

**PRELIMINARY OFFICIAL STATEMENT DATED AUGUST \_\_, 2017****NEW ISSUE - FULL BOOK ENTRY****RATINGS:****S&P: “\_” (Insured)****S&P: “\_” (Underlying)**  
**(See “RATINGS” herein.)**

*In the opinion of Norton Rose Fulbright US LLP, Bond Counsel, under existing law interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants herein, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum income tax imposed on corporations and individuals. See “TAX MATTERS.”*

§ \_\_\_\_\_\*

**CITY OF SAN PABLO JOINT POWERS FINANCING AUTHORITY  
LEASE REVENUE BONDS  
SERIES 2017**

**Dated: Date of Delivery****Due: November 1, as shown on the inside cover**

The City of San Pablo Joint Powers Financing Authority (the “Authority”) is issuing its Lease Revenue Bonds, Series 2017 (the “Bonds”), to provide funds to (i) finance a new City Hall for the City of San Pablo, California (the “City”), as described herein, (ii) [purchase a municipal bond insurance policy for the Bonds,] (iii) [purchase a reserve surety for the Bonds (defined below),] (iv) fund capitalized interest through \_\_\_\_\_, 20\_\_\_\_, and (v) pay the costs of issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “PLAN OF FINANCE” herein.

The Bonds are being issued as fully registered bonds and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). The Bonds, if issued, will be issued in denominations of \$5,000 or any integral multiple thereof. DTC will act as securities depository of the Bonds. Individual purchases of Bonds will be made in book-entry form only. Payments of principal of and interest on the Bonds are to be made to purchasers by DTC through DTC Participants. Purchasers will not receive physical delivery of the Bonds purchased by them. See APPENDIX F – “BOOK-ENTRY SYSTEM.” Interest on the Bonds is payable on May 1 and November 1 of each year, commencing November 1, 2017.

**The Bonds are subject to extraordinary, mandatory and optional redemption prior to their stated maturities, as described herein. See “DESCRIPTION OF THE BONDS – Redemption” herein.**

The Bonds are payable from Series 2017 Revenues pledged to the Bonds under the Indenture, as hereinafter described. Such Series 2017 Revenues primarily consist of Series 2017 Base Rental Payments to be made by the City to the Authority under the Lease, as hereinafter described. Pursuant to the Lease, the City will lease certain property therein described (the “Leased Property”) from the Authority. The City is required under the Lease to make Series 2017 Base Rental Payments in each year in consideration for the use of the Leased Property from any source of legally available funds, in an amount sufficient to pay the annual principal of and interest on the Bonds. **The City’s obligation to make Series 2017 Base Rental Payments is subject to abatement in the event of substantial interference with the use and possession of all or a part of the Leased Property. See “RISK FACTORS – Abatement” herein.** The City has covenanted in the Lease to take such action as may be necessary to include and maintain all Base Rental Payments in its budget and to make the necessary appropriations therefor, subject to such abatement.

[The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy for the Bonds to be issued concurrently with the delivery of the Bonds by \_\_\_\_\_. See “BOND INSURANCE” herein.] [Insurer Logo]

The Bonds are special limited obligations of the Authority secured by and payable solely from Revenues, consisting of certain amounts received by the Authority as lessor under the Lease, including scheduled Base Rental Payments, prepayments, and insurance and condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “RISK FACTORS” herein.

**The full faith and credit of the Authority is not pledged for the payment of the principal of or interest or premium (if any) on the Bonds. The Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the Authority or any of its income or receipts, except the Series 2017 Revenues and such other moneys and securities as provided in the Indenture. The obligation of the City to make Series 2017 Base Rental Payments or Additional Rental Payments does not constitute 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. Neither the Bonds nor the obligation of the City to make Series 2017 Base Rental Payments or Additional Rental Payments constitutes an indebtedness of the City, the State of California or any of its political subdivisions (other than the Authority) within the meaning of any constitutional or statutory debt limitation or restriction.**

**This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.**

*The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to the approving opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel to the Authority. Certain legal matters will be passed on for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Underwriter’s Counsel. Certain legal matters will be passed on for the Authority by Norton Rose Fulbright US LLP, Los Angeles, California, Disclosure Counsel and for the Authority and the City by Murphy & Associates PC, a Professional Corporation. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about August \_\_, 2017.*

**Stifel**

Dated: August \_\_, 2017

\* Preliminary, subject to change.

## MATURITY SCHEDULE

\$ \_\_\_\_\_<sup>\*</sup>  
**City of San Pablo Joint Powers Financing Authority**  
**Lease Revenue Bonds**  
**Series 2017**  
(Base CUSIP<sup>†</sup> 799135)

<b><u>Maturity Date</u></b> <b><u>(November 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>CUSIP</u></b> <sup>†</sup>
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\$ \_\_\_\_\_ % Term Bonds due November 1, 20\_\_, Priced to Yield \_\_\_\_% CUSIP<sup>†</sup>: \_\_\_\_\_

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<sup>\*</sup> Preliminary, subject to change.

<sup>†</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright © 2017 CUSIP Global Services. All rights reserved. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the Authority or the City and are included solely for the convenience of the registered owners of the Bonds. None of the Authority, the City, Bond Counsel, Disclosure Counsel, Underwriter's Counsel or the Municipal Advisor are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance and other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

**CITY OF SAN PABLO  
CITY OF SAN PABLO JOINT POWERS FINANCING AUTHORITY**

**CITY COUNCIL/BOARD OF DIRECTORS**

Cecilia Valdez, *Mayor/President*  
Genoveva Garcia Calloway, *Vice Mayor/Vice President*  
Arturo Cruz, *Councilmember/Board Member*  
Rich Kinney, *Councilmember/Board Member*  
Paul V. Morris, *Councilmember/Board Member*

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**CITY OFFICIALS**

Matt Rodriguez, *City Manager*  
J. Kelly Sessions, *Finance Director*  
Charles Ching, *Assistant to the City Manager*  
[Ted J. Denney], *City Clerk*  
Lynn Tracy Nerland, *City Attorney*

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**SPECIAL SERVICES**

**Bond Counsel and Disclosure Counsel**

Norton Rose Fulbright US LLP  
Los Angeles, California

**Special Counsel**

Murphy & Associates PC  
Sacramento, California

**Municipal Advisor**

Steven Gortler  
San Francisco, California

**Trustee**

Wells Fargo Bank, National Association  
San Francisco, California

[insert map]

No dealer, broker, salesperson or other person has been authorized by the City of San Pablo Joint Powers Financing Authority (the “Authority”), the City of San Pablo, California (the “City”) or the Underwriter to give any information or to make any representations, other than as contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by the Authority, the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Bonds by any 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 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been furnished by the Authority and the City and includes information from sources that are believed to be reliable, but the Authority and the City do not guarantee the completeness or accuracy of the information from such sources. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City, or other matters described herein since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access (EMMA) website. The City maintains a website. The information presented therein is not part of this Official Statement and should not be relied on in making investment decisions with respect to the Bonds. Unless otherwise expressly stated, references to Internet websites in this Official Statement are shown for reference and convenience only, and none of their content (including any content on the City’s website) is incorporated in this Official Statement by reference. The City and the Authority make no representation regarding the accuracy or completeness of the information presented on such websites.

[\_\_\_\_\_ (“\_\_\_\_\_”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, \_\_\_\_\_ has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding \_\_\_\_\_ supplied by \_\_\_\_\_ and presented under the heading “BOND INSURANCE” and “APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”]

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

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**CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN  
THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “project,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as otherwise noted, neither the City nor the Authority plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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## OFFICIAL STATEMENT

\$ \_\_\_\_\_\*

**City of San Pablo Joint Powers Financing Authority**  
**Lease Revenue Bonds**  
**Series 2017**

### INTRODUCTION

This Official Statement, which includes the cover page, the inside cover page and attached appendices, provides certain information in connection with the sale and delivery of the \$ \_\_\_\_\_\* City of San Pablo Joint Powers Financing Authority Lease Revenue Bonds, Series 2017 (the “Bonds”). Capitalized terms not otherwise defined herein have the meanings given in the Indenture and the Lease (each as hereinafter defined) or in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

#### **Purpose of the Bonds**

The Bonds are being issued under the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6584) of the California Government Code (the “Bond Law”). The Bonds are being issued pursuant to an Indenture, dated as of March 1, 2015, as amended and supplemented by a First Supplemental Indenture, dated as of August 1, 2017 (together, the “Indenture”), each by and between the City of San Pablo Joint Powers Financing Authority (the “Authority”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”).

The Authority is issuing the Bonds, to provide funds to (i) finance a new City Hall for the City of San Pablo (the “City”), as described herein (the “Project”), (ii) [purchase a municipal bond insurance policy for the Bonds,] (iii) [purchase a reserve surety for the Bonds,] (iv) fund capitalized interest through \_\_\_\_\_, 20\_\_, and (v) pay the costs of issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “PLAN OF FINANCE.”

The Bonds are the third Series of Bonds issued under the Indenture and constitute Additional Bonds thereunder (as described herein). The Authority issued its \$4,225,000 Lease Revenue Bonds, Series 2015A (Tax-Exempt) and \$11,555,000 Lease Revenue Bonds, Series 2015A (Taxable) (together, the “Series 2015 Bonds”) on March 4, 2015 to finance capital projects in the City unrelated to the Project. [The Series 2015 Bonds are secured by a common reserve fund that will not provide security for the Bonds described herein. The Reserve Fund for the Bonds will not provide security for the Series 2015 Bonds.]

#### **Security for the Bonds**

Pursuant to a Site and Facility Lease, dated as of March 1, 2015, as amended by a First Amendment to Site and Facility Lease, dated as of August 1, 2017 (together, the “Site Lease”), each by and between the City and the Authority, the Authority will lease from the City certain real property and improvements, which consists of the City of San Pablo City Hall Complex (the “City Hall”), the City of San Pablo Police Department Building (the “Police Department”), and undeveloped property located at the intersection of Gateway Avenue and Chatleton Lane (the “Gateway Property”) (collectively, the “Leased Property”). See “- Leased Property” below. Pursuant to a Lease Agreement, dated as of March 1, 2015, as amended by a

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\* Preliminary, subject to change.

First Amendment to Lease Agreement, dated as of August 1, 2017 (together, the “Lease”), each by and between the Authority as lessor, and the City as lessee, the Authority will lease the Leased Property to the City. Pursuant to the Lease, the City will pay to the Authority base rental payments (the “Base Rental Payments”) in amounts equal to scheduled debt service on the Bonds and the Series 2015 Bonds, as set forth in separate rental schedules. [The Lease will provide that upon issuance of the Bonds, the Series 2015 Bonds will be payable from Base Rental Payments pursuant to the leasehold interest in the City Hall and the Police Department and the Bonds will be payable from Base Rental Payments pursuant to the leasehold interest in the Gateway Property and from a portion of Bond proceeds used to fund capitalized interest. See “ESTIMATED SOURCES AND USES OF FUNDS.” After completion of the Project, the Bonds and the Series 2015 Bonds are expected to be supported collectively by the Police Department and the Gateway Property, as improved by the Project. The City intends to release the City Hall property under the terms of the Lease upon completion of the Project.]

The Bonds will be secured by a first lien on and pledge of all of the Series 2017 Revenues, including all of the moneys in the Series 2017 Interest Account and the Series 2017 Principal Account and all amounts derived from the investment of such moneys, and by the Reserve Fund. “Series 2017 Revenues” means (i) all Series 2017 Base Rental Payments payable by the City pursuant to the Lease (including prepayments), (ii) any proceeds of the Bonds originally deposited with the Trustee and all moneys on deposit in the funds and accounts (other than the Rebate Fund) established for the Bonds, (iii) investment income with respect to such moneys held by the Trustee, and (iv) any insurance proceeds or condemnation awards received by or payable to the Trustee relating to the Series 2017 Base Rental Payments. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

Pursuant to an Amended and Restated Assignment Agreement, dated as of August 1, 2017 (the “Assignment Agreement”), by and between the Authority and the Trustee, relating to the Bonds the Authority will assign, as further security for its obligations to make timely payment of principal of and interest on the Bonds to the Trustee for the benefit of the Owners certain of the Authority’s rights under the Lease, including the right to receive Base Rental Payments. Under the Lease, in addition to Base Rental Payments, the City has agreed to pay Additional Rental payments in such amounts in each year as shall be required for the payment of all costs and expenses (not otherwise paid for or provided for out of the proceeds of sale of the Bonds) incurred by the Authority or the Trustee in connection with the execution, performance or enforcement of the Lease or the assignment thereof, the Indenture, or the Authority’s or the Trustee’s interest in the Leased Property.

The obligation of the City to make Base Rental Payments under the Lease is an unsecured obligation of the City, payable from all legally available funds. Pursuant to the Lease, the City has covenanted to annually budget and appropriate sufficient funds to make all rental payments required to be made under the Lease, subject only to abatement as provided therein. In furtherance of this covenant, the City agrees that each September, upon the receipt of revenue under the Municipal Services Agreement (the “MSA”) between the City and the Lytton Band of Pomo Indians (the “Lytton Band”), the City will transfer to the Trustee for deposit into the applicable Lease Revenue Fund if available an amount of such revenues equal to total annual Base Rental Payments and Additional Rental due during the then-current fiscal year (or such other lesser amount as received under the MSA). The City is not obligated to make such transfer if Base Rental Payments or Additional Rental are subject to abatement or otherwise are not required under the Lease to be paid in such fiscal year. See “RISK FACTORS – Base Rental Payments Are Not Debt; Bonds are Limited Obligations” and “– Abatement.” The obligation of the City to make Base Rental Payments and Additional Rental Payments is solely from the City’s General Fund. No separate pledge of revenue received by the City from the MSA is made in the Indenture or the Lease. See “SECURITY AND SOURCES OF PAYMENT.”

## **Leased Property**

Upon delivery of the Bonds, the Leased Property under the Lease will consist of (i) the City Hall, (ii) the Police Department, and (iii) the Gateway Property. [The Lease will provide that upon issuance of the Bonds, the Series 2015 Bonds will be payable from Base Rental Payments pursuant to the leasehold interest in the City Hall and the Police Department and the Bonds will be payable from Base Rental Payments pursuant to the leasehold interest in the Gateway Property and from a portion of Bond proceeds used to fund capitalized interest. See “ESTIMATED SOURCES AND USES OF FUNDS.” After completion of the Project, the Bonds and the Series 2015 Bonds are expected to be supported collectively by the Police Department and the Gateway Property, as improved by the Project. The City intends to release the City Hall property under the terms of the Lease upon completion of the Project.]

The Authority and the City each acknowledge under the Lease that the annual fair rental value of the Leased Property is in excess of the maximum annual Base Rental Payments, relating to the applicable series of Bonds and Series 2015 Bonds. The Lease provides that the City may substitute alternate real property or improvements for the Leased Property, release existing property or add additional real property or improvements to the Leased Property, in compliance with the requirements of the Lease. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Substitution and Release of Property.”

The City insures the improvements on the Leased Property for the estimated replacement value of such improvements. [None of the Leased Property is located in a 100 year flood plain.]

**City Hall.** The City Hall is located at 13831 San Pablo Avenue in the City. The City Hall is a 143,748 square-foot wood frame five building complex that houses all City administrative personnel. Originally completed in 1978, certain additions and improvements to the complex were completed in 1998. Upon substantial completion of the Project, the City expects to release the City Hall parcels and improvements pursuant to the provisions of the Lease and the City Hall will no longer be a component of the Leased Property. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Substitution and Release of Property.”

**Police Department.** The Police Department is located at 13880 San Pablo Avenue in the City. The Police Department is a 26,484 square-foot two story concrete facility originally completed in 1984. Additions and improvements to the Police Department were completed in the mid-1990s.

**Gateway Property.** The Gateway Property, located at the intersection of Gateway Avenue and Chattleton Lane in the City, is comprised of approximately 2.5 acres and will serve as the site for the Project. See “PLAN OF FINANCE.”

## **Reserve Fund**

Pursuant to the Indenture, a Reserve Fund is established for the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Reserve Fund.”

## **Additional Bonds**

Pursuant to the Indenture and the Lease, the Authority may issue additional bonds (the “Additional Bonds”) payable from base rental payments on a parity with the Bonds so long as certain conditions precedent are satisfied. In addition, the City may issue or incur other obligations payable from the City’s General Fund. See “SECURITY AND SOURCES OF PAYMENT FOR BONDS – Additional Obligations.”



## Continuing Disclosure

The Authority has determined that no financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Bonds and the Authority will not provide any such information.

The City has agreed to provide, with respect to the Bonds, or cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (the "EMMA System"), certain annual financial information and operating data relating to the City and, in a timely manner, notice of certain events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12, as amended (the "Rule 15c2-12") adopted by the U.S. Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended. See "CONTINUING DISCLOSURE" herein and APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT" for a description of the annual reports and notices of enumerated events to be provided by the City.

## DESCRIPTION OF THE BONDS

The Bonds will be dated their date of delivery and issued in the aggregate principal amount and bear interest at the rates per annum and mature on the dates set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable semiannually on May 1 and November 1 of each year (each an "Interest Payment Date"), commencing November 1, 2017. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is executed after the fifteenth calendar day of the month immediately preceding an Interest Payment Date, in which case interest will bear from such Interest Payment Date, or (ii) it is authenticated on or before October 15, 2017, in which event interest will accrue from the date of initial delivery of the Bonds. If, at the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on such outstanding Bond, or if no interest has been paid, from the date of initial delivery of the Bonds. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months.

The Bonds of each Series are being issued as fully registered bonds and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof. Individual purchases of Bonds will be made in book-entry form only. Payments of principal of and interest on the Bonds are to be made to purchasers by DTC through DTC Participants. Purchasers will not receive physical delivery of the Bonds purchased by them. See APPENDIX F – "BOOK-ENTRY SYSTEM."

## Redemption

**Extraordinary Redemption.** The Bonds are subject to redemption prior to their respective maturity dates as a whole or in part on any date, from prepayments of applicable Base Rental Payments made by the City on a *pro rata basis* pursuant to the Lease from funds received by the City due to a taking of the Leased Property or any portion thereof under the power of eminent domain or from insurance proceeds received by the City due to damage to or destruction of the Leased Property or any portion thereof, under the circumstances and upon the conditions and terms prescribed in the Indenture and in the Lease. Redemption of Bonds pursuant to extraordinary redemption shall be made at a redemption price equal to the sum of the principal of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Insurance Coverages."

**Optional Redemption of Bonds.** The Bonds maturing on or after November 1, 20\_\_ shall be subject to redemption prior to their respective maturity dates as a whole or in part on any date on or after November 1, 20\_\_, in any order deemed reasonable by the Authority, and by lot within a maturity, from prepayments of Base Rental Payments made at the option of the City pursuant to the Lease, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued but unpaid interest to the date fixed for redemption, without premium.

**Mandatory Sinking Account Redemption of Bonds.** The Term Bond maturing November 1, 20\_\_ is subject to mandatory redemption, in part by lot, from sinking account payments set forth in the following schedule commencing November 1, 20\_\_, and on November 1 in each year thereafter to and including November 1, 20\_\_ at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption.

**Redemption Date  
(November 1)**

**Principal Amount  
To be Redeemed**

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\* Maturity.

### **Selection of Bonds for Redemption**

Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a Series, the Trustee shall select the Bonds of such Series to be redeemed from all Bonds of that Series not previously called for redemption, in such maturities as the Authority shall designate (and by lot within any maturity). For purposes of such selection, all Bonds of a Series shall be deemed to be comprised of separate \$5,000 portions and such portions shall be treated as separate Bonds, which may be separately redeemed.

### **Notice of Redemption**

The Trustee on behalf and at the expense of the Authority shall mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, to the Securities Depositories and to one or more Information Services, at least 20 but not more than 60 days prior to the date fixed for redemption; *provided, however*, that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and shall require that such Bonds be then surrendered at the Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date. Neither the Authority nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such numbers.

Any such notice given may be rescinded by written notice given to the Trustee by the Authority and the Trustee shall provide notice of such rescission as soon thereafter as practicable in the same manner, and to the same recipients, as notice of such redemption was given pursuant to the Indenture. The Authority and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption.

### **Partial Redemption of Bonds**

In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds, interest rate and maturity date, in aggregate principal amount equal to the unredeemed portion of the Bond being redeemed.

### **Effect of Redemption**

From and after the date fixed for redemption, if funds available for the payment of the principal of, premium, if any, and interest on the Bonds so called for redemption shall have been duly provided, such Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date. All moneys held by or on behalf of the Trustee for the payment of principal of or interest or premium on Bonds, whether at redemption or maturity, shall be held in trust for the account of the Owners thereof and the Trustee shall not be required to pay Owners any interest on, or be liable to Owners for any interest earned on, moneys so held.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **General**

The Bonds will be secured by a first lien on and pledge of all of the Series 2017 Revenues, including all of the moneys in the Series 2017 Interest Account and the Series 2017 Principal Account and all amounts derived from the investment of such moneys and by the Reserve Fund. All Base Rental Payments pursuant to the Lease shall be made on a *pari passu* basis with each other.

The Series 2017 Base Rental Payments will be paid by the City in an amount sufficient to pay the principal of and interest on the Bonds on each Interest Payment Date. Under the Lease, in addition to Base Rental Payments, the City has agreed to pay Additional Rental payments in such amounts in each year as shall be required for the payment of all costs and expenses (not otherwise paid for or provided for out of the proceeds of sale of the Bonds) incurred by the Authority or the Trustee in connection with the execution, performance or enforcement of the Lease or the assignment thereof, the Indenture, or the Authority's or the Trustee's interest in the Leased Property, including, but not limited to, all fees, costs and expenses, all administrative costs of the Authority relating to the Leased Property (including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture), fees of auditors, accountants, attorneys or engineers, and all other reasonable and necessary administrative costs of the Authority or charges required to be paid by it to comply with the terms of the Bonds or of the Indenture and all other amounts due to the Insurer under the Indenture.

The City has agreed in the Lease to take such action as may be necessary to include all Base Rental Payments and Additional Rental due under the Lease in its budget and to make the necessary annual appropriations for all such Base Rental Payments and Additional Rental, subject only to abatement as provided in the Lease. The covenants on the part of the City contained in the Lease are duties imposed by

law and it will be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the City.

Pursuant to the Assignment Agreement, the Authority will assign, as further security for its obligations to make timely payment of principal of and interest on the Bonds to the Trustee for the benefit of the Owners certain of the Authority's rights under the Lease, including the right to receive Base Rental Payments. On or before the fifteenth (15) Business Day preceding each November 1 and May 1, the City is required to pay to the Trustee the Base Rental Payments coming due on the next succeeding November 1 and May 1, respectively, from any legally available sources.

### **Limited Obligation**

The full faith and credit of the Authority is not pledged for the payment of the principal of or interest or premium (if any) on the Bonds. The Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the Authority or any of its income or receipts, except the Revenues and such other moneys and securities as provided in the Indenture. The obligation of the City to make Base Rental Payments or Additional Rental Payments does not constitute 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. Neither the Bonds nor the obligation of the City to make Base Rental Payments or Additional Rental Payments constitutes an indebtedness of the City, the State or any of its political subdivisions (other than the Authority) within the meaning of any constitutional or statutory debt limitation or restriction.

### **Reserve Fund**

[Pursuant to the Indenture, a Reserve Fund is established for the Bonds at the Reserve Requirement. "Reserve Requirement" means an amount equal to the least of (i) ten percent (10%) of the original issue price of the Bonds; (ii) one hundred twenty-five percent (125%) of average Annual Debt Service on the Bonds as of the Closing Date; and (iii) Maximum Annual Debt Service on the Bonds.]

[The City will satisfy the Reserve Requirement by depositing a Reserve Account Credit Instrument into the Reserve Fund when the Bonds are issued and delivered.] See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – THE INDENTURE."

### **Abatement of Base Rental Payments**

The City's obligation to pay Base Rental Payments and Additional Rental Payments is subject to abatement during any period in which by reason of any damage, destruction or condemnation there is substantial interference with the beneficial use by the City of the Leased Property or any portion thereof. Such abatement may be in an amount such that the resulting Base Rental Payments in any year during which such interference continues does not exceed the fair rental value of the portions of the Leased Property as to which such damage, destruction or taking do not substantially interfere with the City's use and right of possession, as evidenced by a Certificate of the City. Such abatement shall continue for the period commencing with the date of such interference and ending with the restoration of the Leased Property to tenantable condition. See "RISK FACTORS – Abatement."

## **Additional Bonds**

The Authority has agreed pursuant to the Indenture that no additional bonds, notes or indebtedness shall be issued or incurred that are payable out of the Revenues in whole or in part, other than Additional Bonds as provided in the Indenture. However, the City may issue or incur other obligations payable from the City's General Fund. See "RISK FACTORS – No Limitation on Incurring Additional Obligations."

The Authority and the Trustee may by execution of a Supplemental Indenture but without the consent of the Owners, which shall become binding when the written consent of the Insurer is received, provide for the issuance and delivery of Additional Bonds in one or more Series. The Trustee may authenticate and deliver to or upon the Request of the Authority, such Additional Bonds, in an aggregate principal amount authorized by such Supplemental Indenture. The proceeds of such Additional Bonds may be used for any purpose, including for the purpose of refunding Outstanding Bonds. Such Additional Bonds may only be issued upon compliance by the Authority with the provisions of the Indenture, and subject to the following specific conditions, which are made conditions precedent to the issuance of any such Additional Bonds:

(a) The Authority shall not be in default under the Indenture or any Supplemental Indenture, as evidenced by a Certificate of the Authority, and the City shall not be in default under the Lease, as evidenced by a Certificate of the City;

(b) Such Supplemental Indenture shall provide that from such proceeds or other sources an amount shall be deposited in a reserve account so that there shall be on deposit in such reserve account a cumulative amount at least equal to the Reserve Requirement for the applicable Series of Additional Bonds;

(c) The Additional Bonds shall be payable as to principal on November 1 of each year in which principal is due and shall be payable as to interest on each Interest Payment Date;

(d) The aggregate principal amount of Bonds issued and at any time Outstanding under the Indenture or under any Supplemental Indenture shall not exceed any limit imposed by law, by the Indenture or by any Supplemental Indenture, as evidenced by a Certificate of the Authority and the City;

(e) The Lease shall have been amended, if necessary, so as to increase the applicable Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal and interest due and payable on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest on such Additional Bonds; and

(f) Such Supplemental Indenture shall provide redemption dates and/or mandatory redemption of Additional Bonds in amounts sufficient to provide for payment of the Additional Bonds when the applicable Base Rental Payments are due.

(g) Any Additional Bonds shall be on a parity with, and each Owner thereof shall have the same rights upon an Event of Default as the Owner of, any other Bonds issued and delivered under the Indenture, except as otherwise provided in the Supplemental Indenture under which Additional Bonds are issued.

(h) Such Supplemental Indenture shall prescribe the form or forms of such Additional Bonds, and subject to the provisions hereof, shall provide for the distinctive designation, denominations, dates, principal payment dates, interest payment dates, interest rates, provisions for redemption, and places of payment for principal and interest.

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

During such time as the City or any assignee or sublessee thereof is in possession of the Leased Property, all maintenance and repair, ordinary or extraordinary, of the Leased Property shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of (a) all utility services supplied to the Leased Property, (b) the cost of operation of the Leased Property, and (c) the costs of maintenance of and repair to the Leased Property resulting from ordinary wear and tear or want of care on the part of the City. The City shall, at the City's sole cost and expense, keep and maintain the Leased Property clean and in a safe and good condition and repair. The Authority has no obligation to alter, remodel, improve, repair, decorate, or paint the Leased Property or any part thereof.

The City shall comply with all statutes, ordinances, regulations, and other requirements of all governmental entities that pertain to the occupancy or use of the Leased Property. The Authority has no responsibility or obligation whatsoever to construct any improvements, modifications or alterations to the Leased Property.

The Authority and the City contemplate that the Leased Property will be used for public purposes by the City and, therefore, that the Leased Property will continue to be exempt from all taxes presently assessed and levied with respect to real and personal property. In the event that the use, possession or acquisition by the Authority or the City of the Leased Property is found to be subject to taxation in any form, the City will pay during the term of the Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property and any other property acquired by the City in substitution for, as a renewal or replacement of, or a modification, improvement or addition to the Leased Property; provided, that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are accrued during such time as the Lease is in effect.

## **Insurance Coverages**

Due to the importance of payments received under the MSA to the fiscal health of the General Fund, the City through its participation in the Municipal Pooling Authority is insured (the "MSA Payment Interruption Insurance") against the loss of MSA Payments (defined herein) up to \$100,000,000 per occurrence or the extent of its loss, whichever is less, and shared with any other Authority Member losses (for its insurable business interruption exposure including Tribal Incremental Municipal Services Payments), if damage or destruction of Casino property partially or wholly prevents the payment of MSA Payments. See "THE CITY – Municipal Services Agreement with the Lytton Band of Pomo Indians – *MSA Payment Interruption Insurance*."

Pursuant to the Lease, the City will obtain one or more California Land Title Association ("CLTA") title policies insuring the City's and Authority's interest in the Leased Property. The Lease requires that the City maintain rental interruption insurance to insure against loss, total or partial, of rental income from any portion of the Leased Property in an amount not less than the maximum remaining scheduled Base Rental Payments in any twenty-four (24) month period. The City is obligated to obtain a standard comprehensive general public liability and property damage insurance policy, theft insurance, insurance against fire or lightning damage, including extended coverage and vandalism and malicious mischief insurance and workers' compensation insurance. The City may also maintain such insurance (except rental interruption and title insurance) through a program of self-insurance under certain conditions. The Lease does not require the City to obtain or maintain earthquake insurance on the Leased Property. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – The Lease – Insurance."

The proceeds of any rental interruption insurance will be deposited in the applicable Lease Revenue Fund to be credited towards the payment of the applicable Base Rental Payments. The Lease requires the City promptly to remit to the Trustee the Net Proceeds of any insurance award either to replace or repair the Leased Property or to prepay the Bonds and any Additional Bonds on a *pro rata* basis. The amount of Base Rental Payments and Additional Payments due under the Lease may be reduced during any period in which material damage or destruction to all or part of the Leased Property substantially interferes with the City's use and possession thereof. If there are not sufficient insurance proceeds to complete repair of the Leased Property, the Base Rental Payment schedule will be proportionally reduced in accordance with the Lease. Such reduced Base Rental Payments may not be sufficient to pay principal and interest with respect to the Bonds and any Additional Bonds. Such reduction would not constitute a default under either the Trust Agreement or the Lease. See "RISK FACTORS – Abatement."

The Lease provides that each policy of insurance (except for the MSA Payment Interruption Insurance) required under the Lease shall name the Trustee as loss payee, and the proceeds of such insurance shall be deposited with the Trustee for application pursuant to the Indenture.

### **Substitution and Release of Property**

The City expects to release the City Hall from the Leased Property once the Project is substantially completed in accordance with the following provisions of the Lease. See "PLAN OF FINANCE."

So long as the Lease is in effect, the City has the option at any time and from time to time, to substitute other real property (the "Substitute Property") for any portion of the Leased Property (the "Former Property") or release any identifiable real property and/or improvements currently constituting the Leased Property; provided, that the City shall satisfy all of the following requirements, which are conditions precedent to such substitution under the Lease:

(a) No default under the Lease or Event of Default under the Indenture shall have occurred and be continuing;

(b) The City shall file with the Authority, the Insurer and the Trustee, and cause to be recorded in the office of the County Recorder, sufficient memorialization of amendments to the Lease and the Site Lease with a description of such Substitute Property which deletes therefrom the description of the Former Property;

(c) The City shall obtain an extended CLTA policy of title insurance insuring the City's fee or leasehold estate in such Substitute Property, the City's leasehold estate under the Lease in such Substitute Property, and the Authority's leasehold estate under the Site Lease in such Substitute Property, subject only to Permitted Encumbrances, in an amount not less than the aggregate principal amount of the Outstanding Bonds; provided, however, that this requirement shall not apply to Substitute Property that consists only of Former Property less any released portion; provided, that all encumbrances, endorsements and restrictions to such CLTA title policy must be acceptable to the Insurer and such CLTA policy may not permit the title insurer (i) to purchase any Series 2015 Bonds or Bonds in lieu of providing payment under the policy unless, upon purchase, such Series 2015 Bonds or Bonds are canceled, or (ii) to settle claims with any person other than the Trustee, acting with the consent of the Insurer;

(d) The City shall provide a Certificate of the City to the Authority, the Insurer and the Trustee that such Substitute Property constitutes property which the City is permitted to lease under the laws of the State of California; provided, however, that this requirement shall not apply to Substitute Property that consists only of Former Property less any released portion;

(e) The substitution of the Substitute Property shall not cause the City to violate any of its covenants, representations and warranties made in the Lease;

(f) The City shall file with the Authority, the Insurer and the Trustee a Certificate of the City or other evidence which establishes that the annual fair rental value of the Substitute Property after substitution or release will be at least equal to 100% of the maximum amount of the Base Rental Payments becoming due in the then current fiscal year or in any subsequent fiscal year and the useful economic life of the Substitute Property shall be at least equal to the maximum remaining term of the Lease; and

(g) The City shall furnish to the Trustee an opinion of Bond Counsel addressed to the Trustee, the Insurer, the City and the Authority to the effect that the substitution or release is permitted under the Lease and will not in and of itself (i) impair the validity and enforceability of the Lease or (ii) impair the exclusion of interest on the Series 2015A Bonds, the Bonds and, if applicable, any Additional Bonds from the gross income of the owners thereof for federal income tax purposes.

Upon the satisfaction of all such conditions precedent, and upon the City delivering to the Authority, the Insurer and the Trustee a Certificate of the City certifying that the conditions set forth in (a), (c) and (e) above have been satisfied, the Term of the Lease shall thereupon end as to the Leased Property and shall thereupon commence as to the Substitute Property, and all references to the Leased Property shall apply with full force and effect to the Substitute Property. The City shall not be entitled to any reduction, diminution, extension or other modification of the Base Rental Payments whatsoever as a result of any substitution or removal under the Lease.

#### **PLAN OF FINANCE**

The Authority is issuing the Bonds, to provide funds to (i) finance a new City Hall for the City, (ii) [purchase a municipal bond insurance policy for the Bonds,] (iii) [purchase a reserve surety for the Bonds,] (iv) fund capitalized interest through \_\_\_\_\_, 20\_\_\_\_, and (v) pay the costs of issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS.”

The Project consists of the construction and improvement of a 2-story, approximately 42,000 square foot, office building to serve as the City’s new City Hall. Located at the intersection of Gateway Avenue and Chatleton Lane, the building will contain some private offices, an open floor plan for employee cubicles and a small gym. The building is being designed to be resource efficient and achieve a U.S. Green Building Council LEED Silver rating. The Project will be constructed using “tilt-up” methods. In a tilt-up construction project, the building’s walls are poured directly at the jobsite in large slabs of concrete called “tilt-up panels.” These panels are then raised into position around the building’s perimeter forming the exterior walls.

The City reserves the right to apply proceeds of the Bonds to alternate or additional capital improvement projects of the City.

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

**Sources:**

Principal amount of Bonds	\$
[Net]] original issue premium/discount	
Total Sources	\$

**Uses:**

Deposit to Project Fund	\$
Deposit to Series 2017 Interest Account	
[Deposit to Reserve Fund]	
Costs of Issuance <sup>(1)</sup>	
Total Uses	<u>\$</u>

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<sup>(1)</sup> Costs of issuance include legal, Trustee, rating agency, and Municipal Advisor fees, printing costs, underwriter's discount, [bond insurance premiums, reserve surety premium,] and other costs incurred in connection with the issuance of the Bonds.

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## DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements for the Series 2015 Bonds and the Bonds.

Fiscal Year Ending June 30,	Series 2015 Bonds			Bonds			Total		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017									
2018									
2019									
2020									
2021									
2022									
2023									
2024									
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2039									
2040									
2041									
2042									
2043									
2044									
2045									
Totals									

## **BOND INSURANCE**

[to come, if applicable]

## **THE AUTHORITY**

The Authority was formed pursuant to the provisions of Articles 1, 2 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”) and a Joint Exercise of Powers Agreement, dated December 8, 1993 (the “JPA Agreement”), entered into by the City and the former Redevelopment Agency of the City of San Pablo (the “Former Redevelopment Agency”) for the purpose, among others, of issuing bonds to be used to provide financial assistance to its members. With the dissolution of the Former Redevelopment Agency in February 2012, as described further below, the San Pablo Local Successor Agency (the “Successor Agency”) succeeded the Former Redevelopment Agency as a member of the Authority by operation of law. The governing board of the Authority is comprised of the members of the City Council of the City of San Pablo (the “City Council”). The Authority has no independent staff.

Under the JPA Agreement, the Authority is empowered to assist in the financing of public capital improvements through the issuance of bonds, including the Bonds, in accordance with the Act. To exercise its powers, the Authority is authorized, in its own name, to do all necessary acts, including but not limited to making and entering into contracts; employing agents and employees; and to sue or be sued in its own name.

## **THE CITY**

### **General**

The City was incorporated in 1948 as a general law city under the laws of the State and is located in West Contra Costa County off Interstate 80. The City is approximately 11 miles from the City of Berkeley, 14 miles from the City of Oakland and 20 miles from the City of San Francisco. As of January 1, 2016, the City had a population of approximately 30,829 and encompassed approximately 2.6 square miles. See APPENDIX A – “SELECTED DEMOGRAPHIC AND FINANCIAL INFORMATION RELATING TO THE CITY OF SAN PABLO.” A copy of the City’s audited financial statements for the fiscal year ended June 30, 2016 is attached hereto as APPENDIX B.

### **Budget Process and Administration; General Fund**

The City adopts a quadrennial budget in June every four years. Under this quadrennial budget process, individual departments prioritize and recommend the budgetary funding requirements necessary to meet both the objectives of the department and the goals and initiatives of the City Council. Departmental funding requests are balanced and prioritized to fit within the constraints of projected revenue assumptions. The City Manager’s office and the Finance Department review all budget proposals and revenue assumptions, as well as all current financial obligations, before preparing the budget that is proposed to the City Council. The City Council reviews the proposed budget during a scheduled public budget workshop in May and the final adoption of the budget is scheduled for a City Council meeting in June pursuant to the requirements of the City’s municipal code.

The five major General Fund revenue sources of the City, which together accounted for approximately 77% of the General Fund revenues in Fiscal Year 2015-16, were Business License Taxes (approximately 49% of total General Fund revenues), Intergovernmental Revenues (approximately 10%), Sales Taxes (approximately 9%), Utility Users Taxes (approximately 5%), and Motor Vehicle Taxes (approximately 5%). At June 30, 2016 the unassigned General Fund balance was \$57,416,153. Business License Taxes include payments received by the City pursuant to the MSA with the Lytton Band. See “THE CITY – Municipal Services Agreement with the Lytton Band of Pomo Indians.”

The following tables summarize the audited financial statements for the City’s General Fund for the Fiscal Years ended June 30, 2012 through June 30, 2016. This information has been derived from the audited financial statements of the City for the fiscal years shown. This information should be read in conjunction with APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE CITY OF SAN PABLO FOR FISCAL YEAR ENDED JUNE 30, 2016.” The City adopts a quadrennial budget every four years. The quadrennial budget for the fiscal years ending June 30, 2016 and June 30, 2017 was adopted on June 19, 2017.

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The following table sets forth the City's General Fund balance sheet based upon audited financial statements for Fiscal Years ended June 30, 2012 through June 30, 2016.

**TABLE 1**  
**CITY OF SAN PABLO**  
**GENERAL FUND BALANCE SHEET**  
**FOR FISCAL YEARS ENDED JUNE 30, 2012 THROUGH JUNE 30, 2016**

	2012	2013	2014	2015	2016
<b>ASSETS</b>					
Cash and investments available					
for operations	\$19,829,146	\$22,645,582	\$31,224,120	\$37,437,892	\$52,010,212
Restricted cash and investments	-	-	-	-	-
Accounts receivable	1,670,188	1,818,371	2,045,573	2,021,940	2,654,331
Due from other governments	467,644	4,294,392	1,013,437	4,533,297	1,326,974
Due from other funds	64,694	83,359	-	-	-
Prepays and deposits	7,193	18,665	37,431	61,835	49,200
Employee loans receivable	17,728	9,838	7,788	11,786	6,795
Loan receivable	615,529	90,586	-	11,839,080	-
Property held for resale	-	-	-	-	-
Advance to other fund	4,000,000	-	-	-	-
<b>Total Assets</b>	<u>\$26,672,122</u>	<u>\$28,960,793</u>	<u>\$34,328,349</u>	<u>\$55,905,767</u>	<u>\$67,886,592</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 910,535	\$1,306,913	\$1,207,023	\$1,236,186	\$ 1,791,153
Deposits payable	-	-	-	-	180,909
Unearned revenue	-	-	-	1,590,303	1,563,297
Deferred Revenue	615,529	-	-	-	-
<b>Total Liabilities</b>	<u>\$1,526,064</u>	<u>\$1,306,913</u>	<u>\$1,207,023</u>	<u>\$2,826,489</u>	<u>\$ 3,535,359</u>
<b>DEFERRED INFLOWS OF RESOURCES<sup>(1)</sup></b>					
Unavailable revenue – accounts receivable	-	\$ 21,262	-	-	-
Unavailable revenue – due from other gov'ts	-	4,000,000	\$ 800,000	\$3,425,000	\$ 425,000
Unavailable revenue – loans and notes receivable	-	90,586	-	6,510,080	6,510,080
<b>Total Deferred Inflows of Resources</b>	-	\$4,111,848	\$ 800,000	\$9,935,080	\$ 6,935,080
<b>FUND BALANCES:</b>					
Fund balance					
Nonspendable	\$ 4,024,921	\$ 28,503	\$ 45,219	\$ 5,402,621	\$ 5,384,995
Assigned	20,215	227,579	763,614	145,329	1,315,623
Unassigned	21,100,922	23,285,950	31,512,493	37,596,248	50,715,535
<b>Total Fund Balances</b>	<u>\$25,146,058</u>	<u>\$23,542,032</u>	<u>\$32,321,326</u>	<u>\$43,144,198</u>	<u>57,416,153</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$26,672,122</u>	<u>\$28,960,793</u>	<u>\$34,328,349</u>	<u>\$55,905,767</u>	<u>\$67,886,592</u>

<sup>(1)</sup> In Fiscal Year 2013, the City transferred \$4.0 million to advance funds required to build the San Pablo Community Center with the understanding that such funds would be reimbursed, primarily with grant money from Proposition 84 (\$2.6 million) and Measure WW (\$0.6 million). The majority of the reimbursements occurred in 2014, with a residual amount of \$800,000 still remaining to be reimbursed to the City.

Source: City of San Pablo.

The following table sets forth the City's General Fund revenues, expenditures and changes in fund balances based upon audited financial statements for Fiscal Years ended June 30, 2012 through June 30, 2016.

**TABLE 2**  
**CITY OF SAN PABLO**  
**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**FOR FISCAL YEARS ENDED JUNE 30, 2012 THROUGH JUNE 30, 2016**

	2012	2013	2014	2015	2016
<b>REVENUES</b>					
Property taxes	\$ 505,693	\$ 248,288	\$ 677,924	\$ 836,806	\$ 719,960
Sales Taxes <sup>(1)</sup>	1,304,322	2,155,036	2,807,739	3,199,425	3,304,334
In-lieu sales tax	421,134	468,552	548,465	490,239	406,799
Utility users tax	2,339,064	2,473,792	2,553,955	2,467,509	2,572,145
Business license tax <sup>(2)</sup>	15,501,584	17,105,522	17,951,434	19,390,922	22,665,705
Other taxes	2,692,995	2,862,216	3,064,960	3,304,319	3,334,876
Licenses and permits	-	-	-	-	-
Fines and forfeitures	160,779	199,033	178,497	250,670	253,290
Intergovernmental	2,200,479	2,063,284	5,193,600 <sup>(3)</sup>	4,480,023	6,125,560
Charges for services	390,940	674,404	921,802	691,632	629,254
Use of money and property	787,121	749,762	278,252	642,072	1,063,595
Miscellaneous	55,805	14,545	137,496	167,020	211,478
Total revenues	<u>\$26,359,916</u>	<u>\$29,014,434</u>	<u>\$34,314,124</u>	<u>\$35,920,637</u>	<u>\$41,286,996</u>
<b>EXPENDITURES</b>					
Current:					
General government	\$ 4,051,309	\$ 5,644,563	\$ 5,798,844	\$ 5,803,306	9,612,295
Community:					
Recreation	1,045,283	1,198,105	1,173,065	1,321,969	1,490,995
Public Works & Engineering	297,423	293,681	299,397	283,809	275,565
Police	13,167,618	14,453,920	14,742,477	15,435,567	13,735,117
Capital Outlay	127,151	357,066	154,467	529,202	308,912
Debt Service					
Principal retirement	-	-	-	85,000	144,982
Interest and fiscal charges	-	-	-	-	25,882
Total expenditures	<u>\$18,688,784</u>	<u>\$21,947,335</u>	<u>\$22,168,250</u>	<u>\$23,458,853</u>	<u>\$25,593,748</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ 7,671,132</b>	<b>\$ 7,067,099</b>	<b>\$12,145,874</b>	<b>\$12,461,784</b>	<b>\$15,693,248</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of property	-	-	-	-	206,584
Transfers in	214,703	-	-	2,837,048	2,034,248
Transfers out	(7,071,627) <sup>(4)</sup>	(8,671,125) <sup>(4)</sup>	(3,366,580) <sup>(4)</sup>	(4,475,960)	(3,662,125)
Total other financing sources & use	<u>\$(6,856,924)</u>	<u>\$(8,671,125)</u>	<u>\$(3,366,580)</u>	<u>(1,638,912)</u>	<u>\$(1,421,293)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<b>814,208</b>	<b>(1,604,026)</b>	<b>8,779,294<sup>(5)</sup></b>	<b>10,822,872</b>	<b>14,271,955</b>
Fund balances – beginning of period	24,331,850	25,146,058	23,542,032	32,321,326	43,144,198
<b>FUND BALANCES AT END OF PERIOD</b>	<u><b>\$25,146,058</b></u>	<u><b>\$23,542,032</b></u>	<u><b>\$32,321,326</b></u>	<u><b>\$43,144,198</b></u>	<u><b>\$57,416,153</b></u>

(See footnotes on next page.)

*(Footnotes continued from previous page.)*

<sup>(1)</sup> See “THE CITY – Other Local Taxes.”

<sup>(2)</sup> Included in Other Taxes prior to Fiscal Year 2011-12. Business License Taxes include payments received by the City pursuant to a municipal services agreement with the Lytton Band of Pomo Indians. See “THE CITY – Municipal Services Agreement with the Lytton Band of Pomo Indians.”

<sup>(3)</sup> The increase in Intergovernmental revenues is due to grant funds received for capital projects. In 2014, the City received \$5.2 million in funding, primarily from Proposition 84 (\$2.6 million) and Measure WW (\$0.6 million) to build the San Pablo Community Center and from a grant from the Natural Resources Agency for the daylighting of the creek at Davis Park (\$1.9 million).

<sup>(4)</sup> Transfers Out are primarily to fund capital projects. The residual Transfer Out are generally to reimburse a fund which has made an expenditure on behalf of another fund, usually Special Revenue Funds for Gas Tax, Street Lighting and Landscaping, and Development Services.

<sup>(5)</sup> The year over year increase in fund balance was due to increased revenues of approximately \$5.3 million and increased expenditures of \$0.2 million, for an overall net gain of approximately \$5.0 million. Transfers Out were reduced by approximately \$5.3 million, offset by the beginning fund balance of approximately \$1.6 million for an overall net gain of approximately \$8.8 million.

*Source: City of San Pablo.*

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The following table sets forth the City's adopted budget and actual General Fund revenues, expenditures and changes in fund balance for the Fiscal Years shown. The adopted budget is the original budget at the start of the new Fiscal Year. At the end of the Fiscal Year, unspent funds encumbered by contract are carried forward into the next fiscal year, thus increasing the adopted budget. Additionally, throughout the year, budget changes may be authorized by City Council which increase the City's spending authority. Therefore, variances between the adopted budget and actual expenditures are common.

**TABLE 3**  
**CITY OF SAN PABLO GENERAL FUND**  
**Comparison of Adopted Budget and Actual Results For Fiscal**  
**Year Ended June 30, 2016; Comparison of Adopted Budget**  
**and Estimated Results for Fiscal Year Ended June 30, 2017**

	<b>Adopted Budget 2015-16<sup>(1)</sup></b>	<b>Actual Results 2015-16</b>	<b>Actual Less Adopted</b>	<b>Adopted Budget 2016-17<sup>(1)</sup></b>	<b>Estimated Results 2016-17</b>	<b>Estimated Less Adopted</b>
<b>REVENUES</b>						
Property taxes						
Sales taxes						
In-lieu sales tax						
Utility users tax						
Business license tax						
Other taxes						
Fines and forfeits						
Intergovernmental:						
Motor vehicle in lieu						
Other						
Charges for services						
Use of money and property						
Miscellaneous						
Total Revenues						
<b>EXPENDITURES</b>						
Current:						
General government						
Community:						
Recreation						
Public Works & Engineering						
Police						
Capital outlay						
Total Expenditures						
EXCESS OF REVENUES OVER EXPENDITURES						
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
NET CHANGE IN FUND BALANCE						
Fund balance at beginning of year						
FUND BALANCE AT END OF YEAR						

<sup>(1)</sup> Prior to 2017, the City adopted a biennial budget every two years. The City now adopts a quadrennial budget, covering a four-year period.

Source: City of San Pablo.

## **Management Discussion of Financial Performance**

The City management's discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2016 is presented in the City's audited financial statements for the fiscal year ended June 30, 2016 attached hereto as APPENDIX B.

### **Appropriations Limit**

Section 7910 of the Government Code of the State requires the City to adopt a formal appropriations limit for each fiscal year. The City's appropriations limit for Fiscal Year 2015-16 was \$37,361,705. The City's appropriations limit for Fiscal Year 2016-17 is \$39,808,951. The appropriations limit is not expected to have any impact on the ability of the City to budget and appropriate the Base Rental Payments and Additional Rental as required by the Lease.

### **Financial Statements**

All governmental funds are accounted for using the modified accrual basis of accounting. The City's revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is principal and interest on general long-term debt, which is recognized when due. Some debts and obligations may be payable from self-supporting enterprises or revenue sources other than property taxation. Special assessment bonds are not included in the tabulation; lease revenue obligations payable from the General Fund or equivalent sources are included. All proprietary funds are accounted for using the accrual basis for accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Receivables are recorded and determined at the time of consumption, and unbilled receivables are not recorded. See APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CITY OF SAN PABLO FOR THE FISCAL YEAR ENDED JUNE 30, 2016."

### **Assessed Valuation**

The assessed valuation of property in the City is established by the County Assessor, except for public utility property which is assessed by the California State Board of Equalization (the "Board of Equalization"). Assessed valuations are reported at 100% of the full cash value of the property, as defined in Article XIII A of the California Constitution. (See "Limitations on Taxes and Appropriations" below).

Certain classes of property such as churches, colleges, not-for-profit hospitals and charitable institutions are exempt from property taxation and do not appear on the tax rolls. The table below presents the assessed valuations in the City from Fiscal Years 2012 through 2016.

**TABLE 4**  
**CITY OF SAN PABLO**  
**Assessed Valuation of Taxable Property**  
**Fiscal Years 2012-2016**  
**(in Thousands)**

<b>Fiscal Year Ending June 30</b>	<b>Secured</b>	<b>Unsecured</b>	<b>Total Taxable Assessed Value</b>
2013	1,148,894,243	89,243,515	1,238,137,758
2014	1,244,136,495	44,270,604	1,288,407,099
2015	1,420,050,225	44,184,743	1,464,234,968
2016	1,556,312,280	46,435,464	1,602,747,744
2017	1,676,817,299	45,076,140	1,721,893,439

*Source: Contra Costa County Auditor Controller.*

Economic and other factors beyond the City’s control, such as economic recession, deflation of land values, or the complete or partial destruction of taxable property caused by, among other things, earthquake, flood or other natural disaster could cause a reduction in the assessed value of taxable property in the City.

Taxes are levied by the County for each Fiscal Year on taxable real and personal property which is situated in the City as of the preceding January 1. Effective July 1, 1983, real property which changes ownership or is newly constructed is reassessed at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

For assessment and collection purposes, property is classified either as “secured” or “unsecured.” Property assessed as “secured” is listed accordingly on separate parts of the assessment roll containing State-assessed property and property the taxes on which are a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each Fiscal Year, and if unpaid become delinquent on December 10 and April 10, respectively, subject to a penalty of ten percent. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the Fiscal Year. Such property may thereafter be redeemed by payment of a penalty of 1.5 percent per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and, in general, become delinquent on August 31, subject to a ten percent penalty. If unsecured taxes are unpaid on October 31, an additional penalty of 1.5 percent attaches to them on the first day of each month until paid. The City has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and Recorder’s office in order to obtain a lien on certain property of the taxpayer, and (4) seizing and selling personal property, improvements or possessory interests belonging or assessed to the assessee.

## Teeter Plan

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”) as provided for in Section 4701 et. seq. of the State Revenue and Taxation Code. Under the Teeter Plan, each participating local agency allocated property taxes in its county, receives the amount of uncollected taxes credited to its fund in the same manner as if the amount credited had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due to the local agency. Although a local agency receives the total levy for property taxes without regard to actual collections, funded from a reserve established and held by the County for this purposes, the basic legal liability for property tax deficiencies at all times remains with the local agency.

The Teeter Plan is to remain in effect unless the County of Contra Costa Board of Supervisors (the “Board of Supervisors”) orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance joined in by resolution adopted by two-thirds of the participating revenue districts in the County, in which event, the Board of Supervisors is to order the discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year. The Board of Supervisors may, by resolution adopted not later than July 15 of the fiscal year for which it is to apply, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax-levying entity in the County.

**TABLE 5**  
**CITY OF SAN PABLO**  
**City Property Tax Levied and Collected**  
**Last Five Fiscal Years**

<b>Fiscal Year</b>	<b>City Property Tax Levied and Collected<sup>(1)</sup></b>
2012	\$505,693
2013	248,288
2014	677,924
2015	836,806
2016	719,960
2017 <sup>(2)</sup>	818,294

<sup>(1)</sup> Excludes Street Lighting and Landscaping, N.P.D.E.S, Oak Park Maintenance District Property Tax and Redevelopment Agency.

<sup>(2)</sup> Estimated.

Source: City of San Pablo.

## State Legislative Shift of Property Tax Allocation

Beginning in 1992-93, the State has required that local agencies including cities remit a portion of property taxes received to augment school funding. These funds are deposited in each county’s Educational Revenue Augmentation Fund (“ERAF”). These property taxes are permanently excluded from the City’s property tax revenues. On July 24, 2009, the California legislature approved amendments to the 2009-10 Budget to close its anticipated \$26.3 billion budget shortfall. The approved amendments include borrowing from local governments by withholding of the equivalent of 8% of Fiscal Year 2008-09 property related tax revenues from cities’ and counties’ property tax collections under provisions of Proposition 1A (approved by the voters in 2004), which the State must repay with interest within three years.

In addition, certain other provisions in the State budget have resulted in a realignment of property tax revenues. On March 2, 2004, voters approved a bond initiative formally known as the “California

Economic Recovery Act.” This act authorized the issuance of \$15 billion in bonds to finance the 2002-03 and 2003-04 State budget deficits, to be payable from a fund to be established by the redirection of tax revenues through the “Triple Flip.” Under the “Triple Flip,” one-quarter of local governments’ 1% share of the sales tax imposed on taxable transactions within their jurisdiction is redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provides for property taxes in the ERAF to be redirected to local government. Because the ERAF moneys were previously earmarked for schools, the legislation provides for schools to receive other state general fund revenues. It is expected that the swap of sales taxes for property taxes would terminate once the deficit financing bonds were repaid, which is currently expected to occur in approximately 12 years. The sales tax received through an in lieu payment from State property tax revenues was approximately \$406,799 for Fiscal Year 2015-16.

The City receives a portion of Department of Motor Vehicles license fees (“VLF”) collected statewide. Several years ago, the State-wide VLF was reduced by approximately two-thirds. However, the State continued to remit to cities and counties the same amount that those local agencies would have received if the VLF had not been reduced, known as the “VLF backfill.” A temporary two-year increase in VLF rates went into effect on May 19, 2009 and expired on July 1, 2011. This increased the funding of VLF from fees and reduced the State’s VLF backfill from the property tax realignment. The temporary increase was not renewed by the State Legislature, and had a negative impact on the amount the City received from these fees in Fiscal Year 2013-14. As a result, the City received a VLF amount of \$13,632 for Fiscal Year 2013-14. The State VLF backfill received through an in lieu payment from State property tax revenues was approximately \$1,699,783. **[any recent impact?]**

### **Other Local Taxes**

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

**Sales Tax.** Sales tax is collected and distributed by the Board of Equalization. The City receives one percent of the 9% of taxes assessed on retail sales or leases of tangible personal property in the City.

#### Voter-Approved Sales Taxes:

In addition, a general tax was approved by the voters of the City in June 2012 by a margin of 73.56% (“Measure Q”). Measure Q authorized an increase in the City’s sales tax rate over a ten-year period, with the proceeds of the tax earmarked for public safety, youth services, economic development and other general purposes. The Measure Q sales tax rate is 0.50% for the first five years, declining to 0.25% for the next 5 years. The tax expires after 10 years.

The voters of the City approved a special tax for public safety in June 2014 by a margin of 70.80% (“Measure K”). The Measure K sales tax rate is 0.25% and has no expiration date. The proceeds from the Measure K sales tax must be spent on emergency medical purposes.

**Utility Users Tax.** The City levies a 7% general tax on its cable television, telephone, electricity, natural gas and water service.

**Transient Occupancy Tax.** The City levies a 12% tax on persons staying in a hotel, inn, motel, tourist home or other lodging facility.

**Business Licenses.** The City levies a business license tax based on either the number of employees a business has or its projected gross receipts. Business License Taxes include payments received by the City pursuant to a municipal services agreement with the Lytton Band of Pomo Indians. See “THE CITY – Municipal Services Agreement with the Lytton Band of Pomo Indians.”

**Franchise Taxes.** The City levies a 7% tax paid by franchisees (utilities) for the right to operate exclusively in the City.

**Payment in lieu of Taxes.** The City receives a “Minimum Payment” pursuant to the MSA which the City classifies as a payment in lieu of taxes. The Minimum Payment is \$1,500,000 per year, adjusted annually by up to 2% based on the change in real property taxes otherwise paid by owners of commercial property within the City. In the Fiscal Year ended June 30, 2016, the amount totaled \$790,828.

**Other Taxes.** Other taxes include miscellaneous revenues received by the City, e.g. charges for services (such as building permits, design revenues, and fees for recreation programming), fines and fees, licenses and permits (such as non-casino related business licenses), use of property and money (such as interest income and room rentals).

The following table sets forth the revenues received by the General Fund for the categories shown for the past four Fiscal Years.

**TABLE 6  
CITY OF SAN PABLO  
GENERAL FUND TAX REVENUES BY SOURCE**

	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
Property Taxes	\$ 529,160	\$ 250,754	\$ 681,164	\$ 839,685	\$ 722,759
Sales Taxes	1,304,322	2,155,036	2,807,738	3,199,425	3,298,942
In-lieu Sales Taxes	421,134	468,552	548,465	490,239	406,799
Transient Occupancy Taxes	309,167	356,177	424,570	455,006	523,213
Utility Users Taxes	2,339,064	2,473,792	2,553,954	2,467,509	2,577,538
Business License Taxes	15,501,584	17,105,522	17,951,434	19,390,921	22,665,705
Franchise Taxes	540,565	627,473	719,358	884,123	790,828
Payment In-Lieu of Taxes	1,757,473	1,792,638	1,828,490	1,865,060	1,902,362
Motor Vehicle License Fees	1,688,305	1,654,714	1,713,415	1,961,310	2,152,285
Other Revenues	<u>1,199,545</u>	<u>1,398,802</u>	<u>4,947,078<sup>(1)</sup></u>	<u>4,368,061</u>	<u>6,465,146</u>
Total Taxes	<b>\$25,590,318</b>	<b>\$28,283,460</b>	<b>\$34,175,666</b>	<b>\$35,921,340</b>	<b>\$41,505,576</b>

<sup>(1)</sup> The fiscal year over year increase is due to grant funds received for capital projects. In 2014, the City received \$5.2 million in funding, primarily from Proposition 84 (\$2.6 million) and Measure WW (\$0.6 million), to build the San Pablo Community Center and \$1.9 million from a Natural Resources Agency grant for the daylighting of the creek at Davis Park. [similar note for next two years?]

Source: City of San Pablo.

## **Municipal Services Agreement with the Lytton Band of Pomo Indians**

The Lytton Band is a federally recognized Indian Tribe that owns and operates the San Pablo Lytton Casino (the “Casino”). The Casino opened for business in October 2003 and hosts more than 1,300 Class II video bingo gaming machines and 16 Class II gaming tables in a 71,754 square foot single-story concrete block facility situated on 3.83 acres located at 13255 San Pablo Avenue in San Pablo, California.

In September 1999, prior to the opening of the Casino, the City and the Lytton Band entered into the Municipal Services Agreement wherein the Lytton Band agrees to make certain payments to the City, in return for which, the City agrees to provide general municipal services, such as water, sewer, police, fire, emergency medical, and sanitation services, to the Casino.

Under the MSA, the Lytton Band is required to make two types of payments to the City: Minimum Payments and Incremental Payments. The “Minimum Payment” is equal to \$1,500,000 per year, payable semi-annually in equal installments on December 15 and April 15, which amount is increased or decreased each year in proportion to the annual change in real property taxes paid by owners of commercial property within the City, subject to a maximum annual increase or decrease of 2%.

In addition to Minimum Payments, as long as the Lytton Band operates the Casino as a Class II gaming facility pursuant to the Indian Gaming Regulatory Act (the “IGRA”), then the Lytton Band is also required to pay the City an “Incremental Payment” equal to the greater of \$900,000 (adjusted annually based on the change in the Consumer Price Index) or 7.5% of Gross Gaming Revenues, payable in equal quarterly installments on the 15<sup>th</sup> day of March, June, September and December.

The MSA provides that if the Lytton Band operates the Casino as a Class III gaming facility pursuant to the IGRA, then the Incremental Payment shall instead be equal to \$3,500,000 per year (adjusted annually for Consumer Price Index inflation), payable quarterly in equal installments on the 15<sup>th</sup> day of March, June, September and December; provided, however, that in no event shall the annual payment exceed 5.40% of Gross Gaming Revenues.

As used herein, “Gross Gaming Revenues” means the total win (or hold) from gaming activities paid to Lytton Band by patrons for gaming after deducting the total revenues paid to patrons as a result of gaming, but before deducting costs and expenses.

Since opening the Casino, the Lytton Band has operated the Casino as a Class II casino. Under the IGRA, Class II gaming is defined as the game of chance commonly known as bingo (whether or not electronic, computer, or other technological aids are used in connection therewith) and, if played in the same location as bingo, then pull tabs, punch board, tip jars, instant bingo, and other games similar to bingo. Class II gaming also includes “non-banked” card games, meaning, games that are played exclusively against other players rather than against the house or a player acting as a “bank.” Class II gaming excludes slot machines or electronic facsimiles of any game of chance.

Indian tribes are authorized to conduct, license, and regulate Class II gaming so long as the state in which the Indian tribe is located permits such gaming, and the tribal government adopts a gaming ordinance that is approved by the National Indian Gaming Commission.

Class III gaming, as opposed to Class II gaming, includes all forms of gaming that are not covered by either Class I or Class II. Games commonly played at “Las Vegas-style” casinos such as slot machines, blackjack, craps, and roulette fall in the Class III category, as do wagering games and electronic facsimiles of any game of chance.

Under the IGRA, an Indian tribe may conduct Class III gaming if it adheres to the following conditions: (i) the form of Class III gaming that a tribe wants to conduct must be permitted in the state in which the Indian tribe is located; (ii) the Indian tribe and the state in which the Indian tribe is located must negotiate a “compact” that has been approved by the United States Secretary of the Interior; and (iii) the tribe must adopt a gaming ordinance that is approved by the National Indian Gaming Commission. In addition, the “compact” must be approved by the Governor of the State and ratified by the State legislature. See “RISK FACTORS - Concentration of Revenues; MSA Payments and the General Fund.”

Since opening the Casino in 2003, the Lytton Band has paid to the City the following amounts pursuant to the Municipal Services Agreement:

<b>Fiscal Year Ending June 30,</b>	<b>Minimum Payment</b>	<b>Incremental Payment</b>	<b>Total MSA Payment</b>
2004	\$1,499,608	\$ 1,570,870	\$ 3,070,478
2005	1,529,600	2,962,895	4,492,495
2006	1,560,600	7,418,852	8,979,452
2007	1,591,812	9,500,085	11,091,897
2008	1,623,648	10,962,864	12,586,512
2009	1,656,121	12,366,609	14,022,731
2010	1,689,243	12,798,388	14,487,631
2011	1,723,008	13,615,664	15,338,672
2012	1,757,473	15,501,583	17,259,056
2013	1,792,638	17,150,522	18,943,160
2014	1,828,490	17,951,434	19,779,924
2015	1,865,060	19,390,921	21,255,981
2016	1,902,362	22,665,705	24,568,067

All amounts paid by the Lytton Band to the City pursuant to the MSA are, upon receipt, deposited into the General Fund. Historically, such payments have comprised a significant share of total General Fund revenues, as follows:

<b>Fiscal Year Ending June 30,</b>	<b>Total MSA Payment</b>	<b>Total General Fund Revenue</b>	<b>MSA Payment Share of General Fund</b>
2004	\$ 3,070,478	\$ 9,833,447	31%
2005	4,492,495	11,340,192	40
2006	8,979,452	17,060,136	53
2007	11,091,897	18,587,487	60
2008	12,586,512	21,489,084	59
2009	14,022,731	22,510,077	62
2010	14,487,631	21,906,393	66
2011	15,338,672	23,559,975	65
2012	17,259,056	26,359,916	65
2013	18,943,160	29,014,434	65
2014	19,779,924	34,320,177	58
2015	21,255,981	35,921,340	59
2016	24,568,067	41,505,576	59

**Reserve Policy.** To safeguard the long-term fiscal health of the City, the City Council adopted an updated reserve policy on October 23, 2013 (the “Reserve Policy”), establishing minimum funding levels for various reserve funds, as follows:

- Catastrophic Reserve Fund – to mitigate the risk of a severe natural disaster or other calamity, the Reserve Policy requires that a Catastrophic Reserve be funded in an amount equal to 50% of the annual Total Operating Funds budget, including transfers to the Capital Projects Fund. Withdrawals from the Catastrophic Reserve Fund require a statement of findings and/or declaration of emergency from the City Council, and must be replenished within three fiscal years. The Catastrophic Reserve Fund balance at June 30, 2016 equaled \$17,088,368.
- Budget Stabilization Reserve Fund – the Reserve Policy requires that a Budget Stabilization Reserve be funded in an amount equal to 5.0% of the Total Operating Funds budget, including transfers to the Capital Projects Fund to mitigate the risk of an economic downturn, an unforeseen decline in general fund revenue or large, unanticipated one-time expenses. Withdrawals from the Budget Stabilization Reserve Fund require approval of the Budget Services Ad-Hoc Subcommittee and a statement of findings by the City Council, and must be replenished the following fiscal year. The Budget Stabilization Reserve Fund balance at June 30, 2016 equaled \$1,708,837.
- Designated Reserve Fund – to set-aside funds in advance to cover large, expected future increases in operating expenditures, such as for employee pension and benefits costs, or planned equipment replacement, the City Council deposits monies into a Designated Reserve Fund. The Designated Reserve Fund balance at June 30, 2016 equaled \$3,955,297.
- Capital Projects Reserve Fund – the City Council has established a Capital Projects Reserve Fund into which it may deposit monies for large, future capital improvement projects. The Capital Projects Reserve Fund balance at June 30, 2016 equaled \$8,550,000.
- Additional General Fund Balance – in addition to the specific reserves established under the Reserve Policy, at June 30, 2016, the unassigned balance in the General Fund equaled \$19,436,322.

**MSA Payment Interruption Insurance.** Due to the importance of payments received under the MSA to the fiscal health of the General Fund, the City through its participation in the Municipal Pooling Authority is insured against the loss of MSA Payments up to \$100,000,000 per occurrence (combined business interruption, rental income and tax revenue interruption and tuition income), if damage or destruction of Casino property partially or wholly prevents the payment of MSA Payments. The insurance covers 100% of any actual loss sustained, by the City for the length of time that would be necessary, with the exercise of due diligence and dispatch, to rebuild, replace or repair the damage, less the Municipal Pooling Authority’s individual members’ \$25,000 deductible. In the Lease, the City covenants that as long as the Bonds are outstanding, the City shall maintain such insurance to the extent commercially available and financially feasible. **[confirm paragraph remains accurate]**

## **Redevelopment Agencies**

Until February 1, 2012, the California Redevelopment Law (Part 1 of Division 24 of the Health & Safety Code of the State) authorized 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 was formed. In effect, local taxing authorities, such as the City, realized tax revenues only on the assessed value of such property at the time the redevelopment project was created for the duration of such redevelopment project.

The State Legislature approved two bills, AB X1 26 and AB X1 27, during the 2011-12 State budget process. AB X1 26 contemplated the elimination of redevelopment agencies State-wide, and AB X1 27 proposed to authorize the continued existence of redevelopment agencies that agreed to remit a percentage of their “tax increment” to the State’s taxing entities. The California Redevelopment Association and the League of California Cities filed a petition with the California Supreme Court (the “Court”), requesting the Court to review the constitutionality of AB X1 26 and AB X1 27. On December 29, 2011, the Court issued its opinion and upheld AB X1 26, but invalidated AB X1 27. As a result of the decision, all California redevelopment agencies, including the Former Redevelopment Agency, were dissolved as of February 1, 2012. Certain tax revenues allocable to the Former Redevelopment Agency will continue to be allocated to the Successor Agency to the Former Redevelopment Agency, to pay certain financial obligations approved by the Successor Agency’s Oversight Board and State Department of Finance (“DOF”), and some of those revenues may be redirected to other taxing agencies, such as the County, school districts and the City.

## **Direct and Overlapping Debt**

Set forth below for the City is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics, Inc., and dated as of \_\_\_\_\_, 201\_\_\_. The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith. The Debt Report generally includes long term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases long-term obligations issued by a public agency are payable from the general fund or other revenues of such public agency.

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**TABLE 8**  
**CITY OF SAN PABLO**  
**Direct and Overlapping Debt Statement**  
**(\_\_\_\_\_, 201\_\_)**

[to come]

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*Source: California Municipal Statistics, Inc.*

## Other General Fund Long-Term Obligations

In addition to the Series 2015 Bonds, the City’s obligations payable from the General Fund are listed below. For additional details regarding such obligations see APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE CITY OF SAN PABLO FOR THE FISCAL YEAR ENDING JUNE 30, 2016 – Note 7 Long-Term Debt.”

<u>Long-Term Obligation</u>	<u>Original Principal Amount</u>	<u>Principal Balance June 30, 2016</u>
Helms Community Center Capital Lease: 3.32%, due 12/31/2054	\$8,764,917	\$8,764,917
Solar Panel Loan <sup>(1)</sup> 1.0%, due 12/22/2029	1,141,738	1,081,756
New Markets Community Capital XI, LLC (NMCC) 1.36%, due 12/1/52	6,510,080 2,795,920	6,510,080 2,795,920
Northern California Community Capital NMTC Sub-CDE XII, LLC 0.8619%, due 6/15/2045	4,947,116 2,552,884	4,947,116 2,552,884
Total		<u>\$26,652,673</u>

<sup>(1)</sup> [plan for this loan in connection with the Project?]

## Investment Policy

The City administers a pooled investment program with its available funds, excluding the employees’ retirement funds, which are administered separately, and those funds which are managed separately by trustees appointed under bond indentures. The most recently revised Investment Policy for the City was adopted on June 5, 2017 to “establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the City and the Successor Agency.” As of May 31, 2017, the City had \$64,290,127 in cash and investments available for operations.

## Pension Plans

The City 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. Benefit provisions and all other requirements are established by state statute. Copies of CalPERS’ annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

All qualified permanent and probationary employees are eligible to participate in the City’s separate Safety (police) and Miscellaneous (all other) Employee Pension Rate Plans. The City’s Miscellaneous and Safety Rate Plans are part of the public agency cost-sharing multiple employer defined benefit pension plan (“PERF C”), which is administered by the California Public Employees’ Retirement System (“CalPERS”). PERF C consists of a miscellaneous pool and a safety pool (also referred to as “risk pools”), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The City sponsors four rate plans (two miscellaneous and two safety). Benefit provisions under the plans are established by State statute and City resolution.

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

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

***Safety:***

	Before January 1, 2013	On or after January 1, 2013
Hire date		
Benefit Formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years’ service	5 years’ service
Benefit payments	monthly for life	monthly for life
Retirement age	50	50-57
Monthly benefits, as a % of annual salary	3.0%	2.0%-2.7%
Required employee contribution rates	9.0%	11.50%
Required employer contribution rates	18.524%	11.153%

***Miscellaneous:***

	Before January 1, 2013	On or after January 1, 2013
Hire date		
Benefit Formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 years’ service	5 years’ service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of annual salary	2.0%-2.5%	1.0%-2.5%
Required employee contribution rates	8.0%	6.25%
Required employer contribution rates	9.671%	6.237%

The City’s labor contracts require sworn safety employees hired on or before January 1, 2013 to pay 12.3% of the contributions, consisting of the 9.0% statutorily-required employee share plus 3.3% of the employer share, and all other employees hired on or before January 1, 2013 to pay 10.3% of the contributions, consisting of the 8.0% statutorily-required employee share plus 2.3% of the employer share. Sworn safety and all other employees hired on or after January 1, 2013 are statutorily required to pay the employee share of 11.5% and 6.25%, respectively.

CalPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City’s total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the City must pay annually to fund an employee’s projected retirement

benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The City uses the actuarially determined percentages of payroll to calculate and pay contributions to CalPERS. This results in no net pension obligations or unpaid contributions.

Annual Pension Costs, representing the payment of all contributions required by CalPERS, for the last five Fiscal Years were as follows: **[confirm 2015 and 2016 % and Net Pension Obligation]**

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
<b><i>Safety Plan</i></b>			
June 30, 2012	\$1,316,888	100%	0
June 30, 2013	1,374,694	100	0
June 30, 2014	1,413,352	100	0
June 30, 2015	1,494,686	100	0
June 30, 2016	1,663,467	100	0
<b><i>Miscellaneous Plan</i></b>			
June 30, 2012	\$ 610,980	100%	0
June 30, 2013	623,493	100	0
June 30, 2014	655,550	100	0
June 30, 2015	658,427	100	0
June 30, 2016	872,009	100	0

CalPERS most recent reports, each dated August 2016, for the valuation as of June 30, 2015 (the “CalPERS Valuation”), estimated that the City’s contributions for the Safety Plan based on projected payroll would be \$1,991,072 for Fiscal Year 2016-17 and \$2,259,638 for Fiscal Year 2017-18. That valuation also estimated that the City’s contributions for the Miscellaneous Plan would be \$1,153,423 for Fiscal Year 2016-17 and \$1,242,201 for Fiscal Year 2017-18.

The following table from the CalPERS Valuation shows the Safety Plan’s actuarial accrued liability, share of the CalPERS pool’s market value of assets, share of the pool’s unfunded liability, funded ratio, and annual covered payroll.

<b>Valuation Date</b>	<b>Accrued Liability</b>	<b>Share of Pool’s Market Value of Assets</b>	<b>Plan’s Share of Pool’s Unfunded Liability</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>
06/30/2011	\$58,667,016	\$46,202,872	\$12,464,144	78.8%	\$6,614,126
06/30/2012	62,799,868	46,214,196	16,585,672	73.6	6,344,586
06/30/2013	66,384,580	51,463,796	14,920,784	77.5	6,034,084
06/30/2014	73,787,869	59,958,959	13,828,910	81.3	5,550,068
06/30/2015	78,241,904	60,676,886	17,565,018	77.6	5,838,381

The following table from the CalPERS Valuation shows the Miscellaneous Plan’s actuarial accrued liability, share of the CalPERS pool’s market value of assets, share of the pool’s unfunded liability, funded ratio, and annual covered payroll.

<b>Valuation Date</b>	<b>Accrued Liability</b>	<b>Share of Pool’s Market Value of Assets</b>	<b>Plan’s Share of Pool’s Unfunded Liability</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>
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06/30/2011	\$42,790,913	\$32,542,785	\$10,248,128	76.1%	\$5,739,094
06/30/2012	44,063,861	31,405,175	12,658,686	71.3	5,618,473
06/30/2013	44,270,270	33,730,654	10,539,616	76.2	5,081,317
06/30/2014	47,941,500	38,050,569	9,890,931	79.4	4,799,082
06/30/2015	49,551,739	37,401,396	12,150,343	75.5	4,504,161

**California Public Employees’ Pension Reform Act of 2013.** The Governor signed the California Public Employee’s Pension Reform Act of 2013 (the “PEPRA”) into law on September 12, 2012. PEPRA affects CalPERS, most substantially as it relates to new employees hired on or after January 1, 2013 (the “Implementation Date”). For non-safety CalPERS participants hired on or after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and also increases the eligibility requirement for the maximum age factor of 2.5% to age 67.

PEPRA also implements certain other changes to CalPERS including the following: (a) all new participants enrolled in CalPERS after the Implementation Date are required to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (b) CalPERS is required to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date, and (c) “pensionable compensation” is capped for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for PERS members not participating in social security.

The following table from the CalPERS Valuation shows the PEPRA Safety Plan’s actuarial accrued liability, share of the CalPERS pool’s market value of assets, share of the pool’s unfunded liability, funded ratio, and annual covered payroll.

<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Share of Pool’s Market Value of Assets</u>	<u>Plan’s Share of Pool’s Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>
06/30/2013	\$ 1,008	\$ 1,479	\$ (471)	146.7%	\$ 84,287
06/30/2014	49,188	51,828	(2,640)	105.4	278,751
06/30/2015	130,209	123,388	6,821	94.8	420,591

The following table from the CalPERS Valuation shows the PEPRA Miscellaneous Plan’s actuarial accrued liability, share of the CalPERS pool’s market value of assets, share of the pool’s unfunded liability, funded ratio, and annual covered payroll.

<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Share of Pool’s Market Value of Assets</u>	<u>Plan’s Share of Pool’s Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>
06/30/2013	\$ 648	\$ 869	\$ (221)	134.1%	\$ 100,696
06/30/2014	54,277	56,950	(2,673)	104.9	810,582
06/30/2015	195,469	184,798	10,671	94.5	1,221,947

**CalPERS Contribution Rate Increases.** On April 17, 2013 the CalPERS Board of Administration approved new actuarial policies aimed at fully funding the pension system’s obligations within 30 years. The new policies include a rate-smoothing method with a 30-year fixed amortization period for gains and losses. CalPERS announced that, based on investment return simulations performed for the next 30 years, increasing contributions more rapidly in the short term is expected to result in almost a 25% improvement

in funded status over a 30-year-period. The new amortization schedule will be used to set contribution rates for public agency employers in the State beginning in the 2015-16 Fiscal Year. This delay is intended to allow the impact of the changes to be built into the projection of employer contribution rates and afford employers with additional time to adjust to the changes.

According to CalPERS, the new policies will result in an increased likelihood of higher peak employer contribution levels in the future but will not significantly increase average contribution levels. The median employer contribution rate over the next four years is expected to be higher. In the long-term, however, higher funded levels may result in lower employer contributions.

Beginning with the June 30, 2013 valuations that set the Fiscal Year 2015-16 rates, CalPERS employed an amortization and rate smoothing policy that pays for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. The table below shows projected employer contribution rates (before cost sharing) for the next five Fiscal Years, assuming CalPERS earns 12% for fiscal year 2012-13 and 7.50 percent every fiscal year thereafter, and assuming that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur between now and the beginning of the fiscal year 2015-16. Consequently, these projections do not take into account potential rate increases from likely future assumption changes. Nor do they take into account the positive impact PEPRA is expected to gradually have on the normal cost.

On February 20, 2014, the CalPERS Board of Administration adopted new mortality and retirement assumptions as part of a regular review of demographic experience. Key assumption changes included longer post-retirement life expectancy and earlier retirement ages. The impact of the assumption changes will be phased in over five years, with a twenty-year amortization, beginning in the 2016-17 Fiscal Year. The City is monitoring these changes but is not currently able to predict the level of increases to the City's required contributions.

On December 21, 2016, the CalPERS Board voted to reduce the current 7.5% discount rate to 7.375% for fiscal year 2017-18, 7.25% for fiscal year 2018-19, and 7.00% beginning fiscal year 2019-20. The new discount rates are effective beginning July 1, 2017 for the State and July 1, 2018 for cities, including the City. The change in the assumed rate of return is expected to result in increases in the City's normal costs and unfunded actuarial liabilities.

### **Public Agency Retirement System**

The Omnibus Budget Reconciliation Act of 1990 mandates that public sector employees who are not members of their employer's existing system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's part-time, seasonal and temporary employees are covered under the Public Agency Retirement System ("PARS"), a defined contribution plan, which requires these employees to contribute 6% and the City to contribute 1.5% of the employees pay plus administration costs. The City's required contributions of \$7,815 and the employee's required contributions of \$37,270 were made during the fiscal year ending June 30, 2016.

### **Other Post-Employment Benefits**

In 2004, the Governmental Accounting Standards Board ("GASB") issued Statement 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions" ("GASB 45"). GASB 45 requires state and local government employers, including the City, to measure, recognize and report costs and obligations for health and other benefits of current and future retired

employees. Other post-employment benefits (“OPEB”) include medical, dental, vision, hearing, life insurance, long-term care and long-term disability.

The City provides medical and dental benefits to substantially all retirees under the City of San Pablo Retiree Health Savings Plan (the “Health Savings Plan”), an agent multiple-employer defined benefit healthcare plan. The Health Savings Plan does not issue separate financial statements. Coverage is also provided for spouses of employees having a minimum of 20 years of service at retirement. As of July 1, 2016 there were 64 participants receiving these health care benefits. The Health Savings Plan provisions and benefits in effect at July 1, 2016 are summarized as follows:

	<b>Police Association</b>	<b>Local One</b>	<b>City Manager, City Attorney, Executive Managers, and Elected Officials<sup>(5)</sup></b>	<b>Confidential/Exempt, Division Managers and AIE</b>
Benefit Types Provided	Medical only	Medical only	Medical only	Medical only
Duration of Benefits <sup>(1)</sup>	Lifetime <sup>(2)</sup>	Lifetime <sup>(2)</sup>	Lifetime	Lifetime <sup>(2)</sup>
Required Service:				
Basic (PEMHCA minimum)	Retirement under CalPERS (5 years, service minimum)			
Supplemental	10 years for single 20 years for two party	15 years	10 years	15 years
Minimum Age	50 Max one dependent (20 years)	50	50	50
Dependent Coverage		Yes	Yes	Yes
City Contribution 100%	100%	100%	100%	100%
City Contribution Cap per Month (Basic) <sup>(3)</sup>	\$125	\$125	\$125	\$125
City Contribution Cap per Month (Supp)	Kaiser <sup>(4)</sup>	15 years svc: \$135 25 yrs svc: \$355 <sup>(6)</sup>	None	15 years svc: \$135 25 yrs svc: \$355 <sup>(6)</sup>

<sup>(1)</sup> Duration is subject to limitations as specified in the Memorandum of Understanding with each bargaining unit.

<sup>(2)</sup> Supplemental coverage only to age 65.

<sup>(3)</sup> Subject to minimum contributions under the Public Employees Medical and Hospital Care Act (“PEMHCA”) should statutory minimums exceed the rates noted.

<sup>(4)</sup> Those hired before May 1, 1986 who have 20+ years of service with the City are entitled to single coverage beyond age 65.

<sup>(5)</sup> Elected Officials are eligible for retiree medical if served 8 years (2 terms) and were elected prior to 2013, eligible for retiree dental if served 12 years.

<sup>(6)</sup> \$355 per month if receiving 2 party or family coverage.

Source: APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE CITY OF SAN PABLO FOR THE FISCAL YEAR ENDED JUNE 30, 2016,” Note 9.

The City elected to establish an irrevocable trust to provide a funding mechanism for OPEB. The activities of the Trust are accounted for in the Retiree Health Savings Plan Trust Fund. See APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE CITY OF SAN PABLO FOR THE FISCAL YEAR ENDED JUNE 30, 2016,” Note 9.

**Funding Policy and Actuarial Assumptions.** The City’s policy is to prefund these benefits by accumulating assets in the Trust Fund discussed above pursuant to City Council Resolution 2007-024 (the “OPEB Resolution”). The annual required contribution (“ARC”) was determined as part of a July 1, 2014 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those

already accrued. The actuarial assumptions included (a) 6.8% investment rate of return, (b) 2.75% projected annual salary increase, and (c) 4% health inflation increases. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The actuarial value of assets was determined using a 15-year smoothing formula and a 20% market value corridor. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis using a 30-year amortization period.

In accordance with the OPEB Resolution, the City's annual contributions to the Health Savings Plan are based on pay-as-you-go financing plus an additional amount to prefund benefits as determined by the Council. Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. Contributions to the Trust began on April 20, 2006, thus these assets were excluded from the July 1, 2005 actuarial study. During the fiscal year ended June 30, 2016, the City contributed \$492,879 to the Health Savings Plan, representing pay-as-you-go premiums. As a result, the City has calculated and recorded the Net OPEB Asset, representing the difference between the ARC, amortization and contributions, as presented below:

Annual required contribution	\$ 196,633
Interest on net OPEB obligation (asset)	(290,463)
Adjustment to annual required contribution	<u>449,150</u>
Annual OPEB cost	355,320
Contributions made	<u>(492,879)</u>
Increase in net OPEB asset	(137,559)
Net OPEB asset June 30, 2015	<u>(4,271,510)</u>
Net OPEB asset June 30, 2016	<u>(\$4,409,069)</u>

*Source: APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CITY OF SAN PABLO FOR THE FISCAL YEAR ENDED JUNE 30, 2016," Note 9.*

The Health Savings Plan's annual required contributions and actual contributions for the years ended June 30, 2014, 2015 and 2016 are set forth below:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2014	\$458,366	\$375,417	82%	(\$4,100,588)
6/30/2015	339,583	510,505	150	(4,271,510)
6/30/2016	355,320	495,353	139	(4,409,069)

*Source: APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CITY OF SAN PABLO FOR THE FISCAL YEAR ENDED JUNE 30, 2016," Note 9.*

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented on the following table.

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Liability (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A – B)/C]
7/1/2008	\$5,051,901	\$4,386,044	\$665,857	115.18%	\$13,455,712	4.9%
7/1/2011	6,129,795	6,067,235	62,560	101.03	12,707,312	0.5
7/1/2014	7,457,704	7,020,530	437,174	106.23	12,503,086	3.5

Source: The City.

## STATE OF CALIFORNIA BUDGET INFORMATION

### State Budget

Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading “California Budget.” An impartial analysis of the budget is posted by the Office of the Legislative Analyst (the “LAO”) at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on cities in the State, may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov). The information referred to is prepared by the respective State agency maintaining each website and not by the City or the Authority, and the City and the Authority can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

**Proposition 30.** The passage of the Governor’s November Tax Initiative (“Proposition 30”) placed on the November, 2012 ballot results in an increase in the State sales tax by a quarter-cent for four years and, for seven years, raising taxes on individuals after their first \$250,000 in income and on couples after their first \$500,000 in earnings. These increased tax rates will affect approximately 1 percent of California personal income tax filers and will be in effect starting in the 2012 tax year, ending at the conclusion of the 2018 tax year. The LAO estimated that, as a result of Proposition 30, additional state tax revenues of about \$6 billion annually from 2012–13 through 2016–17 will be received by the State with lesser amounts of additional revenue available in fiscal years 2011–12, 2017–18, and 2018–19. Proposition 30 also places into the State Constitution certain requirements related to the transfer of certain State program responsibilities to local governments, mostly counties, including incarcerating certain adult offenders, supervising parolees, and providing substance abuse treatment services.

**California Public Employees’ Pension Reform Act.** On September 12, 2012, Governor Brown signed Assembly Bill 340, creating PEPRA. Among other things, PEPRA creates a new benefit tier for new employees/members entering public agency employment and public retirement system membership for the first time on or after January 1, 2013. The new tier has a single general member benefit formula and three safety member benefit formulas that must be implemented by all public agency employers unless the formula in existence on December 31, 2012 has both a lower normal cost and a lower benefit factor at normal retirement age. PEPRA requires that all new employees/members, hired on or after January 1, 2013, pay at least 50% of the normal cost contribution. The normal cost contribution is the contribution set by

the retirement system's actuary to cover the cost of a current year of service. The City believes that the provisions of PEPRRA will help to control its pension benefit liabilities in the future.

**2017-18 Proposed State Budget.** On January 10, 2017 Governor Brown released his 2017-18 Proposed State Budget (the "2017-18 Proposed Budget.") which sets forth a \$179.5-billion spending plan and seeks to resolve a projected \$1.6-billion deficit resulting from slower-than-expected growth in public school funding and the rolling back of a series of one-time expenses.

The 2017-18 Proposed Budget, however, does not take into account the possible repeal of the Affordable Care Act (the "ACA") which could have a significant impact on the State which currently receives federal subsidies to Medi-Cal in excess of \$16 billion. The 2017-18 Proposed Budget allocates \$154.6 billion for all health and human services programs, approximately the same amount as in the 2016-17 Fiscal Year; approximately \$18.1 billion on the State's roads and highways and transit agencies; and includes a transportation funding package that would generate a further \$1.8 billion in the first year, with revenues ultimately rising to about \$4.2 billion annually. Under the 2017-18 Proposed Budget, the State would allocate \$178 million in drought relief and \$2.2 billion from cap-and-trade auctions on high-speed rail, light rail systems and other energy efficiency programs. The 2017-18 Proposed Budget also allocates \$14.6 billion from the State's General Fund to higher education, including financial aid, so that California community colleges would receive a total of approximately \$121 million in excess of the amount received in the 2016-17 Fiscal Year. The 2017-18 Proposed Budget also provides that K-12 schools would receive \$73.5 billion in the 2017-18 Fiscal Year under the State's minimum funding guarantee, an increase of approximately 3 percent from the 2016-17 Fiscal Year, and provides for an amount spent per K-12 student averaging \$15,216, an increase of \$394 per student from the 2016-17 Fiscal Year. **[to be revised as budget develops]**

### **Future State Budgets**

No prediction can be made by the City as to whether the State will encounter budgetary problems in future fiscal years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on City finances and operations or what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. There can be no assurance that actions taken by the State to address its financial condition will not materially adversely affect the financial condition of the City. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the City has no control.

### **RISK FACTORS**

*Purchase of the Bonds will constitute an investment subject to certain risks, including the risk of nonpayment of principal and interest. Before purchasing any of the Bonds, prospective investors should carefully consider, among other things, the risk factors described below. However, the following is not meant to be an exhaustive listing of all the risks associated with the purchase of the Bonds. Moreover, the order of presentation of the risk factors does not necessarily reflect the order of their importance.*

### **Substitution of Property**

Pursuant to the Lease, the City will have, so long as the Lease is in effect, the option at any time and from time to time, to substitute other real property and/or improvements for any portion of the Leased Property or release any identifiable real property and/or improvements constituting the Leased Property, provided that the City shall satisfy all of the requirements set forth in the Lease. See APPENDIX C –

“SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – The Lease – Substitution and Release of Property.”

### **Base Rental Payments Are Not Debt; Bonds are Limited Obligations**

The obligation of the City to make the Base Rental Payments under the Lease does not constitute 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. Neither the Bonds nor the obligation of the City to make Base Rental Payments constitutes a debt of the City, the State or any political subdivision thereof (other than the Authority) within the meaning of any constitutional or statutory debt limitation or restriction.

The Bonds are not general obligations of the Authority, but are limited obligations payable solely from and secured by a pledge of Revenues and amounts held in the funds and accounts created under the Indenture, consisting primarily of applicable Base Rental Payments. The Authority has no taxing power.

The Bonds are being issued by the Authority pursuant to the Act. The Supreme Court of the State in its 1998 decision of *Rider v. City of San Diego*, 18 Cal. 4<sup>th</sup> 1035, upheld the validity of a joint powers agency financing and found that bonds issued pursuant to the Act and payable from lease payments made pursuant to a lease with the City of San Diego were not subject to the State constitutional provisions that require two-thirds voter approval of indebtedness incurred by a city, county or school district. No voter approval of the Bonds or the Lease has been sought.

Although the Lease does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease to pay the Base Rental Payments from any source of legally available funds and the City has covenanted in the Lease that, for so long as the Leased Property is available for its use, it will make the necessary annual appropriations within its budget for the Base Rental Payments. The City is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Base Rental Payments, or which the City, in its discretion, may determine to pay prior to the Base Rental Payments.

The City has the capacity to enter into other obligations payable from the City’s General Fund, without the consent of or prior notice to the Owners of the Bonds. To the extent that additional obligations are incurred by the City, the funds available to make Base Rental Payments may be decreased. In the event the City’s revenue sources are less than its total obligations, the City could choose to fund other activities before making Base Rental Payments and other payments due under the Lease. The same result could occur if state constitutional expenditure limitations were to prohibit the City from appropriating and spending all of its otherwise available revenues.

### **Abatement**

In the event of the loss of, damage to or destruction or condemnation of the Leased Property that causes the City not to have the use and possession of all or a substantial part of such Leased Property, the City’s obligation to make the Base Rental Payments due under the Lease will be abated and, notwithstanding: (i) the provisions of the Lease specifying the extent of such abatement, (ii) the funding of the Reserve Account for the Bonds, and (iii) rental interruption insurance covering loss of use of the Leased Property in an amount adequate to cover 24 months of Base Rental Payments, the resulting Base Rental Payments (and such other funds) may not be sufficient to pay all of the remaining principal of and interest on the Bonds. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – The Lease – Abatement of Rental.”

## **Risk of Uninsured Loss**

The City covenants under the Lease to maintain certain insurance policies on the Leased Property. These insurance policies do not cover all types of risk. The Leased Property could be damaged or destroyed due to earthquake or other casualty for which the Leased Property is uninsured. The Lease does not require earthquake insurance. Additionally, the Leased Property could be the subject of an eminent domain proceeding. Under these circumstances an abatement of Base Rental Payments could occur and could continue indefinitely. There can be no assurance that the providers of the City's liability will in all events be able or willing to make payments under the respective policies for such loss should a claim be made under such policies. Further, there can be no assurances that amounts received as proceeds from insurance or from condemnation of the Leased Property will be sufficient to repair the Leased Property or to redeem the Bonds and any other obligations secured by Base Rental Payments.

Certain of the City's insurance policies provide for deductibles up to \$500,000. Should the City be required to meet such deductible expenses, the availability of General Fund revenues to make Base Rental Payments may be correspondingly affected.

## **Eminent Domain**

If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease will cease as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property or any part thereof is taken temporarily, under the power of eminent domain, (a) the Lease will continue in full force and effect and will not be terminated by virtue of such taking, and (b) there will be a partial abatement of Base Rental Payments as a result of the application of net proceeds of any eminent domain award to the prepayment of the Base Rental Payments, in an amount to be agreed upon by the City and the Authority such that the resulting Base Rental Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Property. The City covenants in the Lease to contest any eminent domain award which is insufficient to either: (i) prepay the Base Rental Payments in whole, if all the Leased Property is condemned; or (ii) prepay a pro rata share of Base Rental Payments, in the event that less than all of the Leased Property is condemned.

## **Bankruptcy**

The City is a unit of State government and therefore is not subject to the involuntary procedures of the United States Bankruptcy Code (the "Bankruptcy Code"). However, pursuant to Chapter 9 of the Bankruptcy Code, the City may seek voluntary protection from its creditors for purposes of adjusting its debts. In the event the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have a priority of payment superior to that of the Base Rental Payments under the Lease as they relate to Revenues due to Owners of Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the City's debt (a "Plan") without the consent of the Trustee or all of the Owners of Bonds, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable.

In addition, the City could either reject the Lease or assume the Lease despite any provision of the Lease which makes the bankruptcy or insolvency of the City an event of default thereunder. In the event

the City rejects the Lease, the Trustee, on behalf of the Owners of the Bonds, would have a pre-petition claim that may be limited under the Bankruptcy Code and treated in a manner under a Plan over the objections of the Trustee or Owners of the Bonds. Moreover, such rejection would terminate the Lease and the City's obligations to make payments thereunder.

The Authority is a public agency and, like the City, is not subject to the involuntary procedures of the Bankruptcy Code. The Authority may also seek voluntary protection under Chapter 9 of the Bankruptcy Code. In the event the Authority were to become a debtor under the Bankruptcy Code, the Authority would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Such a bankruptcy could adversely affect the payments under the Indenture. Among the adverse effects might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the Authority or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the Authority; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have priority of payment superior to that of the Owners of the Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the Authority's debt without the consent of the Trustee or all of the Owners of the Bonds, which plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is fair and equitable. However, the bankruptcy of the Authority, and not the City, should not affect the Trustee's rights under the Lease. The Authority could still challenge the assignment, and the Trustee and/or the Owners of the Bonds could be required to litigate these issues in order to protect their interests.

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

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

### **No Limitation on Incurring Additional Obligations**

Neither the Lease nor the Indenture contains any limitations on the ability of the City to enter into other obligations that may constitute additional claims against its General Fund revenues. To the extent that the City incurs additional obligations, the funds available to make Base Rental Payments may be decreased. The City is currently liable on other obligations payable from General Fund revenues.

### **Natural Hazards**

The San Francisco Bay Area is one of the most seismically active regions of the United States. There are approximately 30 known faults in the region that are considered capable of generating earthquakes. The principal faults near San Pablo are the San Andreas Fault and the North Hayward Fault. The San Andreas Fault Zone is the predominant fault system in California and has historically generated some very large and destructive earthquakes. The nearest location of the San Andreas Fault is about 15 miles west of the City. The North Hayward Fault Zone pass directly underneath the eastern portion of the City and is considered a high earthquake hazard as any large movements would cause ground shaking and surface rupture in the area. Depending on its severity, an earthquake could result in abatement of Base Rental Payments under the Lease. See "RISK FACTORS – Abatement" above.

Flood-prone areas in San Pablo are generally located in topographically low areas and in areas close to shorelines and creeks. Flood zone mapping done by the Federal Emergency Management Authority

(“FEMA”) indicates that the area is most prone to flooding where San Pablo and Wildcat Creeks leave the City boundary on the west. In addition, there are flooding areas associated with Rheem Creek on the west side of the City. In December 2005, a series of four storms followed by two days of continuous rain saturated the watersheds in San Pablo and caused a major flood event that inundated the western and central parts of the City.

San Pablo Creek is a year-round watercourse and is regulated in its upper stream by two dams: Brines Dam and Reservoir, and San Pablo Dam and Reservoir. According to a Flood Study conducted by Association of Bay Area Governments in 2007, 1,393 acres of land in the City are subject to flooding should both dams experience a catastrophic failure. The scenario may be triggered by a rupture of the Hayward fault, which lies partially under the City. If a magnitude 7.5 earthquake occurred on this fault, the study predicts that the San Pablo Dam would lump and decrease in a height, allowing water to flow over the top, resulting in flooding downstream. If such a disaster occurs, 51 miles of roadway and almost all schools and government buildings in the City will be inundated. Policies and programs of the City seek to reduce the possibility of this occurrence and mitigate its impact. For example, The City adopted a Flood Damage Prevention Ordinance in 1987 in compliance with requirements of the National Flood Insurance Program and FEMA for development in flood-plain areas. The stated purpose of the Ordinance is to promote public health, safety, and general welfare, and to minimize public and private losses due to flood conditions.

Should an earthquake or flood occur that results in substantial interference with the use of the Leased Property, under the abatement provisions of the Lease, the City would not be obligated to make the Base Rental Payments. Pursuant to the Lease, the City is not required to maintain earthquake or flood insurance. See “RISK FACTORS – Abatement” above.

The Leased Property may also be at risk from other events of force majeure, such as damaging storms, floods, fires and explosions, strikes, sabotage, riots and spills of hazardous substances, among other events. The City cannot predict what force majeure events may occur in the future.

### **Concentration of Revenues; MSA Payments and the General Fund**

The City’s largest single source of general fund revenue is payments from the Lytton Band pursuant to the Municipal Services Agreement. See “THE CITY – Municipal Services Agreement with the Lytton Band of Pomo Indians.” City revenues from the Casino in the form of MSA Payments have increased each year since the Casino opened in 2003. The MSA shall remain in full force and effect as long as the Casino is operated for commercial gaming and the United States continues to hold the property on which the Casino is located in trust for the Lytton Band, or for a period of ninety-nine years. Payments due under the MSA are subject to adjustment based on certain factors including annual change in real property taxes paid by owners of commercial property within the City and changes in inflation based upon the consumer price index. In addition, the larger component of the MSA Payments, the Incremental Payment, is subject to adjustment if the Casino is operated as a casino with Class III gaming as opposed to operating as a Class II gaming facility, which is the current classification under which the Casino operates. The termination of the MSA or a change in the classification of the Casino from Class II gaming to Class III gaming could have a material impact on the revenue contributed to the General Fund. The City has taken steps, including the establishment of reserves and the maintenance of insurance, to mitigate the potential impact of a reduction in the amounts payable under the MSA; however, the termination of the MSA or a reduction in the Incremental Payments due to a change in casino classification could have a material effect on the City’s ability to make Base Rental Payments.

In addition, because MSA Payments comprise a large share of general fund revenues of the City, a downturn in the Casino’s business activity due to increased competition from other gaming establishments in the region, damage or destruction to the Casino property, additional governmental regulation of the gaming industry affecting Casino operations, or other factors, could significantly affect the City’s revenues

and may affect its ability to pay Base Rental Payments under the Lease Agreement. The development of new Indian-owned gaming casinos in Northern California could result in increased competition for gaming dollars, which could potentially have an adverse impact on the revenues of the Casino. For example, in November 2010 voters in the neighboring city of Richmond considered a proposal to develop a 4,000-slot Indian casino at Point Molate. The proposal was defeated. The City cannot guaranty that such efforts will not succeed in Richmond or other cities in the County or region in the future.

## **Hazardous Substances**

The public works activities of the City may, from time to time, result in the use of hazardous substances on the facilities owned and operated by the City, including, but not limited, to the Leased Property. Accordingly, it is possible that spills, discharges or other adverse environmental consequences of such use in the future could cause an adverse effect on the fair rental value of the Leased Property and lead, in an extreme case, to abatement, in whole or in part, of Base Rental Payments. See “RISK FACTORS – Abatement” above.

## **Risks Related to Taxation in California**

***Constitutional Amendments Affecting Tax Revenues.*** Article XIII A of the California Constitution limits the amounts of *ad valorem* tax on real property to 1% of “full cash value” as determined by the county assessor. Article XIII A defines “full cash value” to mean “the City Assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’, or thereafter the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment period.” Furthermore, all real property valuation may be increased to reflect the inflation rate, as shown by the consumer price index, not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors.

Article XIII A exempts from the 1% tax limitation any taxes to repay indebtedness approved by the voters prior to July 1, 1978, and any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the voters voting on the proposition approving such bonds, and requires a vote of two-thirds of the qualified electorate to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. In addition, Article XIII A requires the approval of two-thirds of all members of the State legislature to change any State tax law resulting in increased tax revenues.

Article XIII B of the California Constitution limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the governmental entity. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the subsequent two years.

On November 5, 1996, California voters approved an initiative to amend the California Constitution known as the Right to Vote on Taxes Act (“Proposition 218”), which added Article XIII C and XIII D to the California Constitution. Among other provisions, Proposition 218 requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include cities. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995 and prior to November 6, 1996 will continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. Proposition 218 also provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. This

extension of the initiative power is not limited by the terms of Proposition 218 to impositions after November 6, 1996 and absent other legal authority, could result in retroactive reduction in any existing taxes, assessments, fees and charges. In addition, Proposition 218 limits the application of assessments, fees and charges and requires certain existing, new and increased assessments, fees and charges to be submitted to property owners for approval or rejection, after notice and public hearing. Neither the City nor the Authority expects the provisions of Proposition 218 to have any immediate material effect on the revenues from which Base Rental Payments are expected to be appropriated.

**Implementing Legislation.** Legislation enacted by the California Legislature to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that, notwithstanding any other law, local agencies may not levy any property tax, except to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and that each county will levy the maximum tax permitted by Article XIII A of \$4.00 per \$100 assessed valuation (based on the traditional practice of using 25% of full cash value as the assessed value for tax purposes). The legislation further provided that, for Fiscal Year 1978-79 only, the tax levied by each county was to be appropriated among all taxing agencies within the county in proportion to their average share of taxes levied in certain previous years.

Future assessed valuation growth allowed under Article XIII A (i.e., new construction, change of ownership, and 2% annual value growth) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of “base” revenue from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year. The Authority is unable to predict the nature or magnitude of future revenue sources that may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above those described above, even with the approval of the affected voters.

**Constitutional Challenges to Property Tax System.** There have been many challenges to Article XIII A of the California Constitution. The United States Supreme Court heard the appeal in *Nordlinger v. Hahn*, a challenge relating to residential property. Based upon the facts presented in *Nordlinger*, the United States Supreme Court held that the method of property tax assessment under Article XIII A did not violate the federal Constitution. Neither the Authority nor the City can predict whether there will be any future challenges to California’s present system of property tax assessment and cannot evaluate the ultimate effect on the Agency’s receipt of tax increment revenues should a future decision hold unconstitutional the method of assessing property.

**Statutory Revenue Limitations -- Proposition 62.** Proposition 62 is a statewide statutory initiative adopted by the voters at the November 4, 1986 general election. It added Sections 53720 to 53730 to the Government Code to require that all new local taxes be approved by the voters. The statute provides that all local taxes are either general taxes or special taxes. General taxes are imposed for general governmental purposes. Special taxes are imposed for specific purposes only. General taxes may not be imposed by local government unless approved by a two-thirds vote of the entire legislative body and a majority of the voters voting on the proposed general tax. Special taxes may not be imposed by local government unless approved by a majority of the entire legislative body and by two-thirds of the voters voting on the special tax. Soon after Proposition 62 was adopted by the voters, legal challenges to taxes adopted contrary to its provisions were filed. In 1991, in the most significant case, *City of Woodlake v. Logan*, the California Court of Appeal held that the statutory voter approval requirement for general taxes was unconstitutional. The California Supreme Court refused to review *Woodlake*.

On September 28, 1995, the California Supreme Court, on a 5-2 vote, in a decision entitled *Santa Clara County Local Transportation Authority v. Guardino* (Case No. S036269), “disapproved” *Woodlake*

and held that the voter approval requirements of Proposition 62 are valid. On December 14, 1995, the Supreme Court made minor nonsubstantive changes to its written opinion and denied the petition for rehearing. The decision provides that the voter approval requirements of Proposition 62 for both general and special taxes are valid. The Guardino case fails to say (1) whether the decision is retroactively applicable to general taxes adopted prior to the decision; (2) whether taxpayers have any remedies for refund of taxes paid under a tax ordinance that was not voter approved; (3) what statute of limitations applies to taxes adopted without voter approval prior to Guardino; (4) whether Proposition 62 applies only to new taxes or to tax increases as well.

The Court of Appeals in a December 15, 1997 decision entitled *McBearty v. City of Brawley* (Case No. D027877) addressed some of these issues. In *Brawley*, a taxpayer challenged the city's utility tax that was passed by the city council in 1991 without a vote of the electorate. The Court of Appeals held that (i) a three year statute of limitations applies to challenges to a tax ordinance subject to Proposition 62; and (ii) the statute of limitations did not begin to run until September 1995 when the Guardino case determined that Proposition 62 was constitutional. The effect of the holding in *Brawley* is that any tax ordinances passed between November 1986 and December 1995 that were not approved by the electorate would be subject to a challenge until December 1998. The court ordered the city to either cease collecting the tax or seek voter approval to continue levying the tax. However, in *Howard Jarvis Taxpayers Association v. City of La Habra*, decided on June 4, 2001, the California Supreme Court overruled part of *McBearty*, finding that the three year statute of limitations applicable to such taxes does not run from the date of the Guardino decision, but rather the continued imposition and collection of such tax is an ongoing violation, upon which the limitations period begins with each new collection.

Several questions raised by the Guardino decision remain unresolved. Proposition 62 provides that if a jurisdiction imposes a tax in violation of Proposition 62, the portion of the one percent general *ad valorem* tax levy allocated to that jurisdiction is reduced by \$1 for every \$1 in revenue attributable to the improperly imposed tax for each year that such tax is collected. The practical applicability of this provision has not been fully determined. Potential future litigation and legislation may resolve some or all of the issues raised by the Guardino decision.

Neither the Authority nor the City can predict the outcome of any pending or future litigation concerning the validity of Proposition 62, nor can either predict the scope of the Guardino or *Brawley* decisions discussed above. Proposition 62 could affect the ability of the City to continue the imposition of, or to retain, certain taxes, and restrict the City's ability to raise revenue.

**Proposition 1A.** Proposition 1A ("Proposition 1A"), proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, restricts State authority to reduce major local tax revenues such as the tax shifts permitted to take place in Fiscal Years 2004/05 and 2005-06. Proposition 1A provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. Such a shift may not occur more than twice in any ten-year period. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A provides that if the State reduces the vehicle license fee (“VLF”) rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

**Proposition 22.** On November 2, 2010, voters in the State approved Proposition 22. Proposition 22, known as the “Local Taxpayer, Public Safety, and Transportation Protection Act of 2010,” eliminates or reduces the State’s authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for state-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

**Proposition 26.** On November 2, 2010, voters in the State also approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. Neither the City nor the Authority expects provisions of Proposition 26 to materially impede the City’s ability to pay Base Rental Payments when due.

### **Future Initiatives**

From time to time, other initiative measures may be adopted, which may affect the City’s revenues and its ability to expend said revenues. The above-mentioned measures and any future measures could restrict the City’s ability to raise additional funds for its General Fund.

### **Limitations on Remedies**

The enforceability of the rights and remedies of the owners of the Bonds and the Trustee, and the obligations incurred by the Authority and the City, respectively, may be subject to the following, among others: the limitations on legal remedies against joint powers authorities and cities in California; 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; principles of equity that 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 U.S. Constitution; and the reasonable and

necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations or modification of their rights. See also, “Bankruptcy” above.

### **Remedies on Default**

If the City defaults in the observance or performance of any agreement, condition, covenant or term contained in the Lease required to be observed or performed by it (including without limitation the payment of any Base Rental Payments or Additional Rental due under the Lease), subject to the provisions of the Lease, the Authority may at any time thereafter (with or without notice and demand and without limiting any other rights or remedies the Authority may have) recover rent and other monetary charges as they become due under the Lease without terminating the City’s right to possession of the Leased Property, regardless of whether or not the City has abandoned the Leased Property, and the Authority shall have the right and the City irrevocably appoints the Authority as its agent and attorney-in-fact for such purpose to attempt to sublet or re-let the Leased Property at such rent, upon such conditions and for such term and to do all other acts to maintain or preserve the Leased Property, including the removal of persons or property therefrom or taking possession thereof, as the Authority deems desirable or necessary; and the City waives any and all claims for any damages that may result to the Leased Property thereby, provided, that no such actions will be deemed to terminate the Lease and the City shall continue to remain liable for any deficiency that may arise out of such re-letting taking into account expenses incurred by the Authority due to such re-letting, payable at the same time and manner as provided for Base Rental Payments under the Lease. IN THE EVENT OF SUCH DEFAULT, THE AUTHORITY MUST THEREAFTER MAINTAIN THE LEASE IN FULL FORCE AND EFFECT AND MAY ONLY RECOVER RENT AND OTHER MONETARY CHARGES AS THEY BECOME DUE.

### **Early Redemption Risk**

Early redemption of the Base Rental Payments and redemption of the Bonds may occur in whole or in part without premium, on any date if the Leased Property or a portion thereof is lost, destroyed or damaged beyond repair or taken by eminent domain and from the proceeds of title insurance, or on any Interest Payment Date, without a premium (see “DESCRIPTION OF THE BONDS – Redemption - Special Mandatory Redemption From Net Proceeds”), if the City exercises its right to prepay Base Rental Payments in whole or in part pursuant to the provisions of the Lease and the Indenture.

### **Loss of Tax Exemption**

As discussed under the caption “TAX MATTERS,” interest on the Bonds could fail to be excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for purposes of federal income taxation, in some cases retroactive to the date of execution and delivery of the Bonds, as a result of future acts or omissions of the Authority or the City in violation of certain covenants contained in the Indenture or the Lease, respectively. Should such an event of taxability occur, the Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until redeemed pursuant to the Indenture.

In addition, Congress has considered in the past, is currently considering and may consider in the future, legislative proposals, including some that carry retroactive effective dates that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. The City can provide no assurance that federal

tax law will not change while the Bonds are outstanding or that any such changes will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes. If the exclusion of interest on the Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Bonds would be adversely impacted.

### **IRS Audit of Tax-Exempt Bonds**

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

### **Secondary Market Risk**

There can be no assurance that there will be a secondary market for purchase or sale of the Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the City.

## **RATINGS**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") is expected to assign a rating of "\_\_\_" to the Bonds [with the understanding that upon delivery of the Bonds, a municipal bond insurance policy for the Bonds insuring the payment of scheduled principal of and interest on the Bonds when due will be issued by \_\_\_\_\_. See "BOND INSURANCE."] In addition, S&P has assigned its underlying rating of "\_\_\_" to the Bonds. Such rating reflects only the view of S&P. Any explanation of the significance of such rating may only be obtained from S&P at the following website address: [www.standardandpoors.com](http://www.standardandpoors.com). The information set forth on such website is not incorporated by reference herein. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that any of them will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

## **UNDERWRITING**

Stifel, Nicolaus & Company, Incorporated (the "Underwriter") has agreed, subject to certain customary conditions precedent to closing, to purchase the Bonds from the Authority a price equal to \$\_\_\_\_\_ (which equals the principal amount of the Bonds, less an underwriting discount of \$\_\_\_\_\_, [plus/less] a [net] original issue [premium/discount] of \$\_\_\_\_\_).

The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover page of this Official Statement, plus accrued interest from the dated date of the Bonds to their date of delivery, which prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers.

## **CONTINUING DISCLOSURE**

The Authority has determined that no financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Bonds and the Authority will not provide any such information.

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds pursuant to a Continuing Disclosure Agreement, dated the date of issuance of the Bonds (the “Continuing Disclosure Agreement”), by and between the City and the Trustee, to provide certain financial information and operating data relating to the City (the “Annual Report”) no later than March 1 following the end of each fiscal year, commencing with the report for Fiscal Year 2016-17, and to provide notices of the occurrence of certain enumerated events through the EMMA System. The specific nature of the information to be contained in the Annual Report and the enumerated events is set forth in APPENDIX D – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

## **TAX MATTERS**

The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority has covenanted in the Indenture, and the City has covenanted in the Lease, not to take any action or omit to take any action that, if taken or omitted, respectively, would adversely affect the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is exempt from personal income taxes of the State and, assuming compliance with the covenants mentioned herein, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, the Bonds are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Code and, therefore, interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

Pursuant to the Indenture, the Lease and in the Certificate Pertaining to Arbitrage and Certain Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986 (the “Tax Certificate”), to be delivered by the Authority and the City in connection with the issuance of the Bonds, the Authority and the City will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its opinion described in the immediately preceding paragraph, Bond Counsel will assume the accuracy of such representations and the present and future compliance by the Authority and by the City with its covenants.

Except as stated in this section above, Bond Counsel will express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the Bonds. Furthermore, Bond Counsel will express no opinion as to any federal, state or local tax law consequence with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the

proceeds thereof predicated or permitted upon the advice or approval of other counsel. Bond Counsel has not undertaken to advise in the future whether any event after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds.

The opinion of Bond Counsel is not guarantees of a result, but represent its legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority described above. No ruling has been sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Authority as the “taxpayer”, and the bond owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Authority may have different or conflicting interest from the bond owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to bondholders of the exemption of interest on the Bonds from personal income taxation by the State or of the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

A copy of the form of opinion of Bond Counsel relating to the Bonds is included in APPENDIX E.

***Tax Accounting Treatment of Bond Premium and Original Issue Discount on Bonds.*** To the extent that a purchaser of a Bond acquires that Bond at a price in excess of its “stated redemption price at maturity” (within the meaning of section 1273(a)(2) of the Code), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser’s yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the Bond to the owner.

The excess, if any, of the stated redemption price at maturity of Bonds of a maturity over the initial offering price to the public of the Bonds of that maturity is “original issue discount.” Original issue discount accruing on Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax to the same extent as would be stated interest on that Bond. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of Bonds who purchase such Bonds other than at the initial offering price and pursuant to the initial offering.

Persons considering the purchase of Bonds with original issue discount or initial bond premium should consult with their own tax advisors with respect to the determination of original issue discount or amortizable bond premium on such Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Bonds.

***Other Tax Consequences.*** Although interest on the Bonds may be exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel will express no opinion regarding any such other tax consequences.

## **LITIGATION**

There is no controversy of any nature now pending against and notice of which has been received by the City or the Authority or, to the knowledge of their respective officers, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or in any way contesting or affecting the validity of the Bonds or any proceedings of the City or the Authority taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Bonds or the use of the Bond proceeds. To the knowledge of Murphy & Associates PC (Sacramento, California), special counsel to the City and Authority, there are no pending lawsuits that in the opinion of such special counsel challenge the validity of the Bonds, the corporate existence of the City or the Authority, or the title of the officers thereof to their respective offices.

## **FINANCIAL STATEMENTS**

The City's financial statements for the Fiscal Year ended June 30, 2016, included in APPENDIX B hereto, have been audited by Maze & Associates. Maze & Associates was not requested to consent to the inclusion of its report in APPENDIX B and it has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in the Official Statement, and no opinion is expressed by Maze & Associates with respect to any event subsequent to the date of its report.

## **APPROVAL OF LEGAL PROCEEDINGS**

The issuance of the Bonds is subject to the approving opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel to the Authority, to be delivered in substantially the form set forth in APPENDIX E. Norton Rose Fulbright US LLP in its role as Bond Counsel has undertaken no

responsibility to the owners of the Bonds or any other party for the accuracy, completeness or fairness of this Official Statement or any other offering material related to the Bonds, and expresses no opinion to the Owners with respect thereto. Certain legal matters also will be passed upon for the City and the Authority by Murphy & Associates PC, a Professional Corporation and for the Underwriter by its counsel Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California.

**EXECUTION AND DELIVERY**

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

CITY OF SAN PABLO JOINT POWERS FINANCING  
AUTHORITY

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Chair

CITY OF SAN PABLO, CALIFORNIA

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City Manager

## APPENDIX A

### SUPPLEMENTAL INFORMATION – THE CITY OF SAN PABLO

*The following information relating to the City of San Pablo (the “City”) is provided for informational purposes only. The Bonds (as defined in the front part of this Official Statement) are payable solely as described in this Official Statement and are not payable or secured by a pledge of the faith and credit or taxing power of the City.*

#### General

**The City.** The City was incorporated in 1948 as a general law city under the laws of the State of California (the “State”). Located in West Contra Costa County off Interstate 80, San Pablo is near the Bay Area cultural centers of Berkeley, Oakland and San Francisco. As of January 1, 2016, the City had a population of approximately 30,829 and encompassed approximately 2.6 square miles.

**The County.** Situated northeast of San Francisco, Contra Costa County (the “County”) is bounded by San Francisco and San Pablo Bays, the Sacramento River Delta, and by Alameda County on the south. Ranges of hills effectively divide the County into three distinct regions. The western portion, with its access to water, contains much of the County’s heavy industry. The central section is rapidly developing from a suburban area into a major commercial and financial headquarters center. The eastern part is also undergoing substantial change, from a rural, agricultural area, to a suburban region. The County has extensive and varied transportation facilities—ports accessible to ocean-going vessels, railroads, freeways, and rapid transit lines connecting the area with Alameda County and San Francisco.

#### Government and Services

The City is governed by a five-member City Council, under the Council-Manager form of government. The City Manager serves as Chief Executive Officer of the City of San Pablo and administers and coordinates the various functions of City government, as directed by the City Council. The City provides a full range of services including: Police, Public Works, Economic Development, Planning, Building, Engineering and Inspection, Parks and Recreation and General Administrative services.

#### Population

The following table shows a historical comparison of the respective populations of the City, the County and the State for the last five years.

#### CITY OF SAN PABLO, CONTRA COSTA COUNTY, AND THE STATE OF CALIFORNIA Population Comparison

<u>Year</u>	<u>City of San Pablo</u>	<u>Contra Costa County</u>	<u>State of California</u>
2012	29,137	1,066,602	37,668,804
2013	29,266	1,074,702	37,966,471
2014	29,465	1,087,008	38,340,074
2015	29,499	1,102,871	39,907,642
2016	30,829	1,123,429	39,255,883

*Source: State Department of Finance.*

## Employment and Industry

The unemployment rate in Contra Costa County was 5.0% in 2015, down from 6.2% in 2014. The following table summarizes the annual average civilian labor force, employment and unemployment in the County for the calendar years 2011 through 2015. 2016 figures are not yet available.

### CONTRA COSTA COUNTY Civilian Labor Force, Employment and Unemployment (Annual Averages)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Civilian Labor Force <sup>(1)</sup>	529,200	535,700	538,900	542,800	549,900
Employment	474,300	487,800	499,100	509,400	522,400
Unemployment	54,800	48,000	39,800	33,400	27,500
Unemployment Rate	10.4%	9.0%	7.4%	6.2%	5.0%
Wage and Salary Employment: <sup>(2)</sup>					
Agriculture	800	800	1,000	800	800
Mining, Logging and Construction	17,800	19,700	21,600	21,800	22,700
Manufacturing	17,400	17,400	15,800	15,300	15,200
Wholesale Trade	7,900	8,200	8,600	8,700	8,400
Retail Trade	40,500	41,200	41,000	41,600	42,300
Transportation, Warehousing, Utilities	8,100	8,100	8,500	9,600	10,500
Information	9,000	8,400	8,500	8,300	8,300
Finance and Insurance	18,700	19,000	18,700	18,200	19,300
Real Estate and Rental and Leasing	6,100	6,300	6,600	6,800	6,900
Professional and Business Services	45,900	48,000	51,300	53,200	50,200
Educational and Health Services	53,500	55,700	58,700	61,500	63,900
Leisure and Hospitality	32,300	33,500	35,700	36,300	38,400
Other Services	12,400	12,400	12,100	12,500	12,600
Federal Government	4,800	4,600	4,400	4,500	4,700
State Government	1,200	1,200	1,300	1,300	1,400
Local Government	<u>41,800</u>	<u>42,100</u>	<u>42,400</u>	<u>43,400</u>	<u>43,400</u>
Total, All Industries <sup>(3)</sup>	318,100	326,600	336,100	344,208	350,000

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

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

<sup>(3)</sup> Totals may not add due to rounding.

Source: Labor Division of the California State Employment Development Department, March 2013 Benchmark.

## Major Employers

The following table lists the major employers within the County:

### COUNTY OF CONTRA COSTA Major Employers – Listed Alphabetically (As of January 2017)

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
AAA Northern, Ca, Nevada & Utah	Walnut Creek	Automobile Clubs
Antioch Medical Ctr	Antioch	Hospitals
Bay Alarm Co	Walnut Creek	Burglar Alarm Systems (whls)
BAY Area Rapid Transit	Richmond	Transit Lines
Bio-Rad Laboratories Inc	Hercules	Physicians & Surgeons Equip & Supls-Mfrs
Broadspectrum Americas	Richmond	Oil Refiners (mfrs)
Chevron Corp	San Ramon	Oil Refiners (mfrs)
Chevron Global Downstream LLC	San Ramon	Petroleum Products (whls)
Chevron Richmond Refinery	Richmond	Oil Refiners (mfrs)
Chevron-Corp	Not Available	Real Estate
Contra Costa Regional Med Ctr	Martinez	Hospitals
Department of Veterans Affairs	Martinez	Clinics
Job Connections	Danville	Personnel Consultants
John Muir Medical Ctr	Walnut Creek	Hospitals
John Muir Medical Ctr	Concord	Hospitals
Kaiser Permanente Martinez Med	Martinez	Clinics
Kaiser Permanente Walnut Creek	Walnut Creek	Hospitals
La Raza Mkt	Richmond	Grocers-Retail
Robert Half Intl	San Ramon	Employment Agencies & Opportunities
Santa Fe Pacific Pipe Lines	Richmond	Pipe Line Companies
St Mary's College OF Ca	Moraga	Schools-Universities & Colleges Academic
Sutter Delta Medical Ctr	Antioch	Hospitals
Tesoro Golden Eagle Refinery	Pacheco	Oil Refiners (mfrs)
US Veterans Medical Ctr	Martinez	Outpatient Services
USS-POSCO Industries	Pittsburg	Steel Mills (mfrs)

Source: *California Employment Development Department, extracted from The America's Labor Market information System (ALMIS) Employer Database, 2017 2nd Edition.*

## Commercial Activity

The Economic Development Department of the City encourages the growth of new businesses, attraction of new business, enhancement of existing businesses as well as the creation and retention of jobs. The City encourages business success by providing various services to both small businesses and larger established companies. The City's Economic Development Program has short and long-range economic development strategies to accomplish these objectives. These development strategies include: providing information for economic development strategy, providing assistance for business attraction and business retention, and business outreach. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2016.

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

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	324	137,184	440	152,982
2012	349	148,105	462	165,422
2013	349	156,715	451	174,564
2014	335	160,816	434	178,639
2015	351	164,300	482	180,570

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

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County is presented in the following table. Annual figures are not yet available for 2016.

**CONTRA COSTA COUNTY**  
**Taxable Retail Sales**  
**Number of Permits and Valuation of Taxable Transactions**  
**(Dollars in Thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	13,930	9,300,418	21,153	12,799,857
2012	14,343	10,062,437	21,504	13,997,249
2013	14,551	10,677,018	21,449	14,471,988
2014	14,654	11,092,210	21,550	15,030,047
2015	15,016	11,420,274	23,996	15,670,052

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

## Construction Activity

The following tables show a five year summary of the valuation of building permits issued in the City and the County. Annual 2016 figures not yet available.

### CITY OF SAN PABLO Building Permit Valuation (Valuation in Thousands of Dollars)

	2011	2012	2013	2014	2015
<u>Permit Valuation</u>					
New Single-family	\$ 100.6	\$ 100.6	\$ 690.9	\$3,801.5	\$ 498.4
New Multi-family	0.0	0.0	0.0	4,233.5	6,909.0
Res. Alterations/Additions	<u>2,599.6</u>	<u>2,473.7</u>	<u>2,272.9</u>	<u>1,693.0</u>	<u>1,281.7</u>
Total Residential	\$2,700.2	\$2,574.3	\$2,963.8	\$9,728.0	\$8,690.0
New Commercial	\$ 10.2	\$ 96.0	\$1,704.1	\$ 0.0	\$2,556.80
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	0.0	0.0	33.6	0.0	0.0
Com. Alterations/Additions	<u>1,395.5</u>	<u>891.4</u>	<u>1,598.5</u>	<u>1,932.8</u>	<u>1,654.6</u>
Total Nonresidential	\$1,405.7	\$ 987.4	\$3,336.2	\$1,932.8	\$4,211.4
<u>New Dwelling Units</u>					
Single Family	1	1	3	15	2
Multiple Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>21</u>	<u>8</u>
Total	1	1	3	36	10

Source: Construction Industry Research Board, Building Permit Summary.

### CONTRA COSTA COUNTY Building Permit Valuation (Valuation in Thousands of Dollars)

	2011	2012	2013	2014	2015
<u>Permit Valuation</u>					
New Single-family	\$211,417.9	\$340,255.7	\$449,376.5	\$400,998.1	\$629,638.5
New Multi-family	47,304.2	54,884.8	62,799.7	392,331.2	123,088.7
Res. Alterations/Additions	<u>233,174.2</u>	<u>179,471.7</u>	<u>195,787.4</u>	<u>325,493.9</u>	<u>301,221.7</u>
Total Residential	\$491,896.3	\$574,612.2	\$709,963.6	\$1,118,323.3	\$1,053,948.9
New Commercial	\$17,587.4	\$97,077.8	\$27,946.8	\$142,730.7	\$206,595.9
New Industrial	7,188.0	7,000.8	8,927.8	21,149.5	15,020.1
New Other	15,542.3	13,999.9	76,946.0	54,800.9	18,880.1
Com. Alterations/Additions	<u>214,585.0</u>	<u>124,147.2</u>	<u>220,737.0</u>	<u>191,855.7</u>	<u>219,320.4</u>
Total Nonresidential	\$254,902.7	\$242,225.7	\$334,557.6	\$410,536.9	\$526,816.5
<u>New Dwelling Units</u>					
Single Family	718	1,188	1,585	1,439	1,909
Multiple Family	<u>355</u>	<u>949</u>	<u>370</u>	<u>588</u>	<u>629</u>
TOTAL	1,073	2,137	1,955	2,027	2,538

Source: Construction Industry Research Board, Building Permit Summary.

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE CITY OF SAN PABLO  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**APPENDIX C**

**SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS**

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of August 1, 2017, is executed and delivered by the City of San Pablo (the “City”) and Willdan Financial Services, as Disclosure Dissemination Agent (the “Disclosure Dissemination Agent”) for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the “Rule”).

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

“Annual Report” means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

“Annual Filing Date” means the date, set in Section 2(a) and Section 2(f), by which the Annual Report is to be filed with the MSRB.

“Annual Financial Information” means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

“Audited Financial Statements” means the financial statements (if any) of the City for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

“Bonds” means, collectively, \$\_\_\_\_\_ City of San Pablo Joint Powers Financing Authority Lease Revenue Bonds, Series 2017.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice delivered to the Disclosure Dissemination Agent is the Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice, required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the City and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Representative” means the Finance Director of the City or his or her designee, or such other person as the City shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Disclosure Dissemination Agent” means Willdan Financial Services, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the City pursuant to Section 9 hereof.

“Failure to File Event” means the City’s failure to file an Annual Report on or before the Annual Filing Date.

“Force Majeure Event” means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (i) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (ii) treated as the owner of any Bonds for federal income tax purposes.

“Information” means, collectively, the Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, and the Failure to File Event notices.

“Issuer” means the City of San Pablo Joint Powers Financing Authority.

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Marketplace Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Notice Event” means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

“Obligated Person” means any person, including the City, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities). With respect to the Bonds, only the City constitutes the Obligated Person.

“Official Statement” means that Official Statement, dated February 18, 2015, prepared by the Issuer and the City in connection with the Bonds.

“Trustee” means Wells Fargo Bank, National Association, as trustee under the Indenture, dated as of August 1, 2017, by and between the Issuer and the Trustee, as amended and supplemented, providing for the issuance of the Bonds.

SECTION 2. Provision of Annual Reports and Other Disclosures.

(a) The City shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB no later than March 1 following the end of each fiscal year, commencing with the report for Fiscal Year 2014-15. Such date and each anniversary thereof is the Annual Filing Date. 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 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the City of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the City will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Failure to File Event has occurred and to immediately send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on the Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the City irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit A without reference to the anticipated filing date for the Annual Report.

(d) If Audited Financial Statements of the City are prepared but not available prior to the Annual Filing Date, the City shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Trustee, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

- (i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;
- (ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) with the MSRB;
- (iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;
- (iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed by the City pursuant to Section 4(a) or 4(b)(ii) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

1. “Principal and interest payment delinquencies;”
2. “Non-Payment related defaults, if material;”
3. “Unscheduled draws on debt service reserves reflecting financial difficulties;”
4. “Unscheduled draws on credit enhancements reflecting financial difficulties;”
5. “Substitution of credit or liquidity providers, or their failure to perform;”
6. “Adverse tax opinions, IRS notices or events affecting the tax status of the security;”
7. “Modifications to rights of securities holders, if material;”
8. “Bond calls, if material;”
9. “Defeasances;”
10. “Release, substitution, or sale of property securing repayment of the securities, if material;”
11. “Rating changes;”
12. “Tender offers;”
13. “Bankruptcy, insolvency, receivership or similar event of the obligated person;”
14. “Merger, consolidation, or acquisition of the obligated person, if material;” and
15. “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”

- (v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit A to this Disclosure Agreement with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(f) The City may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later

than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

### SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information consisting of updated information comparable to the information in the following tables as they appear in Official Statement:

1. Table 1 entitled “General Fund Balance Sheet” for the most recent Fiscal Year;
2. Table 2 entitled “General Fund – Statement of Revenues, Expenditures, and Changes in Fund Balance” for the most recent Fiscal Year;
3. Table 4 entitled “Assessed Valuation of Taxable Property” for the current year; and
4. Table 5 entitled “Property Tax Levies and Collections” for the most recent Fiscal Year.

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles (“GAAP”) as described in the Official Statement will also be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, prepared in accordance with GAAP as described in the Official Statement will be included in the Annual Report. Audited Financial Statements (if any) will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the City is an Obligated Person, which have been previously filed with the Securities and Exchange Commission or available to the public on the MSRB Internet website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City will clearly identify each such document so incorporated by reference.

Any Annual Financial Information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

### SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-

TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. Modifications to rights of Bond holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

**Note to subsection (a)(12) of this Section 4:** For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City shall, in a timely manner not in excess of ten business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the City desires to make, contain the written authorization of the City for the Disclosure Dissemination Agent to disseminate such information, and identify the date the City desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the City or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within

two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the City determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the City desires to make, contain the written authorization of the City for the Disclosure Dissemination Agent to disseminate such information, and identify the date the City desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the City as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the MSRB in accordance with Section 2(e)(iv) hereof.

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, Notice Event notices, and Failure to File Event notices, the City shall indicate the full name of the Bonds and the 9-digit CUSIP numbers for the Bonds as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations. The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City, and that the failure of the Disclosure Dissemination Agent to so advise the City shall not constitute a breach by the Disclosure Dissemination Agent of any of its duties and responsibilities under this Disclosure Agreement. The City acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filings. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice, in addition to that required by this Disclosure Agreement. If the City chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, or Failure to File Event notice.

SECTION 8. Termination of Reporting Obligation. The obligations of the City and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the City is no longer an Obligated Person with respect to such Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required with respect to such Bonds.

SECTION 9. Disclosure Dissemination Agent. The City has appointed the initial Disclosure Dissemination Agent under this Disclosure Agreement. The City may, upon thirty days written notice to the Disclosure Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of the Disclosure Dissemination Agent, whether by notice of the

City or the Disclosure Dissemination Agent, the City agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the City shall remain liable, until payment in full, for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the City.

SECTION 10. Remedies in Event of Default. In the event of a failure of the City or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. and the City agrees to indemnify and save the Disclosure Dissemination Agent, the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of the disclosure of information pursuant to this Disclosure Agreement or arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Disclosure Dissemination Agent's negligence or willful misconduct. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the City has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the City and shall not be deemed to be acting in any fiduciary capacity for the City, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the City's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the City has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of the City at all times.

The obligations of the City under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the City.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Disclosure Dissemination Agent may amend this Disclosure Agreement 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 laws acceptable to both the City and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and 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; provided neither the City nor the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days prior written notice of the intent to do so together with a copy of the proposed amendment to the City. No such amendment shall become effective if the City shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Trustee of the Bonds, the Disclosure Dissemination Agent, the participating underwriters (as defined in the Rule), and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of California (other than with respect to conflicts of laws).

SECTION 15. 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.

The Disclosure Dissemination Agent and the City have caused this Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

WILLDAN FINANCIAL SERVICES, as Disclosure  
Dissemination Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CITY OF SAN PABLO, CALIFORNIA,  
as Obligated Person

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT A**  
**NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT**

Issuer: City of San Pablo Joint Powers Financing Authority

Obligated Person: City of San Pablo, California

Name of Bond Issue: \$\_\_\_\_\_ City of San Pablo Joint Powers Financing Authority Lease Revenue Bonds, Series 2017

Date of Issuance: \_\_\_\_\_, 2017

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Disclosure Agreement between the City and the Disclosure Dissemination Agent named therein. The City has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_, 20\_\_

\_\_\_\_\_, as Disclosure Dissemination Agent, on behalf of the City

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cc: City Manager, City of San Pablo

**APPENDIX E**

**FORM OF OPINION OF BOND COUNSEL**

*On the delivery date of the Bonds, Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, proposes to render its final approving opinion substantially in the following form:*

[Closing Date]

City of San Pablo Joint Powers Financing Authority  
13831 San Pablo Avenue  
San Pablo, California 94806

City of San Pablo  
13831 San Pablo Avenue  
San Pablo, California 94806

\$ \_\_\_\_\_  
City of San Pablo Joint Powers Financing Authority  
Lease Revenue Bonds  
Series 2017

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of San Pablo Joint Powers Financing Authority (the "Authority") in connection with the issuance by the Authority of its \$ \_\_\_\_\_ City of San Pablo Joint Powers Financing Authority Lease Revenue Bonds, Series 2017 (the "Bonds"). The Bonds are being issued under the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6584) of the California Government Code (the "Bond Law"), and pursuant to an Indenture, dated as of March 1, 2015, as amended and supplemented by a First Supplemental Indenture, dated as of August 1, 2017 (as supplemented, the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee").

The Bonds are limited obligations of the Authority secured under the Indenture by a pledge of Series 2017 Revenues and certain other moneys held under the Indenture. The Series 2017 Revenues consist of (i) the Series 2017 Base Rental Payments made by the City of San Pablo (the "City") pursuant to a Lease Agreement, dated as of March 1, 2015, as amended and supplemented by a First Amendment to Lease Agreement, dated as of August 1, 2017 (as amended, the "Lease"), by and between the Authority, as lessor, and the City, as lessee, (ii) any proceeds of Bonds originally deposited with the Trustee and all moneys on deposit in the funds and accounts (other than the Rebate Fund) established under the Indenture, (iii) investment income with respect to such moneys held by the Trustee and (iv) any insurance proceeds or condemnation awards received by or payable to the Trustee relating to the Series 2017 Base Rental Payments. The City has leased certain real property and improvements (the "Leased Property") to the Authority pursuant to the Site and Facility Lease, dated as of March 1, 2015, as amended and supplemented by a First Amendment to Site and Facility Lease, dated as of August 1, 2017 (as amended, the "Site Lease"), by and between the City and the Authority. Pursuant to the Amended and Restated Assignment Agreement, dated as of August 1, 2017 (the "Assignment Agreement"), by and between the Authority and the Trustee,

the Authority has assigned to the Trustee, for the benefit of the Owners, certain of the Authority's rights under the Site Lease and the Lease, including the right to receive Series 2017 Base Rental Payments under the Lease.

As Bond Counsel, we have reviewed the Indenture, the Site Lease, the Lease, the Assignment Agreement and certifications of the Authority, the City, the Trustee and others, opinions of counsel to the Authority, the City and the Trustee, and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Based upon the foregoing, we are of the opinion that:

1. The Bonds constitute valid and binding limited obligations of the Authority as provided in the Indenture, and are entitled to the benefits of the Indenture.
2. The Indenture has been duly and validly authorized, executed and delivered by the Authority and, assuming the enforceability thereof against the Trustee, constitutes the legally valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of principal of and interest on the Bonds, of the Revenues and certain other amounts held by the Trustee in certain funds and accounts established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for other purposes and on the terms and conditions set forth therein.
3. The Lease and Site Lease have been duly and validly authorized, executed and delivered by the Authority and the City and constitute the legally valid and binding obligations of the Authority and the City, enforceable against the Authority and the City in accordance with their terms.
4. The Assignment Agreement has been duly and validly authorized, executed and delivered by the Authority and, assuming the enforceability thereof against the Trustee, constitutes the legally valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms.
5. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. It is the further opinion of Bond Counsel that, under existing statutes, regulations, rulings and court decisions, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, that interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Non-compliance with such requirements could cause the interest on the Bonds to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the Bonds. Pursuant to the Indenture and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986* being delivered by the Authority in connection

with the issuance of the Bonds, the Authority are making representations relevant to the determination of, and is undertaking certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In reaching our opinions described in the immediately preceding paragraphs, we have assumed the accuracy of such representations and the present and future compliance by the Authority with such covenants. Further, except as stated in the preceding paragraph, we express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequence with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel.

The opinions expressed in paragraphs 1, 2, 3 and 4 above are qualified to the extent the enforceability of the Bonds and the Indenture may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the Bonds and the Indenture is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

## APPENDIX F

### BOOK-ENTRY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that each of the Authority and the City believes to be reliable, but the Authority and the City take no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited through the facilities of DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The information set forth on such website is not incorporated herein by reference.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as prepayments, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority, the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Authority or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

**APPENDIX G**

**[SPECIMEN MUNICIPAL BOND INSURANCE POLICY]**