debt service requirements to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2003	\$ 65	\$ 10	\$ 75
2004	70	3	73
Total	<u>\$ 135</u>	<u>\$ 13</u>	<u>\$ 148</u>

Contracts:
Enterprise Funds

Water stock acquisition rights payable on demand to various water companies, renewable through 2004

Notes Payable:

These notes payable have been issued to promote development and expansion within the City's redevelopment areas.

Redevelopment Agency

Housing and Community Development fund, non-interest bearing note payable due in annual installments of \$20, through 2005

Pepsi Cola Bottling Company of Los Angeles, 10.5%, payable in net annual installments of \$341, including principal and interest through June 2020

Marketplace MKB Partners, 10%, payable in annual installments of \$28, including principal and interest through 2007

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

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

Total notes payable

Principal
Outstanding

\$ 1,121

Principal
Outstanding

\$ 60

2,987

100

3,520

4,429

\$ 11,096

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

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:

Fiscal Year	Redevelopment Agency	
	Principal	Interest
2003	\$ 347	\$ 847
2004	377	824
2005	402	799
2006	423	772
2007	438	742
2008-2012	2,706	3,196
2013-2017	3,536	2,015
2018-2022	1,587	988
2023-2027	1,281	430
Total	<u>\$11,097</u>	<u>\$10,613</u>

	Minimum Debt Service Ratio Required	Actual Debt Service Ratio
Electric Fund	1.25	2.3
Water Fund	1.25	3.9
Sewer Fund	1.25	2.3

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.

8. Other Long-Term Obligations

The following are legally required debt service cash reserves. These amounts, at a minimum, are held by the City or fiscal agents at fiscal year end:

<u>General Long-Term Obligations</u>	
Assessment District	\$ 123
Parking Authority	407
Municipal Improvements Corporation	636
Redevelopment Agency	5,931
Total legally required debt service reserves	<u>\$ 7,097</u>
Enterprise Funds	
Electric	\$ 23,722
Water	8,375
Sewer	3,407
Total reserve for revenue bond retirement	<u>\$ 35,504</u>

Debt service reserves at fiscal year end are as follows:

<u>General Long-Term Obligations</u>	
Assessment District	\$ 196
Parking Authority	506
Municipal Improvements Corporation	829
Redevelopment Agency	10,015
Total reserve for debt service	<u>\$ 11,546</u>

Assessment Districts Bonds (Not obligations of the City)

The payment of these bonds is secured by valid assessment liens upon certain lands in each district and are not direct liabilities of the City. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the City has no duty to pay those delinquencies out of any other available funds. The City acts solely as an agent for those paying assessments and the bondholders. Collection of property assessments and payment of the Assessment District Bonds are reflected only in the Agency Funds. The Assessment District Bonds applicable to this category outstanding at fiscal year end were:

\$30,795 1989 Improvement Bonds, Canyon Springs	Principal
Assessment District Refunding Bonds: 6.9% to 7.35% due in annual installments from \$1,040 to \$2,745 through September 2, 2011	<u>Outstanding</u>
	\$ 12,150
\$8,946 1991 Bonds of Community Facilities District No. 90-2, Tyler Mall: 5.75% to 6.9%, serial and capital appreciation bonds due in annual installments from \$670 to \$1,195 through September 2, 2011	
	4,364

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

\$4,417 1992 Series B Improvement Bonds, Sycamore Canyon Business Park Assessment District No. 1; 6.5% to 8.5% due in annual installments from \$112 to \$420 through September 2, 2012	\$ 3,175
\$6,342 1999 Auto Center Assessment District Improvement Bonds; 4.3% to 5.4% due in annual installments of \$137 to \$430 through September 2, 2024	6,060
\$14,325 2001 Highlander CFD 90-1 Refunding Bonds; 3.75% to 5.5% due in annual installments of \$725 to \$1,355 through September 2, 2015	14,325
\$10,198 2001 Riverwalk Assessment District Improvement Bonds; 4.0% to 6.375% due in annual installments of \$208 to \$770 through September 2, 2026	10,198
\$16,730 2001 Public Financing Authority Refunding Bonds, Series A (Orangecrest and Mission Grove); 3% to 4.75% due in annual installments from \$800 to \$1,425 through September 2, 2016	16,730
\$1,620 2001 Public Financing Authority Refunding Bonds, Series B (Orangecrest and Mission Grove); 4.0% to 5.75% due in annual installments from \$80 to \$145 through September 2, 2016	<u>1,620</u>
Total Assessment Districts Bonds	<u>\$ 68,622</u>

Conduit Debt Obligations

Mortgage Revenue Bonds outstanding of \$27,796 and Industrial Development Revenue Bonds of \$9,500 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. Capital Leases Payable

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 liability 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:

<u>Asset</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Buildings	\$ 8,660	\$ 882
Equipment	3,209	159
Subtotal	11,869	1,041
Less: Accumulated Depreciation	<u>(1,567)</u>	<u>(134)</u>
Total	<u>\$10,302</u>	<u>\$ 907</u>

The future minimum lease obligations as of June 30, 2002 were as follows:

Years Ending	<u>Governmental Activities</u>	<u>Business-type Activities</u>
June 30		
2003	\$1,308	\$102
2004	1,085	79
2005	1,036	79
2006	963	79
2007	923	78
2008-2011	<u>2,794</u>	<u>315</u>
Total minimum lease payments	8,109	732
Less: Amount representing interest (rates ranging from 5% to 12%)	<u>(1,679)</u>	<u>(161)</u>
Total capital lease payable	<u>\$6,430</u>	<u>\$ 571</u>

CITY OF RIVERSIDE
 NOTES TO BASIC FINANCIAL STATEMENTS
 Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

10. Interfund Assets, Liabilities and Transfers				59
Due From/To Other Funds:				
<u>Receivable Fund</u>	<u>Payable Fund Amount</u>	Public Liability	Airport	
General	Citrus Grove Management \$ 130	RDA - Debt Service	General	229
	Special Capital Improvements 4	Electric	General	28
	Housing and Community Development 68	Water	General	<u>84</u>
	NPDES Storm Drain 518	Transfers In/Out:		\$ <u>22,598</u>
	Central Stores 3,912	<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
	General 200	General	Special Capital Improvements	\$ 6
Redevelopment Agency - Capital Project	Redevelopment Agency - Special Revenue 1,031	Library	Electric	15,324
Electric	General	RDA - Special Revenue	Water	2,974
		RDA - Debt Service	General	2,580
		RDA - Debt Service	RDA - Debt Service	20
Interfund Receivable/Payable:		RDA - Debt Service	RDA - Capital Projects	52
<u>Receivable Fund</u>	<u>Payable Fund</u>	RDA - Capital Projects	RDA - Special Revenue	2,592
General	Citrus Grove Management \$ 58	Housing and Community Development	Development	200
	RDA - Capital Projects 3,644	RDA - Debt Service	RDA - Debt Service	7,025
	RDA - Debt Service 60	RDA - Capital Projects	General	532
Special Gas Tax	General 6	Airport	General	40
Storm Drain	General 21	Refuse	General	150
Capital Outlay	General 126	Sewer	General	<u>51</u>
Sewer	General 1,302			\$ <u>31,546</u>
	RDA - Capital Projects 8,071			
	Airport 461			
	Refuse 4,417			
Workers' Compensation	General 1,561			
	RDA -Capital Projects 2,471			

11. Expenses/Expenditures in Excess of Appropriations and Deficit Fund Balances/Retained Earnings

The Citrus Grove Management Fund incurred \$6 in expenditures against no current year appropriation. These were interest charges for its deficit cash position, an unbudgeted item. The NPDES Storm Drain Special Revenue Fund budgeted \$51 too few resources for its current year expenditure level.

Deficit fund balance/retained earnings exist in the Citrus Grove Management (\$131), the NPDES Storm Drain (\$56), the Central Stores (\$2,155), and the Public Liability (\$264) funds at fiscal year end. The Citrus Grove Management fund generated too few revenues from orange sales to cover the minor operating expenditures this year. As the groves mature, this position is expected to reverse. The NPDES Storm Drain Fund is fully funded by County receipts. Funds to recover the deficit will be received in the subsequent period. The continuing deficit in the Central Stores fund is being reduced based on a rate increase implemented in the prior year. Management's analysis shows that continuing cost control together with the rate increase will eliminate the deficit over the next few years. The claims expense in the current year, including the accrued liability based on the actuary's estimate of future payments on claims, exceeded the charges to other funds in the current year. Rates are adjusted as needed.

12. 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.

13. 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 provision 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 7% (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 2001-2002 rate was 0.000% for non-safety employees, and 2.26% 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 2002, the City's annual pension cost of \$8,600 for CalPERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.75% per year compounded annually, attributable to inflation, and (c) 3.5% 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. The amortization period of the unfunded actuarial liability ends by June 30, 2011.

Three-year trend information for CalPERS:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/00	\$ 11,344	100%	\$0
06/30/01	9,027	100%	0
06/30/02	8,600	100%	0

CITY OF RIVERSIDE
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(amounts expressed in thousands)

Schedule of funding for CalPERS: (unaudited)

Plan	Actuarial Valuation Date	Actuarial Liability (AAL)	Actuarial Value of Assets	Entry Age Normal	Unfunded/ (Overfunded) Actuarial Liability (UAAL)	% Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
Miscellaneous Safety	06/30/98	\$338,893	\$416,835	252,150	\$(77,942)	123.0	\$54,811	(142.2)
	06/30/98		274,612		(22,462)	108.9	27,703	(81.1)
Miscellaneous Safety	06/30/99	363,554	468,894	269,155	(105,340)	129.0	59,333	(177.5)
	06/30/99		307,732		(38,578)	114.3	29,688	(129.9)
Miscellaneous Safety	06/30/00	384,489	517,907	307,349	(133,418)	134.7	61,785	(215.9)
	06/30/00		349,102		(41,753)	113.6	31,902	(130.9)

14. 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 126.4 megawatts, of the generation output of IPA's 1,600 megawatt coal-fueled generating station, located in Central Utah.

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%	11.7 MW
Southern Transmission System	10.20%	195.0 MW
Hoover Dam Upgrading	31.91%	30.0 MW
Mead - Phoenix Transmission	4.00%	12.0 MW
Mead - Adelanto Transmission	13.50%	118.0 MW

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 6.9%. 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	Southern Transmission System Project	Hoover Dam Upgrading Project	Mead-Phoenix	Mead-Adelanto	Mead-Phoenix	Mead-Adelanto	
2003	\$ 8,125	\$ 4,384	\$ 6,942	\$ 627	\$ 156	\$ 1,651	\$ 156	\$ 1,651	\$ 21,885
2004	27,109	4,405	7,203	705	156	1,651	156	1,651	41,229
2005	25,836	4,417	6,983	704	156	1,651	156	1,651	39,747
2006	26,349	1,620	7,224	704	156	1,651	156	1,651	37,704
2007	26,376	1,620	7,447	700	272	2,956	272	2,956	39,371
Thereafter	377,347	50,861	124,106	7,611	3,805	41,067	3,805	41,067	604,797
Total	\$491,142	\$67,307	\$159,905	\$11,051	\$4,701	\$50,627	\$4,701	\$50,627	\$784,733

Take-or-pay commitments expire upon final maturity of outstanding bonds for each project. Final maturities are as follows:

Project	Final Maturity Date
Intermountain Power Project	2023
Palo Verde Nuclear Generating Station	2017
Southern Transmission System	2023
Hoover Dam Upgrading	2017
Mead-Phoenix Transmission	2020
Mead-Adelanto Transmission	2020

CITY OF RIVERSIDE
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(amounts expressed in thousands)

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 2001 and 2002 fiscal year are as follows:

Fiscal Year	IPA	PV	STSMAP	MPP	Hoover	Total
2001	\$20,158	\$2,103	\$1,177	\$48	\$106	\$23,801
2002	\$17,382	\$2,040	\$1,607	\$45	\$ 99	\$21,832

B. Other Commitments

The City has executed firm Power Purchase Agreements that allow the Electric Utility to purchase capacity and energy. The first agreement, with Deseret, is for 5 megawatts beginning in 1992 through December 31, 1994, then increasing to 52 megawatts through December 31, 2009. A notice of termination of the power purchase agreement was provided to Deseret effective March 31, 1998, resulting in litigation which 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 2001 through the term of the agreement in 2009. In exchange, Riverside Public Utilities paid Deseret \$25 million from Electric fund reserves, which is reflected on the Balance Sheet as Unamortized purchased power. On July 1, 2002, the Electric utility will begin to realize the benefits related to the price reductions, and will amortize the \$25 million over the remaining term of the agreement using the straight-line method. The agreement with California Department of Water Resources (CDWR) consists of two individual contracts. 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. 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 megawatts, respectively, for the remainder of the 1996 agreement.

The minimum annual obligations under each of these contracts are shown in the table below:

POWER PURCHASE AGREEMENTS
 Minimum Obligations 2002-2003
 (In Thousands)

Supplier	Capacity	Energy	Total
Deseret	\$3,463	\$ 1,771	\$ 5,234
CDWR III	508	0	508
CDWR IV	662	0	662
BPA	971*	0	971
Total	\$ 5,604	\$ 1,771	\$ 7,375

*estimated

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. 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 2002 fiscal year, the Electric Utility paid approximately \$20,700 to SCPPA under various take-or-pay contracts, which are described in greater detail in Note 16A. 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.

CITY OF RIVERSIDE
NOTES TO BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2002

(amounts expressed in thousands)

On July 1, 1993, the City of Riverside joined with the cities of Anaheim, Colton, Compton, Healdsburg, Los Angeles, Palo Alto, Pasadena, Redding, the North Marin Water District, the Northern California Power Agency, the Sacramento Municipal Utility District, and Turlock Irrigation District to create the Financing Authority for Resource Efficiency of California (FARECAL). The City of Santa Cruz joined in 1994, and Trinity Public Utility joined in 1996. The primary purpose of FARECAL is to issue bonds and use the proceeds to promote, advance, encourage and participate in conservation, reclamation and other programs that are designed to utilize energy or water resources more efficiently. FARECAL is administered by a Board of Directors currently represented by the cities of Anaheim, Colton, Palo Alto, Pasadena, and the North Marin Water District and Trinity Public Utility. The Electric Utility's portion of the FARECAL debt and utility plant assets is recorded in the accompanying financial statements.

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 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.

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 Electric Utility's financial statements. As of June 30, 2002, Riverside's 1.79% share of the capitalized construction costs for SONGS totaled \$128,000 with accumulated depreciation of \$82,300. The Electric Utility made provisions during fiscal year 2002 for nuclear fuel burn of \$1,612 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.

E. Contingencies

To comply with certain State and local 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 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. There is the potential for these estimates to change due to inflation, deflation, technology, or change in application 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 \$5,551 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 28 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. Additionally, payments made during the year of \$73 reduced that liability to its June 30, 2002 balance of \$4,364 as reflected in the balance sheet of the Refuse Fund.

15. Special Item

In May 2001, the City settled a lawsuit it had brought against certain manufacturers and distributors of dibromochloropropane ("DBCP"). DBCP, a pesticide that the Environmental Protection Agency banned in the mid 1970's was detected in certain City-owned potable water wells. The forty-year settlement agreement with the Dow Chemical Company, Shell Oil Company, Shell Chemical Company, Occidental Chemical Company, The Best Fertilizer Company and Occidental Petroleum Corporation (the "DBCP Defendants") provides for the DBCP Defendants to compensate the City for the costs of constructing, installing, maintaining, testing and operating granular activated carbon treatment facilities to remove DBCP from certain City wells. The settlement agreement is expected to cover the majority of such treatment costs and will help the City maintain a potable water supply that does not exceed federal and state limits for DBCP.

APPENDIX D

PROPOSED FORM OF FINAL OPINION

[Closing Date], 2003

City Council of the City of Riverside
Riverside, California

Board of Directors of the Riverside Public Financing Authority
Riverside, California

*Re: \$53,185,000 City of Riverside 2003 Certificates of Participation
(Capital Improvement Projects)*

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 the Lease Agreement dated as of December 1, 2003 (the "Lease"), by and between the City and the Riverside Public Financing Authority (the "Authority"), and the Site and Facilities Lease dated as of December 1, 2003 (the "Site Lease"), by and between the City and the Authority. We have also reviewed the Trust Agreement dated as of December 1, 2003 (the "Trust Agreement"), by and among U.S. Bank National Association, as trustee (the "Trustee"), the City and the Authority. 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 \$53,185,000 City of Riverside 2003 Certificates of Participation (Capital Improvement Projects) (the "Certificates") evidencing proportionate interests of the Owners of the Certificates in lease payments (the "Lease Payments") to be made by the City pursuant to the Lease. Pursuant to an Assignment Agreement dated as of December 1, 2003, by and between the Authority and the Trustee, the Authority has assigned to the Trustee the Authority's right to receive Lease Payments from the City under the Lease.

The Certificates are dated as of the date of delivery thereof and 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 prepayment prior to maturity in the manner and upon the terms set forth in the Trust Agreement. 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.

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 obligation of the City to pay Lease Payments and Additional Payments in accordance with the terms of the Lease is a legal, valid and binding obligation of the City payable from the funds of the City lawfully available therefor, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or other similar laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion and by the limitations on legal remedies against cities in the State of California. The obligation of the City to make Lease Payments under the Lease does not constitute a debt 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 does 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, the Site Lease 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, fraudulent conveyance or transfer, moratorium or other similar laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion and by the limitations on legal remedies against cities in the State of California, except that we express no opinion as to any provisions in the Lease, the Site Lease or the Trust Agreement with respect to indemnification.

3. Under existing statutes, regulations, rulings and judicial decisions, the portion of the Lease Payments designated as and comprising interest (and original issue discount) 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 (and original issue discount) 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.

4. The portion of the Lease Payments designated as and comprising interest (and original issue discount) described in paragraph (3) above is exempt from State of California personal income tax.

5. The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate owner will increase the Certificate owner's basis in the applicable Certificate. Original issue discount that accrues to the Certificate owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations (as described in paragraph (3) above), and is exempt from State of California personal income tax.

The amount by which a Certificate owner's original basis for determining loss on sale or exchange in the applicable Certificate (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Certificate premium which must be amortized under Section 171 of the Code; such amortizable Certificate premium

reduces the Certificate owner's basis in the applicable Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Certificate premium may result in a Certificate owner realizing a taxable gain when a Certificate is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the owner.

The opinions expressed in paragraphs (3) and (5) above are subject to the condition that the City and the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portion of the Lease Payments designated as and comprising interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements may cause the portion of the Lease Payments designated as and comprising interest (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The City and the Authority have covenanted to comply with all such requirements.

Except as expressly set forth in paragraphs (3), (4) and (5) above, we express no opinion regarding any tax consequences with respect to the Certificates.

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 or the Site Lease or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

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. The Trust Agreement, the Lease, the Site Lease 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. No opinion is expressed herein as to the exclusion from gross income of the portion of each Lease Payment constituting interest (and original issue discount) for federal income tax purposes with respect to any Certificate if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

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 purchasers of the Certificates should not assume that we have reviewed the Official Statement on their behalf.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT, date as of December 1, 2003 (the "Disclosure Agreement") is executed and delivered by and among the City of Riverside (the "Issuer") and U.S. Bank National Association, as Dissemination Agent hereunder (the "Dissemination Agent") in connection with the issuance of the \$_____ City of Riverside 2003 Certificates of Participation (Capital Improvement Projects) (the "Certificates"). The Certificates are being issued pursuant to a Trust Agreement dated as of December 1, 2003 (the "Trust Agreement") among the Issuer, the Riverside Public Financing Authority (the "Authority") and U.S. Bank National Association, as trustee thereunder (the "Trustee"). The Issuer and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Owners of the Certificates and in order to assist the Participating Underwriters (as defined herein) in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Reports provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Disclosure Representative" shall mean the Finance Director or Assistant Finance Director of the Issuer, or his or her designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean U.S. Bank National Association, acting in its capacity as Dissemination Agent, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Fiscal Year" shall mean the twelve month period beginning on July 1 of each year and ending on June 30 of the following year.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Repository for purposes of the Rule. The National Repositories currently recognized by the Securities and Exchange Commission are set forth in the SEC website located at <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Participating Underwriters" shall mean any of the original underwriters 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 Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule. As of the date of this Disclosure Agreement, there is no State Repository.

“Tax-exempt” shall mean that interest on the Certificates is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax or environmental tax.

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than nine (9) months following the end of each Fiscal Year, commencing with the 2003/04 Fiscal Year (provided, however, that the City will disseminate its audited financial statement for Fiscal Year 2002/03 to the repositories no later than April 1, 2004), provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent. In each case, 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 Agreement. The information contained or incorporated in each Annual Report shall be for the Fiscal Year which ended on the preceding June 30. The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certifications of the Issuer and shall have no liability, duty or obligation whatsoever to review any such Annual Report. Further, the Dissemination Agent shall have no liability for the contents of any such annual report.

(b) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date specified in subsection (a), the Dissemination Agent shall send a notice to each Repository, or, in the alternative, the Municipal Securities Rulemaking Board, in substantially the form attached as Attachment A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) provide notice to the Issuer that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements prepared in accordance with general accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer'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) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing the following:

(i) information concerning the actual revenues, expenditures and beginning and ending fund balances relating to the General Fund of the Issuer for the most recent completed Fiscal Year, including information showing tax revenue collections by source;

(ii) information showing the aggregate principal amount of long-term bonds, leases and other obligations of the Issuer which are payable out of the General Fund of the Issuer, as of the close of the most recent completed Fiscal Year;

(iii) information concerning the assessed valuation of properties within the Issuer from the most recently available County Assessor's Roll, showing the valuation for secured, public utility and unsecured property;

(iv) information showing the total secured property tax levy and actual amounts collected for the most recent completed Fiscal Year; and

(v) information showing the balance sheet of the General Fund of the Issuer as of the close of the most recent completed Fiscal Year, including categorized assets, liabilities and reserved and unreserved fund balances.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the Issuer shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give or cause to be given, notice of the occurrence of any of the following event:

1. Delinquency in payment when due of any principal of or interest with respect to the Certificates.
2. Occurrence of any default under the Trust Agreement (other than as described in clause (1) above).
3. Amendment to or modification of the Trust Agreement, the Lease Agreement (as defined in the Trust Agreement) or this Disclosure Agreement modifying the rights of the Owners of the Certificates.
4. Giving of a notice of optional or unscheduled prepayment of any of the Certificates.
5. Defeasance of the Certificates or any portion thereof.
6. Any change in any rating on the Certificates.
7. Adverse tax opinions or events affecting the Tax-exempt status of the Certificates.
8. Any unscheduled draw on the Reserve Fund reflecting financial difficulties.
9. Unscheduled draws on credit enhancements reflecting financial difficulties.
10. Substitution of credit or liquidity providers, or their failure to perform.
11. The release, substitution or sale of property securing repayment of the Certificates (including property leased, mortgaged or pledged as such security), excluding releases of property on or after September 1, 2024, as permitted by Section 3.5 of the Lease Agreement.

(b) The Dissemination Agent shall, within ten (10) Business Days of obtaining actual knowledge of the occurrence of any of the events listed in paragraph (a) of this Section (except events listed in clauses (a)(1), (4) or (5)), with no obligation to determine the materiality thereof, notify the Disclosure Representative of such event, and request that the Issuer promptly notify the Dissemination Agent and the Insurer in writing whether or not to report the event pursuant to subsection (f). For the purpose of this Disclosure Agreement “actual knowledge” means the actual knowledge of the officer of the Dissemination Agent with primary responsibility for matters related to the administration of the Trust Agreement at the principal corporate offices of the Dissemination Agent.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Issuer shall as soon as possible, but in no event later than three (3) Business Days, determine if such event would constitute material information for Owners of the Certificates under applicable

Federal securities law, provided that any event under subsection (a) (6) will always be deemed to be material.

(d) If the Issuer has determined that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Issuer determines that the Listed Event would not be material, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing:

(i) Notice of the occurrence of a Listed Event described in subsections (a)(1), (4) or (5) shall be given by the Dissemination Agent unless the Issuer gives the Dissemination Agent affirmative instructions not to disclose such occurrence; and

(ii) Notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of the affected Certificates pursuant to the Trust Agreement.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Certificates.

Section 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the Issuer and the Trustee. If at any time there is no designated Dissemination Agent appointed by the Issuer, or if the Dissemination Agent so appointed is unwilling or unable to perform the duties of the Dissemination Agent hereunder, the Issuer shall be the Dissemination Agent and undertake or assume its obligations hereunder.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment requested by the Issuer, provided the Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations), and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities law, acceptable to the Issuer and the Dissemination Agent, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. If the Issuer choose 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 Agreement, the Issuer shall have no obligation under this Disclosure Agreement 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 Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may, and, at the request of any Participating Underwriter or the Owners of at least 25% of the aggregate principal amount of the outstanding Certificates, shall (but only to the extent funds in any amount satisfactory to the Dissemination Agent have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges whatsoever related thereto, including without limitation, fees and expenses of its attorneys), or any Certificate owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Trust Agreement and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of the Dissemination Agent. The Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent shall be entitled to the protections and limitations afforded to the Trustee under said Trust Agreement. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agree to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and shall be reimbursed by the Issuer all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. Neither the Dissemination Agent nor the Trustee shall have any duty or obligation to review any information provided to it hereunder or shall be deemed to be acting in any fiduciary capacity for the Issuer, the owners of the Certificates or any other party. The obligations of the Issuer under this section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any document or any further act.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and the Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

CITY OF RIVERSIDE

By: _____
Finance Director

U.S. BANK NATIONAL ASSOCIATION

By: _____
Authorized Signatory

**ATTACHMENT A
NOTICE TO REPOSITORIES
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Riverside
Name of Certificate Issue: City of Riverside 2003 Certificates of Participation (Capital Improvement Projects)
Date of Issuance: _____, 2003

NOTICE IS HEREBY GIVEN that the City of Riverside has not provided an Annual Report with respect to the above-referenced Certificates as required by the Trust Agreement dated as of December 1, 2003 between the City of Riverside, the Riverside Public Financing Authority and U.S. Bank National Association, as Trustee. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

**U.S. BANK NATIONAL ASSOCIATION, as
Dissemination Agent**

By: _____
Signatory

cc: Issuer

APPENDIX F

BOOK ENTRY PROVISIONS

The information concerning DTC set forth herein has been supplied by DTC, and the City assumes no responsibility for the accuracy thereof.

Unless a successor securities depository is designated pursuant to the Indenture, DTC 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, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and Its Participants. 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 corporation" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfer and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation. (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC) as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks and 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 of "AAA." The DTC Rules applicable to its Participants are on file with the Securities Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests. 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 DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 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 securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Other Communications. 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. THE CITY AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

Redemption notices shall be sent to DTC. If less than all of the Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Voting Rights. Neither DTC nor Cede & Co. will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption Proceeds. Payments of principal and interest with respect to 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 on interest payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the interest payment date. 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 redemption proceeds, principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of 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.

THE TRUSTEE AND THE CITY SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT

SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING AN OWNER OF BONDS, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF, AND PREMIUM, IF ANY, OR INTEREST WITH RESPECT TO THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNER OF THE BONDS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; ANY CONSENT OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS (EXCEPT FOR THE MATTERS UNDER THE CAPTION "TAX MATTERS" HEREIN)

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal and interest with respect to the Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial owner interest in such Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owner is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities 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 securities depository is not obtained, Certificates are required to be printed and delivered as described in the Indenture.

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 as described in the Indenture and payment of interest to each Owner who owns of record \$1,000,000 or more in aggregate principal amount of Certificates may be made to such Owner by wire transfer to such wire address within the United States that such Owner may request in writing for all Interest Payment Dates following the 15th day after the Trustee's receipt of such request.

APPENDIX G
SPECIMEN INSURANCE POLICY

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

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

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative