

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2017 Series B Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, interest on the 2017 Bonds is exempt from California personal income taxes. See “TAX MATTERS.”

\$5,925,000

**EUREKA SUCCESSOR AGENCY
2017 TAXABLE TAX ALLOCATION REFUNDING BONDS,
SERIES A**

\$13,080,000

**EUREKA SUCCESSOR AGENCY
2017 TAX ALLOCATION REFUNDING BONDS,
SERIES B**

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

Purpose. The Eureka Successor Agency 2017 Taxable Tax Allocation Refunding Bonds, Series A (the “2017 Series A Taxable Bonds”) and the Eureka Successor Agency 2017 Tax Allocation Refunding Bonds, Series B (the “2017 Series B Bonds”) and together with the 2017 Series A Taxable Bonds, the “2017 Bonds”) are being issued by the Eureka Successor Agency (the “Successor Agency”), pursuant to an Indenture of Trust dated as of April 1, 2017 (the “Indenture”), between the Successor Agency and U.S. Bank National Association, as trustee (the “Trustee”), to refinance certain outstanding obligations originally incurred by the Eureka Redevelopment Agency (the “Former Agency”).

Book-Entry. The 2017 Bonds will be delivered as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to ultimate purchasers (“Beneficial Owners”) in integral multiples of \$5,000, under the book-entry system maintained by DTC. Beneficial Owners will not be entitled to receive delivery of bonds representing their ownership interest in the 2017 Bonds.

Payments. Semiannual interest on the 2017 Bonds due May 1 and November 1 of each year (each, an “Interest Payment Date”), commencing November 1, 2017, and principal on the 2017 Bonds due November 1 of each year, commencing November 1, 2017, will be payable by the Trustee to DTC for subsequent disbursement to DTC participants, so long as DTC or its nominee remains the registered owner of the 2017 Bonds. See “THE 2017 BONDS – Description of the 2017 Bonds.”

Redemption. The 2017 Series B Bonds are subject to optional and sinking fund redemption prior to maturity. See “THE 2017 BONDS – Redemption.”

Security. The 2017 Bonds are secured by a pledge of, security interest in and lien on all of the Tax Revenues (as defined in this Official Statement), including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund (as defined in the Indenture) and moneys in certain funds and accounts established under the Indenture, including a reserve account for the 2017 Bonds established by purchasing and depositing therein a debt service reserve surety bond to be issued by National Public Finance Guarantee Corporation (“National”) as described in this Official Statement. See “SECURITY FOR THE 2017 BONDS.”

Insurance Policy. The scheduled payment of principal of and interest on the 2017 Series B Bonds maturing on November 1 of the years 2023 through 2036, inclusive (the “2017 Insured Bonds”) will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the 2017 Series B Bonds by National.



Future Parity Debt. The Indenture permits the Successor Agency to issue or incur additional loans, bonds, notes, advances or indebtedness payable from Tax Revenues on a parity with the 2017 Bonds for refunding purposes only subject to satisfaction of certain conditions as described in this Official Statement. See “INTRODUCTION –Future Parity Debt” and “THE 2017 BONDS –Future Parity Debt.”

Limited Obligations. The 2017 Bonds are limited obligations of the Successor Agency and are secured by a pledge of, security interest in and lien on all of the Tax Revenues as described in this Official Statement. The principal of and interest on the 2017 Bonds are not a debt of the City of Eureka (the “City”), the County of Humboldt (the “County”), the State of California (the “State”) or any of their political subdivisions except the Successor Agency, and none of the City, the County, the State nor any of their political subdivisions except the Successor Agency is liable thereon. The principal of and interest on the 2017 Bonds is not payable out of any funds other than those set forth in the Indenture. Neither the members of the Successor Agency, the Oversight Board of the Successor Agency, the City Council of the City, the Board of Supervisors of the County nor any persons executing the 2017 Bonds are liable for the payment of the 2017 Bonds.

This cover page of the Official Statement contains information for quick reference only. It is not a complete summary of the 2017 Bonds. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. Attention is hereby directed to certain risk factors more fully described in this Official Statement. See “RISK FACTORS.”

The 2017 Bonds are offered, when, as and if issued, subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the Successor Agency. Jones Hall, A Professional Law Corporation, is also serving as Disclosure Counsel to the Successor Agency. In addition, certain legal matters will be passed upon for the Successor Agency by the City Attorney of the City, as general counsel to the Successor Agency. 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. It is anticipated that the 2017 Bonds will be available for delivery through the facilities of DTC on or about April 18, 2017.

The logo for Stifel, featuring the word 'STIFEL' in a stylized, blue, serif font.

MATURITY SCHEDULES

\$5,925,000
EUREKA SUCCESSOR AGENCY
2017 TAXABLE TAX ALLOCATION REFUNDING BONDS,
SERIES A

| Maturity Date (November 1) | Principal Amount | Interest Rate | Yield | Price | CUSIP [†] (Base 298520) |
|-------------------------------|---------------------|------------------|--------|--------|-------------------------------------|
| 2017 | \$1,725,000 | 1.000% | 1.370% | 99.802 | AA5 |
| 2018 | 1,755,000 | 1.625 | 1.820 | 99.705 | AB3 |
| 2019 | 1,785,000 | 2.000 | 2.220 | 99.460 | AC1 |
| 2020 | 660,000 | 2.250 | 2.470 | 99.258 | AD9 |

\$13,080,000
EUREKA SUCCESSOR AGENCY
2017 TAX ALLOCATION REFUNDING BONDS,
SERIES B

| Maturity Date (November 1) | Principal Amount | Interest Rate | Yield | Price | CUSIP [†] (Base 298520) |
|-------------------------------|---------------------|------------------|--------|----------------------|-------------------------------------|
| 2020 | \$1,155,000 | 5.000% | 1.800% | 110.914 | AG2 |
| 2021 | 1,890,000 | 5.000 | 1.970 | 113.085 | AH0 |
| 2022 | 1,985,000 | 5.000 | 2.220 | 114.406 | AJ6 |
| 2023* | 2,080,000 | 5.000 | 2.330 | 116.099 | AK3 |
| 2024* | 500,000 | 4.000 | 2.570 | 109.739 | AL1 |
| 2025* | 370,000 | 4.000 | 2.740 | 109.531 | AM9 |
| 2026* | 380,000 | 4.000 | 2.890 | 109.193 | AN7 |
| 2027* | 400,000 | 5.000 | 2.970 | 116.749 ^c | AP2 |
| 2028* | 420,000 | 3.000 | 3.160 | 98.462 | AQ0 |
| 2029* | 430,000 | 3.000 | 3.300 | 96.939 | AR8 |
| 2030* | 450,000 | 3.125 | 3.420 | 96.823 | AS6 |
| 2031* | 460,000 | 3.250 | 3.540 | 96.725 | AT4 |
| 2032* | 475,000 | 3.500 | 3.670 | 97.999 | AU1 |
| 2033* | 495,000 | 3.500 | 3.740 | 97.059 | AV9 |
| 2034* | 510,000 | 3.625 | 3.800 | 97.773 | AW7 |
| 2035* | 530,000 | 3.625 | 3.850 | 97.036 | AX5 |
| 2036* | 550,000 | 3.625 | 3.890 | 96.395 | AY3 |

^c 2017 Insured Bonds.

^c Priced to first optional redemption date of November 1, 2026 at par.

[†] CUSIP Copyright 2017, CUSIP Global Services, and a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the Successor Agency nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

**EUREKA SUCCESSOR AGENCY
EUREKA, CALIFORNIA**

CITY COUNCIL/SUCCESSOR AGENCY BOARD

Frank Jager, *Mayor*
Austin Allison, *Council Member*
Natalie Arroyo, *Council Member*
Kim Bergel, *Council Member*
Marian Brady, *Council Member*
Heidi S. Messner, *Council Member*

CITY/SUCCESSOR AGENCY STAFF

Greg Sparks, *City Manager*
Wendy Howard, *Finance Director*
Cyndy Day-Wilson, *City Attorney*
Pam Powell, *City Clerk*

FINANCING SERVICES

Bond and Disclosure Counsel

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San Francisco, California

Municipal Advisor

Public Financial Management, Inc.
San Francisco, California

Fiscal Consultant

HdL Coren & Cone
Diamond Bar, California

Trustee

U.S. Bank National Association
San Francisco, California

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the 2017 Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2017 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the Successor Agency or the Merged Project Area since the date of this Official Statement.

Use of this Official Statement. This Official Statement is submitted in connection with the sale of the 2017 Bonds referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the 2017 Bonds.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

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.

Document References and Summaries. All references to and summaries of the Indenture or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

Stabilization of and Changes to Offering Prices. The Underwriter may overallocate or take other steps that stabilize or maintain the market price of the 2017 Bonds at a level above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the 2017 Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

Bonds are Exempt from Securities Laws Registration. The issuance and sale of the 2017 Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" as described in the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE SUCCESSOR AGENCY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

Website. The City maintains an Internet website, but the information on the website is not incorporated in this Official Statement.

TABLE OF CONTENTS

| | <u>Page</u> | | <u>Page</u> |
|--|-------------|---|-------------|
| INTRODUCTION..... | 1 | Unitary Property | 38 |
| The City and the Successor Agency..... | 1 | Article XIII A of the State Constitution | 39 |
| Bond Authority | 2 | Appropriations Limitation – Article XIII B..... | 40 |
| Use of Bond Proceeds..... | 2 | Proposition 87 | 40 |
| The Redevelopment Plans and the Merged Project Area | 4 | Appeals of Assessed Values | 41 |
| Tax Allocation Financing..... | 5 | Proposition 8 | 41 |
| Security for the 2017 Bonds | 5 | Propositions 218 and 26 | 42 |
| Future Parity Debt..... | 6 | Future Initiatives..... | 42 |
| No Future Senior Debt..... | 6 | THE SUCCESSOR AGENCY | 43 |
| Future Subordinate Debt | 7 | Successor Agency Powers | 43 |
| Limited Obligation | 7 | Status of Compliance with Dissolution Act..... | 43 |
| Debt Service Reserve Account..... | 7 | THE MERGED PROJECT AREA..... | 44 |
| Bond Insurance Policy | 7 | Project Description..... | 44 |
| Professionals Involved in the Offering | 7 | Land Use..... | 44 |
| Further Information | 8 | The Redevelopment Plans..... | 45 |
| REFUNDING PLAN | 9 | Unitary Property | 45 |
| 2010 Reimbursement Obligation Prepayment; 2010 Bonds Defeasance | 9 | Largest Taxable Property Owners | 46 |
| 2006 Loan Agreement Repayment; 2003 Bonds Defeasance | 10 | Summary of Assessed Value History in the Merged Project Area | 46 |
| I-Bank Loan Agreement Repayment | 10 | Tax Rates..... | 48 |
| Verification of Mathematical Accuracy..... | 11 | Teeter Plan | 48 |
| Estimated Sources and Uses of Funds | 11 | Appeals of Assessed Values; Proposition 8 Reductions | 48 |
| Debt Service Schedule | 12 | New Development..... | 50 |
| THE 2017 BONDS | 13 | Projected Tax Revenues and Estimated Debt Service Coverage..... | 50 |
| Authority for Issuance | 13 | RISK FACTORS..... | 53 |
| Description of the 2017 Bonds..... | 13 | Recognized Obligation Payment Schedules..... | 53 |
| Redemption | 14 | Challenges to Dissolution Act | 54 |
| Future Parity Debt..... | 15 | Reduction in Taxable Value | 55 |
| No Future Senior Debt..... | 16 | Unsecured Property | 55 |
| Future Subordinate Debt | 16 | Concentration of Property Ownership..... | 56 |
| THE DISSOLUTION ACT | 17 | Risks to Real Estate Market..... | 56 |
| SECURITY FOR THE 2017 BONDS | 19 | Reduction in Inflationary Rate..... | 56 |
| Pledge Under the Indenture..... | 19 | Levy and Collection of Taxes | 56 |
| Tax Revenues..... | 20 | Bankruptcy and Foreclosure | 57 |
| Flow of Funds Under the Indenture | 20 | Estimated Revenues..... | 57 |
| Debt Service Reserve Account..... | 23 | Natural Hazards | 57 |
| Limited Obligation | 26 | Hazardous Substances..... | 58 |
| Recognized Obligation Payment Schedules..... | 26 | Changes in the Law | 59 |
| No Negotiated Pass-Through Agreements..... | 30 | Loss of Tax-Exemption | 59 |
| Statutory Pass-Through Payments..... | 30 | Secondary Market..... | 59 |
| BOND INSURANCE..... | 32 | TAX MATTERS | 60 |
| National Public Finance Guarantee Corporation | 32 | 2017 Series A Taxable Bonds | 60 |
| Regulation..... | 33 | 2017 Series B Bonds | 60 |
| Financial Strength Ratings of National | 33 | CONCLUDING INFORMATION | 62 |
| Recent Litigation | 33 | Underwriting..... | 62 |
| National Financial Information | 34 | Legal Opinion | 62 |
| Incorporation of Certain Documents by Reference..... | 34 | Litigation..... | 62 |
| PROPERTY TAXATION IN CALIFORNIA | 36 | Ratings..... | 63 |
| Property Tax Collection Procedures | 36 | Continuing Disclosure | 63 |
| Rate of Collections – Teeter Plan | 38 | Audited Financial Statements | 64 |
| | | Miscellaneous | 64 |
| APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE | | | |
| APPENDIX B – FORM OF BOND COUNSEL OPINION | | | |
| APPENDIX C – BOOK-ENTRY ONLY SYSTEM | | | |
| APPENDIX D – FORM OF SUCCESSOR AGENCY CONTINUING DISCLOSURE CERTIFICATE | | | |
| APPENDIX E – SUCCESSOR AGENCY FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2016 | | | |
| APPENDIX F – STATE DEPARTMENT OF FINANCE APPROVAL LETTER | | | |
| APPENDIX G – SUPPLEMENTAL INFORMATION – CITY OF EUREKA AND COUNTY OF HUMBOLDT | | | |
| APPENDIX H – FISCAL CONSULTANT’S REPORT | | | |
| APPENDIX I – SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY | | | |

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OFFICIAL STATEMENT

\$5,925,000
EUREKA SUCCESSOR AGENCY
2017 TAXABLE TAX ALLOCATION REFUNDING
BONDS, SERIES A

\$13,080,000
EUREKA SUCCESSOR AGENCY
2017 TAX ALLOCATION REFUNDING
BONDS, SERIES B

This Official Statement, including the cover page, is provided to furnish information in connection with the sale by the Eureka Successor Agency (the “**Successor Agency**”) of its Eureka Successor Agency 2017 Taxable Tax Allocation Refunding Bonds, Series A (the “**2017 Series A Taxable Bonds**”) and the Eureka Successor Agency 2017 Tax Allocation Refunding Bonds, Series B (the “**2017 Series B Bonds**”) and together with the 2017 Series A Taxable Bonds, the “**2017 Bonds**”).

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description and guide to, and is qualified by, the more complete and detailed information contained in the entire Official Statement including the cover page and the appendices, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2017 Bonds to potential investors is made only by means of the entire Official Statement.

The City and the Successor Agency

The City. The City of Eureka (the “**City**”) is located in the County of Humboldt (the “**County**”) along Humboldt Bay on the Northern California Coast, 287 miles north of San Francisco and 450 miles south of Portland, Oregon. The City limits cover approximately 17 square miles. The 2017 Bonds are not an obligation of the City or the County. See “APPENDIX G – SUPPLEMENTAL INFORMATION – CITY OF EUREKA AND COUNTY OF HUMBOLDT.”

Successor Agency. The Successor Agency is the successor entity to the Eureka Redevelopment Agency (the “**Former Agency**”), which was dissolved under the Dissolution Act (as hereinafter defined). The Former Agency was a redevelopment agency with all of the powers vested in such organizations under the Community Redevelopment Law (Sections 33000 et seq. of the California Health and Safety Code), as amended or supplemented from time to time, (the “**Redevelopment Law**”). The City Council of the City was the governing board of the Former Agency.

Pursuant to Section 34173 of the Dissolution Act, the City made an election to act as the successor agency to the Former Agency. Subdivision (g) of Section 34173 of the Dissolution Act, added by AB 1484, expressly affirms that the Successor Agency is a separate public and legal entity from the City, that the two entities shall not merge, and that the liabilities of the Former Agency will not be transferred to the City nor will the assets of the Former Agency become assets of the City. The City Council of the City is the governing board of the Successor Agency.

Dissolution Act. On June 29, 2011, Assembly Bill No. X1 26 (“**AB X1 26**”) was enacted, together with a companion bill, Assembly Bill No. X1 27 (“**AB X1 27**”). The provisions of AB X1 26 provided for the dissolution of all redevelopment agencies statewide as of February 1, 2012. The provisions of AB X1 27 permitted redevelopment agencies to avoid such dissolution by the payment of certain amounts. A lawsuit was brought in the California Supreme Court, *California Redevelopment Association, et al., v. Matosantos, et al.*, 53 Cal. 4th 231 (Cal. Dec. 29, 2011), challenging the constitutionality of AB X1 26 and AB X1 27. The California Supreme Court largely upheld AB X1 26, invalidated AB X1 27, and held that AB X1 26 may be severed from AB X1 27 and enforced independently. As a result of AB X1 26 and the decision of the California Supreme Court in the *California Redevelopment Association* case, as of February 1, 2012, all redevelopment agencies in the State were dissolved, including the Former Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies.

The primary provisions enacted by AB X1 26 relating to the dissolution and wind down of former redevelopment agency affairs are found in Parts 1.8 (commencing with Section 34161) and 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code of the State, as amended on June 27, 2012 by Assembly Bill No. 1484 (“**AB 1484**”), enacted as Chapter 26, Statutes of 2012 and as further amended on September 22, 2015 by Senate Bill No. 107 (“**SB 107**”), enacted as Chapter 325, Statutes of 2015. The provisions of Part 1.85, as amended by AB 1484 and SB 107 are referred to in this Official Statement as the “**Dissolution Act.**” The Redevelopment Law together with the Dissolution Act are sometimes referred to in this Official Statement as, the “**Law.**”

Bond Authority

The Successor Agency is issuing the 2017 Bonds pursuant to authority granted by the Constitution of the State of California (the “**State**”), Section 34177.5 of the Health and Safety Code of the State, Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State (the “**Refunding Law**”) and an Indenture of Trust dated as of April 1, 2017 (the “**Indenture**”), between the Successor Agency and U.S. Bank National Association, as trustee (the “**Trustee**”). See “THE 2017 BONDS – Authority for Issuance.”

Section 34177.5(a)(1) of the Dissolution Act authorizes the issuance of refunding bonds to provide debt service savings, provided that (i) the total interest cost to maturity on the refunding bonds or other indebtedness plus the principal amount of the refunding bonds or other indebtedness does not exceed the total remaining interest cost to maturity on the bonds or other indebtedness to be refunded plus the remaining principal of the bonds or other indebtedness to be refunded, and (ii) the principal amount of the refunding bonds or other indebtedness does not exceed the amount required to defease the refunded bonds or other indebtedness, to establish customary debt service reserves, and to pay related costs of issuance.

Use of Bond Proceeds

2017 Series A Taxable Bonds. The Successor Agency is issuing the 2017 Series A Taxable Bonds to refinance the following outstanding obligations of the Successor Agency:

(i) Prepayment of a portion of its reimbursement obligation (the “**2010 Reimbursement Obligation**”) under a Reimbursement Agreement dated as of January 1, 2010 (the “**2010**”

Reimbursement Agreement”), by and between the Successor Agency, the City and the Eureka Public Financing Authority (the **“Authority”**). Under the 2010 Reimbursement Agreement, the Former Agency agreed to reimburse the City for lease payments made to the Authority which lease payments secure the Authority’s (i) \$4,960,000 original principal amount of 2010 Lease Revenue Bonds, Taxable Series A (the interest with respect to which is subject to federal income taxation) (the **“2010A Bonds”**) and (ii) \$4,235,000 original principal amount of 2010 Lease Revenue Bonds, Series B (the interest with respect to which is not subject to federal income taxation) (the **“2010B Bonds”**) and together with the 2010A Bonds, the **“2010 Bonds”**). The proceeds of the 2010 Bonds were used to finance certain capital projects within or of benefit to the Merged Project Area (as defined below). The 2010A Bonds and 2010B Bonds are currently outstanding in the aggregate principal amount of \$4,325,000 and \$3,995,000, respectively. The proceeds from the prepayment of the 2010 Reimbursement Obligation with proceeds of the 2017 Series A Taxable Bonds will be used to defease and redeem all of the outstanding 2010A Bonds.

(ii) Prepayment of a loan in the original principal amount of \$2,000,000 (the **“I-Bank Loan”**) made to the Former Agency by the California Infrastructure and Economic Development Bank (the **“I-Bank”**) pursuant to a Tax Allocation Loan Agreement, dated as of October 1, 2008, by and between the Former Agency and the I-Bank, as amended by a First Amendment to Tax Allocation Loan Agreement, by and between the Former Agency and the I-Bank, and as further amended by a Second Amendment to Tax Allocation Loan Agreement, by and between the Former Agency and the I-Bank (as so amended, the **“I-Bank Loan Agreement”**), of which \$1,111,166 is currently outstanding.

See “REFUNDING PLAN – 2010 Reimbursement Obligation Prepayment; 2010 Bonds Defeasance,” and “– I-Bank Loan Agreement Repayment.”

The remaining proceeds of the 2017 Series A Taxable Bonds will be used to (a) pay the portion of the premium of a debt service reserve surety bond for the 2017 Bonds (the **“2017 Reserve Policy”**) to be issued concurrently with the delivery of the 2017 Bonds by National Public Finance Guarantee Corporation (**“National”**) attributable to the 2017 Series A Taxable Bonds to satisfy a portion of the Reserve Requirement (as defined below) for the 2017 Bonds and (b) pay the costs of issuing the 2017 Series A Taxable Bonds.

2017 Series B Bonds. The Successor Agency is issuing the 2017 Series B Bonds to refinance the following outstanding obligations of the Successor Agency.

(i) Prepayment of the 2010 Reimbursement Obligation not refinanced with the proceeds of the 2017 Series A Taxable Bonds. Proceeds from such prepayment will be used to defease and redeem all of the outstanding 2010B Bonds.

(ii) Prepayment of loans made to the Former Agency by the Authority pursuant to three separate loan agreements each dated as of October 1, 2003 which were subsequently amended and restated pursuant to the Amended and Restated Loan Agreement dated as of January 1, 2006 (as so amended and restated, the “**2006 Loan Agreement**”), among the Former Agency, the Authority and U.S. Bank National Association. The payments required to be made by the Successor Agency under the 2006 Loan Agreement secure the Authority’s \$15,250,000 original principal amount Eureka Public Financing Authority 2003 Tax Allocation Revenue Refunding Bonds (Eureka Redevelopment Projects) (the “**2003 Bonds**”). The 2003 Bonds are currently outstanding in the aggregate principal amount of \$9,825,000. Proceeds from such prepayment will be used to defease and redeem all of the outstanding 2003 Bonds.

See “REFUNDING PLAN – 2010 Reimbursement Obligation Prepayment; 2010 Bonds Defeasance” and “– 2006 Loan Agreement Repayment; 2003 Bonds Defeasance.”

The remaining proceeds of the 2017 Series B Bonds will be used to (a) pay the portion of the premium of the 2017 Reserve Policy to be issued concurrently with the delivery of the 2017 Bonds by National attributable to the 2017 Series B Bonds to satisfy a portion of the Reserve Requirement for the 2017 Bonds and (b) pay the costs of issuing the 2017 Series B Bonds.

The Redevelopment Plans and the Merged Project Area

General. The Former Agency established the following three project areas: (i) the Eureka Century III NDP Phase I Redevelopment Project Area (the “**Phase I Area**”); (ii) the Eureka Century III NDP Phase II Redevelopment Project Area (the “**Phase II Area**”); and the Eureka Tomorrow Redevelopment Project Area (the “**Tomorrow Area**”). As described below, the Phase I Area, Phase II Area and Tomorrow Area were fiscally merged into the Eureka Merged Redevelopment Project Area (the “**Merged Project Area**”).

Redevelopment Plans. The City Council established the Phase I Area, and approved a redevelopment plan for the Phase I Area (the “**Original Phase I Area Redevelopment Plan**”), pursuant to an ordinance adopted by the City Council of the City (the “**City Council**”) on April 18, 1972. The Original Phase I Area Redevelopment Plan has been amended since adoption including pursuant to an ordinance adopted by the City Council on July 19, 2005 (the “**Merger Amendment**”), pursuant to which the Phase I Area, Phase II Area and Tomorrow Area were fiscally merged to form the Merged Project Area. After the merger, each of the Phase I Area, Phase II Area and Tomorrow Area retained separate redevelopment plans. The Original Phase I Area Redevelopment Plan as amended from time to time, including pursuant to the Merger Amendment, is hereinafter referred to as the “**Phase I Area Redevelopment Plan**.”

The City Council established the Phase II Area, and approved a redevelopment plan for the Phase II Area (the “**Original Phase II Area Redevelopment Plan**”) pursuant to an ordinance adopted by the City Council on May 1, 1973. The Original Phase II Area Redevelopment Plan has been amended since adoption including pursuant to the Merger Amendment, pursuant to which the Phase I Area, Phase II Area and Tomorrow Area were fiscally merged to form the Merged Project Area. The Original Phase II Area Redevelopment Plan as amended from time to time, including pursuant to the Merger Amendment, is hereinafter referred to as the “**Phase II Area Redevelopment Plan**.”

The City Council established the Tomorrow Area, and approved a redevelopment plan for the Tomorrow Area (the “**Original Tomorrow Area Redevelopment Plan**” and together with

the Original Phase I Area Redevelopment Plan and the Original Phase II Area Redevelopment Plan, the “**Original Redevelopment Plans**”) pursuant to an ordinance adopted by the City Council on December 4, 1973. The Original Tomorrow Area Redevelopment Plan has been amended since adoption including pursuant to the Merger Amendment, pursuant to which the Phase I Area, Phase II Area and Tomorrow Area were fiscally merged to form the Merged Project Area. The Original Tomorrow Area Redevelopment Plan as amended from time to time, including pursuant to the Merger Amendment, is hereinafter referred to as the “**Tomorrow Area Redevelopment Plan**” and together with the Phase I Area Redevelopment Plan and the Phase II Area Redevelopment Plan, the “**Redevelopment Plans**.”

See “THE MERGED PROJECT AREA – The Redevelopment Plans” for further information regarding the Redevelopment Plans.

Merged Project Area. The Merged Project Area encompasses approximately 1,260 acres and is located in the eastern portion of the City along Humboldt Bay. Land within the Merged Project Area is used primarily for commercial, residential and industrial purposes. See “THE MERGED PROJECT AREA – Project Description” for further information regarding the Merged Project Area.

Tax Allocation Financing

Prior to the enactment of AB X1 26, the Redevelopment Law authorized the financing of redevelopment projects through the use of tax increment revenues, and the Humboldt County Auditor-Controller (the “**County Auditor-Controller**”) apportioned tax increment revenue to all redevelopment agencies as described in the Redevelopment Law. This method provided that the taxable valuation of the property within a redevelopment project area on the property tax roll last equalized prior to the effective date of the ordinance which adopted the redevelopment plan became the base year valuation. Assuming the taxable valuation never dropped below the base year level, the taxing agencies receiving property taxes thereafter received only that portion of the taxes produced by applying then current tax rates to the base year valuation, and the redevelopment agency was allocated the remaining portion of property taxes produced by applying then current tax rates to the increase in valuation over the base year. Such incremental tax revenues allocated to a redevelopment agency were authorized to be pledged to the payment of redevelopment agency obligations.

Security for the 2017 Bonds

The Dissolution Act requires the County Auditor-Controller to annually determine the amount of property taxes that would have been allocated to the Former Agency from the Merged Project Area had the Former Agency not been dissolved pursuant to the operation of AB X1 26, using current assessed values on the last equalized roll on August 20 of each year, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Successor Agency established and held by the County Auditor-Controller (the “**Redevelopment Property Tax Trust Fund**”) pursuant to the Dissolution Act. The Dissolution Act provides that any bonds authorized thereunder to be issued by the Successor Agency will be considered indebtedness incurred by the dissolved Former Agency, with the same lien priority and legal effect as if such bonds had been issued prior to the effective date of AB X1 26, in full conformity with the applicable provisions of the Law that existed prior to that date, and will be included in the Successor Agency’s Recognized Obligation Payment Schedule (see “SECURITY FOR THE 2017 BONDS – Recognized Obligation Payment Schedules”).

The Dissolution Act further provides that property tax revenues pledged to any bonds authorized under the Dissolution Act, such as the 2017 Bonds, are taxes allocated to the successor agency pursuant to the provisions of the Redevelopment Law and the State Constitution.

Under the Dissolution Act, property tax revenues are distributed to the Successor Agency on a semi-annual basis (on January 2 and June 1) based on a Recognized Obligation Payment Schedule submitted by the Successor Agency to an oversight board established for the Successor Agency (the “**Oversight Board**”) and the State Department of Finance (the “**DOF**”). Pursuant to SB 107, the functions of the Oversight Board will be assumed by an oversight board established for all successor agencies within the County commencing on July 1, 2018. The County Auditor-Controller distributes funds from the Redevelopment Property Tax Trust Fund for each six-month period in the order specified in the Dissolution Act. See “SECURITY FOR THE 2017 BONDS – Recognized Obligation Payment Schedules.”

The 2017 Bonds are secured only by a pledge of, security interest in and lien on all of the Tax Revenues (as defined herein), including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund (as defined below) and all of the moneys in certain funds and accounts established and held by the Trustee under the Indenture, as further described in this Official Statement. See “Limited Obligation” below. Successor agencies have no power to levy property taxes and must rely on the allocation of taxes as described above. See “RISK FACTORS.”

See “SECURITY FOR THE 2017 BONDS – No Negotiated Pass-Through Agreements” and “– Statutory Pass-Through Payments” for information regarding the Successor Agency’s pass-through obligations.

Future Parity Debt

The Indenture permits the Successor Agency to issue or incur any loans, bonds, notes, advances or indebtedness payable from Tax Revenues on a parity with the 2017 Bonds for refunding purposes only subject to satisfaction of certain conditions and for refunding purposes.

The 2017 Bonds and any other loans, bonds, notes, advances or indebtedness payable from Tax Revenues on a parity therewith are collectively hereinafter sometimes referred to as “**Parity Debt**.” The 2017 Bonds and any other Parity Debt that is issued as bonds pursuant to any resolution, agreement or other instrument which has been duly adopted or entered into by the Successor Agency (but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture) is sometimes referred to collectively as, the “**Bonds**.”

See “THE 2017 BONDS – Future Parity Debt.”

No Future Senior Debt

Pursuant to the Indenture, from and after the Closing Date, the Successor Agency may not issue or incur any bonds, notes, loans, advances or other indebtedness that are secured by a pledge of Tax Revenues or moneys deposited in the Redevelopment Property Tax Trust Fund, on a basis senior or superior to the 2017 Bonds. See “THE 2017 BONDS – No Future Senior Debt.”

Future Subordinate Debt

The Indenture permits the Successor Agency to issue Subordinate Debt (as hereinafter defined). See “THE 2017 BONDS – Future Subordinate Debt.”

Limited Obligation

The 2017 Bonds are limited obligations of the Successor Agency and are secured by a pledge of, security interest in and lien on all of the Tax Revenues, including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund and all of the moneys in certain funds and accounts established and held by the Trustee under the Indenture. The principal of and interest on the 2017 Bonds are not a debt of the City, the County, the State or any of their political subdivisions except the Successor Agency, and none of the City, the County, the State nor any of their political subdivisions except the Successor Agency are liable thereon. The principal of and interest on the 2017 Bonds are not payable out of any funds other than those set forth in the Indenture. No member, officer, agent or employee of the City, the County, the Successor Agency, the Oversight Board, the City Council or any person executing the 2017 Bonds is liable personally on the 2017 Bonds by reason of their issuance.

Debt Service Reserve Account

Under the Indenture, the Trustee will establish a debt service reserve account for the 2017 Bonds (the “**2017 Reserve Subaccount**”). National has committed to issue concurrently with the issuance of the 2017 Bonds, the 2017 Reserve Policy in the amount of \$1,537,234.06. The Successor Agency will cause the Trustee to credit the 2017 Reserve Policy to the 2017 Reserve Subaccount to satisfy the Reserve Requirement for the 2017 Bonds. See “SECURITY FOR THE 2017 BONDS – Debt Service Reserve Account.”

Bond Insurance Policy

Concurrently with the issuance of the 2017 Bonds, National will issue its Financial Guaranty Insurance Policy (the “**2017 Insurance Policy**”) for the 2017 Series B Bonds maturing on November 1 of the years 2023 through 2036, inclusive (the “**2017 Insured Bonds**”). The 2017 Insurance Policy guarantees the scheduled payment of principal of and interest on the 2017 Insured Bonds when due as set forth in the form of the 2017 Insurance Policy included as Appendix I to this Official Statement.

Professionals Involved in the Offering

Public Financial Management, Inc., San Francisco, California (the “**Municipal Advisor**”), has served as municipal advisor to the Successor Agency and has advised the Successor Agency with respect to the financial structure of the refinancing and as to other financial aspects of the transaction. *Payment of the fees and expenses of the Municipal Advisor is contingent upon the sale and delivery of the 2017 Bonds.*

HdL Coren & Cone, Diamond Bar, California, has acted as fiscal consultant to the Successor Agency (the “**Fiscal Consultant**”) and advised the Successor Agency as to the taxable values within the Merged Project Area and tax increment revenues from the Project Area projected to be available to pay debt service on the 2017 Bonds as described in this Official Statement. The report prepared by the Fiscal Consultant is referred to herein as the “**Fiscal Consultant’s Report**” and is attached as Appendix H.

U.S. Bank National Association, San Francisco, California, will act as Trustee with respect to the 2017 Bonds.

Stifel, Nicolaus & Company, Incorporated (the “**Underwriter**”) is underwriting the 2017 Bonds.

All proceedings in connection with the issuance of the 2017 Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the Successor Agency. Jones Hall, A Professional Law Corporation, is also acting as Disclosure Counsel. The City Attorney of the City, as general counsel to the Successor Agency, will render certain opinions on behalf of the Successor Agency. 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. *Payment of the fees and expenses of Bond Counsel, Disclosure Counsel, the Municipal Advisor and Underwriter’s Counsel is contingent upon the sale and delivery of the 2017 Bonds.*

Further Information

Brief descriptions of the Redevelopment Law, the Dissolution Act, the Refunding Law, the 2017 Bonds, the Indenture, the Successor Agency, the Former Agency, the Redevelopment Plans, the Merged Project Area, the City and the County are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references in this Official Statement to the Redevelopment Law, the Dissolution Act, the Refunding Law, the 2017 Bonds, the Indenture, the Redevelopment Plans, the Constitution and the laws of the State as well as the proceedings of the Former Agency, the Successor Agency, the City and the County are qualified in their entirety by reference to such documents and laws. References in this Official Statement to the 2017 Bonds are qualified in their entirety by the form included in the Indenture and by the provisions of the Indenture. Capitalized terms used and not otherwise defined in this Official Statement shall have the meanings given to such terms in the Indenture.

During the period of the offering of the 2017 Bonds, copies of the draft forms of all documents are available from the Clerk of the City, City of Eureka, 531 “K” Street, Room 208, Eureka, California 95501-1146.

REFUNDING PLAN

2010 Reimbursement Obligation Prepayment; 2010 Bonds Defeasance

Pursuant to an Escrow Deposit and Trust Agreement (the “**2010 Bonds Escrow Agreement**”), by and among the Successor Agency, the Authority and The Bank of New York Mellon Trust Company, N.A., as escrow agent (in such capacity, the “**2010 Bonds Escrow Agent**”), the Successor Agency will cause the Trustee to deliver a portion of the proceeds of the 2017 Series A Taxable Bonds, along with other available amounts, to the 2010 Bonds Escrow Agent for deposit in a subaccount (the “**Taxable Escrow Subaccount**”) of a special fund (the “**2010 Bonds Escrow Fund**”) established and held under the 2010 Bonds Escrow Agreement by the 2010 Bonds Escrow Agent. Pursuant to the 2010 Bonds Escrow Agreement, the Successor Agency will also cause the Trustee to deliver a portion of the proceeds of the 2017 Series B Bonds, along with other available amounts, to the 2010 Bonds Escrow Agent for deposit in a subaccount (the “**Tax-Exempt Escrow Subaccount**”) of the 2010 Bonds Escrow Fund. Pursuant to the 2010 Bonds Escrow Agreement, upon receipt of such proceeds, the portion of the 2010 Reimbursement Obligation relating to the 2010A Bonds and the 2010B Bonds will be discharged in full.

The 2010 Bonds Escrow Agent will invest a portion of the funds on deposit in the Taxable Escrow Subaccount in government securities and will hold the remainder in cash, uninvested. From the moneys on deposit in the Taxable Escrow Subaccount, the 2010 Bonds Escrow Agent will transfer to The Bank of New York Mellon Trust Company, N.A., as trustee for the 2010 Bonds (in such capacity, the “**2010 Bonds Trustee**”), an amount required to pay the regularly scheduled debt service on the 2010A Bonds through and including November 1, 2019, and to pay the redemption price of the 2010A Bonds on November 1, 2019, in accordance with the 2010 Bonds Escrow Agreement.

The 2010 Bonds Escrow Agent will invest a portion of the funds on deposit in the Tax-Exempt Escrow Subaccount in government securities and will hold the remainder in cash, uninvested. From the moneys on deposit in the Tax-Exempt Escrow Subaccount, the 2010 Bonds Escrow Agent will transfer to the 2010 Bonds Trustee, an amount required to pay the regularly scheduled debt service on the 2010B Bonds through and including November 1, 2019, and to pay the redemption price of the 2010B Bonds on November 1, 2019, in accordance with the 2010 Bonds Escrow Agreement.

Pursuant to the Trust Agreement dated as of January 1, 2010 (the “**2010 Bonds Trust Agreement**”), by and between the Authority and the 2010 Bonds Trustee, the lien created by the 2010 Bonds Trust Agreement will be completely discharged and satisfied with respect to the 2010A Bonds upon the deposit of the amounts in the Taxable Escrow Subaccount and the Tax-Exempt Escrow Subaccount described above.

The amounts held by the 2010 Bonds Escrow Agent in the Taxable Escrow Subaccount are pledged solely to the amounts due and payable by the Successor Agency under the 2010 Reimbursement Agreement and amounts due by the Authority under the 2010 Bonds Trust Agreement with respect to the 2010A Bonds. The funds deposited in the Taxable Escrow Subaccount will not be available for the payment of debt service with respect to the 2017 Bonds.

2006 Loan Agreement Repayment; 2003 Bonds Defeasance

Pursuant to Irrevocable Refunding Instructions (the “**Refunding Instructions**”), by the Successor Agency and the Authority to U.S. Bank National Association, as trustee for the 2003 Bonds (in such capacity, the “**2003 Bonds Trustee**”), the Successor Agency will deliver a portion of the proceeds of the 2017 Series B Bonds, along with other available amounts, to the 2003 Bonds Trustee for deposit in a special trust fund (the “**2003 Bonds Escrow Fund**”) established and held under the Refunding Instructions by the 2003 Bonds Trustee. Pursuant to the Refunding Instructions, upon receipt of such proceeds, the Successor Agency’s obligations under the 2003 Loan Agreement will be discharged in full.

The 2003 Bonds Trustee will hold all amounts in the 2003 Bonds Escrow Fund in cash, uninvested. From the moneys on deposit in the 2003 Bonds Escrow Fund, the 2003 Bonds Trustee will pay on May 1, 2017, the outstanding principal amount of all of the 2003 Bonds and the accrued interest thereon to the date of repayment.

Pursuant to the Indenture of Trust dated as of October 1, 2003 (the “**2003 Bonds Indenture**”), between the Authority and the 2003 Bonds Trustee, the Indenture will be discharged upon the deposit of the amounts in the 2003 Bonds Escrow Fund described above.

The amounts held by the 2003 Bonds Trustee in the 2003 Bonds Escrow Fund are pledged solely to the amounts due and payable by the Authority under the 2003 Bonds Indenture with respect to the 2003 Bonds Trustee. The funds deposited in the 2003 Bonds Escrow Fund will not be available for the payment of debt service with respect to the 2017 Bonds.

I-Bank Loan Agreement Repayment

Pursuant to an Escrow Deposit and Trust Agreement (the “**I-Bank Loan Escrow Agreement**”), by and between the Successor Agency and U.S. Bank National Association, as escrow agent (in such capacity, the “**I-Bank Loan Escrow Agent**”), the Successor Agency will cause the Trustee to deliver a portion of the proceeds of the 2017 Series A Taxable Bonds, along with other available amounts, to the I-Bank Loan Escrow Agent for deposit in an escrow fund (the “**I-Bank Loan Escrow Fund**”) established and held under the I-Bank Escrow Agreement by the I-Bank Loan Escrow Agent.

The I-Bank Loan Escrow Agent will invest a portion of the funds on deposit in the I-Bank Loan Escrow Fund in government securities and will hold the remainder in cash, uninvested. From the moneys on deposit in the I-Bank Loan Escrow Fund, the I-Bank Loan Escrow Agent will withdraw from the I-Bank Escrow Fund and transfer to the I-Bank an amount required to pay the regularly scheduled debt service on the I-Bank Loan through and including October 1, 2018, and to prepay the I-Bank Loan in full on October 1, 2018 at a price equal to 102% of the principal amount thereof plus accrued and unpaid interest thereon.

Pursuant to the I-Bank Loan Agreement, the I-Bank Loan will be deemed to have been paid upon the deposit with the I-Bank Loan Escrow Agent of the amounts described above.

The amounts held by the I-Bank Escrow Agent in the I-Bank Loan Escrow Fund are pledged solely to the amounts due and payable by the Successor Agency under the I-Bank Loan Agreement with respect to the I-Bank Loan. The funds deposited in I-Bank Loan Escrow Fund will not be available for the payment of debt service with respect to the 2017 Bonds.

Verification of Mathematical Accuracy

Causey Demgen & Moore P.C., Denver, Colorado (the “**Verification Agent**”), will verify the sufficiency of the deposits in the 2010 Bonds Escrow Fund, the 2003 Bonds Escrow Fund and the I-Bank Loan Escrow Fund, for the purposes described above. Assuming the accuracy of the Verification Agent’s computations, as a result of the deposit and application of funds as provided in the 2010 Bonds Escrow Fund, the 2003 Bonds Escrow Fund and the I-Bank Loan Escrow Fund, the respective obligations of the Successor Agency and the Authority under the 2010 Reimbursement Agreement, the 2010 Bonds, the 2006 Loan Agreement, the 2003 Bonds and the I-Bank Loan Agreement will be discharged.

The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds are summarized below.

| | 2017 Series A Taxable Bonds <u>Amount</u> | 2017 Series B Bonds <u>Amount</u> |
|--|---|---|
| Sources: | | |
| Principal Amount | \$5,925,000.00 | \$13,080,000.00 |
| <i>Less:</i> Original Issue Discount | (23,128.95) | -- |
| <i>Plus:</i> Net Original Issue Premium | -- | 1,060,130.10 |
| <i>Plus:</i> Available Funds | 537,023.67 | 770,684.30 |
| <i>Less:</i> Underwriter’s Discount | (38,249.92) | (86,064.23) |
| Total Sources | \$6,400,644.80 | \$14,824,750.17 |
| Uses: | | |
| Deposit to Taxable Escrow Subaccount ⁽¹⁾ | \$5,130,841.44 | \$ -- |
| Deposit to Tax-Exempt Escrow Subaccount ⁽²⁾ | -- | 4,529,927.76 |
| Deposit to 2003 Bonds Escrow Fund ⁽³⁾ | -- | 10,051,683.75 |
| Deposit to I-Bank Escrow Fund ⁽⁴⁾ | 1,178,369.80 | -- |
| Costs of Issuance ⁽⁵⁾ | 91,433.56 | 243,138.66 |
| Total Uses | \$6,400,644.80 | \$14,824,750.17 |

(1) To be used to prepay the portion of the 2010 Reimbursement Obligation related to the 2010A Bonds, and defease and redeem all of the outstanding 2010A Bonds. See “REFUNDING PLAN.”

(2) To be used to prepay the portion of the 2010 Reimbursement Obligation not prepaid with the proceeds of the 2017 Series A Taxable Bonds, and defease and redeem all of the outstanding 2010B Bonds. See “REFUNDING PLAN.”

(3) To be used to prepay the 2003 Loan Agreement, and to redeem and refund all of the outstanding 2003 Bonds. See “REFUNDING PLAN.”

(4) To be used to prepay the I-Bank Loan. See “REFUNDING PLAN.”

(5) Costs of Issuance include fees and expenses for Bond Counsel, Disclosure Counsel, Municipal Advisor, Trustee, premiums for the 2017 Insurance Policy and the 2017 Reserve Policy, Successor Agency administrative staff, City Attorney as general counsel to the Successor Agency, printing expenses, rating fee and other costs related to the issuance of the 2017 Bonds.

Debt Service Schedule

The following table shows the debt service schedule for the 2017 Bonds, assuming no optional redemption of the 2017 Series B Bonds prior to their stated maturities.

| Period Ending November 1 | 2017 Series A Taxable Bonds Principal | 2017 Series A Taxable Bonds Interest | 2017 Series B Bonds Principal | 2017 Series B Bonds Interest | Total Debt Service |
|-------------------------------------|--|---|--|---|-------------------------------|
| 2017 | \$1,725,000.00 | \$51,637.55 | \$ -- | \$306,441.11 | \$2,083,078.66 |
| 2018 | 1,755,000.00 | 79,068.76 | -- | 571,600.02 | 2,405,668.78 |
| 2019 | 1,785,000.00 | 50,550.00 | -- | 571,600.02 | 2,407,150.02 |
| 2020 | 660,000.00 | 14,850.00 | 1,155,000.00 | 571,600.02 | 2,401,450.02 |
| 2021 | -- | -- | 1,890,000.00 | 513,850.02 | 2,403,850.02 |
| 2022 | -- | -- | 1,985,000.00 | 419,350.02 | 2,404,350.02 |
| 2023 | -- | -- | 2,080,000.00 | 320,100.02 | 2,400,100.02 |
| 2024 | -- | -- | 500,000.00 | 216,100.02 | 716,100.02 |
| 2025 | -- | -- | 370,000.00 | 196,100.02 | 566,100.02 |
| 2026 | -- | -- | 380,000.00 | 181,300.02 | 561,300.02 |
| 2027 | -- | -- | 400,000.00 | 166,100.02 | 566,100.02 |
| 2028 | -- | -- | 420,000.00 | 146,100.02 | 566,100.02 |
| 2029 | -- | -- | 430,000.00 | 133,500.02 | 563,500.02 |
| 2030 | -- | -- | 450,000.00 | 120,600.02 | 570,600.02 |
| 2031 | -- | -- | 460,000.00 | 106,537.52 | 566,537.52 |
| 2032 | -- | -- | 475,000.00 | 91,587.52 | 566,587.52 |
| 2033 | -- | -- | 495,000.00 | 74,962.52 | 569,962.52 |
| 2034 | -- | -- | 510,000.00 | 57,637.52 | 567,637.52 |
| 2035 | -- | -- | 530,000.00 | 39,150.02 | 569,150.02 |
| 2036 | -- | -- | 550,000.00 | 19,937.52 | 569,937.52 |
| Total | \$5,925,000.00 | \$196,106.31 | \$13,080,000.00 | \$4,824,153.99 | \$24,025,260.30 |

THE 2017 BONDS

Authority for Issuance

The issuance of the 2017 Bonds and the execution and delivery of the Indenture were authorized by the Successor Agency pursuant to Resolution No. 2016-90 adopted on December 13, 2016, and approved by the Oversight Board pursuant to Resolution No. 2016-02-OB adopted on December 19, 2016 (the “**Oversight Board Resolution**”).

Pursuant to the Dissolution Act, on March 10, 2017, the DOF provided a letter to the Successor Agency stating that based on the DOF’s review and application of the law, the Oversight Board Resolution approving the 2017 Bonds is approved by the DOF. See “APPENDIX F – STATE DEPARTMENT OF FINANCE APPROVAL LETTER.”

Section 34177.5(f) of the Dissolution Act provides that when, as in this case, a successor agency issues refunding bonds with the approval of the oversight board and the DOF, the oversight board may not unilaterally approve any amendments to or early termination of the bonds, and the scheduled payments on the bonds shall be listed in the Recognized Obligation Payment Schedules and are not subject to further review and approval by the DOF or the California State Controller.

Description of the 2017 Bonds

The 2017 Bonds will be issued and delivered in fully-registered form without coupons in integral multiples of \$5,000 for each maturity, initially in the name of Cede & Co., as nominee for The Depository Trust Company (“**DTC**”), New York, New York, as registered owner of all 2017 Bonds. The initially executed and delivered 2017 Bonds will be dated the date of delivery (the “**Closing Date**”) and mature on November 1 in the years and in the amounts shown on the inside cover page of this Official Statement.

Each 2017 Bond shall bear interest (calculated on the basis of a 360-day year of twelve 30-day months) from May 1 and November 1 in each year commencing November 1, 2017 (each an, “**Interest Payment Date**”) next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) a 2017 Bond is authenticated on or before the first Record Date, in which event it shall bear interest from the Closing Date with respect thereto; *provided, however*, that if, as of the date of authentication of any 2017 Bond, interest thereon is in default, such 2017 Bond, shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. The Indenture defines the term “**Record Date**” to mean, with respect to any Interest Payment Date, the close of business on the fifteenth calendar day of the month preceding such Interest Payment Date, whether or not such fifteenth calendar day is a Business Day.

One fully-registered bond will be issued for each series and maturity of the 2017 Bonds, each in the aggregate principal amount of such respective maturity, and will be deposited with DTC. See “APPENDIX C – BOOK-ENTRY ONLY SYSTEM.”

Redemption

Optional Redemption. The 2017 Series A Taxable Bonds are not subject to optional redemption prior to maturity.

The 2017 Series B Bonds maturing on or prior to November 1, 2026, are not subject to optional redemption. The 2017 Series B Bonds maturing on or after November 1, 2027, are subject to optional redemption prior to their respective maturity dates as a whole, or in part by lot, on any date on or after November 1, 2026, by such maturity or maturities as shall be directed by the Successor Agency (or in absence of such direction, pro rata by maturity and by lot within a maturity), from any source of available funds. Such optional redemption shall be at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued but unpaid interest to the date fixed for redemption, without premium.

Notice of Redemption. The Trustee on behalf and at the expense of the Successor Agency shall mail (by first class mail, postage prepaid) notice of any redemption at least thirty but not more than sixty days prior to the redemption date, to (i) any Insurer, the Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, and (ii) the Securities Depositories and one or more Information Services; but such mailing shall not be a condition precedent to such redemption and neither failure to receive any such notice nor any defect therein shall affect the validity of the proceedings for the redemption of such 2017 Bonds or the cessation of the accrual of interest thereon. Such notice shall state the redemption date and the redemption price, shall state that optional redemption is conditioned upon the timely delivery of the redemption price by the Successor Agency to the Trustee for deposit in the Redemption Account, shall designate the CUSIP number of the 2017 Bonds to be redeemed, shall state the individual number of each 2017 Bond to be redeemed or shall state that all 2017 Bonds between two stated numbers (both inclusive) or all of the 2017 Bonds Outstanding are to be redeemed, and shall require that such 2017 Bonds be then surrendered at the Principal Corporate Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such 2017 Bonds will not accrue from and after the redemption date.

Right to Rescind Notice of Redemption. The Successor Agency shall have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any such notice of optional redemption shall be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2017 Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The Successor Agency and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner and to the same recipients as the original notice of redemption was sent.

Partial Redemption of 2017 Bonds. In the event only a portion of any 2017 Bond is called for redemption, then upon surrender of such 2017 Bond the Successor Agency shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Successor Agency, a new 2017 Bond or 2017 Bonds of the same interest rate and maturity, of authorized denominations, in aggregate principal amount equal to the unredeemed portion of the 2017 Bond to be redeemed.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the redemption price of and interest on the 2017 Bonds so called for

redemption shall have been duly deposited with the Trustee, such 2017 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 accrued interest to the redemption date, and no interest shall accrue thereon from and after the redemption date specified in such notice.

Manner of Redemption. Whenever any 2017 Bonds or portions thereof are to be selected for redemption by lot, the Trustee shall make such selection, in such manner as the Trustee shall deem appropriate, and shall notify the Successor Agency thereof to the extent 2017 Bonds are no longer held in book-entry form. In the event of redemption by lot of 2017 Bonds, the Trustee shall assign to each 2017 Bond then Outstanding a distinctive number for each \$5,000 of the principal amount of each such 2017 Bond. The 2017 Bonds to be redeemed shall be the 2017 Bonds to which were assigned numbers so selected, but only so much of the principal amount of each such 2017 Bond of a denomination of more than \$5,000 shall be redeemed as shall equal \$5,000 for each number assigned to it and so selected. All Bonds redeemed or purchased shall be cancelled and destroyed.

Purchase in Lieu of Redemption. In lieu of redemption of any Parity Debt that is issued as bonds pursuant to a Supplemental Indenture hereinafter (the “**Term Bonds**”), amounts on deposit in the Debt Service Fund or in the Principal Account may also be used and withdrawn by the Successor Agency and the Trustee, respectively, at any time, upon the Written Request of the Successor Agency, for the purchase of the Term Bonds at public or private sale as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Successor Agency may in its discretion determine. The par amount of any Term Bonds so purchased by the Successor Agency in any twelve-month period ending on June 1 in any year shall be credited towards and shall reduce the par amount of the Term Bonds required to be redeemed pursuant to the mandatory redemption provisions of the Indenture as described above on November 1 in each year; provided that evidence satisfactory to the Trustee of such purchase has been delivered to the Trustee by said June 1.

Future Parity Debt

In addition to the 2017 Bonds, the Indenture authorizes the Successor Agency to issue Parity Debt in such principal amount as shall be determined by the Successor Agency for refunding purposes only. Pursuant to the Indenture, the Successor Agency may issue and deliver any such Parity Debt subject to the satisfaction of the following conditions precedent:

(a) The Parity Debt must have been issued in compliance with the refunding provisions of the Dissolution Act, including, but not limited to, the requirement that the total interest cost to maturity on the Parity Debt plus the principal amount of the Parity Debt may not exceed the total remaining interest cost to maturity on the bonds or other indebtedness to be refunded plus the remaining principal of the bonds or other indebtedness to be refunded.

(b) Annual debt service on the additional Parity Debt must be lower than annual debt service on the obligations being refunded during every year the obligations would otherwise be outstanding;

(c) No event of default under the Indenture or under any Parity Debt Instrument shall have occurred and be continuing;

(d) The interest payment date with respect to such Parity Debt shall be May 1 and November 1, and the principal payment dates with respect to such Parity Debt shall be November 1; and

(e) The Successor Agency shall deliver to the Trustee a Written Certificate of the Successor Agency certifying that the conditions precedent to the issuance of such Parity Debt described above have been satisfied.

No Future Senior Debt

Pursuant to the Indenture, from and after the Closing Date, the Successor Agency may not issue or incur any bonds, notes, loans, advances or other indebtedness that are secured by a pledge of Tax Revenues or moneys deposited in the Redevelopment Property Tax Trust Fund, on a basis senior or superior to the 2017 Bonds.

Future Subordinate Debt

The Indenture authorizes the Successor Agency to issue or incur Subordinate Debt (as defined below) in such principal amount as shall be determined by the Successor Agency. Any Subordinate Debt that is issued as bonds or incurred in the form of a loan may be payable on different dates than the 2017 Bonds; provided, however, the Successor Agency shall not use Tax Revenues deposited into the Redevelopment Obligation Retirement Fund to pay the enforceable obligations of the Successor Agency to pay debt service on any Subordinate Debt until such time as the Successor Agency has transferred to the Trustee sufficient Tax Revenues to pay debt service on the 2017 Bonds and any Parity Debt for the applicable Bond Year.

The Indenture defines the term “**Subordinate Debt**” to mean any bonds, notes, loans, advances or other indebtedness issued or incurred by the Successor Agency that are either: (a) payable from, but not secured by a pledge of or lien upon, the Tax Revenues; or (b) secured by a pledge of or lien upon the Tax Revenues that is subordinate to (i) the pledge of and lien upon the Tax Revenues under the Indenture for the security of the 2017 Bonds, and (ii) the Successor Agency’s obligation to reimburse the provider of a bond insurance policy, surety bond or similar instrument relating to any Parity Debt or Subordinate Debt.

THE DISSOLUTION ACT

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Former Agency (pursuant to subdivision (b) of Section 16 of Article XVI of the State Constitution) had the Former Agency not been dissolved pursuant to the operation of AB X1 26, using current assessed values on the last equalized roll on August 20, and to deposit that amount in the Redevelopment Property Tax Trust Fund for the Successor Agency established and held by the County Auditor-Controller pursuant to the Dissolution Act.

The Dissolution Act provides that any bonds authorized thereunder to be issued by the Successor Agency will be considered indebtedness incurred by the Former Agency, with the same lien priority and legal effect as if the bonds had been issued prior to the effective date of AB X1 26, in full conformity with the applicable provisions of the Redevelopment Law that existed prior to that date, and will be included in the Successor Agency's Recognized Obligation Payment Schedule (see "SECURITY FOR THE 2017 BONDS – Recognized Obligation Payment Schedules").

The Dissolution Act further provides that bonds authorized by the Dissolution Act to be issued by the Successor Agency will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund, and that property tax revenues pledged to any bonds authorized to be issued by the Successor Agency under the Dissolution Act, including the 2017 Bonds, are taxes allocated to the Successor Agency pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution.

Pursuant to subdivision (b) of Section 33670 of the Redevelopment Law and Section 16 of Article XVI of the State Constitution and as provided in the Redevelopment Plans, taxes levied upon taxable property in the Merged Project Area each year by or for the benefit of the State, any city, county, city and county, district, or other public corporation (herein sometimes collectively called "**taxing agencies**") after the effective date of the ordinance approving the related Redevelopment Plans, or the respective effective dates of ordinances approving amendments to the Redevelopment Plans that added territory to the Merged Project Area, if any, are to be divided as follows:

- (a) To Taxing Agencies: That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of the taxing agencies upon the total sum of the assessed value of the taxable property in the Merged Project Area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the effective date of the ordinance adopting the Redevelopment Plans, or the effective dates of ordinances approving amendments to the Redevelopment Plans that added territory to the Merged Project Area, if any (the "**base year valuation**"), will be allocated to, and when collected will be paid into, the funds of the respective taxing agencies as taxes by or for the taxing agencies on all other property are paid; and
- (b) To the Redevelopment Agency/Successor Agency: Except for that portion of the taxes in excess of the amount identified in (a) above which are attributable to a tax rate levied by a taxing agency for the purpose of

producing revenues in an amount sufficient to make annual repayments of the principal of, and the interest on, any bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989 for the acquisition or improvement of real property, which portion shall be allocated to, and when collected shall be paid into, the fund of that taxing agency, that portion of the levied taxes each year in excess of such amount, annually allocated within limitations established by the Redevelopment Plans, following the date of issuance of the 2017 Bonds, when collected will be paid into a special fund of the Successor Agency. Section 34172 of the Dissolution Act provides that, for purposes of Section 16 of Article XVI of the State Constitution, the Redevelopment Property Tax Trust Fund shall be deemed to be a special fund of the Successor Agency to pay the debt service on indebtedness incurred by the Former Agency or the Successor Agency to finance or refinance the redevelopment projects of the Former Agency.

That portion of the levied taxes described in paragraph (b) above, less amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the County Auditor-Controller, constitute the amounts required under the Dissolution Act to be deposited by the County Auditor-Controller into the Redevelopment Property Tax Trust Fund. In addition, Section 34183 of the Dissolution Act effectively eliminates the January 1, 1989 date from paragraph (b) above. Additionally, effective September 22, 2015, debt service override revenues approved by the voters for the purpose of supporting pension programs, capital projects, or programs related to the State Water Project, that are not pledged to or needed for debt service on successor agency obligations are allocated and paid to the entity that levies the override and will not be deposited into the Redevelopment Property Tax Trust Fund.

SECURITY FOR THE 2017 BONDS

The 2017 Bonds are secured only by a pledge of, security interest in and lien on all of the Tax Revenues (as defined below), including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund (as defined below) and all of the moneys in certain funds and accounts established and held by the Trustee under the Indenture, as further described in this Official Statement. See “Limited Obligation” below.

The Dissolution Act requires the County Auditor-Controller to annually determine the amount of property taxes that would have been allocated to the Former Agency from the Merged Project Area had the Former Agency not been dissolved pursuant to the operation of AB X1 26, using current assessed values on the last equalized roll on August 20 of each year, and to deposit that amount in the Redevelopment Property Tax Trust Fund. The Dissolution Act provides that any bonds authorized thereunder to be issued by the Successor Agency will be considered indebtedness incurred by the dissolved Former Agency, with the same lien priority and legal effect as if such bonds had been issued prior to the effective date of AB X1 26, in full conformity with the applicable provisions of the Law that existed prior to that date, and will be included in the Successor Agency’s Recognized Obligation Payment Schedule (see “SECURITY FOR THE 2017 BONDS – Recognized Obligation Payment Schedules”).

The Dissolution Act further provides that property tax revenues pledged to any bonds authorized under the Dissolution Act, such as the 2017 Bonds, are taxes allocated to the successor agency pursuant to the provisions of the Redevelopment Law and the State Constitution.

Under the Dissolution Act, property tax revenues are distributed to the Successor Agency on a semi-annual basis (on January 2 and June 1) based on a Recognized Obligation Payment Schedule submitted by the Successor Agency to the Oversight Board and the DOF. Pursuant to SB 107, the functions of the Oversight Board will be assumed by an oversight board established for all successor agencies within the County commencing on July 1, 2018. The County Auditor-Controller distributes funds from the Redevelopment Property Tax Trust Fund for each six-month period in the order specified in the Dissolution Act. See “SECURITY FOR THE 2017 BONDS – Recognized Obligation Payment Schedules.”

The County Auditor-Controller will deposit property tax revenues into the Redevelopment Property Tax Trust Fund pursuant to the requirements of the Dissolution Act, including *inter alia* Health and Safety Code sections 34183 and 34170.5(b). The 2017 Bonds and any Parity Debt are equally secured by a pledge of, security interest in and lien on all of the Tax Revenues, including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund and all of the moneys in certain funds and accounts established and held by the Trustee under the Indenture as described below.

Pledge Under the Indenture

Pursuant to the Indenture, the 2017 Bonds are equally secured by a pledge of, security interest in and lien on all of the Tax Revenues, including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund and all of the moneys in the Debt Service Fund, the Interest Account, the Principal Account and the Reserve Account, without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Tax Revenues and such moneys, no funds or properties of the Successor Agency are pledged to, or otherwise liable for, the payment of principal of or interest on the 2017 Bonds.

The Indenture further provides that, in consideration of the acceptance of the 2017 Bonds by those who shall hold the same from time to time, the Indenture shall be deemed to be and shall constitute a contract between the Successor Agency and the Owners from time to time of the 2017 Bonds, and the covenants and agreements set forth in the Indenture to be performed on behalf of the Successor Agency shall be for the equal and proportionate benefit, security and protection of all Owners of the 2017 Bonds without preference, priority or distinction as to security or otherwise of any of the 2017 Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided in the 2017 Bonds or the Indenture.

Tax Revenues

Definition. “**Tax Revenues**” is defined under the Indenture to mean, for each Fiscal Year, the taxes eligible for allocation to the Successor Agency with respect to the Merged Project Area pursuant to the Redevelopment Law (exclusive of (a) amounts, if any, received pursuant to Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with section 16110) of the Government Code, and (b) any payments required to be paid in each Fiscal Year to any local government agency within the Merged Project Area pursuant to the Law but only to the extent that such payments are not subordinated to the payment of debt service on the 2017 Bonds) together with all payments, reimbursements and subventions, if any, specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations.

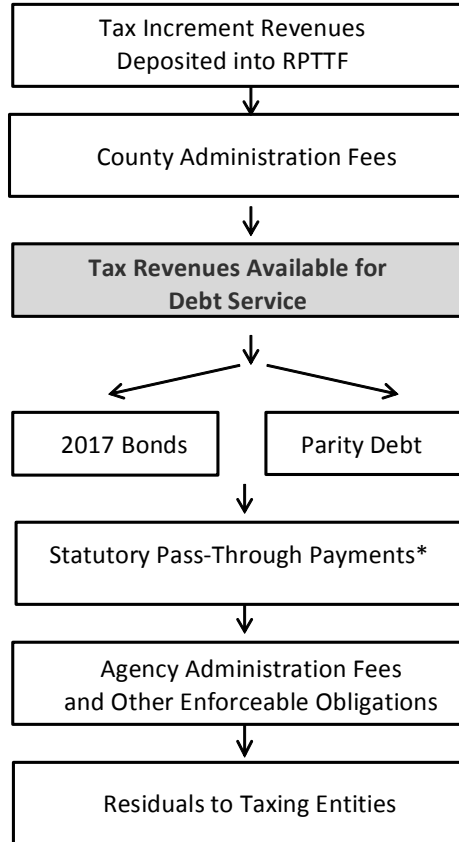
Housing Set-Aside. Before it was amended by the Dissolution Act, the Redevelopment Law required the Former Agency to set aside not less than 20% of all tax increment generated in the Merged Project Area into a low and moderate income housing fund to be used for the purpose of increasing, improving and/or preserving the supply of low and moderate income housing. These tax increment revenues were commonly referred to as “Housing Set-Aside.”

The Dissolution Act eliminates the characterization of certain tax increment revenues as Housing Set-Aside. As a result, and because the Successor Agency has no obligations that are payable from Housing Set-Aside, the former Housing Set-Aside is available to pay debt service on the 2017 Bonds; the projections of Tax Revenues set forth in the section of this Official Statement entitled “THE MERGED PROJECT AREA – Projected Tax Revenues and Estimated Debt Service Coverage,” assumes the availability of the former Housing Set-Aside for this purpose.

Flow of Funds Under the Indenture

General. The diagram on the following page illustrates the application of tax increment revenues deposited in the Redevelopment Property Tax Trust Fund. The application of Tax Revenues to the payment of debt service on the 2017 Bonds and any Parity Debt is governed by the terms and provisions of the Indenture. Such terms and provisions are described on the following pages.

Flow of Funds



* Assumes subordination of such payments. See “SECURITY FOR THE 2017 BONDS – Statutory Pass-Through Payments.”

Deposit in Redevelopment Obligation Retirement Fund; Transfer to Debt Service Fund. The Successor Agency has established the Redevelopment Obligation Retirement Fund pursuant to Section 34170.5(a) of the Dissolution Act and, so long as any of the 2017 Bonds and any Parity Debt are Outstanding or any amounts are due to National with respect to the 2017 Insurance Policy or the 2017 Reserve Policy or any other Insurer with respect to any other insurance policy of financial guaranty issued by such other Insurer, the Successor Agency shall continue to hold and maintain such fund as a separate fund in its treasury (which shall be a separate account from other accounts of the Successor Agency and the City into which no other moneys shall be deposited). The Successor Agency shall deposit all of the Tax Revenues received with respect to any Semiannual Period into the Redevelopment Obligation Retirement Fund promptly upon receipt thereof by the Successor Agency. The Successor Agency shall, within 5 days of the receipt thereof, transfer to the Trustee for deposit in the Debt Service Fund all such Tax Revenues as are required to pay debt service on the Bonds in accordance with the terms of the Indenture or to replenish any reserve account or fund established with respect to Parity Debt.

The Indenture further provides that all Tax Revenues received by the Successor Agency with respect to a Bond Year in excess of the amount required to pay Annual Debt Service on the 2017 Bonds and any other Parity Debt, and except as may be provided to the contrary in any

Parity Debt Instrument, shall be released from the pledge and lien thereunder and shall be applied in accordance with the Law, including but not limited to the payment of any amounts due and owing to the United States of America pursuant to the rebate requirements under the Indenture. Prior to the payment in full of the principal of and interest and premium, if any, on the Bonds and the payment in full of all other amounts payable under the Indenture and under any Supplemental Indentures, the Successor Agency shall not have any beneficial right or interest in the moneys on deposit in the Redevelopment Obligation Retirement Fund, except as may be provided in the Indenture and in any Supplemental Indenture.

Deposit of Amounts by Trustee. Pursuant to the Indenture, the Trustee will establish a trust fund to be known as the Debt Service Fund, which will be held by the Trustee under the Indenture in trust. The Indenture provides that, concurrently with transfers with respect to Parity Debt pursuant to Parity Debt Instruments, moneys in the Redevelopment Obligation Retirement Fund will be transferred by the Successor Agency to the Trustee in the following amounts, at the following times, and deposited by the Trustee in the following respective special accounts and in the following order of priority:

Interest Account. Within five Business Days of its receipt of moneys in the Recognized Obligation Retirement Fund, the Successor Agency shall withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee, for deposit in the Interest Account an amount which when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on the next Interest Payment Date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable.

Principal Account. Within five Business Days of its receipt of moneys in the Recognized Obligation Retirement Fund, the Successor Agency shall withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then contained in the Principal Account, will be equal to the principal becoming due and payable on the Outstanding Bonds, including the aggregate principal amount of the Term Bonds required to be redeemed pursuant to a Supplemental Indenture, on the next November 1. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next November 1 on all of the Outstanding Bonds. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds, including the aggregate principal amount of the Term Bonds required to be redeemed pursuant to a Supplemental Indenture, as it shall become due and payable.

Redemption Account. On or before the Business Day preceding any date on which Bonds are to be redeemed pursuant to the Indenture, the Trustee shall withdraw from the Debt Service Fund any amount transferred by the Successor Agency pursuant to the Indenture for deposit in the Redemption Account, such amount being the amount required to pay the principal of and premium, if any, on the Bonds to be redeemed on such date pursuant to the Indenture and similar provisions in one or more Supplemental Indentures. All moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the

Bonds to be redeemed pursuant to the Indenture and similar provisions in one or more Supplemental Indentures on the date set for such redemption. Interest due on Bonds to be redeemed on the date set for redemption shall, if applicable, be paid from funds available therefor in the Interest Account.

Reserve Account. Under the Indenture, the Trustee will establish a separate account known as the “**Reserve Account.**” Within the Reserve Account, the Trustee will establish a subaccount known as the “**2017 Reserve Subaccount.**”. The Successor Agency shall have the option to establish one or more additional subaccounts in the Reserve Account that secure only a particular series or series of Bonds issued as Parity Debt, and the calculation of the Reserve Requirement with respect to all other Bonds shall exclude the debt service on such issue of Bonds. Additionally, Bonds secured by a Qualified Reserve Account Credit Instrument (as defined below) or a separate subaccount within the Reserve Account shall not have access to any other amounts on deposit in the Reserve Account except as expressly provided in the Indenture or in any applicable Supplemental Indenture. Additionally, the Reserve Account may be maintained in the form of one combined Reserve Account or in the form of one or more separate sub-accounts which are established for the purpose of holding the proceeds of separate series of Bonds in conformity with applicable provisions of the Code to the extent directed by the Successor Agency in writing to the Trustee.

See “– Debt Service Reserve Account” below for further information regarding the Reserve Account.

Debt Service Reserve Account

Definition of Reserve Requirement. The Indenture defines “**Reserve Requirement**” to mean, with respect to the 2017 Series A Taxable Bonds, the 2017 Series B Bonds, and each series of Parity Debt issued in the form of Bonds under the Indenture, the lesser of (i) 125% of the average Annual Debt Service with respect to the respective series of the Bonds, (ii) Maximum Annual Debt Service with respect to the respective series of the Bonds, or (iii) 10% of the original principal amount of the respective series of Bonds (or, if such series of Bonds has more than a de minimis amount of original issue discount or premium, 10% of the issue price of such series of Bonds); provided, that the Reserve Requirement may be determined on a combined or individual basis for two or more series of Bonds, as determined by the Successor Agency and that in no event shall the Successor Agency, in connection with the issuance of Parity Debt in the form of Bonds pursuant to a Supplemental Indenture be obligated to deposit an amount in the Reserve Account which is in excess of the amount permitted by the applicable provisions of the Code to be so deposited from the proceeds of tax-exempt bonds without having to restrict the yield of any investment purchased with any portion of such deposit and, in the event the amount of any such deposit into the Reserve Account is so limited, the Reserve Requirement shall, in connection with the issuance of such Parity Debt issued in the form of Bonds, be increased only by the amount of such deposit as permitted by the Code; and, provided further that the Successor Agency may meet all or a portion of the Reserve Requirement by depositing a Qualified Reserve Account Credit Instrument meeting the requirements of the Indenture as described below.

The Reserve Requirement for the 2017 Bonds will be determined on a combined basis and will be satisfied by the delivery of the 2017 Reserve Policy on the Closing Date. The Trustee will draw on the 2017 Reserve Policy in accordance with its terms and conditions and the terms of the Indenture in order to pay debt service on the 2017 Bonds. The Successor

Agency will have no obligation to replace the 2017 Reserve Policy or to fund the Reserve Account with cash if, at any time that the 2017 Series A Taxable Bonds or the 2017 Series B Bonds are Outstanding, amounts are not available under the 2017 Reserve Policy, other than in connection with the replenishment of a draw on the 2017 Reserve Policy.

Use of Moneys in the Reserve Account. The amounts available under the 2017 Reserve Policy will be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account in such order of priority, in the event of any deficiency at any time in any of such accounts with respect to the payment of debt service on the 2017 Bonds.

Except as provided above, in the event that the amount on deposit in the Reserve Account or any subaccount therein at any time becomes less than the Reserve Requirement, the Trustee shall promptly notify the Successor Agency of such fact. Promptly upon receipt of any such notice, the Successor Agency shall transfer to the Trustee an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. If there shall then not be sufficient Tax Revenues to transfer an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account, the Successor Agency shall be obligated to continue making transfers as Tax Revenues become available in the Debt Service Fund until there is an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. No such transfer and deposit need be made to the Reserve Account so long as there shall be on deposit therein a sum at least equal to the Reserve Requirement. All money in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account in such order of priority, in the event of any deficiency at any time in any of such accounts, or for the retirement or defeasance of the Bonds then Outstanding (as may be permitted herein), except that so long as the Successor Agency is not in default hereunder, any amount in the Reserve Account in excess of the Reserve Requirement shall be withdrawn from the Reserve Account semiannually on or before the tenth Business Day preceding each May 1 and November 1, and the date of redemption or defeasance of any Bonds, by the Trustee and deposited in the Interest Account or, in the case of the redemption or defeasance of Bonds, also in the Principal Account or an escrow account established for the defeasance of any of the Bonds. All amounts in the Reserve Account on the Business Day preceding the final Interest Payment Date shall be withdrawn from the Reserve Account and shall be transferred either (i) to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made pursuant to the Indenture or, (ii) if the Successor Agency shall have caused to be transferred to the Trustee an amount sufficient to make the deposits required the Indenture, then to the Successor Agency.

Certain Terms of the 2017 Reserve Policy. The 2017 Reserve Policy provides that upon notice from the Trustee to National to the effect that insufficient amounts are on deposit in the Debt Service Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the 2017 Bonds, National will promptly deposit with the Trustee an amount sufficient to pay the principal of and interest on the 2017 Bonds or the available amount of the 2017 Reserve Policy, whichever is less. Upon the later of: (i) three (3) days after receipt by National of a Demand for Payment in the form attached to the 2017 Reserve Policy, duly executed by the Trustee; or (ii) the payment date of the 2017 Bonds as specified in the Demand for Payment presented by the Trustee to National, National will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Trustee, of amounts which are then due to the

Trustee (as specified in the Demand for Payment) subject to the Surety Bond Coverage (as defined in the 2017 Reserve Policy).

The available amount of the 2017 Reserve Policy is the initial face amount of the 2017 Reserve Policy less the amount of any previous deposits by National with the Trustee which have not been reimbursed by the Successor Agency. The Successor Agency and National will enter into a Financial Guaranty Agreement dated April 18, 2017 (the "Agreement"). Pursuant to the Agreement, the Successor Agency will be required to reimburse National, with interest, within one year of any deposit, the amount of such deposit made by National with the Trustee under the 2017 Reserve Policy.

No optional redemption of 2017 Bonds may be made until 2017 Reserve Policy is reinstated. The 2017 Reserve Policy will be held by the Trustee in the 2017 Reserve Subaccount and is provided as an alternative to the Successor Agency depositing funds equal to the Reserve Requirement for the 2017 Bonds.

In the event National were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Deposit of Qualified Reserve Account Credit Instrument. If at any time any portion of the Reserve Requirement is satisfied with cash or Permitted Investments, the Successor Agency shall have the right at any time to direct the Trustee to release funds from the Reserve Account, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the 2017 Series B Bonds or any other Bonds the interest on which is excluded from gross income of the owners thereof for federal income tax purposes to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, and upon delivery by the Successor Agency to the Trustee of written calculation of the amount permitted to be released from the Reserve Account, the Trustee shall transfer such funds from the Reserve Account to the Successor Agency to be used for any lawful purpose that does not adversely affect the exclusion from gross income for federal income tax purposes of interest on any of the Bonds. The Trustee shall comply with all documentation relating to a Qualified Reserve Account Credit Instrument as shall be required to maintain such Qualified Reserve Account Credit Instrument in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under the Indenture. Upon the expiration of any Qualified Reserve Account Credit Instrument, the Successor Agency shall either (i) replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from the first available Tax Revenues.

If the Reserve Requirement with respect to a series of Bonds is being maintained partially in cash and partially with a Qualified Reserve Account Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture. If the Reserve Requirement with respect to a series of Bonds is being maintained with two or more Qualified Reserve Account Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Interest Account or the Principal Account for the purpose of making

payments required pursuant to the Indenture shall be pro-rata with respect to each such instrument.

Definition of Qualified Reserve Account Credit Instrument. The Indenture defines the term “**Qualified Reserve Account Credit Instrument**” to mean (i) the 2017 Reserve Policy, if any, and (ii) an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) S&P or Moody’s have assigned a long-term credit rating to such bank or insurance company of “A” (without regard to modifier) or higher; (b) such letter of credit, insurance policy or surety bond has a term of at least 12 months; (c) such letter of credit, insurance policy or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized pursuant to the terms of such letter of credit, insurance policy or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture.

Limited Obligation

The 2017 Bonds are not a debt of the City, the County, the State or any of their political subdivisions except the Successor Agency, and none of the City, the County, the State or any of their political subdivisions except the Successor Agency are liable therefor. The 2017 Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. No member of the Successor Agency, the Oversight Board, the City Council or the Board of Supervisors shall be individually or personally liable for the payment of the principal of or interest on the 2017 Bonds.

Recognized Obligation Payment Schedules

Submission of Recognized Obligation Payment Schedule. The Dissolution Act requires successor agencies to prepare, and submit to the successor agency’s oversight board and the DOF for approval, a Recognized Obligation Payment Schedule (the “**Recognized Obligation Payment Schedule**”) pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation.

Commencing on February 1, 2016, successor agencies were transitioned to an annual Recognized Obligation Payment Schedule process pursuant to which successor agencies are required to file Recognized Obligation Payment Schedules with the DOF and the County Auditor-Controller for approval on or before each February 1 for the July 1 through June 30 period immediately following such February 1. For example, on February 1, 2016, the Successor Agency was required to file a Recognized Obligation Payment Schedule for the period commencing July 1, 2016 through June 30, 2017.

In addition, commencing on September 22, 2015, successor agencies that have received a Finding of Completion and the concurrence of the DOF as to the items that qualify for payment, among other conditions, may at their option, file a “Last and Final” Recognized Obligation Payment Schedule. If approved by the DOF, the Last and Final Recognized Obligation Payment Schedule will be binding on all parties, and the Successor Agency will no longer submit a Recognized Obligation Payment Schedule to the DOF or the Oversight Board. The county auditor-controller will remit the authorized funds to the Successor Agency in

accordance with the approved Last and Final Recognized Obligation Payment Schedule until each remaining enforceable obligation has been fully paid. A Last and Final Recognized Obligation Payment Schedule may only be amended twice, and only with approval of the DOF and the County Auditor-Controller. The Successor Agency currently has no plans to file a Last and Final Recognized Obligation Payment Schedule.

Payment of Amounts Listed on the Recognized Obligation Payment Schedule. As defined in the Dissolution Act, “**enforceable obligation**” includes bonds, including the required debt service, reserve set-asides (including the Reserve Account), and any other payments required under the Indenture or similar documents governing the issuance of the outstanding bonds of the former redevelopment agency or the successor agency, as well as other obligations such as loans, judgments or settlements against the former redevelopment agency or the successor agency, any legally binding and enforceable agreement that is not otherwise void as violating the debt limit or public policy, contracts necessary for the administration or operation of the successor agency, and, under certain circumstances, amounts borrowed from the successor agency’s low and moderate income housing fund.

A reserve may be included on the Recognized Obligation Payment Schedule and held by the successor agency when required by a bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bonds for the next payment due in the following half of the calendar year.

Order of Priority of Distributions from Redevelopment Property Tax Trust Fund. Typically, under the Redevelopment Property Tax Trust Fund distribution provisions of the Dissolution Act, a county auditor-controller is to distribute funds for each six-month period in the following order specified in Section 34183 of the Dissolution Act:

- (i) first, subject to certain adjustments (as described below) for subordinations to the extent permitted under the Dissolution Act and no later than each January 2 and June 1, to each local taxing agency and school entity, to the extent applicable, amounts required for pass-through payments such entity would have received under provisions of the Redevelopment Law, as those provisions read on January 1, 2011, including negotiated pass-through agreements and statutory pass-through obligations (see “– No Negotiated Pass-Through Agreements” and “Statutory Pass-Through Payments” below);
- (ii) second, on each January 2 and June 1, to the successor agency for payments listed in its Recognized Obligation Payment Schedule, with debt service payments (and amounts required to replenish the related reserve funds, if any) scheduled to be made for tax allocation bonds having the highest priority over payments scheduled for other debts and obligations listed on the Recognized Obligation Payment Schedule;
- (iii) third, on each January 2 and June 1, to the successor agency for the administrative cost allowance, as defined in the Dissolution Act; and
- (iv) fourth, on each January 2 and June 1, to taxing entities any moneys remaining in the Redevelopment Property Tax Trust Fund after the payments and transfers authorized by clauses (i) through (iii), in an amount proportionate to such taxing entity’s share of property tax revenues in the tax rate area in that fiscal year (without

giving effect to any pass-through obligations that were established under the Redevelopment Law).

The Dissolution Act requires the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund amounts required to be distributed for statutory pass-through obligations to the taxing entities on each January 2 and June 1 before amounts are distributed by the County Auditor-Controller from the Redevelopment Property Tax Trust Fund to the Successor Agency's Redevelopment Obligation Retirement Fund, unless: (i) pass-through payment obligations have been made subordinate to debt service payments for the bonded indebtedness of the Former Agency, as succeeded to by the Successor Agency; (ii) the Successor Agency has reported, no later than the December 1 and May 1 preceding the applicable January 2 or June 1 distribution date, that the total amount available to the Successor Agency from the Redevelopment Property Tax Trust Fund allocation to the Successor Agency's Redevelopment Obligation Retirement Fund, from other funds transferred from the Former Agency and from funds that have or will become available through asset sales and all redevelopment operations, is insufficient to fund the Successor Agency's enforceable obligations, pass-through payments and the Successor Agency's administrative cost allowance for the applicable Recognized Obligation Payment Schedule period; and (iii) the State Controller has concurred with the Successor Agency that there are insufficient funds for such purposes.

If the requirements set forth in clauses (i) through (iii) of the foregoing paragraph have been met, the Dissolution Act provides for certain modifications in the distributions otherwise calculated to be distributed on the applicable January 2 or June 1 property tax distribution date (as adjusted for weekends and holidays). To provide for calculated shortages to be paid to the Successor Agency for enforceable obligations, the amount of the deficiency will first be deducted from the residual amount otherwise calculated to be distributed to the taxing entities under the Dissolution Act after payment of the Successor Agency's enforceable obligations, pass-through payments and the Successor Agency's administrative cost allowance. If such residual amount is exhausted, the amount of the remaining deficiency will be deducted from amounts available for distribution to the Successor Agency for administrative costs for the applicable Recognized Obligation Payment Schedule period in order to fund the enforceable obligations. Finally, funds required for servicing bond debt may be deducted from the amounts to be distributed under subordinated negotiated pass-through agreements, if any, in order to be paid to the Successor Agency for enforceable obligations, but only after the amounts described in the previous two sentences have been exhausted. The Dissolution Act provides for a procedure by which the Successor Agency may make statutory pass-through payments subordinate to the 2017 Bonds. The Successor Agency has undertaken the requisite procedures to obtain such subordination of statutory pass-through payments required to be made from tax increment revenues generated in the Merged Project Area and, therefore, statutory pass-through payments are payable on a subordinate basis to the payment of the 2017 Bonds as described below. In addition, the Former Agency did not enter into any negotiated pass-through agreements with respect to any territory within the Merged Project Area and therefore, the Successor Agency does not have any contractual obligations to make pass-through payments with respect to the Merged Project Area as described below. See "SECURITY FOR THE 2017 BONDS – No Negotiated Pass-Through Agreements" and "– Statutory Pass-Through Payments."

Sources of Payments for Enforceable Obligations. Under the Dissolution Act, the categories of sources of payments for enforceable obligations listed on a Recognized Obligation Payment Schedule are the following: (i) the former low and moderate income housing fund, (ii) bond proceeds, (iii) reserve balances, (iv) administrative cost allowance (successor agencies

are entitled to receive not less than \$250,000, unless that amount is reduced by the oversight board), (v) the Redevelopment Property Tax Trust Fund (but only to the extent no other funding source is available or when payment from property tax revenues is required by an enforceable obligation or otherwise required under the Dissolution Act), or (vi) other revenue sources (including rents, concessions, asset sale proceeds, interest earnings, and any other revenues derived from the redevelopment agency, as approved by the oversight board).

The Dissolution Act provides that only those payments listed in the Recognized Obligation Payment Schedule may be made by a successor agency and only from the funds specified in the Recognized Obligation Payment Schedule.

Relevant Covenant by the Successor Agency. Pursuant to the Indenture, the Successor Agency covenants to comply with all of the requirements of the Law. In particular, the Successor Agency covenants in the Indenture, pursuant to Section 34177 of the Law, not later than each date a Recognized Obligation Payment Schedule is due, to submit to the Oversight Board and the DOF, a Recognized Obligation Payment Schedule. In addition, the Successor Agency covenants to take all actions required under the Law to include in the Recognized Obligation Payment Schedule for each Semiannual Period (i) debt service on the Bonds and (ii) all amounts due and owing to the any Insurer under the Indenture or under an insurance or surety bond agreement, including the 2017 Insurance Policy and the 2017 Reserve Policy under the Indenture, so as to enable the County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund for deposit in the Redevelopment Obligation Retirement Fund on each January 2 and June 1, as applicable, amounts required to enable the Successor Agency to pay timely principal of, and interest on, the Bonds on a timely basis and to pay any amounts owed to any Insurer.

In order to ensure that amounts are available for the Trustee to pay debt service on all Outstanding Bonds and all amounts due and owing to the 2017 Insurer under the Indenture on a timely basis, the Successor Agency shall apply amounts received on the June 1, 2017 and the January 2, 2018 Recognized Obligation Payment Schedule distribution dates to pay debt service on the 2017 Bonds on November 1, 2017 and May 1, 2018. Thereafter, the Successor Agency shall submit to the DOF and the County Auditor-Controller, no later than February 1 of each year, an Oversight Board-approved Recognized Obligation Payment Schedule to the DOF and to the County Auditor-Controller that shall include (i) all of the debt service due on all Outstanding Bonds on the next succeeding November 1 (which amount is anticipated to equal interest due on such November 1 plus 50% of principal due on such November 1), which shall be distributed to the Successor Agency on each June 1 (but only to the extent that there are not other amounts previously reserved therefor), (ii) all of the interest due on the 2017 Bonds on the following May 1, which amounts shall be distributed to the Successor Agency on each January 2, (iii) 50% of the principal due on the Outstanding Bonds on the November 1 following such January 2, which amounts shall be distributed to the Successor Agency on such January 2, and (iv) all amounts owed to the 2017 Insurer, including amounts necessary to replenish the 2017 Reserve Policy.

In the event the provisions set forth in the Dissolution Act as of the Closing Date of the 2017 Bonds that relate to the filing of Recognized Obligation Payment Schedules are amended or modified in any manner, the Successor Agency agrees to take all such actions as are necessary to comply with such amended or modified provisions so as to ensure the timely payment of debt service on the Bonds and, if the timing of distributions of the Redevelopment Property Tax Trust Fund is changed, the receipt of (i) not less than one of half of debt service due during each Bond Year on all Outstanding Bonds prior to May 1 of such Bond Year, and (ii)

the remainder of debt service due during such Bond Year on all Outstanding Bonds prior to the next succeeding November 1 See “RISK FACTORS.”

History of Submission of the Recognized Obligation Payment Schedules. The Successor Agency has procedures in place to ensure full and timely compliance with the above-described covenant. Under the direction of the City’s Finance Director, the Successor Agency has consistently submitted its Recognized Obligation Payment Schedules on a timely basis.

There are strong incentives for the Successor Agency to submit Recognized Obligation Payment Schedules on time. If the Successor Agency does not submit a Recognized Obligation Payment Schedule to the Oversight Board, the County Auditor-Controller and the DOF on or before each February 1 (unless the Successor Agency submits and obtains approval from the DOF of a Last and Final Recognized Obligation Payment Schedule), then the Successor Agency will be subject to a \$10,000 per day civil penalty for every day the schedule is not submitted to the DOF. See subcaption “– Submission of Recognized Obligation Payment Schedules” above for discussion regarding submission of Last and Final Recognized Obligation Payment Schedule. Additionally, if the Successor Agency does not submit a Recognized Obligation Payment Schedule to the Oversight Board and the DOF within 10 days of the deadline, then the Successor Agency’s maximum administrative cost allowance may be reduced by up to 25%. For additional information regarding procedures under the Dissolution Act relating to late Recognized Obligation Payment Schedules and implications for the 2017 Bonds, see “RISK FACTORS – Recognized Obligation Payment Schedules.”

No Negotiated Pass-Through Agreements

The Redevelopment Law authorized the Former Agency to enter into negotiated pass-through agreements with taxing agencies whose territory was located within the Merged Project Area to alleviate the financial burden or detriment caused by the Redevelopment Project. The Former Agency did not enter into any negotiated pass-through agreements with respect to any territory within the Merged Project Area.

Statutory Pass-Through Payments

General. In certain circumstances, Sections 33607.5 and 33607.7 of the Redevelopment Law require redevelopment agencies and successor agencies to make statutory pass-through payments to taxing agencies whose territory is located within a redevelopment project area, to alleviate the financial burden or detriment caused by the redevelopment project.

Generally speaking, the County Auditor-Controller is required to deduct from the Successor Agency’s Redevelopment Property Tax Trust Fund to pay to the affected taxing agencies percentages of tax increment generated in a project area as follows:

Tier 1: throughout the period that the Successor Agency is eligible to receive property tax revenues from a project area, 25% of revenues in excess of revenues generated in such project area from the date the redevelopment plan for such project area was adopted, for post-1994 plans, and from the year in which one of several specified plan limitations would have been reached, in the absence of an amendment to a redevelopment plan extending or eliminating such limitation, for pre-1994 plans with such amendments, all computed as though housing set-aside is still in effect; plus,

Tier 2: for the 11th year of the receipt of tax increment and thereafter, 21% of revenues in excess of revenues based on assessed values in the project area for the 10th year of statutory pass-through payments; plus,

Tier 3: for the 31st year of the receipt of tax increment and thereafter, 14% of revenues in excess of revenues based on assessed values in the project area for the 30th year of statutory pass-through payments.

Statutory Pass-Through Obligations in the Merged Project Area. In 1993, the State Legislature enacted Assembly Bill 1290 (“**AB 1290**”), which contained several significant changes in the Redevelopment Law. Among the changes made by AB 1290 was a provision that limits the period of time for incurring and repaying loans, advances and indebtedness payable from tax increment revenues. Under AB 1290, redevelopment agencies were required to commence making pass-through payments under Section 33607.7 of the Redevelopment Law to certain taxing entities with respect to project areas formed on or before 1993, upon amendment of the related redevelopment plans to eliminate the time during which the redevelopment agency could incur debt with respect to particular project areas as set for in such redevelopment plans, to extend the life of the redevelopment plan or to increase the tax increment limit.

Under AB 1290, statutory pass-through payments were required to commence in the first year following the year in which the first of the revised limits would otherwise have gone into effect. With respect to project areas formed or territory added to existing project areas after 1993, AB 1290 required redevelopment agencies to commence making pass-through payments under 33607.7 of the Redevelopment Law upon formation of such project areas.

On May 21, 2002, the City Council amended each of the Redevelopment Plans to eliminate the limitation on the issuance of new indebtedness in the Original Redevelopment Plans to be repaid with tax increment revenue. As a result, the Former Agency was required to make statutory pass-through payments with respect to the Merged Project Area pursuant to AB 1290. See “APPENDIX H – FISCAL CONSULTANT’S REPORT” for further information regarding the commencement of the Former Agency’s obligation to make statutory pass-through payments with respect to the Merged Project Area.

Subordination of Statutory Pass-Through Payments. Statutory pass-through payments are payable on a senior basis to debt service on bonds under the Dissolution Act, unless the pass-through payments have been subordinated. The Redevelopment Law, as amended by the Dissolution Act, allows statutory pass-through payments to be subordinated to debt service on the Successor Agency’s bonds. **The Successor Agency obtained the consent from all of the applicable taxing entities within the Merged Project Area to subordinate their respective rights to receive statutory payments to the payment of debt service on the 2017 Bonds. Accordingly, the Successor Agency’s obligation to make statutory pass-through payments is subordinate to its obligation to pay debt service on the 2017 Bonds.**

BOND INSURANCE

The following information has been furnished by National Public Finance Guarantee Corporation ("**National**") for use in this Official Statement. No representation is made by the Successor Agency, the City or the Underwriter as to the accuracy or completeness of this information, or the absence of material adverse changes therein at any time subsequent to the date hereof. Reference is made to Appendix I for a specimen of the 2017 Insurance Policy.

National does not accept any responsibility for the accuracy or completeness of any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding National and the Financial Guaranty Insurance Policy (the "**2017 Insurance Policy**") to be issued by National with respect to the 2017 Series B Bonds maturing on November 1 of the years 2023 through 2036, inclusive (the "**2017 Insured Bonds**"). Additionally, National makes no representation regarding the 2017 Insured Bonds or the advisability of investing in the 2017 Insured Bonds. A specimen of the 2017 Insurance Policy is attached hereto as Appendix I.

The 2017 Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Successor Agency to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2017 Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the 2017 Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless National elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the 2017 Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "**Preference**").

The 2017 Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2017 Insured Bonds. The 2017 Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of 2017 Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The 2017 Insurance Policy also does not insure against nonpayment of principal of or interest on the 2017 Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the 2017 Insured Bonds.

National Public Finance Guarantee Corporation

National is an operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against National. National is domiciled in the State of New York and is licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Territory of Guam and the U.S. Virgin Islands.

The principal executive offices of National are located at 1 Manhattanville Road, Suite 301, Purchase, New York 10577 and the main telephone number at that address is (914) 765-3333.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, National is also subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for National, limits the classes and concentrations of investments that are made by National and requires the approval of policy rates and forms that are employed by National. State law also regulates the amount of both the aggregate and individual risks that may be insured by National, the payment of dividends by National, changes in control with respect to National and transactions among National and its affiliates.

The 2017 Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of National

National's current financial strength ratings from the major rating agencies are summarized below:

| <u>Agency</u> | <u>Ratings</u> | <u>Outlook</u> |
|---------------|----------------|----------------|
| S&P | AA- | Stable |
| Moody's | A3 | Negative |
| KBRA | AA+ | Stable |

Each rating of National should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of National and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2017 Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2017 Insured Bonds. National does not guaranty the market price of the 2017 Insured Bonds nor does it guaranty that the ratings on the 2017 Insured Bonds will not be revised or withdrawn.

Recent Litigation

In the normal course of operating its business, National may be involved in various legal proceedings. Additionally, MBIA Inc. may be involved in various legal proceedings that directly or indirectly impact National. For additional information concerning material litigation involving National and MBIA Inc., see MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016, which is hereby incorporated by reference into this Official Statement and

shall be deemed to be a part hereof, as well as the information posted on MBIA Inc.'s web site at <http://www.mbia.com>.

MBIA Inc. and National are defending against/pursuing the aforementioned actions and expect ultimately to prevail on the merits. There is no assurance, however, that they will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on National's ability to implement its strategy and on its business, results of operations and financial condition.

Other than as described above and referenced herein, there are no other material lawsuits pending or, to the knowledge of National, threatened, to which National is a party.

National Financial Information

Based upon statutory financials, as of December 31, 2016, National had total net admitted assets of \$4.4 billion (audited), total liabilities of \$1.6 billion (audited), and total surplus of \$2.8 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning National, see the financial statements of MBIA Inc. and its subsidiaries as of December 31, 2016, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of MBIA Inc. for the year ended December 31, 2016, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Incorporation of Certain Documents by Reference

The following document filed by MBIA Inc. with the Securities and Exchange Commission (the "**SEC**") is incorporated by reference into this Official Statement:

MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016;

Any documents, including any financial statements of National that are included therein or attached as exhibits thereto, or any Form 8-K, filed by MBIA Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of MBIA Inc.'s most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the [Bonds/Obligations] offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

MBIA Inc., files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of MBIA Inc.'s SEC filings (MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016) are available (i) over the

Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at MBIA Inc.'s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to National at its principal executive offices.

In the event National were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

PROPERTY TAXATION IN CALIFORNIA

Property Tax Collection Procedures

Classification. In the State, property which is subject to ad valorem taxes is classified as “secured” or “unsecured.” Secured and unsecured property are entered on separate parts of the assessment roll maintained by the County assessor. The secured classification includes property on which any property tax levied by a county becomes a lien on that property. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens on the secured property arising pursuant to State law, regardless of the time of the creation of other liens.

Generally, ad valorem taxes are collected by a county (the “**Taxing Authority**”) for the benefit of the various entities (e.g., cities, schools and special districts) that share in the ad valorem tax (each a taxing entity) and successor agencies eligible to receive distributions from the respective Redevelopment Property Tax Trust Funds.

Collections. Secured and unsecured property is entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured personal property taxes: (i) initiating a civil action against the taxpayer, (ii) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer, (iii) filing a certificate of delinquency for record in the county recorder’s office to obtain a lien on certain property of the taxpayer, and (iv) seizing and selling personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Penalty. A 10% penalty is added to delinquent taxes which have been levied with respect to property on the secured roll. In addition, property on the secured roll on which taxes are delinquent is declared in default by operation of law and declaration of the tax collector on or about June 30 of each fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property then is subject to sale by the county tax collector. A 10% penalty also applies to delinquent taxes with respect to property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning on varying dates related to the tax bill mailing date.

Delinquencies. The valuation of property is determined as of the January 1 lien date as equalized in August of each year and equal installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due January 1 and become delinquent August 31.

Supplemental Assessments. California Revenue and Taxation Code Section 75.70 (Chapter 498 of the Statutes of 1983) provides for the reassessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Such reassessment is referred to as the Supplemental Assessment and is determined by applying the current year’s tax rate to the amount of increase or decrease in a property’s value and prorating

the resulting property taxes to reflect the portion of the tax year remaining as determined by the date of the change in ownership or completion of new construction. Supplemental Assessments become a lien against real property. Since fiscal year 1984-85, revenues derived from Supplemental Assessments have been allocated to redevelopment agencies and taxing entities in the same manner as regularly collected property taxes.

Prior to the enactment of this law, the assessment of such changes was permitted only as of the next tax lien date following the change, and this delayed the realization of increased or decreased property taxes from the new assessments for up to 14 months. This statute provides increased or decreased revenue to the Redevelopment Property Tax Trust Fund to the extent that Supplemental Assessments of new construction or changes of ownership occur within the boundaries of redevelopment projects subsequent to the January 1 lien date. To the extent such Supplemental Assessments occur within the Merged Project Area, Tax Revenues may increase or decrease. Supplemental assessments are not included in the projections of Tax Revenues set forth in this Official Statement.

Property Tax Administrative Costs. In 1990, the State Legislature enacted SB 2557 (Chapter 466, Statutes of 1990) which allows counties to recover charges for the cost of assessing, collecting and allocating property tax revenues to local government jurisdictions in proportion to the tax-derived revenues allocated to each, in an amount equal to the fiscal year 1989-90 property tax administration costs, as adjusted annually.

SB 1559 (Chapter 697, Statutes of 1992) explicitly includes redevelopment agencies among the jurisdictions which are subject to such charges. The portions of the reimbursement amount that are allocated to each taxing entity within the County are based on the percentage of the total assessed value in the County that each taxing entity's assessed value represents. The SB 2557 charge for fiscal year 2016-17 was approximately \$113,000 or 2.10% of gross tax increment revenues for the Merged Project Area. The projections of Tax Revenues prepared by the Fiscal Consultant and included in the Fiscal Consultant's Report and this Official Statement assume that the County's charge pursuant to SB 2557 will be 2.10% in each fiscal year after fiscal year 2016-17.

In addition, Sections 34182(e) and 34183(a) of the Dissolution Act allow administrative costs of the County Auditor-Controller for the cost of administering the Redevelopment Property Tax Trust Fund, as well as the SB 2557/SB 1559 amounts described in the preceding paragraph, to be deducted from property tax revenues before monies are deposited into the Redevelopment Property Tax Trust Fund.

According to the Fiscal Consultant, the County's administrative charge relating to the administration of the dissolution of the Former Agency was \$2,353 and \$1,429 for fiscal years 2014-15 and 2015-16, respectively. Given that the County's administrative charge has historically been nominal, the projections of Tax Revenues prepared by the Fiscal Consultant and included in the Fiscal Consultant's Report and this Official Statement do not include any administrative charges of the County relating to the administration of the Redevelopment Project Tax Trust Fund.

The County's administrative charges are payable on a senior basis to debt service on the 2017 Bonds.

Recognized Obligation Payment Schedule. See “SECURITY FOR THE 2017 BONDS – Recognized Obligation Payment Schedules” and “RISK FACTORS – Recognized Obligation Payment Schedules.”

Rate of Collections – Teeter Plan

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “**Teeter Plan**”). Consequently, property tax revenues from the Merged Project Area do not reflect actual collections because the County allocates property tax revenues to the Successor Agency as if 100% of the calculated property taxes were collected without adjustment for delinquencies, redemption payments or roll adjustments. The County could elect to terminate this policy and, in such event, the amount of the levy of property tax revenue that could be allocated to the Successor Agency would depend upon the actual collections of the secured taxes within the Merged Project Area. Substantial delinquencies in the payment of property taxes could impair the timely receipt by the Successor Agency of Tax Revenues, although future Tax Revenues are projected to provide substantial debt service coverage on the 2017 Bonds. See “THE MERGED PROJECT AREA – Projected Tax Revenues and Estimated Debt Service Coverage.”

Unitary Property

Legislation enacted in 1986 and 1987 provided for a modification of the distribution of tax revenues derived from utility property assessed by the State Board of Equalization (“**SBE**”), other than railroads. Prior to fiscal year 1988-89, property assessed by the SBE was assessed statewide and was allocated according to the location of individual components of a utility in a tax rate area.

Assembly Bill (“**AB**”) 2890 (Statutes of 1986, Chapter 1457) provides that, commencing with fiscal year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies) is to be allocated county-wide as follows: (i) each taxing entity will receive the same amount as in the previous year plus an increase for inflation of up to 2%; (ii) if utility tax revenues are insufficient to provide the same amount as in the previous year, each taxing entity's share would be reduced pro rata county wide; and (iii) any increase in revenue above 2% would be allocated in the same proportion as the taxing entity's local secured taxable values are to the local secured taxable values of the county. Additionally, the lien date on State-assessed property is changed from March 1 to January 1.

AB 454 (Statutes of 1987, Chapter 921) further modified Chapter 1457 regarding the distribution of tax revenues derived from property assessed by the SBE. Chapter 921 provides for the consolidation of all State-assessed property, except for regulated railroad property, into a single tax rate area in each county. Chapter 921 further provides for a new method of establishing tax rates on State-assessed property and distribution of property tax revenue derived from State-assessed property to taxing jurisdictions within each county in accordance with a new formula. Railroads will continue to be assessed and revenues allocated to all tax rate areas where railroad property is sited.

To administer the allocation of unitary tax revenues to redevelopment agencies, the County includes the taxable value of utilities as part of the reported taxable values of a project area. Consequently, the base year values of redevelopment projects are increased by the amount of utility value that existed originally in the base year.

The County Controller estimates that the Successor Agency will receive approximately \$118,000 in unitary revenue in fiscal year 2016-17. The Successor Agency assumed that unitary revenues will be calculated in the same amount in future fiscal years for purposes of projecting tax increment available to pay debt service on the 2017 Bonds.

Article XIII A of the State Constitution

Article XIII A limits the amount of ad valorem taxes on real property to 1% of “full cash value” of such property, as determined by the county assessor. Article XIII A defines “full cash value” to mean “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value,’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” Furthermore, the “full cash value” of all real property may be increased to reflect the rate of inflation, as shown by the consumer price index, not to exceed 2% per year, or may be reduced.

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

Article XIII A (i) exempts from the 1% tax limitation taxes to pay debt service on (a) indebtedness approved by the voters prior to July 1, 1978 or (b) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition; (ii) requires a vote of two-thirds of the qualified electorate to impose special taxes, or certain additional ad valorem taxes; and (iii) requires the approval of two-thirds of all members of the State Legislature to change any State tax laws resulting in increased tax revenues.

The validity of Article XIII A has been upheld by both the California Supreme Court and the United States Supreme Court.

In the general election held November 4, 1986, voters of the State approved two measures, Propositions 58 and 60, which further amended Article XIII A. Proposition 58 amended Article XIII A to provide that the terms “purchase” and “change of ownership,” for the purposes of determining full cash value of property under Article XIII A, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children. This amendment to Article XIII A may reduce the rate of growth of local property tax revenues.

Proposition 60 amended Article XIII A to permit the State Legislature to allow persons over the age of 55 who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence assessed value to the new residence. As a result of the State Legislature’s action, the growth of property tax revenues may decline.

Legislation enacted by the State Legislature to implement Article XIII A provides that all taxable property is shown at full-assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value (except as

noted). Tax rates for voter-approved bonded indebtedness and pension liabilities are also applied to 100% of assessed value.

Each year the SBE announces the applicable adjustment factor. Since the adoption of Proposition 13, inflation has, in most years, exceeded 2% and the announced factor has reflected the 2% cap. The changes in the California Consumer Price Index from October of one year and October of the next year are used to determine the adjustment factor for the January assessment date. During the ten previous fiscal years, the inflation factor has been less than 2% on four occasions. The table below reflects the inflation adjustment factors for fiscal year 2017-18, the current fiscal year and the 10 prior fiscal years.

Historical Inflation Adjustment Factors

| <u>Fiscal Year</u> | <u>Inflation Adj. Factor</u> |
|--------------------|------------------------------|
| 2006-07 | 2.000% |
| 2007-08 | 2.000 |
| 2008-09 | 2.000 |
| 2009-10 | 2.000 |
| 2010-11 | -0.237 |
| 2011-12 | 0.753 |
| 2012-13 | 2.000 |
| 2013-14 | 2.000 |
| 2014-15 | 0.454 |
| 2015-16 | 1.998 |
| 2016-17 | 1.525 |
| 2017-18 | 2.000 |

Appropriations Limitation – Article XIII B

Article XIII B limits the annual appropriations of the State and its political subdivisions 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 government entity. The “base year” for establishing such appropriations limit is the 1978/79 fiscal year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by these public agencies.

Section 33678 of the Redevelopment Law provides that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness shall not be deemed the receipt by a redevelopment agency of proceeds of taxes levied by or on behalf of a redevelopment agency within the meaning of Article XIII B, nor shall such portion of taxes be deemed receipt of proceeds of taxes by, or an appropriation subject to the limitation of, any other public body within the meaning or for the purpose of the Constitution and laws of the State, including Section 33678 of the Redevelopment Law. The constitutionality of Section 33678 has been upheld in two California appellate court decisions. On the basis of these decisions, the Successor Agency has not adopted an appropriations limit.

Proposition 87

On November 8, 1988, the voters of the State approved Proposition 87, which amended Article XVI, Section 16 of the State Constitution to provide that property tax revenue attributable to the imposition of taxes on property within a redevelopment project area for the purpose of paying debt service on certain bonded indebtedness issued by a taxing entity (other than the

Former Agency or the Successor Agency) and approved by the voters of the taxing entity after January 1, 1989 will be allocated solely to the payment of such indebtedness and not to redevelopment agencies. Effective September 22, 2015, the Dissolution Act provides that such debt service override revenues approved by the voters for the purpose of supporting pension programs, capital projects, or programs related to the State Water Project that are not pledged to or not needed for debt service on successor agency obligations will be allocated and paid to the entity that levies the override.

Appeals of Assessed Values

Pursuant to State law, a property owner may apply for a reduction of the property tax assessment for such owner’s property by filing a written application, in a form prescribed by the SBE, with the appropriate county board of equalization or assessment appeals board.

In the County, a property owner desiring to reduce the assessed value of such owner’s property in any one year must submit an application to the County Assessment Appeals Board (the “**Appeals Board**”). Applications for any tax year must be submitted by September 15 of such tax year. Following a review of each application by the staff of the County Assessor’s Office, the staff makes a recommendation to the Appeals Board on each application which has not been rejected for incompleteness or untimeliness or withdrawn. The Appeals Board holds a hearing and either reduces the assessment or confirms the assessment. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal’s filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level for fiscal years following the year for which the reduction application is filed. However, if the taxpayer establishes through proof of comparable values that the property continues to be overvalued (known as “ongoing hardship”), the Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year as well. Appeals for reduction in the “base year” value of an assessment, which generally must be made within four years of the date of change in ownership or completion of new construction that determined the base year, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. Moreover, in the case of any reduction in any one year of assessed value granted for “ongoing hardship” in the then current year, and also in any cases involving stipulated appeals for prior years relating to base year and personal property assessments, the property tax revenues from which Tax Revenues are derived attributable to such properties will be reduced in the then current year. In practice, such a reduced assessment may remain in effect beyond the year in which it is granted.

See “THE MERGED PROJECT AREA – Appeals of Assessed Values; Proposition 8 Reductions” for information regarding historical and pending appeals of assessed valuations by property owners in the Merged Project Area.

Proposition 8

Proposition 8, approved in 1978 (California Revenue and Taxation Code Section 51(b)), provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions under this code section may be initiated by the County Assessor or requested by the property owner.

After a roll reduction is granted under this code section, the property is reviewed on an annual basis to determine its full cash value and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Such increases must be in accordance with the full cash value of the property and may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIII A of the State Constitution. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

See “THE MERGED PROJECT AREA – Appeals of Assessed Values; Proposition 8 Reductions” for information regarding recent history of Proposition 8 reductions in the Merged Project Area.

Propositions 218 and 26

On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the State Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. On November 2, 2010, California voters approved Proposition 26, the “Supermajority Vote to Pass New Taxes and Fees Act.” Proposition 26 amended Article XIII C of the State Constitution by adding an expansive definition for the term “tax,” which previously was not defined under the State Constitution.

Tax Revenues securing the 2017 Bonds are derived from property taxes that are outside the scope of taxes, assessments and property-related fees and charges which are limited by Proposition 218 and Proposition 26.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D and certain other propositions affecting property tax levies were each adopted as measures which qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting Successor Agency revenues or the Successor Agency’s ability to expend revenues.

THE SUCCESSOR AGENCY

As described in "INTRODUCTION," the Dissolution Act dissolved the Former Agency as of February 1, 2012. Thereafter, pursuant to Section 34173 of the Dissolution Act, the City became the Successor Agency to the Former Agency. Subdivision (g) of Section 34173 of the Dissolution Act, added by AB 1484, expressly affirms that the Successor Agency is a separate public entity from the City, that the two entities shall not merge, and that the liabilities of the Former Agency will not be transferred to the City nor will the assets of the Former Agency become assets of the City. The City Council convenes as the governing board of the Successor Agency.

Successor Agency Powers

All powers of the Successor Agency are vested in its members who are elected members of the City Council. Pursuant to the Dissolution Act, the Successor Agency is a separate public body from the City and succeeds to the organizational status of the Former Agency but without any legal authority to participate in redevelopment activities, except to complete any work related to an approved enforceable obligation. The Successor Agency is tasked with expeditiously winding down the affairs of the Former Agency, pursuant to the procedures and provisions of the Dissolution Act. Under the Dissolution Act, substantially all Successor Agency actions are subject to approval by the Oversight Board, as well as review and approval by the DOF.

Status of Compliance with Dissolution Act

The Dissolution Act requires a due diligence review to determine the unobligated balances of each successor agency that are available for transfer to taxing entities. The due diligence review involves separate reviews of each successor agency's low and moderate income housing fund and of all other funds and accounts. Once a successor agency completes the due diligence review and any transfers to taxing entities, the DOF will issue a finding of completion that expands the authority of each successor agency in carrying out the wind down process. A finding of completion allows a successor agency to, among other things, retain real property assets of the dissolved redevelopment agency and utilize proceeds derived from bonds issued prior to January 1, 2011.

The Successor Agency completed the due diligence process and received its Finding of Completion on April 12, 2013.

After receiving a finding of completion, each successor agency is required to submit a Long Range Property Management Plan detailing what it intends to do with its inventory of properties. Successor agencies are not required to immediately dispose of their properties but are limited in terms of what they can do with the retained properties. Permissible uses include: sale of the property, use of the property to satisfy an enforceable obligation, retention of the property for future redevelopment, and retention of the property for governmental use. These plans must be filed by successor agencies within six months of receiving a finding of completion, and the DOF will review these plans as submitted on a rolling basis.

The DOF approved the Successor Agency's Long Range Property Management Plan on December 16, 2015.

THE MERGED PROJECT AREA

Project Description

General. The Merged Project Area encompasses approximately 1,260 acres and is located in the eastern portion of the City along Humboldt Bay. Land within the Merged Project Area is used primarily for commercial, residential and industrial purposes.

The Merged Project Area was formed as a result of the fiscal merger of three separate redevelopment project areas established by the Former Agency: the Phase I Area, Phase II Area and Tomorrow Area.

Component Areas. Following are brief descriptions of the component areas of the Merged Project Area:

- The Phase I Area: The Phase I Area consists of approximately 15.76 acres and encompasses approximately eight square blocks between F and B Streets along First and Third Streets. Property within the Phase I Area is substantially developed and is predominantly made up commercial development that serves visitors to the area. The Phase I Area is completely surrounded and encompassed by the Tomorrow Area.
- The Phase II Area: The Phase II Area consists of approximately 53.52 acres and encompasses approximately eighteen square blocks. The Phase II Area contains much of the original downtown area of the City and includes a mixture of commercial, visitor service, residential and office uses. Property within the Phase II Area is substantially developed and is predominantly characterized by commercial development that serves visitors to the area. The Phase II Area is completely surrounded and encompassed by the Tomorrow Area.
- The Tomorrow Area: The Tomorrow Area consists of approximately 1,192 acres and encompasses much of the waterfront and industrial land within the City. The eastern portion of the Tomorrow Area is a mixture of residential and commercial development. The center and western portions of the Tomorrow Area are primarily commercial with visitor related uses being predominant in the central area. The far western portion of the Tomorrow Area is, for the most part, made of industrial uses and vacant land. The City's boat basin and related commercial fishing facilities are also located in the western portion of the Tomorrow Area.

Land Use

The following table summarizes the current land use in the Merged Project Area by the number of parcels and by assessed value for fiscal year 2016-17. As shown in the following table, land within the Merged Project Area is predominantly used for commercial purposes (approximately 54% in terms of assessed valuation).

TABLE 1
EUREKA SUCCESSOR AGENCY
Merged Project Area
Land Use by Net Taxable Assessed Value

| Category | No. of Parcels | Net Taxable Assessed Value | % of Net Taxable Assessed Value |
|------------------|-------------------|-------------------------------|------------------------------------|
| Residential | 755 | \$140,233,443 | 22.73% |
| Commercial | 507 | 330,715,426 | 53.60 |
| Industrial | 81 | 48,772,242 | 7.90 |
| Vacant | 198 | 19,051,883 | 3.09 |
| Government Owned | 13 | 213,832 | 0.03 |
| Exempt | 158 | -- | 0.00 |
| SBE Non-Unitary | -- | 1,037,620 | 0.17 |
| Cross Reference | -- | 21,500 | 0.00 |
| Unsecured | -- | 76,958,281 | 12.47 |
| Total: | 1,712 | \$617,004,227 | 100.00% |

Source: County Assessor; HdL Coren & Cone.

The Redevelopment Plans

General. The Phase I Area, the Phase II Area and the Tomorrow Area were formally established with the adoption by the City Council of their respective Original Redevelopment Plans on April 18, 1972, May 1, 1973 and December 4, 1973, respectively. Since their adoption, the Original Redevelopment Plans have been amended several times, including on July 19, 2005 to fiscally merge the Phase I Area, Phase II Area and Tomorrow Area to form the Merged Project Area.

Plan Limits. In accordance with the Redevelopment Law, redevelopment plans like the Redevelopment Plans were required to include certain limits on the financing of the redevelopment projects. These limits could include a time limit on the life of the redevelopment plan, a time limit on the incurrence of indebtedness, a time limit on the receipt of property tax increment and the repayment of indebtedness and a limit on the amount of bonded indebtedness outstanding at any time. SB 107 clarifies that former tax increment limits set forth in redevelopment plans such as the Redevelopment Plans no longer apply for purposes of paying approved enforceable obligations such as the 2017 Bonds.

Unitary Property

As the result of the enactment of Assembly Bill 2890 (Chapter 1457, Statutes of 1986) and Assembly Bill 454 (Chapter 921, Statutes of 1987), a portion of the County-wide unitary values assigned to public utilities is allocated to the Merged Project Area. Any substantial reduction in the values of public utility properties, either because of deregulation of a utility industry or for any other reason, will have an adverse impact on the amount of tax increment revenues. However, any such impact with respect to utility properties within the Merged Project Area will be lessened because the impact will be spread on a County-wide basis. The amount of unitary revenues to be allocated to the Successor Agency from the Merged Project Area for fiscal year 2016-17 is estimated to be approximately \$118,000.

Largest Taxable Property Owners

The following table lists the 10 largest taxable property owners within the Merged Project Area for fiscal year 2016-17. Based on fiscal year 2016-17 locally assessed taxable valuations, the 10 largest taxable property owners in the Merged Project Area represent approximately 18.06% of the total assessed value of the Merged Project Area and 20.54% of the total incremental assessed value. See “RISK FACTORS – Concentration of Ownership” for a discussion regarding the risks associated with the concentration of ownership among the largest secured property taxpayers in the Merged Project Area.

**TABLE 2
EUREKA SUCCESSOR AGENCY
Merged Project Area
10 Largest Taxpayers in Fiscal Year 2016-17**

| Assessee | Primary Land Use | FY 2016-17 Assessed Value | % of Total | % of Incremental Assessed Value ⁽¹⁾ |
|--|--|---------------------------|---------------|--|
| 1. COSTCO Wholesale Corporation ⁽¹⁾ | Wholesale retail | \$17,753,641 | 2.88% | 3.27% |
| 2. Target Corporation | Department store | 16,053,298 | 2.60 | 2.96 |
| 3. Pacific Choice Seafood Inc. ⁽¹⁾ | Seafood processing facilities | 12,846,128 ⁽²⁾ | 2.08 | 2.37 |
| 4. CUE LLC | Commercial/industrial/vacant | 12,234,694 | 1.98 | 2.25 |
| 5. Schmidbauer Lumber Inc. ⁽¹⁾ | Lumber mill and wood products | 11,388,462 | 1.85 | 2.10 |
| 6. PWM Inc. ⁽¹⁾ | Commercial/motel/vacant | 10,468,872 | 1.70 | 1.93 |
| 7. Humboldt Partners | Commercial offices | 10,348,539 | 1.68 | 1.91 |
| 8. Shailesh and Jayshree Patel Co. Trust | Motel/vacant land | 7,816,769 | 1.27 | 1.44 |
| 9. Carter Family Real Estate Company LLC | Commercial/residential/vacant/office/motel | 6,593,379 | 1.07 | 1.22 |
| 10. RL Eureka LLC | Hotel | 5,939,860 | 0.96 | 1.09 |
| Total 10 Largest Taxpayers | | \$111,443,642 | 18.06% | 20.54% |

Total Fiscal Year 2016-17 Assessed Value: \$617,004,227

Total Fiscal Year 2016-17 Incremental Assessed Value: \$542,603,361

(1) The fiscal year 2016-17 assessed value of property owned by these taxpayers includes assessed value of unsecured property. See “APPENDIX H – FISCAL CONSULTANT’S REPORT” for further information.
 (2) Of the total fiscal year 2016-17 assessed value relating to property owned by Pacific Choice Seafood Inc., approximately \$9.535 million related to unsecured assessed value of personal property located on such property.
 Source: County Assessor; HdL Coren and Cone.

Summary of Assessed Value History in the Merged Project Area

Taxable values are prepared and reported by the County Auditor-Controller each fiscal year and represent the aggregation of all locally assessed properties that are part of the Merged Project Area. The parcels are assigned to Tax Rate Areas which collectively have the same boundaries as the Merged Project Area.

The table on the following page shows the historical assessed valuations for the Merged Project Area for fiscal years 2012-13 to 2016-17 based upon the County Auditor-Controller’s equalized rolls. The table below also calculates available Tax Revenues from the Merged Project Area for each of the past four fiscal years and an estimate for fiscal year 2016-17.

**TABLE 3
EUREKA SUCCESSOR AGENCY
Merged Project Area
Historical and Estimated Tax Revenues**

| Category | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Secured Assessed Values ⁽¹⁾ | \$491,376,595 | \$500,679,916 | \$509,891,410 | \$527,739,430 | \$540,045,946 |
| Unsecured Assessed Values | 66,751,622 | 66,682,721 | 69,333,868 | 66,814,208 | 76,958,281 |
| Total Assessed Values | 558,128,217 | 567,362,637 | 579,225,278 | 594,553,638 | 617,004,227 |
| Percent Change | -- | 1.65% | 2.09% | 2.65% | 3.78% |
| Base Year Assessed Values | 74,400,866 | 74,400,866 | 74,400,866 | 74,400,866 | 74,400,866 |
| Incremental Assessed Values | 483,727,351 | 492,961,771 | 504,824,412 | 520,152,772 | 542,603,361 |
| Gross Tax Increment Revenues | 4,837,274 | 4,929,618 | 5,048,244 | 5,201,528 | 5,426,034 |
| Unitary Tax Revenues | 92,171 | 95,352 | 97,207 | 117,828 | 117,828 |
| Gross Revenues | 4,929,444 | 5,024,970 | 5,145,451 | 5,319,356 | 5,543,862 |
| <i>Adjustments to Gross Tax Revenue:</i> | 2,835 | -- | (11,749) | 31,102 | |
| County Administrative Fees | 133,265 | 134,371 | 129,192 | 128,526 | 116,486 |
| Tax Revenues | \$4,799,014 | \$4,890,599 | \$5,004,510 | \$5,221,932 | \$5,427,376 |
| Statutory Pass-Through Payments ⁽²⁾ | 337,039 | 335,507 | 399,250 | 455,570 | 538,118 |

(1) Secured values include state assessed non-unitary utility property.

(2) Represent statutory pass-through payments required to be made pursuant to AB 1290, which payments are subordinate to the payment of debt service on the 2017 Bonds. See "SECURITY FOR THE 2017 BONDS –Statutory Pass-Through Payments."

Source: County Assessor; HdL Coren & Cone.

As shown in the table above, assessed values within the Merged Project Area have increased steadily in each of the five previous fiscal years. With respect to fiscal year 2016-17, assessed values within the Merged Project Area increased by approximately \$23 million or 3.78% over fiscal year 2015-16 assessed values. In particular, for such fiscal year, secured assessed values increased by approximately \$12.3 million or 2.33% and unsecured assessed values increased by approximately \$10.1 million or 15.2%. According to the Fiscal Consultant, such increase in secured assessed values within the Merged Project Area during such fiscal year was due primarily to an increase in assessed values of residential property of approximately \$11.9 million or 3.7%. The Fiscal Consultant further reports that the increase in unsecured values within the Merged Project Area of approximately \$12.3 million during such fiscal year was due primarily to an increase of approximately \$9.5 million related to personal property of Pacific Choice Seafood Inc., a producer of seafood and the third largest payer of property taxes within the Merged Project Area. See "APPENDIX H – FISCAL CONSULTANT'S REPORT" for further information regarding historical assessed values within the Merged Project Area.

Tax Rates

Tax rates will vary from area to area within the State, as well as within a community and a redevelopment project area. The tax rate for any particular parcel is based upon the jurisdictions levying the tax rate for the area where the parcel is located. The tax rate consists of the general levy rate of \$1.00 per \$100 of taxable value and any over-ride tax rate. The over-ride rate is that portion of the tax rate that exceeds the general levy tax rate and is levied to pay voter approved indebtedness or contractual obligations that existed prior to the enactment of Proposition XIII.

As previously indicated, Section 34183(a)(1) of the Dissolution Act requires the County Auditor-Controller to allocate all revenues attributable to tax rates levied to make annual repayments of the principal of and interest on any bonded indebtedness for the acquisition or improvement of real property to the taxing entity levying the tax rate. In addition, effective September 22, 2015, debt service override revenues approved by the voters for the purpose of supporting pension programs, capital projects, or programs related to the State Water Project, that are not pledged to or needed for debt service on successor agency obligations are allocated and paid to the entity that levies the override and will not be deposited into the Redevelopment Property Tax Trust Fund.

The projections of Tax Revenues available to pay debt service on the 2017 Bonds are based only on revenue derived from the general levy tax rate. See "THE MERGED PROJECT AREA – Projected Tax Revenues and Estimated Debt Service Coverage."

Teeter Plan

As previously indicated, the County has adopted the Teeter Plan with respect to secured property taxes only. See "PROPERTY TAXATION IN CALIFORNIA – Rate of Collections – Teeter Plan" for a discussion of the Teeter Plan as adopted and applied by the County.

Appeals of Assessed Values; Proposition 8 Reductions

Appeals of Assessed Values. Pursuant to State law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the SBE, with the appropriate county board of equalization or assessment appeals board.

After the applicant and the assessor have presented their arguments, the Appeals Board makes a final decision on the proper assessed value. The Appeals Board may rule in the assessor's favor, in the applicant's favor, or the Board may set their own opinion of the proper assessed value, which may be more or less than either the assessor's opinion or the applicant's opinion.

Any reduction in the assessment ultimately granted applies to the year for which the application is made and may also affect the values in subsequent years. Refunds for taxpayer overpayment of property taxes may include refunds for overpayment of taxes in years after that which was appealed. Current year values may also be adjusted as a result of a successful appeal of prior year values. Any taxpayer payment of property taxes that is based on a value that is subsequently adjusted downward will require a refund for overpayment.

Appeals for reduction in the "base year" value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base

year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

Appeals may also be filed under Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property shall be the lesser of its base year value annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. Significant reductions have taken place in some counties due to declining real estate values. Reductions made under this code section may be initiated by the County Assessor or requested by the property owner. After a roll reduction is granted under this section, the property is reviewed on an annual basis to determine its full cash value and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Such increases must be in accordance with the full cash value of the property and it may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIII A of the State Constitution. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A. See "PROPERTY TAXATION IN CALIFORNIA" above.

The Fiscal Consultant reviewed appeals data received from the County for the previous five years to determine what, if any, pending appeals may have on projected Tax Revenues. The fiscal consultant reports that currently there is one appeal pending relating to fiscal year 2015-16 assessed values and four appeals pending relating to fiscal year 2016-17 assessed values seeking a total reduction in assessed value of approximately \$2.6 million. None of the pending assessment appeals were brought by the top ten largest property tax payers in the Merged Project Area. The Fiscal Consultant has concluded that due to the lack of historical information regarding the success of appeals within the Merged Project Area, it is not possible to reasonably estimate the impact that pending appeals may have on projected Tax Revenues. Therefore, the projections of Tax Revenues set forth in the Fiscal Consultant's Report and this Official Statement do not include any adjustments for the potential impact of such pending assessment appeals.

Proposition 8 Reductions. As discussed in "PROPERTY TAXATION IN CALIFORNIA – Proposition 8" above, Proposition 8 allows a temporary reduction in assessed value when the current market value of a property is less than the current assessed value as of the lien date. According to the Fiscal Consultant, residential values in the Merged Project Area did not experience the significant declines in value that effected most areas of California during the recent recession. After reaching a peak in value in fiscal year 2009-10, residential values were flat through fiscal year 2013-14 and then began to increase in fiscal year 2014-15. The Fiscal Consultant further reports that residential values in fiscal year 2014-15 were 1% greater than in fiscal year 2013-14 and have increased by approximately 2% in each of the past two fiscal years. The Fiscal Consultant further reports that residential values in fiscal year 2016-17 are approximately 6.2% greater than the previous peak year in fiscal year 2009-10. According to the Fiscal Consultant, the Merged Project Area was not appreciably impacted by reduction of value pursuant to Proposition 8 and, in particular, median sales prices for those sales that have occurred within the Merged Project Area have increased from \$146,500 to \$232,000, or by 58.4%, over the past 4 years. Based on the foregoing, the Fiscal Consultant has assumed that no Proposition 8 reductions will occur in fiscal year 2015-16 or future fiscal years for purposes of the projections of Tax Revenues included in the Fiscal Consultant's Report and this Official Statement.

New Development

Changes in assessed value due to transfers of ownership occurring after the lien date for fiscal year 2016-17 will affect the taxable values for fiscal year 2017-18. In particular, the Fiscal Consultant reports that after January 1, 2016, a total of 32 transfers of ownership occurred within the Merged Project Area with assessed values totaling approximately \$9.1 million at sale prices totaling approximately \$11.1 million, for a total increase in assessed value of approximately \$2 million. Such changes in assessed value are included in the projections of Tax Revenues set forth in the Fiscal Consultant’s Report and this Official Statement.

According to the Fiscal Consultant, new development continues to occur within the Merged Project Area that is above and beyond changes of ownership but no additional value has been included in the projections of Tax Revenues in the Fiscal Consultant’s Report or this Official Statement.

Projected Tax Revenues and Estimated Debt Service Coverage

The Successor Agency prepared projections of Tax Revenues assuming 2% incremental growth in assessed values commencing in fiscal year 2017-18 and each fiscal year thereafter and they are shown in Table 4. Housing Set-Aside is not shown as a separate category of revenues because the former Housing Set-Aside from the Merged Project Area is included in projected Tax Revenues. See “SECURITY FOR THE 2017 BONDS – Tax Revenues – Housing Set-Aside.” Other assumptions made by the Fiscal Consultant in calculating the projected Tax Revenues in Table 4 are described in the Fiscal Consultant’s Report. See “APPENDIX H – FISCAL CONSULTANT’S REPORT.”

Table 5 below shows projected debt service coverage based on total debt service on the 2017 Bonds assuming 2% incremental growth in assessed values commencing in fiscal year 2017-18 and each fiscal year thereafter.

TABLE 4
EUREKA SUCCESSOR AGENCY
Merged Project Area
Projection of Assessed Values and Tax Increment Revenues
(2% Annual Growth)
(000s Omitted)

| Fiscal Year Ending June 30 | Total Assessed Value | Gross Tax Increment ⁽¹⁾ | Less County Admin. Fees ⁽²⁾ | Tax Revenues Available for Debt Service | Less Pass- Through Payments ⁽³⁾ | Net Tax Increment |
|----------------------------------|-------------------------|---------------------------------------|--|--|--|----------------------|
| 2016-17 | \$617,004 | \$5,544 | \$(116) | \$5,427 | \$ (538) | \$4,889 |
| 2017-18 | 630,116 | 5,675 | (119) | 5,556 | (586) | 4,969 |
| 2018-19 | 641,532 | 5,789 | (122) | 5,667 | (628) | 5,039 |
| 2019-20 | 653,176 | 5,906 | (124) | 5,781 | (671) | 5,110 |
| 2020-21 | 665,053 | 6,024 | (127) | 5,898 | (715) | 5,183 |
| 2021-22 | 677,168 | 6,145 | (129) | 6,016 | (760) | 5,257 |
| 2022-23 | 689,525 | 6,269 | (132) | 6,137 | (805) | 5,332 |
| 2023-24 | 702,129 | 6,395 | (134) | 6,261 | (851) | 5,409 |
| 2024-25 | 714,985 | 6,524 | (137) | 6,387 | (899) | 5,488 |
| 2025-26 | 728,098 | 6,655 | (140) | 6,515 | (947) | 5,568 |
| 2026-27 | 741,474 | 6,789 | (143) | 6,646 | (996) | 5,650 |
| 2027-28 | 755,117 | 6,925 | (146) | 6,779 | (1,046) | 5,733 |
| 2028-29 | 769,033 | 7,064 | (148) | 6,916 | (1,098) | 5,818 |
| 2029-30 | 783,227 | 7,206 | (151) | 7,055 | (1,150) | 5,905 |
| 2030-31 | 797,705 | 7,351 | (154) | 7,196 | (1,203) | 5,993 |
| 2031-32 | 812,473 | 7,499 | (158) | 7,341 | (1,258) | 6,083 |
| 2032-33 | 827,536 | 7,649 | (161) | 7,488 | (1,313) | 6,176 |
| 2033-34 | 842,900 | 7,803 | (164) | 7,639 | (1,369) | 6,269 |
| 2034-35 | 858,572 | 7,960 | (167) | 7,792 | (1,427) | 6,365 |
| 2035-36 | 874,557 | 8,119 | (171) | 7,949 | (1,486) | 6,463 |

(1) Based on tax rate of 1.00%.

(2) Estimated County administration fees based on 2.10% of gross tax increment.

(3) Represents statutory pass-through payments with respect to the Merged Project Area required pursuant to AB 1290, which payments are payable on a subordinate basis to the 2017 Bonds. See "SECURITY FOR THE 2017 BONDS – Statutory Pass-Through Payments."

Source: County Assessor; HdL Coren & Cone.

TABLE 5
EUREKA SUCCESSOR AGENCY
Merged Project Area
Estimated Debt Service Coverage
(000s Omitted)

| Fiscal Year Ending June 30 | Tax Revenues Available for Debt Service | Debt Service on 2017 Series A Taxable Bonds ⁽¹⁾ | Debt Service on 2017 Series B Bonds ⁽¹⁾ | Aggregate Debt Service | Aggregate Debt Service Coverage |
|-------------------------------|---|--|--|---------------------------|---------------------------------------|
| 2016-17 | \$5,427 | \$1,776,638 | \$ 306,441 | \$ 2,083,079 | 2.61x |
| 2017-18 | 5,556 | 1,834,069 | 571,600 | 2,405,669 | 2.31x |
| 2018-19 | 5,667 | 1,835,550 | 571,600 | 2,407,150 | 2.35x |
| 2019-20 | 5,781 | 674,850 | 1,726,600 | 2,401,450 | 2.41x |
| 2020-21 | 5,898 | -- | 2,403,850 | 2,403,850 | 2.45x |
| 2021-22 | 6,016 | -- | 2,404,350 | 2,404,350 | 2.50x |
| 2022-23 | 6,137 | -- | 2,400,100 | 2,400,100 | 2.56x |
| 2023-24 | 6,261 | -- | 716,100 | 716,100 | 8.74x |
| 2024-25 | 6,387 | -- | 566,100 | 566,100 | 11.28x |
| 2025-26 | 6,515 | -- | 561,300 | 561,300 | 11.61x |
| 2026-27 | 6,646 | -- | 566,100 | 566,100 | 11.74x |
| 2027-28 | 6,779 | -- | 566,100 | 566,100 | 11.98x |
| 2028-29 | 6,916 | -- | 563,500 | 563,500 | 12.27x |
| 2029-30 | 7,055 | -- | 570,600 | 570,600 | 12.36x |
| 2030-31 | 7,196 | -- | 566,538 | 566,538 | 12.70x |
| 2031-32 | 7,341 | -- | 566,588 | 566,588 | 12.96x |
| 2032-33 | 7,488 | -- | 569,963 | 569,963 | 13.14x |
| 2033-34 | 7,639 | -- | 567,638 | 567,638 | 13.46x |
| 2034-35 | 7,792 | -- | 569,150 | 569,150 | 13.69x |
| 2035-36 | 7,949 | -- | 569,938 | 569,938 | 13.95x |

(1) Represents Bond Year debt service.

Source: County Assessor; HdL Coren & Cone; Stifel Nicolaus & Company, Incorporated.

RISK FACTORS

The following information should be considered by prospective investors in evaluating the 2017 Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the 2017 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

The various legal opinions to be delivered concurrently with the issuance of the 2017 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights, including equitable principles.

Recognized Obligation Payment Schedules

The Dissolution Act provides that only those payments listed in a Recognized Obligation Payment Schedule may be made by a successor agency from the funds specified in the Recognized Obligation Payment Schedule. Pursuant to Section 34177 of the Dissolution Act, on or before each February 1 commencing February 1, 2016, the Successor Agency shall submit to the Oversight Board and the DOF, a Recognized Obligation Payment Schedule unless, at the option of the Successor Agency and subject to DOF approval and satisfaction of certain other conditions, a Last and Final Recognized Obligation Payment Schedule is filed by the Successor Agency and is approved by the DOF in which event no such periodic filing requirements apply. In instances where a Last and Final Recognized Obligation Payment Schedule is not filed, for each annual period the Dissolution Act requires each successor agency to prepare and approve, and submit to the successor agency's oversight board and the DOF for approval, a Recognized Obligation Payment Schedule pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. Consequently, in instances where a Last and Final Recognized Obligation Payment Schedule is not filed, Tax Revenues will not be withdrawn from the Redevelopment Property Tax Trust Fund by the County Auditor-Controller and remitted to the Successor Agency without a duly approved and effective Recognized Obligation Payment Schedule to pay debt service on the 2017 Bonds and to pay other enforceable obligations for each applicable annual period. In the event the Successor Agency were to fail to file a Recognized Obligation Payment Schedule as required, the availability of Tax Revenues to the Successor Agency could be adversely affected for such period. See "SECURITY FOR THE 2017 BONDS – Recognized Obligation Payment Schedules."

In instances where a Last and Final Recognized Obligation Payment Schedule is not filed, if a successor agency does not submit a Recognized Obligation Payment Schedule within five business days of the date upon which the Recognized Obligation Payment Schedule is to be used to determine the amount of property tax allocations, the DOF may determine if any amount should be withheld by the county auditor-controller for payments for enforceable obligations from distribution to taxing entities, pending approval of a Recognized Obligation Payment Schedule. The county auditor-controller is then required to distribute the portion of any of the sums withheld as described above to the affected taxing entities in accordance with applicable provisions of the Dissolution Act upon notice by the DOF that a portion of the withheld balances are in excess of the amount of enforceable obligations. The Dissolution Act provides that the county auditor-controller shall distribute withheld funds to a successor agency

only in accordance with a Recognized Obligation Payment Schedule approved by the DOF. Nothing in the Indenture limits the Successor Agency's ability to file a Last and Final Recognized Obligation Payment Schedule.

AB 1484 also added provisions to the Dissolution Act implementing certain penalties in the event a successor agency does not timely submit a Recognized Obligation Payment Schedule as required. Specifically, an oversight board approved Recognized Obligation Payment Schedule must be submitted by the successor agency to the county auditor-controller and the DOF, no later than each February 1 for the subsequent annual period. If a successor agency does not submit a Recognized Obligation Payment Schedule by such deadlines, the city or county that established the redevelopment agency will be subject to a civil penalty equal to \$10,000 per day for every day the schedule is not submitted to the DOF. Additionally, a successor agency's administrative cost allowance is reduced by 25% if the successor agency does not submit an oversight board-approved Recognized Obligation Payment Schedule within 10 days of the February 1 deadline, with respect to the Recognized Obligation Payment Schedule for the subsequent annual period.

Challenges to Dissolution Act

Several successor agencies, cities and other entities have filed judicial actions challenging the legality of various provisions of the Dissolution Act. One such challenge is an action filed on August 1, 2012, by Syncora Guarantee Inc. and Syncora Capital Assurance Inc. (collectively, "**Syncora**") against the State, the State Controller, the State Director of Finance, and the Auditor-Controller of San Bernardino County on his own behalf and as the representative of all other County Auditors in the State (Superior Court of the State of California, County of Sacramento, Case No. 34-2012-80001215). Syncora are monoline financial guaranty insurers domiciled in the State of New York, and as such, provide credit enhancement on bonds issued by state and local governments and do not sell other kinds of insurance such as life, health, or property insurance. Syncora provided bond insurance and other related insurance policies for bonds issued by former California redevelopment agencies.

The complaint alleged that the Dissolution Act, and specifically the "Redistribution Provisions" thereof (i.e., California Health and Safety Code Sections 34172(d), 34174, 34177(d), 34183(a)(4), and 34188) violate the "contract clauses" of the United States and California Constitutions (U.S. Const. art. 1, §10, cl.1; Cal. Const. art. 1, §9) because they unconstitutionally impair the contracts among the former redevelopment agencies, bondholders and Syncora. The complaint also alleged that the Redistribution Provisions violate the "Takings Clauses" of the United States and California Constitutions (U.S. Const. amend. V; Cal Const. art. 1 § 19) because they unconstitutionally take and appropriate bondholders' and Syncora's contractual right to critical security mechanisms without just compensation.

After a hearing by the Sacramento County Superior Court on May 3, 2013, the Superior Court ruled that Syncora's constitutional claims based on contractual impairment were premature. The Superior Court also held that Syncora's takings claims, to the extent based on the same arguments, were also premature. Pursuant to a Judgment stipulated to by the parties, the Superior Court on October 3, 2013, entered its order dismissing the action. The Judgment, however, provides that Syncora preserves its rights to reassert its challenges to the Dissolution Act in the future. The Successor Agency does not guarantee that any reassertion of challenges by Syncora or that the final results of any of the judicial actions brought by others challenging the Dissolution Act will not result in an outcome that may have a material adverse effect on the Successor Agency's ability to timely pay debt service on the 2017 Bonds.

Reduction in Taxable Value

Tax Revenues available to pay principal of and interest on the 2017 Bonds are determined by the amount of incremental taxable value in the Merged Project Area and the current rate or rates at which property in the Merged Project Area is taxed. The reduction of taxable values of property in the Merged Project Area caused by economic factors beyond the Successor Agency's control, such as relocation out of the Merged Project Area by one or more major property owners, sale of property to a non-profit corporation exempt from property taxation, or the complete or partial destruction of such property caused by, among other eventualities, earthquake or other natural disaster, could cause a reduction in the tax increment available to pay debt service on the 2017 Bonds. Such reduction of tax increment available to pay debt service on the 2017 Bonds could have an adverse effect on the Successor Agency's ability to make timely payments of principal of and interest on the 2017 Bonds; this risk may be increased by significant concentration of property ownership in the Merged Project Area (see "THE MERGED PROJECT AREA – Largest Taxable Property Owners").

As described in greater detail under the heading "PROPERTY TAXATION IN CALIFORNIA – Article XIII A of the State Constitution," Article XIII A provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflation rate, not to exceed a two percent increase for any given year, or may be reduced to reflect a reduction in the consumer price index, comparable local data or any reduction in the event of declining property value caused by damage, destruction or other factors (as described above). Such measure is computed on a calendar year basis. Any resulting reduction in the full cash value base over the term of the 2017 Bonds could reduce tax increment available to pay debt service on the 2017 Bonds.

In addition to the other limitations on, and required application under the Dissolution Act of Tax Revenues on deposit in the Redevelopment Property Tax Trust Fund, the State electorate or State Legislature could adopt a constitutional or legislative property tax reduction with the effect of reducing Tax Revenues allocated to the Redevelopment Property Tax Trust Fund and available to the Successor Agency. Although the federal and State Constitutions include clauses generally prohibiting the California Legislature's impairment of contracts, there are also recognized exceptions to these prohibitions. There is no assurance that the State electorate or State Legislature will not at some future time approve additional limitations that could reduce the tax increment available to pay debt service on the 2017 Bonds and adversely affect the source of repayment and security of the 2017 Bonds.

Unsecured Property

Approximately 12.47% of the net assessed property value in the Merged Project Area for fiscal year 2016-17 is derived from unsecured property, including approximately \$9.535 million owned by Pacific Choice Seafood Inc., the third largest property tax payer during such fiscal year. Unsecured property in the Merged Project Area is comprised largely of equipment and other personal property. Such property is a transitory component of total assessed value and may be removed from the Merged Project Area at any point in time, and accordingly, must be viewed as a volatile component of assessed value in the Merged Project Area. See "APPENDIX H – FISCAL CONSULTANT'S REPORT." While the Successor Agency cannot predict when or if such unsecured personal property might be removed from the Merged Project Area, the Successor Agency believes the projection of such unsecured fixtures and equipment value for future fiscal years set forth in the Fiscal Consultant's Report is reasonable. The removal of such unsecured personal property from the Merged Project Area, however, could reduce the tax

increment available to pay debt service on the 2017 Bonds and adversely affect the source of repayment and security of the 2017 Bonds.

Concentration of Property Ownership

Based on fiscal year 2016-17 locally assessed taxable valuations, the top 10 taxable property owners in the Merged Project Area represent approximately 18.06% of the total fiscal year 2016-17 taxable value and 20.54% of the fiscal year 2016-17 incremental assessed value.

Although the bankruptcy, termination of operations or departure from the Merged Project Area by one of the largest property owners from the Merged Project Area could adversely impact the availability of Tax Revenues to pay debt service on the 2017 Bonds, the Successor Agency believes any such adverse impact is unlikely in light of the debt service coverage provided by fiscal year 2016-17 available tax increment. See “THE MERGED PROJECT AREA – Projected Tax Revenues and Estimated Debt Service Coverage” for a description of the debt service coverage on the 2017 Bonds.

Risks to Real Estate Market

The Successor Agency’s ability to make payments on the 2017 Bonds will be dependent upon the economic strength of the Merged Project Area. The general economy of the Merged Project Area will be subject to all of the risks generally associated with urban real estate markets. Real estate prices and development may be adversely affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, unexpected increases in development costs and by other similar factors. Further, real estate development within the Merged Project Area could be adversely affected by limitations of infrastructure or future governmental policies, including governmental policies to restrict or control development. In addition, if there is a significant decline in the general economy of the Merged Project Area, the owners of property within the Merged Project Area may be less able or less willing to make timely payments of property taxes or may petition for reduced assessed valuation causing a delay or interruption in the receipt of Tax Revenues by the Successor Agency from the Merged Project Area. See “THE MERGED PROJECT AREA – Projected Tax Revenues and Estimated Debt Service Coverage” for a description of the debt service coverage on the 2017 Bonds.

Reduction in Inflationary Rate

As described in greater detail below, Article XIII A of the State Constitution provides that the full cash value of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. The Successor Agency is unable to predict if any further adjustments to the full cash value base of real property within the Merged Project Area, whether an increase or a reduction, will be realized in the future.

Levy and Collection of Taxes

The Successor Agency has no independent power to levy or collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax

decrease could reduce the Tax Revenues, and accordingly, could have an adverse impact on the security for and the ability of the Successor Agency to repay the 2017 Bonds.

Although delinquencies in the payment of property taxes by the owners of land in the Merged Project Area, and the impact of bankruptcy proceedings on the ability of taxing agencies to collect property taxes as described below, could have an adverse effect on the Successor Agency's ability to make timely payments on the 2017 Bonds, the Successor Agency believes any such adverse impact is unlikely in light of the debt service coverage provided by Tax Revenues. See "THE MERGED PROJECT AREA – Projected Tax Revenues and Estimated Debt Service Coverage" for a description of the debt service coverage on the 2017 Bonds.

Bankruptcy and Foreclosure

The payment of the property taxes from which Tax Revenues are derived and the ability of the County to foreclose the lien of a delinquent unpaid tax may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. The various legal opinions to be delivered concurrently with the delivery of the 2017 Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the liens to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Such delay would increase the possibility of delinquent tax installments with respect to unsecured property taxes not being paid in full and thereby increase the likelihood of a delay or default in payment of the principal of and interest on the 2017 Bonds.

Estimated Revenues

In estimating that Tax Revenues will be sufficient to pay debt service on the 2017 Bonds, the Successor Agency made certain assumptions with regard to present and future assessed valuation in the Merged Project Area, future tax rates and percentage of taxes collected. The Successor Agency believes these assumptions to be reasonable, but there is no assurance these assumptions will be realized and to the extent that the assessed valuation and the tax rates are less than expected, the Tax Revenues available to pay debt service on the 2017 Bonds will be less than those projected and such reduced Tax Revenues may be insufficient to provide for the payment of principal of and interest on the 2017 Bonds.

See "THE MERGED PROJECT AREA – Projected Tax Revenues and Estimated Debt Service Coverage" above.

Natural Hazards

The value of the property in the Merged Project Area in the future can be adversely affected by a variety of additional factors, particularly those which may affect infrastructure and other public improvements and private improvements on property and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions such as earthquakes, tsunamis, topographic conditions such as earth movements, landslides and floods and climatic conditions such as droughts. In the event that one or more of such conditions occur, such occurrence could cause damages of varying

seriousness to the land and improvements and the value of property in the Merged Project Area could be diminished in the aftermath of such events. A substantial reduction of the value of such properties could affect the ability or willingness of the property owners to pay their property taxes.

Seismic. The City is not located in a fault zone nor are there any faults running through the City or the Merged Project Area. However, the areas in and surrounding the Merged Project Area, like those in much of California, may be subject to unpredictable seismic activity. The City is located in Seismic Zone 4 as designated by the Uniform Building Code.

In addition, certain land within the Merged Project Area consists of landfill which may experience liquefaction in the event of seismic activity. In particular, landfill, some of which dates back to the mid-nineteenth century, exists on the western end of the Tomorrow Area. Most of this land is currently vacant or used for timber storage. Landfill also exists between 4th and 5th Streets, north of Humboldt Bay ending at F Street. Landfill begins again at K Street toward M Street, also to Humboldt Bay. Fill was also placed from M to L Street and from 1st Street to Humboldt Bay. Most of the land between 1st Street and Humboldt Bay is also vacant. Foundations in these areas are required to be specially designed to withstand settling and liquefaction. Commercial and residential buildings in the Merged Project Area are mostly one- and two-story, wood framed structures.

If an earthquake were to substantially damage or destroy taxable property within the Merged Project Area, the assessed valuation of such property would be reduced. Such reduction of assessed valuations could result in a reduction of tax increment available to pay debt service on the 2017 Bonds.

Flood. Like many coastal cities in the State, certain portions of the City and County are at risk of flooding due to sea level rise as a result of their proximity to Humboldt Bay.

If flooding were to substantially damage or destroy taxable property within the Merged Project Area, the assessed valuation of such property would be reduced. Such reduction of assessed valuations could result in a reduction of tax increment available to pay debt service on the 2017 Bonds.

Tsunamis. Tsunamis are large waves in the ocean generated by earthquakes, coastal or submarine landslides or volcanoes. In general, tsunamis are not common on the State's coast. In recent years, tsunamis have occurred on the State's coast as a result of distant earthquakes (most recently in Japan), not local earthquakes. However, the City and County are at risk of damage due to tsunamis as a result of their proximity to Humboldt Bay.

If a tsunami were to substantially damage or destroy taxable property within the Merged Project Area, the assessed valuation of such property would be reduced. Such reduction of assessed valuations could result in a reduction of tax increment available to pay debt service on the 2017 Bonds.

Hazardous Substances

An additional environmental condition that may result in the reduction in the assessed value of property would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the Merged Project Area. In general, the owners and operators of property may be required by law to remedy conditions of the property relating to

releases or threatened releases of hazardous substances. The owner or operator may be required to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the property within the Merged Project Area be affected by a hazardous substance, could be to reduce the marketability and value of the property by the costs of remedying the condition.

Changes in the Law

There can be no assurance that the State electorate will not at some future time adopt initiatives or that the State Legislature will not enact legislation that will amend the Dissolution Act, the Redevelopment Law or other laws or the Constitution of the State resulting in a reduction of tax increment available to pay debt service on the 2017 Bonds.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the 2017 Series B Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2017 Series B Bonds were issued, as a result of future acts or omissions of the Successor Agency in violation of its covenants in the Indenture.

In addition, current and future legislative proposals, if enacted into law, clarification of the Tax Code (as hereinafter defined) or court decisions may cause interest on the 2017 Series B Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2017 Series B Bonds. .

Should such an event of taxability occur, the 2017 Series B Bonds are not subject to special redemption and will remain outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2017 Bonds, or, if a secondary market exists, that the 2017 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon the then prevailing circumstances.

TAX MATTERS

2017 Series A Taxable Bonds

General. The interest on the 2017 Series A Taxable Bonds is not intended by the Successor Agency to be excluded from gross income for federal income tax purposes. However, in the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, interest on the 2017 Series A Bonds is exempt from California personal income taxes. The proposed form of opinion of Bond Counsel with respect to the 2017 Series A Taxable Bonds to be delivered on the date of issuance of the 2017 Series A Taxable Bonds is set forth in Appendix B.

Owners of the 2017 Series A Taxable Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2017 Series A Taxable Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2017 Series A Taxable Bonds other than as expressly described above.

Form of Bond Counsel Opinion. At the time of issuance of the 2017 Series A Taxable Bonds, Bond Counsel expects to deliver an opinion for the 2017 Series A Taxable Bonds in substantially the form set forth in Appendix B.

2017 Series B Bonds

General. In the opinion of Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2017 Series B Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Successor Agency comply with all requirements of the Internal Revenue Code of 1986, as amended (the “**Tax Code**”) that must be satisfied subsequent to the issuance of the 2017 Series B Bonds. The Successor Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2017 Series B Bonds.

California Tax Status. In the opinion of Bond Counsel, interest on the 2017 Series B Bonds is exempt from California personal income taxes.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a 2017 Series B Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each 2017 Series B Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of

California personal income taxes. De minimis original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2017 Series B Bonds on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2017 Series B Bond to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2017 Series B Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2017 Series B Bonds who purchase the 2017 Series B Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2017 Series B should consult their own tax advisors with respect to the tax consequences of ownership of 2017 Series B Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2017 Series B Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2017 Series B Bond (said term being the shorter of the 2017 Series B Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2017 Series B Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2017 Series B Bond is amortized each year over the term to maturity of the 2017 Series B Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized 2017 Series B Bond premium is not deductible for federal income tax purposes. Owners of premium 2017 Series B Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2017 Series B Bonds.

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2017 Series B Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2017 Series B Bonds. Prospective purchasers of the 2017 Series B Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Form of Bond Counsel Opinion. At the time of issuance of the 2017 Series B Bonds, Bond Counsel expects to deliver an opinion for the 2017 Series B Bonds in substantially the form set forth in Appendix B.

Owners of the 2017 Series B Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, 2017 Series B Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion

regarding any federal or state tax consequences arising with respect to the 2017 Series B Bonds other than as expressly described above.

CONCLUDING INFORMATION

Underwriting

The 2017 Bonds are being purchased by the Underwriter. The Underwriter has agreed to purchase the 2017 Series A Taxable Bonds at a price of \$5,863,621.13 (being the principal amount of the 2017 Series A Taxable Bonds less an original issue discount of \$23,128.95 and less an Underwriter's discount of \$38,249.92). The Underwriter has agreed to purchase the 2017 Series B Bonds at a price of \$14,054,065.87 (being the principal amount of the 2017 Series B Bonds plus a net original issue premium of \$1,060,130.10 and less an Underwriter's discount of \$86,064.23). The Underwriter will purchase all of the 2017 Bonds if any are purchased.

The Underwriter may offer and sell 2017 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

Legal Opinion

The final approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, will be furnished to the purchaser at the time of delivery of the 2017 Bonds.

A copy of the proposed form of Bond Counsel's final approving opinion with respect to the 2017 Bonds is attached hereto as Appendix B.

Certain legal matters will be passed on by Jones Hall, A Professional Law Corporation, as Disclosure Counsel and Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Underwriter's Counsel.

Certain legal matters will be passed on for the Successor Agency by the City Attorney of the City, as general counsel to the Successor Agency.

Payment of the fees and expenses of Bond Counsel, Disclosure Counsel and Underwriter's Counsel is contingent upon the sale and delivery of the 2017 Bonds.

Litigation

There is no action, suit or proceeding known to the Successor Agency to be pending and notice of which has been served upon and received by the Successor Agency, or threatened, restraining or enjoining the execution or delivery of the 2017 Bonds or the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the Successor Agency taken with respect to any of the foregoing or seeking to restrain or enjoin the repayment of the 2017 Bonds or which, in any manner, questions the right of the Successor Agency to use the Tax Revenues for repayment of the 2017 Bonds or affects in any manner the right or ability of the Successor Agency to collect or pledge the Tax Revenues. See, however, "RISK FACTORS – Challenges to Dissolution Act."

Ratings

The Successor Agency anticipates that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("**S&P**") will assign its rating of "AA-" to the 2017 Insured Bonds with the understanding that National will issue the 2017 Insurance Policy concurrently with the delivery of the 2017 Insured Bonds. S&P has assigned an underlying rating of "A" to the 2017 Bonds. Such ratings reflect only the view of S&P, and any explanation of the significance of such ratings should be obtained from S&P. There is no assurance that such ratings will be retained for any given period of time or that it will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of any rating obtained may have an adverse effect on the market price of the 2017 Bonds.

Continuing Disclosure

The Successor Agency will covenant for the benefit of owners of the 2017 Bonds to provide to the Electronic Municipal Market Access System ("**EMMA System**") certain financial information and operating data relating to the Successor Agency by not later than March 31 after the end of each fiscal year of the Successor Agency (currently June 30th), commencing not later than March 31, 2018 with the report for the 2016-17 fiscal year (the "**Annual Report**"), and to provide notices of the occurrence of certain listed events. The specific nature of the information to be contained in the Annual Report or the notices of listed events is summarized in "APPENDIX D – FORM OF SUCCESSOR AGENCY CONTINUING DISCLOSURE CERTIFICATE," attached to this Official Statement. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "**Rule**").

The Former Agency previously entered into certain disclosure undertakings under the Rule. During the past five years, the Former Agency and the Successor Agency, as successor thereto, failed to comply in all material respects with certain of their undertakings in the previous five years as follows:

(a) With respect to multiple fiscal years, the Former Agency and the Successor Agency failed to file annual reports on the EMMA System as required by the respective continuing disclosure undertakings. In addition, the Former Agency and the Successor Agency failed to file on the EMMA System notices of the failure to file such annual reports.

(b) With respect to multiple fiscal years, the Former Agency and the Successor Agency failed to file annual reports on the EMMA System on or before the date required by the respective continuing disclosure undertakings. In addition, the Former Agency and the Successor Agency failed to file on the EMMA System notices of the failure to file such annual reports.

(c) With respect to multiple fiscal years, the Former Agency and the Successor Agency failed to file on the EMMA System audited financial statements of the Former Agency or the Successor Agency, as applicable, on or before the date required by the respective continuing disclosure undertakings. In addition, the Former Agency and the Successor Agency failed to file on the EMMA System notices of the failure to file such audited financial statements.

(d) With respect to multiple fiscal years, the Former Agency and the Successor Agency filed annual reports on the EMMA System that did not include all information required by

the respective continuing disclosure undertakings, including, without limitation, the identity of the applicable top taxpayers, assessed valuation, assessed valuation appeals and tax increment revenues.

(e) On more than one occasion, the Successor Agency failed to file notices of rating changes on the EMMA System.

(f) On more than one occasion, the Successor Agency filed notices of rating changes on the EMMA System but not in a timely manner.

The Successor Agency believes that all required remedial filings with respect to such non-compliance have been filed on the EMMA System.

To ensure compliance with its continuing disclosure undertakings under the Rule in the future, the Successor Agency has appointed the City's Finance Director to coordinate, on behalf the Successor Agency, the preparation and filing of annual disclosure reports by the Successor Agency and has adopted policies and procedures related thereto (the "**Disclosure Policies and Procedures**"). In addition, the Successor Agency has engaged HdL Coren & Cone (the "**Dissemination Agent**") to act as dissemination agent with respect to its undertakings under the Rule and to assist the City's Finance Director and other City staff with the preparation of documents and other information to be provided by the Dissemination Agent in the future in accordance with the Rule. In accordance with the Successor Agency's Disclosure Policies and Procedures, the City's Finance Director will arrange for a disclosure training session to be conducted in the near future by Jones Hall, A Professional Law Corporation, as Disclosure Counsel, regarding the disclosure obligations of the Successor Agency under applicable securities laws.

Audited Financial Statements

The City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016 (the "**City CAFR**") is attached as Appendix E. The City CAFR includes the Successor Agency's audited financial statements for the fiscal year ended June 30, 2016. The Successor Agency's audited financial statements were audited by Moss, Levy & Hartzheim, LLP (the "**Auditor**"). The Auditor has not been asked to consent to the inclusion of the Successor Agency's audited financial statements in this Official Statement and has not reviewed this Official Statement.

As described in "SECURITY FOR THE 2017 BONDS – Limited Obligation," the 2017 Bonds are payable from and secured by a pledge of Tax Revenues and the 2017 Bonds are not a debt of the City. The City CAFR is attached as Appendix E to this Official Statement only because it includes the Successor Agency's audited financial statements.

Miscellaneous

All of the preceding summaries of the Indenture, the Redevelopment Law, the Dissolution Act, other applicable legislation, the Redevelopment Plans, agreements and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Successor Agency for further information in connection therewith. This Official Statement does not constitute a contract with the purchasers of the 2017 Bonds. Any statements made in this Official Statement involving matters of opinion or

estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement by the Executive Director of the Successor Agency has been duly authorized by the Successor Agency.

EUREKA SUCCESSOR AGENCY

By: _____ /s/ Greg Sparks
Executive Director

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture of Trust (the "Indenture") authorizing the Bonds that are not otherwise described in the text of this Official Statement. Such summary is not intended to be definitive, and reference is made to the actual Indenture (copies of which may be obtained from the Trustee) for the complete terms thereof.

"Annual Debt Service" means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds and any other Parity Debt in such Bond Year, and (b) the principal amount of the Outstanding Bonds (including the aggregate principal amount of the Term Bonds required to be redeemed pursuant to a Supplemental Indenture) and any other Parity Debt payable by their terms in such Bond Year.

"Bond" or "Bonds" means the (i) 2017 Bonds and (ii) any other Parity Debt that is issued as bonds pursuant to a Supplemental Indenture.

"Bond Counsel" means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Successor Agency, of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

"Bond Proceeds Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Bond Year" means, any twelve-month period beginning on November 2 in any year and ending on the next succeeding November 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date, and end on November 1, 2017.

"Business Day" means a day of the year on which banks in San Francisco, California, or the city where the Principal Corporate Trust Office is located, are not required or permitted to be closed and on which the New York Stock Exchange is not closed.

"City" means the City of Eureka, a municipal corporation duly organized and existing under the Constitution and the laws of the State.

"Closing Date" means, with respect to the 2017 Series A Taxable Bonds and the 2017 Series B Bonds, the date on which the 2017 Series A Taxable Bonds and the 2017 Series B Bonds are delivered by the Successor Agency to the original purchaser thereof, being April 18, 2017.

"Code" means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced in the Indenture) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Successor Agency relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to the City and Successor Agency administrative staff costs, printing expenses, bond insurance and surety bond premiums, rating agency fees, filing

and recording fees, initial fees and charges and first annual administrative fee of the Trustee and fees and expenses of its counsel, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

"Debt Service Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Defeasance Obligations" means (i) cash and (ii) Federal Securities.

"Dissolution Act" means Part 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code, as amended from time to time.

"Event of Default" means any of the events described in the Indenture.

"Federal Securities" means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and CATS and TGRS), or obligations the payment of principal of and interest on which are unconditionally guaranteed by the United States of America.

"Fiscal Year" means any twelve-month period beginning on July 1 in any year and extending to the next succeeding June 30, both dates inclusive, or any other twelve month period selected and designated by the Successor Agency to the Trustee in writing as its official fiscal year period.

"Former Agency" means the Eureka Redevelopment Agency, a public body corporate and politic duly organized and existing under the Redevelopment Law and dissolved in accordance with the Dissolution Act.

"I-Bank" means the California Infrastructure and Economic Development Bank.

"I-Bank Escrow Agent" means U.S. Bank National Association, as escrow agent under the I-Bank Escrow Agreement.

"I-Bank Escrow Agreement" means that Escrow Deposit and Trust Agreement (I-Bank Loan) dated as of April 1, 2017 among the Successor Agency, the Authority and the I-Bank Escrow Agent.

"I-Bank Loan" means the loan in the original principal amount of \$2,000,000 made by the I-Bank to the Former Agency pursuant to a Tax Allocation Loan Agreement, dated as of October 1, 2008, by and between the Former Agency and the I-Bank, as amended by a First Amendment to Tax Allocation Loan Agreement, by and between the Former Agency and the I-Bank, and as further amended by a Second Amendment to Tax Allocation Loan Agreement, by and between the Former Agency and the I-Bank.

"Indenture" means the Indenture of Trust by and between the Successor Agency and the Trustee, as originally entered into or as it may be amended or supplemented by any Supplemental Indenture entered into pursuant to the provisions of the Indenture.

"Independent Accountant" means any accountant or firm of such accountants duly licensed or registered or entitled to practice as such under the laws of the State, appointed by the Successor Agency, and who, or each of whom:

- (a) is in fact independent and not under domination of the Successor Agency;
- (b) does not have any substantial interest, direct or indirect, with the Successor Agency; and
- (c) is not connected with the Successor Agency as an officer or employee of the Successor Agency, but who may be regularly retained to make reports to the Successor Agency.

"Independent Redevelopment Consultant" means any consultant or firm of such consultants appointed by the Successor Agency, and who, or each of whom:

- (a) is judged by the Successor Agency to have experience in matters relating to the issuance of tax allocation refunding bonds by successor agencies;
- (b) is in fact independent and not under domination of the Successor Agency;
- (c) does not have any substantial interest, direct or indirect, with the Successor Agency; and
- (d) is not connected with the Successor Agency as an officer or employee of the Successor Agency, but who may be regularly retained to make reports to the Successor Agency.

"Interest Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Interest Payment Date" means each May 1 and November 1, commencing November 1, 2017, in each year so long as any of the Bonds remain Outstanding under the Indenture.

"Irrevocable Refunding Instructions" means the Irrevocable Refunding Instructions dated the Closing Date relating to the prepayment of the Loan Agreement given by the Successor Agency and the Authority to the 2003 Trustee.

"Insurer" means the 2017 Insurer and, as applicable, the provider of a municipal bond or financial guaranty insurance policy with respect to Parity Debt.

"Law" means the Community Redevelopment Law of the State, constituting Part 1 of Division 24 of the Health and Safety Code of the State, and the Dissolution Act.

"Loan Agreement" means the Amended and Restated Loan Agreement dated as of January 1, 2006 among the Authority, the Former Agency and the 2003 Trustee.

"Maximum Annual Debt Service" means, as of the date of calculation, the largest Annual Debt Service for the current or any future Bond Year as certified in writing by the Successor Agency to the Trustee.

"Mayor" means the Mayor of the City or other duly appointed officer of the Successor Agency authorized by the Successor Agency by resolution to perform the functions of the Mayor in the event of the Mayor's absence or disqualification.

"Moody's" means Moody's Investors Service and its successors.

"Notice of Insufficiency" means the notice described in Health & Safety Code Section 34183(b).

"Outstanding" when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds except:

- (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds paid or deemed to have been paid within the meaning of the Indenture; and
- (c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the Successor Agency pursuant to the Indenture.

"Oversight Board" means the Oversight Board of the Eureka Successor Agency, duly constituted from time to time pursuant to Section 34179 of the California Health and Safety Code.

"Owner" or "Bondowner" means, with respect to any Bond, the person in whose name the ownership of such Bond shall be registered on the Registration Books.

"Parity Debt" means the 2017 Bonds, and any loan, bonds (including any bonds issued pursuant to a Supplemental Indenture), notes, advances or indebtedness payable from Tax Revenues on a parity with the 2017 Bonds, as authorized by the provisions of the Indenture.

"Parity Debt Instrument" means any resolution, indenture of trust, loan agreement, trust agreement or other instrument authorizing the issuance of any Parity Debt, including, without limitation, a Supplemental Indenture authorized by the Indenture.

"Pass-Through Payments" means all payments required to be paid in each Fiscal Year to any local government agency within the Project Area pursuant to the Law.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

- (a) Federal Securities;
- (b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) obligations of the Federal Financing Bank; (iii) debentures of the Federal Housing Administration; (iv) participation certificates of the General Services Administration; (v)

guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vi) guaranteed Title XI financings of the U.S. Maritime Administration; (vii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development;

(c) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of the Federal National Mortgage Association (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal); (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations (but only the interest component of stripped obligations) of the Resolution Funding Corporation; and (vi) consolidated system wide bonds and notes of the Farm Credit System;

(d) money market funds (including funds of the Trustee or its affiliates) registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of "AAAm-G", "AAAm", or "AAm", and, if rated by Moody's, rated Aaa, Aa1 or Aa2, including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services;

(e) certificates of deposit secured at all times by collateral described in (a) or (b) above, which have a maturity of one year or less, which are issued by commercial banks, including affiliates of the Trustee, savings and loan associations or mutual savings banks, and such collateral must be held by a third party, and the Trustee on behalf of the Bondowners must have a perfected first security interest in such collateral;

(f) certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation;

(g) investment agreements, including guaranteed investment contracts, which, are general obligations of an entity whose long term debt obligations, or claims paying ability, respectively, which are rated in one of the two highest rating categories by Moody's or S&P or which are collateralized so as to be rated in one of the two highest rating categories by Moody's or S&P;

(h) commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P;

(i) bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies;

(j) deposit accounts, money market deposits or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P;

(k) repurchase agreements for thirty (30) days or less (more than thirty (30) days which provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date, which satisfy the following criteria:

(i) repurchase agreements must be between the Trustee and (A) a primary dealer on the Federal Reserve reporting dealer list which falls under the jurisdiction of the Securities Investors Protection Corporation and which are rated "A" or better by Moody's and S&P, or (B) a bank rated "A" or better by Moody's and S&P;

(ii) the written repurchase agreement contract must include the following: (A) securities acceptable for transfer, which may be direct U.S. government obligations, or federal agency obligations backed by the full faith and credit of the U.S. government; (B) the term of the repurchase agreement may be up to 30 days; (C) the collateral must be delivered to the Trustee or a third party acting as agent for the Trustee simultaneous with payment (perfection by possession of certificated securities); (D) the Trustee must have a perfected first priority security interest in the collateral; (E) the collateral must be free and clear of third-party liens and, in the case of a broker which falls under the jurisdiction of the Securities Investors Protection Corporation, are not subject to a repurchase agreement or a reverse repurchase agreement; (F) failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate the collateral; (G) the securities must be valued weekly, marked-to-market at current market price plus accrued interest and the value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest (unless the securities used as collateral are obligations of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, in which case the collateral must be equal to 105% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest). If the value of securities held as collateral falls below 104% of the value of the cash transferred by the Trustee, then additional cash and/or acceptable securities must be transferred; and

(iii) a legal opinion must be delivered to the Trustee to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds;

(l) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P; provided, however, pre-refunded municipal bonds rated by S&P only (i.e., no Moody's rating) are acceptable if such pre-refunded municipal bonds were pre-refunded with cash, direct U.S. or U.S. guaranteed obligations or AAA rated pre-refunded municipal bonds; and

(m) the Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to deposit and withdraw from such investment directly in its own name.

"Principal Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Principal Corporate Trust Office" means such corporate trust office of the Trustee as may be designated from time to time by written notice from the Trustee to the Successor Agency.

"Project Area" has the meaning given that term in the Recitals of the Indenture.

"Qualified Reserve Account Credit Instrument" means (i) the 2017 Reserve Policy and (ii) an irrevocable standby or direct-pay letter of credit, insurance policy, or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) S&P or Moody's have assigned a long-term credit rating to such bank or insurance company of "A" (without regard to modifier) or higher; (b) such letter of credit, insurance policy or surety bond has a term of at least 12 months; (c) such letter of credit, insurance policy or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized pursuant to the terms of such letter of credit, insurance policy or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture.

"Recognized Obligation Payment Schedule" means the schedule by that name prepared before each fiscal period in accordance with the requirements of Section 34177(l) of the California Health and Safety Code.

"Redevelopment Obligation Retirement Fund" means the fund established and held by the Successor Agency pursuant to Section 34170.5(a) of the California Health and Safety Code.

"Redevelopment Property Tax Trust Fund" means the fund established pursuant to Section 34170.5(b) of the California Health and Safety Code and administered by the Humboldt County Auditor–Controller.

"Registration Books" means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

"Report" means a document in writing signed by an Independent Redevelopment Consultant and including:

(a) a statement that the person or firm making or giving such Report has read the pertinent provisions of the Indenture to which such Report relates;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the Report is based; and

(c) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said consultant to express an informed opinion with respect to the subject matter referred to in the Report.

"Reserve Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Reserve Requirement" means, subject to the Indenture, with respect to the 2017 Series A Taxable Bonds, the 2017 Series B Bonds, and each series of Parity Debt issued in the form of Bonds, the lesser of

(i) 125% of the average Annual Debt Service with respect to that series of the Bonds,

(ii) Maximum Annual Debt Service with respect to that series of the Bonds, or

(iii) with respect to an individual series of Bonds, 10% of the original principal amount of a series of Bonds (or, if such series of Bonds has more than a de minimis amount of original issue discount or premium, 10% of the issue price of such series of Bonds);

provided, that the Reserve Requirement may be determined on a combined or individual basis for two or more series of Bonds, as determined by the Successor Agency and that in no event shall the Successor Agency, in connection with the issuance of Parity Debt in the form of Bonds pursuant to a Supplemental Indenture be obligated to deposit an amount in the Reserve Account which is in excess of the amount permitted by the applicable provisions of the Code to be so deposited from the proceeds of tax-exempt bonds without having to restrict the yield of any investment purchased with any portion of such deposit and, in the event the amount of any such deposit into the Reserve Account is so limited, the Reserve Requirement shall, in connection with the issuance of such Parity Debt issued in the form of Bonds, be increased only by the amount of such deposit as permitted by the Code; and, provided further that the Successor Agency may meet all or a portion of the Reserve Requirement by depositing a Qualified Reserve Account Credit Instrument meeting the requirements of the Indenture.

"S&P" means S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC and its successors.

"Semiannual Period" means (a) each six-month period beginning on January 1 of any calendar year and ending on June 30 of such calendar year, and (b) each six-month period beginning on July 1 of any calendar year and ending on December 31 of such calendar year.

"State" means the State of California.

"Subordinate Debt" means any bonds, notes, loans, advances or other indebtedness issued or incurred by the Successor Agency that are either: (a) payable from, but not secured by a pledge of or lien upon, the Tax Revenues; or (b) secured by a pledge of or lien upon the Tax Revenues that is subordinate to (i) the pledge of and lien upon the Tax Revenues under the Indenture for the security of the Bonds, and (ii) the Successor Agency's obligation to reimburse the provider of a bond insurance policy, surety bond or similar instrument relating to any Parity Debt or Subordinate Debt.

"Successor Agency" means the Eureka Successor Agency, a public entity duly organized and existing under the Law.

"Supplemental Indenture" means any resolution, agreement or other instrument which has been duly adopted or entered into by the Successor Agency, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

"Tax Revenues" means, for each Fiscal Year, the taxes eligible for allocation to the Successor Agency with respect to the Project Area pursuant to the Law (exclusive of (a) amounts, if any, received pursuant to Chapter 1.5 of Part 1 of Division 4 of Title 2 (commencing with section 16110) of the Government Code, and (b) any Pass-Through Payments but only to the extent that such payments are not subordinated to the payment of debt service on the Bonds) together with all payments, reimbursements and subventions, if any, specifically attributable to ad valorem taxes lost by reason of tax exemptions and tax rate limitations.

"Term Bonds" means any Bonds subject to mandatory sinking fund redemption as set forth in a Supplemental Indenture.

"Trustee" means U.S. Bank National Association, as trustee under the Indenture, or any successor thereto appointed as trustee thereunder in accordance with the provisions of the Indenture.

"2003 Bonds" means the \$15,250,000 original principal amount Eureka Public Financing Authority 2003 Tax Allocation Revenue Refunding Bonds (Eureka Redevelopment Projects).

"2003 Trustee" means U.S. Bank National Association, as trustee for the 2003 Bonds.

"2010 Escrow Agent" means The Bank of New York Mellon Trust Company, N.A., as escrow agent under the 2010 Escrow Agreement.

"2010 Escrow Agreement" means that Escrow Deposit and Trust Agreement (2010 Reimbursement Obligations) dated as of April 1, 2017 among the Successor Agency, the Authority and the 2010 Escrow Agent.

"2010A Bonds" means the Authority's \$4,960,000 initial principal amount of 2010 Lease Revenue Bonds, Taxable Series A.

"2010B Bonds" means the Authority's \$4,235,000 initial principal amount of 2010 Lease Revenue Bonds, Series B.

"2017 Bonds" means, collectively, the 2017 Series A Taxable Bonds and the 2017 Series B Bonds.

"2017 Costs of Issuance Account" means the account by that name within the Bond Proceeds Fund established and held by the Trustee pursuant to the Indenture.

"2017 Financial Guaranty Agreement" means the Financial Guaranty Agreement dated as of April 18, 2017, by and between the Successor Agency and the 2017 Insurer.

"2017 Insurance Policy" means the Financial Guaranty Insurance Policy issued by the 2017 Insurer guaranteeing the scheduled payment of the principal of and interest on the 2017 Insured Bonds when due as provided in the Indenture.

"2017 Insured Bonds" means the 2017 Series B Bonds maturing on November 1 of the years 2023 through 2036, inclusive.

"2017 Insurer" means National Public Finance Guarantee Corporation, a New York stock insurance company, or any successor thereto or assignee thereof, as the issuer of the 2017 Insurance Policy and the 2017 Reserve Policy.

"2017 Reserve Policy" means the Debt Service Reserve Surety Bond issued by the 2017 Insurer in the amount \$1,537,234.06.

"2017 Series A Taxable Bond" or "2017 Series A Taxable Bonds" means the Eureka Successor Agency 2017 Taxable Tax Allocation Refunding Bonds, Series A.

"2017 Series B Bond" or "2017 Series B Bonds" means the Eureka Successor Agency 2017 Tax Allocation Refunding Bonds, Series B.

"2017A Bond Proceeds Account" means the account by that name within the Bond Proceeds Fund established and held by the Trustee pursuant to the Indenture.

"2017B Bond Proceeds Account" means the account by that name within the Bond Proceeds Fund established and held by the Trustee pursuant to the Indenture.

"Written Request of the Successor Agency" or "Written Certificate of the Successor Agency" means a request or certificate, in writing signed by the Mayor, City Manager or Finance Director of the City or by any other officer of the Successor Agency duly authorized by the Successor Agency for that purpose.

PLEDGE OF TAX REVENUES

Security of Bonds; Equal Security. Pursuant to Section 34177.5(g) of the Dissolution Act, except as provided in the Indenture, the 2017 Series A Taxable Bonds and the 2017 Series B Bonds and any other Parity Debt shall be equally secured by a pledge of, security interest in and lien on all of the Tax Revenues, including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund and all of the moneys in the Debt Service Fund, the Interest Account, the Principal Account and the Reserve Account (as applicable), without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Tax Revenues and such moneys, no funds or properties of the Successor Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest on the 2017 Series A Taxable Bonds and the 2017 Series B Bonds.

In consideration of the acceptance of the Bonds by those who shall hold the same from time to time, the Indenture shall be deemed to be and shall constitute a contract between the Successor Agency and the Owners from time to time of the Bonds, and the covenants and agreements in the Indenture set forth to be performed on behalf of the Successor Agency shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution and delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or in the Indenture.

ESTABLISHMENT OF FUNDS AND ACCOUNTS; FLOW OF FUNDS

Bond Proceeds Fund. There is established in the Indenture a separate fund to be known as the "Bond Proceeds Fund", which shall be held by the Trustee in trust, and within such Fund there shall be established a separate "2017A Bond Proceeds Account", a separate "2017B Bond Proceeds Account" and a separate "2017 Costs of Issuance Account."

On the Closing Date with respect to the 2017 Series A Taxable Bonds, the Trustee will make the following transfers with respect to the 2017A Bond Proceeds Account:

(i) the Trustee shall transfer \$1,162,646.79 to the I-Bank Escrow Agent for deposit into the Escrow Fund established under the I-Bank Escrow Agreement, for the purpose of providing for application to the defeasance and prepayment of the I-Bank Loan Agreement,

(ii) the Trust shall transfer \$4,609,540.78 to the 2010 Escrow Agent for deposit into the Taxable Escrow Subaccount of the Escrow Fund established under the Escrow Agreement, for the purpose of providing for application to the payment and redemption of the 2010A Bonds and that portion of the 2010 Reimbursement Obligation relating to the 2010A Bonds.

On the Closing Date with respect to the 2017 Series B Bonds, the Trustee will make the following transfers with respect to the 2017B Bond Proceeds Account:

(i) the Trustee shall transfer \$9,825,000 to the 2003 Trustee for the purpose of providing for the prepayment of the Loan Agreement and the resulting redemption of the 2003 Bonds pursuant to the Irrevocable Refunding Instructions; and

(ii) the Trustee shall transfer \$3,985,927.21 to the 2010 Escrow Agent for deposit into the Tax Exempt Escrow Subaccount of the Escrow Fund established under the 2010 Escrow Agreement, for the purpose of providing for application to the payment and redemption of the 2010B Bonds and that portion of the 2010 Reimbursement Obligation relating to the 2010B Bonds.

The moneys in the 2017 Costs of Issuance Account shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance related to the 2017 Bonds upon submission of a Written Request of the Successor Agency stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On the date which is six (6) months following the Closing Date, or upon the earlier Written Request of the Successor Agency, all amounts (if any) remaining in the 2017 Costs of Issuance Account shall be withdrawn therefrom by the Trustee and transferred to the Interest Account of the Debt Service Fund to be used to pay debt service on the 2017, with 29.44% of such amount used to pay debt service on the 2017 Series A Taxable Bonds, and 70.56% of such amount used to pay debt service on the 2017 Series B Bonds, and the Costs of Issuance Fund will be closed.

Redevelopment Obligation Retirement Fund; Deposit of Tax Revenues The Successor Agency has established the Redevelopment Obligation Retirement Fund pursuant to Section 34170.5(a) of the Dissolution Act and, so long as any of the Bonds are Outstanding or any amounts are due to the 2017 Insurer with respect to the 2017 Insurance Policy or the 2017 Reserve Policy or any other Insurer with respect to any other insurance policy of financial guaranty issued by such other Insurer, the Successor Agency shall continue to hold and maintain such fund as a separate fund in its treasury (which shall be a separate account from other accounts of the Successor Agency and the City into which no other moneys shall be deposited). The Successor Agency shall deposit all of the Tax Revenues received with respect to any Semiannual Period into the Redevelopment Obligation Retirement Fund promptly upon receipt thereof by the Successor Agency. The Successor Agency shall, within 5 days of the receipt thereof, transfer to the Trustee for deposit in the Debt Service Fund all such Tax Revenues as are required to pay debt service on the Bonds in accordance with the terms of the Indenture or to replenish any reserve account or fund established with respect to Parity Debt.

All Tax Revenues received by the Successor Agency with respect to a Bond Year in excess of the amount required to pay Annual Debt Service on the Bonds and any other Parity Debt, and except as may be provided to the contrary in any Parity Debt Instrument, shall be released from the pledge and lien under the Indenture and shall be applied in accordance with the Law, including but not limited to the payment of any amounts due and owing to the United States of America pursuant to the Indenture. Prior to the payment in full of the principal of and interest and premium, if any, on the Bonds and the payment in full of all other amounts payable under the Indenture and under any Supplemental Indentures, the Successor Agency shall not have any beneficial right or interest in the moneys on deposit in the Redevelopment Obligation Retirement Fund, except as may be provided in the Indenture and in any Supplemental Indenture.

Deposit of Amounts by Trustee. There is established in the Indenture a trust fund to be known as the Debt Service Fund, which shall be held by the Trustee under the Indenture in trust. Concurrently with transfers with respect to Parity Debt pursuant to Parity Debt Instruments, moneys in the Redevelopment Obligation Retirement Fund shall be transferred by the Successor Agency to the Trustee in the following amounts, at the following times, and deposited by the Trustee in the following respective special accounts, which are in the Indenture established in the Debt Service Fund, and in the following order of priority:

Interest Account. Within five (5) Business Days of its receipt of moneys in the Recognized Obligation Retirement Fund, the Successor Agency shall withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee, for deposit in the Interest Account an amount which when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on the next Interest Payment Date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable.

Principal Account. Within five (5) Business Days of its receipt of moneys in the Recognized Obligation Retirement Fund, the Successor Agency shall withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then contained in the Principal Account, will be equal to the principal becoming due and payable on the Outstanding Bonds, including the aggregate principal amount of the Term Bonds required to be redeemed pursuant to a Supplemental Indenture, on the next November 1. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next November 1 on all of the Outstanding Bonds. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds, including the aggregate principal amount of the Term Bonds required to be redeemed pursuant to a Supplemental Indenture, as it shall become due and payable.

Redemption Account. On or before the Business Day preceding any date on which Bonds are to be redeemed pursuant to the Indenture, the Trustee shall withdraw from the Debt Service Fund any amount transferred by the Successor Agency pursuant to the Indenture for deposit in the Redemption Account, such amount being the amount required to pay the principal of and premium, if any, on the Bonds to be redeemed on such date pursuant to the Indenture and similar provisions in one or more Supplemental

Indentures. All moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Bonds to be redeemed pursuant to the Indenture and similar provisions in one or more Supplemental Indentures on the date set for such redemption. Interest due on Bonds to be redeemed on the date set for redemption shall, if applicable, be paid from funds available therefor in the Interest Account.

Reserve Account. The Trustee shall establish a “2017 Reserve Subaccount” within the Reserve Account for the 2017 Series Bonds, and the determination of the Reserve Requirement will be calculated for the 2017 Series A Taxable Bonds and the 2017 Series B Bonds on a combined basis.

The Reserve Requirement for the 2017 Bonds shall be satisfied by the delivery of the 2017 Reserve Policy by the 2017 Insurer to the Trustee on the Closing Date, and the Trustee shall credit the 2017 Reserve Policy to the 2017 Reserve Subaccount. The Trustee shall draw on the 2017 Reserve Policy in accordance with its terms and conditions and the terms of the Indenture in order to pay debt service on the 2017 Bonds. Notwithstanding anything in the Indenture to the contrary, the Successor Agency will have no obligation to replace the 2017 Reserve Policy or to fund the Reserve Account with cash if, at any time that the 2017 Series A Taxable Bonds or the 2017 Series B Bonds are Outstanding, amounts are not available under the 2017 Reserve Policy, other than in connection with the replenishment of a draw on the 2017 Reserve Policy.

The amounts available under the 2017 Reserve Policy shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account in such order of priority, in the event of any deficiency at any time in any of such accounts with respect to the payment of debt service on the 2017 Bonds.

The Trustee shall comply with all documentation relating to the 2017 Reserve Policy as shall be required to maintain the 2017 Reserve Policy in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under the Indenture.

Except as provided above, in the event that the amount on deposit in the Reserve Account or any subaccount therein at any time becomes less than the Reserve Requirement, the Trustee shall promptly notify the Successor Agency of such fact. Promptly upon receipt of any such notice, the Successor Agency shall transfer to the Trustee an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. If there shall then not be sufficient Tax Revenues to transfer an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account, the Successor Agency shall be obligated to continue making transfers as Tax Revenues become available in the Debt Service Fund until there is an amount sufficient to maintain the Reserve Requirement on deposit in the Reserve Account. No such transfer and deposit need be made to the Reserve Account so long as there shall be on deposit therein a sum at least equal to the Reserve Requirement. All money in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account in such order of priority, in the event of any deficiency at any time in any of such accounts, or for the retirement or defeasance of the Bonds then Outstanding (as may be permitted in the Indenture), except that so long as the Successor Agency is not in default under the

Indenture, any amount in the Reserve Account in excess of the Reserve Requirement shall be withdrawn from the Reserve Account semiannually on or before the tenth (10th) Business Day preceding each May 1 and November 1, and the date of redemption or defeasance of any Bonds, by the Trustee and deposited in the Interest Account or, in the case of the redemption or defeasance of Bonds, also in the Principal Account or an escrow account established for the defeasance of any of the Bonds. All amounts in the Reserve Account on the Business Day preceding the final Interest Payment Date shall be withdrawn from the Reserve Account and shall be transferred either (i) to the Interest Account and the Principal Account, in such order, to the extent required to make the deposits then required to be made pursuant to the Indenture or, (ii) if the Successor Agency shall have caused to be transferred to the Trustee an amount sufficient to make the deposits required by the Indenture, then to the Successor Agency.

If at any time any portion of the Reserve Requirement is satisfied with cash or Permitted Investments that meet the requirements of the Indenture, the Successor Agency shall have the right at any time to direct the Trustee to release funds from the Reserve Account, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the 2017 Series B Bonds or any other Bonds the interest on which is excluded from gross income of the owners thereof for federal income tax purposes to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, and upon delivery by the Successor Agency to the Trustee of written calculation of the amount permitted to be released from the Reserve Account (upon which calculation the Trustee may conclusively rely), the Trustee shall transfer such funds from the Reserve Account to the Successor Agency to be used for any lawful purpose that does not adversely affect the exclusion from gross income for federal income tax purposes of interest on any of the Bonds. The Trustee shall comply with all documentation relating to a Qualified Reserve Account Credit Instrument as shall be required to maintain such Qualified Reserve Account Credit Instrument in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under the Indenture. Upon the expiration of any Qualified Reserve Account Credit Instrument, the Successor Agency shall either (i) replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from the first available Pledged Tax Revenues.

The Successor Agency shall also have the option to establish one or more additional separate subaccounts in the Reserve Account that secures only a particular series or series of Bonds issued as Parity Debt, and the calculation of the Reserve Requirement with respect to all other Bonds shall exclude the debt service on such issue of Bonds. Additionally, Bonds secured by a Qualified Reserve Account Credit Instrument or a separate subaccount within the Reserve Account shall not have access to any other amounts on deposit in the Reserve Account except as expressly provided in the Indenture or in any applicable Supplemental Indenture. Additionally, the Reserve Account may be maintained in the form of one combined Reserve Account or in the form of one or more separate sub-accounts which are established for the purpose of holding the proceeds of separate series of Bonds in conformity with applicable provisions of the Code to the extent directed by the Successor Agency in writing to the Trustee.

If the Reserve Requirement with respect to a series of Bonds is being maintained partially in cash and partially with a Qualified Reserve Account Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture. If the Reserve Requirement with respect to a series of Bonds is being maintained with two or more Qualified Reserve Account Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to the Indenture shall be pro-rata with respect to each such instrument.

Prior to drawing on the Reserve Account in order to make a payment of debt service on the Bonds, the Trustee shall notify the Successor Agency.

Claims Upon the 2017 Insurance Policy; Rights of the 2017 Insurer. So long as the 2017 Insurance Policy shall be in full force and effect and the 2017 Insurer is not in payment default thereunder, or any amounts are owed to the 2017 Insurer in connection therewith, and notwithstanding anything to the contrary set forth elsewhere in the Indenture, the Successor Agency and the Trustee will comply with the following provisions:

(a) In the event that on the second business day prior to the payment date on the 2017 Insured Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the 2017 Insured Bonds due on the second following business day, the Trustee shall immediately notify the 2017 Insurer or its designee on the same business day by telephone and email, confirmed in writing by registered or certified mail, of the amount of the deficiency.

(b) If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the 2017 Insurer or its designee.

(c) In addition, if the Trustee has notice that any holder of the 2017 Insured Bonds (the "Bondholder") has been required to disgorge payments of principal or interest on the 2017 Insured Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the 2017 Insurer or its designee of such fact by telephone, confirmed in writing by registered or certified mail.

(d) The Trustee is irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Owners as follows:

(i) If and to the extent there is a deficiency in amounts required to pay interest on the 2017 Insured Bonds, the Trustee shall (a) execute and deliver to U.S. Bank Trust National Association, or its successors under the 2017 Insurance Policy (the "Insurance Trustee"), in form satisfactory to the Insurance Trustee, an instrument appointing the 2017 Insurer as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to the 2017 Insurer of the claims for interest to which such deficiency relates and which are paid by the 2017 Insurer, (b) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the 2017 Insurance Policy payment from the Insurance Trustee with respect to the claims for interest so assigned, and (c) disburse the same to such respective Owners; and

(ii) If and to the extent of a deficiency in amounts required to pay principal of the 2017 Insured Bonds, the Trustee shall (a) execute and deliver to the Insurance Trustee in form satisfactory to the Insurance Trustee an instrument appointing the 2017 Insurer as agent for such Owners in any legal proceeding relating to the payment of such principal and an assignment to the 2017 Insurer of any of 2017 Insured Bonds surrendered to the Insurance Trustee of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Trustee is received), (b) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the 2017 Insurance Policy payment therefor from the Insurance Trustee, and (c) disburse the same to such Owners.

(e) Payments with respect to claims for interest on and principal of 2017 Insured Bonds disbursed by the Trustee from proceeds of the 2017 Insurance Policy shall not be considered to discharge the obligation of the Successor Agency with respect to such 2017 Bonds, and the 2017 Insurer shall become the owner of such unpaid 2017 Insured Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions as described above or otherwise. The 2017 Insurance Policy may be drawn upon only to pay debt service on the 2017 Insured Bonds.

(f) Irrespective of whether any such assignment is executed and delivered, the Successor Agency and the Trustee agree for the benefit of the 2017 Insurer that:

(i) They recognize that to the extent the 2017 Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of principal of or interest on the 2017 Insured Bonds, the 2017 Insurer will be subrogated to the rights of such Owners to take all actions and enforce all rights of such Owners and to receive the amount of such principal and interest from the Successor Agency, with interest thereon as provided and solely from the sources stated in the Indenture and the 2017 Insured Bonds; and

(ii) They will accordingly pay to the 2017 Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the 2017 Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Indenture and the 2017 Insured Bonds, but only from the sources and in the manner provided herein for the payment of principal of and interest on the 2017 Insured Bonds to Owners, and will otherwise treat the 2017 Insurer as the owner of such rights to the amount of such principal and interest.

(g) With respect to any amendment for which Bondholder consent is a prerequisite, the 2017 Insurer's consent is also required and must be obtained.

(h) The 2017 Insurer shall receive copies of all notices required to be delivered to Owners and any notices of Material Events, as defined by SEC Rule 15c2-12, as amended. All notices required to be given to the 2017 Insurer shall be in writing and shall be sent by registered or certified mail addressed to National Public Finance Guarantee Corporation as more fully described in the Indenture.

(i) With respect to any advance refunding of the 2017 Insured Bonds, the Successor Agency agrees (i) make all applicable notice filings pursuant to the United States Securities Commissioner's Rule 15c2-12; (ii) to provide the 2017 Insurer with verification by an

independent firm acceptable to the 2017 Insurer of the sufficiency of the escrow to timely retire the refunded bonds; and (iii) if such advance refunding is intended to discharge or defease the 2017 Insured Bonds under the Indenture, to provide the 2017 Insurer with an opinion of counsel stating that the 2017 Insured Bonds have been legally defeased and that the escrow agreement establishing such defeasance operates to legally defease the 2017 Insured Bonds within the meaning of the Indenture.

(j) Permitted Investments for funds held under the Indenture are limited to the following:

(i) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(ii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- (1) U.S. Export-Import Bank (Eximbank): Direct obligations or fully guaranteed certificates of beneficial ownership
- (2) Federal Financing Bank
- (3) Federal Housing Administration Debentures (FHA)
- (4) General Services Administration
 - i. Participation certificates
- (5) General Services Administration
 - i. GNMA - guaranteed mortgage-backed bonds
 - ii. GNMA - guaranteed pass-through obligations
 - iii. not acceptable for certain cash-flow sensitive issues
- (6) Bonds or notes issued by any state or municipality whose underlying ratings from Moody's and S&P are in the highest rating categories assigned by such agencies.
 - i. Project Notes
 - ii. Local Authority Bonds
 - iii. New Communities Debentures - U.S. government guaranteed debentures
 - iv. U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

(iii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- (1) Federal Home Loan Bank System
 - Senior debt obligations
- (2) Resolution Funding Corp. (REFCORP) obligations

(3) Farm Credit System

Consolidated system wide bonds and notes

(iv) Certificates of deposit secured at all times by collateral described in (i) and/or (ii) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

(v) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

(vi) Bonds or notes issued by any state or municipality whose underlying ratings from Moody's and S&P are in the highest rating categories assigned by such agencies.

(vii) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of Prime - 1 or A3 or better by Moody's and A-1 or A or better by S&P.

(viii) Repurchase Agreements for 30 days or less, subject to the following criteria:

(1) Repos must be between the municipal entity and a dealer bank or securities firm

(A) Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor's Corporation and Moody's Investor Services, or

(B) Banks rated "A" or above by Standard & Poor's Corporation and Moody's Investor Services.

(k) Permissible Investments for Escrowed Funds must be limited to the following:

(i) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series - "SLGS").

(ii) Direct obligations of the Treasury that have been stripped by the Treasury itself.

(iii) Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.

(iv) Pre-refunded municipal bonds rated Aaa by both Moody's and AAA by S&P

(v) Obligations issued by the following agencies which are backed by the full faith and credit of the United States:

(1) U.S. Export-Import Bank (Eximbank): Direct obligations or fully guaranteed certificates of beneficial ownership

(2) Federal Financing Bank

(3) General Services Administration: Participation certificates

(4) U.S. Department of Housing and Urban Development (HUD):

i. Project Notes

ii. Local Authority Bonds

iii. New Communities Debentures – U.S. government guaranteed debentures

iv. U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

(l) The Successor Agency agrees that the 2017 Insurer is explicitly recognized as being a third party beneficiary under the Indenture with the power to enforce any right, remedy, or claim conferred, given or granted under the Indenture.

(m) The Successor Agency agrees to reimburse the 2017 Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorneys' fees and expenses, incurred by the 2017 Insurer in connection with the enforcement by the 2017 Insurer of the 2017 Insured Bonds, or the preservation or defense of any rights of the 2017 Insurer, under the Indenture and any other document executed in connection with the issuance of the 2017 Insured Bonds. The Successor Agency shall take all actions required by the Dissolution Act to ensure that all amounts due to the 2017 Insurer with respect to the 2017 Insurance Policy and 2017 Reserve Policy are paid to the 2017 Insurer when due, including the submission of Recognized Obligation Payment Schedules providing for such amounts.

Provisions Relating to the 2017 Reserve Policy. Notwithstanding anything to the contrary set forth in the Indenture, and so long as the 2017 Reserve Policy is in full force and effect and the 2017 Insurer is not in payment default thereunder, the following provisions will govern:

(a) The Trustee shall make a Demand for Payment (as such term is defined in the 2017 Reserve Policy) at least three days prior to the date on which funds are required. Amounts drawn on the 2017 Reserve Policy may be used only to pay debt service on the 2017 Bonds.

(b) The Successor Agency may not redeem any of the 2017 Bonds so long as any amounts are due to the 2017 Insurer pursuant to the 2017 Financial Guaranty Agreement.

(c) The Indenture may not be discharged until all amounts owed to the 2017 Insurer under the 2017 Financial Guaranty Agreement have been paid.

Deposit and Investment of Moneys in Funds. Moneys in the Debt Service Fund, the Interest Account and the Principal Account and the 2017 Costs of Issuance Account shall be invested by the Trustee in Permitted Investments as directed by the Successor Agency in the Written Request of the Successor Agency filed with the Trustee at least two (2) Business Days in advance of the making of such investments. In the absence of any such Written Request of the Successor Agency, the Trustee shall invest any such moneys in Permitted Investments described in clause (d) of the definition thereof, which by their terms mature prior to the date on which such moneys are required to be paid out under the Indenture. The Trustee shall be entitled to rely conclusively upon the written instructions of the Successor Agency directing investments in Permitted Investments as to the fact that each such investment is permitted by the laws of the State, and shall not be required to make further investigation with respect thereto. Moneys in the Redevelopment Obligation Retirement Fund may be invested by the Successor Agency in any obligations in which the Successor Agency is legally authorized to invest its funds. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account. All interest or gain derived from the investment of amounts in any of the funds or accounts held by the Trustee under the Indenture shall be deposited in the Interest Account. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made at the direction of the Successor Agency or otherwise made pursuant to the Indenture.

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

All moneys held by the Trustee shall be held in trust, but need not be segregated from other funds unless specifically required by the Indenture. Except as specifically provided in the Indenture, the Trustee shall not be liable to pay interest on any moneys received by it, but shall be liable only to account to the Successor Agency for earnings derived from funds that have been invested.

The Successor Agency covenants that all investments of amounts deposited in any fund or account created by or pursuant to the Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by the Indenture or the Code) at Fair Market Value. The Trustee has no duty in connection with the determination of Fair Market Value other than to follow the investment directions of the Successor Agency in any Written Certificate or Written Request of the Successor Agency.

For purposes of the Indenture, the term "Fair Market Value" shall mean the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, or (iii) the investment is a United States Treasury Security -- State and Local Government Series which is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

COVENANTS OF THE SUCCESSOR AGENCY

No Senior Debt; Issuance of Parity Debt; Subordinate Debt. From and after the Closing Date, the Successor Agency may not issue or incur any bonds, notes, loans, advances or other indebtedness that are secured by a pledge of Tax Revenues or moneys deposited in the Redevelopment Property Tax Trust Fund, on a basis senior or superior to the Bonds.

In addition to the 2017 Bonds, the Successor Agency may issue or incur additional Parity Debt in such principal amount as shall be determined by the Successor Agency for refunding purposes only. The Successor Agency may issue and deliver any such Parity Debt subject to the following specific conditions that are made conditions precedent to the issuance and delivery of such Parity Debt issued under the Indenture:

(a) The additional Parity Debt must have been issued in compliance with the refunding provisions of the Dissolution Act, including, but not limited to, the requirement that the total interest cost to maturity on the Parity Debt plus the principal amount of the Parity Debt may

not exceed the total remaining interest cost to maturity on the bonds or other indebtedness to be refunded plus the remaining principal of the bonds or other indebtedness to be refunded.

(b) Annual debt service on the additional Parity Debt must be lower than annual debt service on the obligations being refunded during every year the obligations would otherwise be outstanding, and the final maturity of such additional Parity Debt may not exceed the maturity of the obligations being refunded;

(c) No event of default under the Indenture or under any Parity Debt Instrument shall have occurred and be continuing;

(d) The interest payment date with respect to such Parity Debt shall be May 1 and November 1, and the principal payment dates with respect to such Parity Debt shall be November 1; and

(e) The Successor Agency shall deliver to the Trustee a Written Certificate of the Successor Agency certifying that the conditions precedent to the issuance of such Parity Debt set forth above in (a) through (d) have been satisfied.

The Successor Agency may issue or incur Subordinate Debt in such principal amount as shall be determined by the Successor Agency. Any Subordinate Debt that is issued as bonds or incurred in the form of a loan may be payable on different dates than the Bonds; provided, however, the Successor Agency shall not use Tax Revenues deposited into the Redevelopment Obligation Retirement Fund to pay the enforceable obligations of the Successor Agency to pay debt service on any Subordinate Debt until such time as the Successor Agency has transferred to the Trustee sufficient Tax Revenues to pay debt service on the 2017 Bonds and any Parity Debt for the applicable Bond Year.

Extension of Payment. The Successor Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any Bond or claim for interest on any of the Bonds and will not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding the Bonds or claims for interest in any other manner. In case the maturity of any such Bond or claim for interest shall be extended or funded, whether or not with the consent of the Successor Agency, such Bond or claim for interest so extended or funded shall not be entitled, in case of default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Payment of Claims. The Successor Agency shall promptly pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Successor Agency or upon the Tax Revenues or other amounts pledged to the payment of the Bonds, or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Bonds. Nothing contained in the Indenture shall require the Successor Agency to make any such payment so long as the Successor Agency in good faith shall contest the validity of said claims.

Books and Accounts; Financial Statements. The Successor Agency shall at all times keep, or cause to be kept, proper and current books and accounts in which accurate entries are made of the financial transactions and records of the Successor Agency, which shall be subject to inspection by the Owners of not less than 10% of the Bonds at all times during normal business hours and upon reasonable notice by such Owners to the Successor Agency. Within

one hundred eighty (180) days after the close of each Fiscal Year an Independent Certified Public Accountant shall prepare an audit of the financial transactions and records of the Successor Agency for such Fiscal Year. To the extent permitted by law, such audit may be included within the annual audited financial statements of the City. The Successor Agency shall furnish a copy of such financial statements to any Owner upon reasonable request of such Owner and at the expense of such Owner. The Trustee shall have no duty to review such audits.

Protection of Security and Rights of Owners. The Successor Agency will preserve and protect the security of the Bonds and the rights of the Owners. From and after the Closing Date, the Bonds shall be incontestable by the Successor Agency.

Payments of Taxes and Other Charges. Except as otherwise provided in the Indenture, the Successor Agency will pay and discharge, or cause to be paid and discharged, all taxes, service charges, assessments and other governmental charges which may in the Indenture be lawfully imposed upon the Successor Agency or the properties then owned by the Successor Agency in the Project Areas, or upon the revenues therefrom when the same shall become due. Nothing contained in the Indenture shall require the Successor Agency to make any such payment so long as the Successor Agency in good faith shall contest the validity of said taxes, assessments or charges. The Successor Agency will duly observe and conform with all valid requirements of any governmental authority relative to the Project Areas or any part thereof.

Compliance with the Law; Recognized Obligation Payment Schedules; Notice of Insufficiency. The Successor Agency shall comply with all of the requirements of the Law. Pursuant to Section 34177 of the Law, not later than each date a Recognized Obligation Payment Schedule is due, the Successor Agency shall submit to the Oversight Board and the State Department of Finance, a Recognized Obligation Payment Schedule. The Successor Agency shall take all actions required under the Law to include in the Recognized Obligation Payment Schedule for each Semiannual Period debt service on the Bonds and all amounts due and owing to any Insurer under the Indenture or under an insurance or surety bond agreement, including the 2017 Insurance Policy and the 2017 Reserve Policy, so as to enable the Humboldt County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund for deposit in the Redevelopment Obligation Retirement Fund on each January 2 and June 1, as applicable, amounts required to enable the Successor Agency to pay timely principal of, and interest on, the Bonds on a timely basis and to pay any amounts owed to any Insurer.

In order to ensure that amounts are available for the Trustee to pay debt service on all Outstanding Bonds on a timely basis, the Successor Agency shall apply amounts received on the June 1, 2017 and the January 2, 2018 Recognized Obligation Payment Schedule distribution dates to pay debt service on the 2017 Bonds on November 1, 2017 and May 1, 2018. Thereafter, the Successor Agency shall submit to the State Department of Finance and the Humboldt County Auditor-Controller, no later than February 1 of each year, an Oversight Board-approved Recognized Obligation Payment Schedule to the State Department of Finance and to the Humboldt County Auditor-Controller that shall include (i) all of the debt service due on all Outstanding Bonds on the next succeeding November 1 (which amount is anticipated to equal interest due on such November 1 plus 50% of principal due on such November 1), which shall be distributed to the Successor Agency on each June 1 (but only to the extent that there are not other amounts previously reserved therefor), (ii) all of the interest due on the 2017 Bonds on the following May 1, which amounts shall be distributed to the Successor Agency on each January 2, and (iii) 50% of the principal due on the Outstanding Bonds on the November 1 following such January 2, which amounts shall be distributed to the Successor Agency on such January 2.

In the event the provisions set forth in the Dissolution Act as of the Closing Date of the 2017 Bonds that relate to the filing of Recognized Obligation Payment Schedules are amended or modified in any manner, the Successor Agency agrees to take all such actions as are necessary to comply with such amended or modified provisions so as to ensure the timely payment of debt service on the Bonds and, if the timing of distributions of the Redevelopment Property Tax Trust Fund is changed, the receipt of (i) not less than one of half of debt service due during each Bond Year on all Outstanding Bonds prior to May 1 of such Bond Year, and (ii) the remainder of debt service due during such Bond Year on all Outstanding Bonds prior to the next succeeding November 1.

In the event the provisions set forth in the Dissolution Act as of the Closing Date of the 2017 Series A Taxable Bonds and the 2017 Series B Bonds that relate to the filing of Recognized Obligation Payment Schedules are amended or modified in any manner, the Successor Agency agrees to take all such actions as are necessary to comply with such amended or modified provisions so as to ensure the timely payment of debt service on the Bonds and, if the timing of distributions of the Redevelopment Property Tax Trust Fund is changed, the receipt of funds so that the provisions of the Indenture are complied with as fully as possible.

Dissolution Act Invalid; Maintenance of Tax Revenues. In the event that the applicable property tax revenues provisions of the Dissolution Act are determined by a court in a final judicial decision to be invalid and, in place of the invalid provisions, provisions of the Dissolution Act or the equivalent become applicable to the Bonds, the Successor Agency shall comply with all requirements of the Dissolution Act or the equivalent to insure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of Humboldt County and, in the case of amounts payable by the State, appropriate officials of the State and shall apply any such Tax Revenues received by the Successor Agency in the manner set forth in the Indenture. In the event that the applicable property tax revenues provisions of the Dissolution Act are determined by a court in a final judicial decision to be invalid and neither provisions of the Dissolution Act nor the equivalent replace the invalid provisions, then the Successor Agency shall use good faith efforts to insure the allocation and payment to it of the Tax Revenues and, if and to the extent the Tax Revenues are thereafter insufficient for the Successor Agency to satisfy its obligations under the Indenture, an Event of Default shall be deemed to have occurred and the remedies upon an Event of Default contained in the Indenture shall apply.

Further Assurances. The Successor Agency will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in the Indenture.

TAX COVENANTS

The Successor Agency shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the 2017 Series B Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the 2017 Series B Bonds would have caused the 2017 Series B Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. The Successor Agency shall assure that the proceeds of the 2017 Series B Bonds are not so used as to cause the 2017 Series B Bonds to satisfy the private business tests of section 141(b)

of the Code or the private loan financing test of Section 141(c) of the Code. The Successor Agency shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the 2017 Series B Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code. The Successor Agency shall take any and all actions necessary to assure compliance with Section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2017 Series B Bonds. The Successor Agency shall take all actions necessary to assure the exclusion of interest on the 2017 Series B Bonds from the gross income of the Owners of the 2017 Series B Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the 2017 Series B Bonds.

MODIFICATION OR AMENDMENT OF THE INDENTURE

Amendment With And Without Consent of Owners. The Indenture and the rights and obligations of the Successor Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption and, but without the consent of the Owners, to the extent permitted by law and only for any one or more of the following purposes-

(a) to add to the covenants and agreements of the Successor Agency in the Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or powers in the Indenture reserved to or conferred upon the Successor Agency; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the Successor Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not, in the reasonable determination of the Successor Agency, materially adversely affect the interests of the Owners; or

(c) to amend any provision of the Indenture relating to the requirements of or compliance with the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exemption from federal income taxation of interest on any of the Bonds, in the opinion of Bond Counsel; or

(d) to amend the Recognized Obligation Debt Service Payment Schedule set forth in Exhibit B to take into account the redemption of any Bond prior to its maturity; or

(e) to provide for the issuance of Parity Debt pursuant to a Supplemental Indenture, as such issuance is authorized by the Indenture.

Except as set forth in the preceding paragraph, the Indenture and the rights and obligations of the Successor Agency and of the Owners may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consent of any Insurer (but only with respect to any Bonds insured by such Insurer) and the Owners of a majority in aggregate principal amount of the Bonds then Outstanding are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Successor Agency to pay the principal or interest at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of any Insurer the Owner of such Bond, or (b)

reduce the percentage of Bonds required for the written consent to any such amendment or modification. In no event shall any Supplemental Indenture modify any of the rights or obligations of the Trustee without its prior written consent. In no event shall any Supplemental Indenture modify any of the rights or obligations of any Insurer without its prior written consent. In addition, the Trustee shall be entitled to an opinion of counsel concerning the Supplemental Indenture's lack of any material adverse effect on the Owners.

The Successor Agency shall deliver or cause to be delivered a draft of any Supplemental Indenture to S&P, at least 10 days prior to the effective date of such Supplemental Indenture under the Indenture.

Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties thereto and all Owners, as the case may be, shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement or Replacement of Bonds After Amendment. After the effective date of any amendment or modification of the Indenture pursuant to the Indenture, the Successor Agency may, with the prior written consent of any Insurer, determine that any or all of the Bonds shall bear a notation, by endorsement in form approved by the Successor Agency, as to such amendment or modification and in that case upon demand of the Successor Agency the Owners of such Bonds shall present such Bonds for that purpose at the Principal Corporate Trust Office of the Trustee, and thereupon a suitable notation as to such action shall be made on such Bonds. In lieu of such notation, the Successor Agency may determine that new Bonds shall be prepared at the expense of the Successor Agency and executed in exchange for any or all of the Bonds, and in that case, upon demand of the Successor Agency, the Owners of the Bonds shall present such Bonds for exchange at the Trust Office of the Trustee, without cost to such Owners.

Amendment by Mutual Consent. The provisions of the Indenture shall not prevent any Owner from accepting any amendment as to the particular Bond held by such Owner, provided that due notation thereof is made on such Bond and, provided further that written consent to such amendment shall first be obtained from any Insurer.

Trustee's Reliance. The Trustee may conclusively rely, and is protected in relying, upon a Certificate of the Successor Agency and an opinion of Bond Counsel stating that all requirements of the Indenture relating to the amendment or modification of the Indenture have been satisfied and that such amendments or modifications do not materially adversely affect the interests of the Bondowners.

EVENTS OF DEFAULT AND REMEDIES OF OWNERS

Events of Default and Acceleration of Maturities. The following events shall constitute Events of Default under the Indenture:

(a) if default shall be made by the Successor Agency in the due and punctual payment of the principal of or interest on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) if default shall be made by the Successor Agency in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds or any Parity Debt Instrument contained, other than a default described in the preceding clause (a), and such default shall have continued for a period of thirty (30) days following receipt by the Successor Agency of written notice from the Trustee or any Insurer or any Owner (with a copy of said notice delivered to the Trustee and any Insurer) of the occurrence of such default, provided that if in the reasonable opinion of the Successor Agency the failure stated in the notice can be corrected, but not within such 30 day period, such failure will not constitute an event of default if corrective action is instituted by the Successor Agency (with the prior written consent of any Insurer) within such 30 day period and the Successor Agency thereafter diligently and in good faith cures such failure in a reasonable period of time as approved by any Insurer; or

(c) If the Successor Agency files a petition seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction will approve a petition seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will approve a petition, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or, if under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will assume custody or control of the Successor Agency or of the whole or any substantial part of its property.

If an Event of Default has occurred pursuant to the Indenture and is continuing, the Trustee may, or if requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall, (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and (b) the Trustee shall, subject to the provisions of the Indenture, exercise any other remedies available to the Trustee and the Bondowners in law or at equity.

Upon receiving notice or actual knowledge of the occurrence of an Event of Default, the Trustee shall give notice of such Event of Default to the Successor Agency and to any Insurer by telephone promptly confirmed in writing. Such notice shall also state whether the principal of the Bonds shall have been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (c) above the Trustee shall, and with respect to any Event of Default described in clause (b) above the Trustee in its sole discretion may, also give such notice to the Owners by mail, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee shall have declared the Bonds to become due and payable pursuant to the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date).

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Successor Agency shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal and interest (to the extent permitted by law), and the reasonable fees and expenses of the Trustee, (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) and any and all other defaults known to the Trustee (other than in the payment

of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall promptly give written notice of the foregoing to any Insurer and the Owners of all Bonds then Outstanding, and the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Successor Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All of the Tax Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the date of the declaration of acceleration as provided in the Indenture, and all sums thereafter received by the Trustee thereunder, shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in exercising the rights and remedies set forth in the Indenture, including reasonable compensation to its agents, attorneys (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) and counsel and any outstanding fees, expenses of the Trustee; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for principal and interest, with interest on the overdue principal and installments of interest at the net effective rate then borne by the Outstanding Bonds (to the extent that such interest on overdue installments of principal and interest shall have been collected), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal and interest without preference or priority of principal over interest, or interest over principal, or of any installment of interest over any other installment of interest, ratably to the aggregate of such principal and interest.

Third, to the payment of any amounts owed to any Insurer under the Indenture.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; *provided, however*, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Owner's Right to Sue. No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee

and any Insurer written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

The right of any Owner of any Bond to receive payment of the principal of and interest on such Bond as provided in the Indenture, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of the Indenture or any other provision of the Indenture.

Non-Waiver. Nothing in the Indenture or in the Bonds, shall affect or impair the obligation of the Successor Agency, which is absolute and unconditional, to pay from the Tax Revenues and other amounts pledged under the Indenture, the principal of and interest on the Bonds to the respective Owners on the respective Interest Payment Dates, as provided in the Indenture, or affect or impair the right of action, which is also absolute and unconditional, of the Owners or the Trustee to institute suit to enforce such payment by virtue of the contract embodied in the Bonds.

A waiver of any default by any Owner or the Trustee shall not affect any subsequent default or impair any rights or remedies on the subsequent default. No delay or omission of any Owner to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy conferred upon the Owners and the Trustee by the Law or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Owners and the Trustee.

If a suit, action or proceeding to enforce any right or exercise any remedy shall be abandoned or determined adversely to the Owners or the Trustee, the Successor Agency, the Trustee and the Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Actions by Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is appointed (and the successive respective Owners by taking and holding the Bonds shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-

fact, *provided, however*, the Trustee shall have no duty or obligation to exercise any such right or remedy unless it has been indemnified to its satisfaction from any loss, liability or expense (including fees and expenses of its outside counsel and the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel).

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or thereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

DEFEASANCE OF BONDS

If the Successor Agency shall pay and discharge the entire indebtedness on all Bonds or any portion thereof in any one or more of the following ways:

(i) by well and truly paying or causing to be paid the principal of and interest and redemption premium (if any) on all or the applicable portion of Outstanding Bonds, as and when the same become due and payable; or

(ii) by irrevocably depositing with the Trustee in trust or an escrow agent in an irrevocable escrow, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established pursuant to the Indenture, is fully sufficient to pay all or the applicable portion of Outstanding Bonds, including all principal, redemption premium (if any) and interest, or;

(iii) by irrevocably depositing with the Trustee in trust or an escrow agent in an irrevocable escrow, Defeasance Obligations in such amount as an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on all Bonds or the applicable portion thereof (including all principal, redemption premium (if any) and interest) at or before maturity; or

(iv) by purchasing such Bonds prior to maturity and tendering such Bonds to the Trustee for cancellation;

then, at the election of the Successor Agency, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Tax Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Successor Agency under the Indenture shall cease and terminate with respect to all Outstanding Bonds or, if applicable, with respect to that portion of the Bonds which has been paid and discharged, except only (a) the covenants of the Successor Agency under the Indenture with respect to the Code, (b) the obligation of the Trustee to transfer and exchange Bonds thereunder, (c) the obligations of the Successor Agency under the Indenture, and (d) the obligation of the Successor Agency to pay or cause to be paid to the Owners (or any Insurer), from the amounts so deposited with the Trustee, all sums due thereon and to pay the Trustee and any Insurer all fees, expenses and costs of the Trustee and any Insurer. In the event the Successor Agency shall, pursuant to the foregoing provision, pay and discharge any portion or all of the Bonds then Outstanding, the Trustee shall be authorized to take such actions and execute and deliver to the Successor Agency all such instruments as may be necessary or desirable to evidence such discharge,

including, without limitation, selection by lot of Bonds of any maturity of the Bonds that the Successor Agency has determined to pay and discharge in part.

In the case of a defeasance or payment of all of the Bonds Outstanding, any funds thereafter held by the Trustee which are not required for said purpose or for payment of amounts due the Trustee pursuant to the Indenture shall be paid over to the Successor Agency for deposit in the Redevelopment Retirement Obligation Fund.

In connection with the defeasance of Bonds under the Indenture, the Successor Agency shall enter into an escrow agreement with the Trustee or other fiduciary that shall provide that:

- (a) Any substitution of securities shall require the delivery of Verification Report and an opinion of Bond Counsel that such substitution will not adversely affect the exclusion from gross income of the interest on the Bonds for federal income tax purposes.
- (b) If applicable, the Successor Agency will not exercise any prior optional redemption of Bonds secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless (i) the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding bonds (if any), and (ii) as a condition to any such redemption the Successor Agency has delivered to the Trustee a Verification Report as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following any such redemption.

APPENDIX B
FORM OF BOND COUNSEL OPINION

[Closing Date]

Eureka Successor Agency
531 K Street
Eureka, CA 95501

OPINION: \$5,925,000 Eureka Successor Agency 2017 Taxable Tax Allocation Refunding Bonds, Series A, and \$13,080,000 Eureka Successor Agency 2017 Tax Allocation Refunding Bonds, Series B

Members of the Successor Agency:

We have acted as bond counsel in connection with the issuance by the Eureka Successor Agency (the "Successor Agency"), of its \$5,925,000 aggregate principal amount of Eureka Successor Agency 2017 Taxable Tax Allocation Refunding Bonds, Series A (the "Series A Taxable Bonds") and its \$13,080,000 aggregate principal amount of Eureka Successor Agency 2017 Tax Allocation Refunding Bonds, Series B (the "Series B Bonds" and, collectively with the Series A Taxable Bonds, the "Bonds"), pursuant to the provisions of the Community Redevelopment Law (being Part 1 of Division 24 of the California Health and Safety Code) (the "Law"), Part 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code (the "Dissolution Act"), and Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Refunding Law"). The Bonds are being issued under an Indenture of Trust dated as of April 1, 2017, by and between the Successor Agency and U.S. Bank National Association, as trustee (the "Indenture"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Successor Agency contained in the Indenture and in certified proceedings and other certifications of public officials furnished to us, without undertaking to verify such facts by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Successor Agency is a public entity validly existing under the laws of the State of California with the power to enter into the Indenture, perform the agreements on its part contained therein and issue the Bonds.
2. The Indenture has been duly approved by the Successor Agency and constitutes a valid and binding obligation of the Successor Agency enforceable upon the Successor Agency.

3. Pursuant to the Law, the Dissolution Act and the Refunding Law, the Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds, subject to no prior lien granted under the Law.

4. The Bonds have been duly authorized, executed and delivered by the Successor Agency and are valid and binding special obligations of the Successor Agency, payable solely from the sources provided therefor in the Indenture.

5. Interest on the Series B Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinion set forth in the preceding sentence is subject to the condition that the Successor Agency comply with all requirements of the Internal Revenue Code of 1986 which must be satisfied subsequent to the issuance of the Series B Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Successor Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series B Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series B Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Series B Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX C

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix C concerning The Depository Trust Company (“DTC”), New York, New York, and DTC’s book-entry system has been obtained from DTC and the Successor Agency takes no responsibility for the completeness or accuracy thereof. The Successor Agency cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 2017 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2017 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2017 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the 2017 Bonds. The 2017 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 certificate will be issued for each maturity of the 2017 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with 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 Successor Agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has 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. 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 2017 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 2017 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the 2017 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 effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2017 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 2017 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2017 Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 2017 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 2017 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in 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 Successor Agency 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).

Principal and interest payments on the 2017 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 Successor Agency 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, or the Successor Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal and

interest payments with respect to the 2017 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Successor Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2017 Bonds at any time by giving reasonable notice to the Successor Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the 2017 Bonds are required to be printed and delivered.

The Successor Agency may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, representing the 2017 Bonds will be printed and delivered to DTC in accordance with the provisions of the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Successor Agency believes to be reliable, but the Successor Agency takes no responsibility for the accuracy thereof.

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APPENDIX D

FORM OF SUCCESSOR AGENCY CONTINUING DISCLOSURE CERTIFICATE

\$5,925,000
EUREKA SUCCESSOR AGENCY
2017 TAXABLE TAX ALLOCATION
REFUNDING BONDS,
SERIES A

\$13,080,000
EUREKA SUCCESSOR AGENCY
2017 TAX ALLOCATION
REFUNDING BONDS,
SERIES B

This CONTINUING DISCLOSURE CERTIFICATE (this “**Disclosure Certificate**”) is executed and delivered by the EUREKA SUCCESSOR AGENCY (the “**Successor Agency**”) in connection with the execution and delivery of the bonds captioned above (collectively, the “**Bonds**”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2017 (the “**Indenture**”), between the Successor Agency and U.S. Bank National Association, as trustee (the “**Trustee**”).

The Successor Agency covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Successor Agency for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the Successor Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Annual Report Date*” means the date that is nine months after the end of the Successor Agency’s fiscal year (currently March 31 based on the Successor Agency’s fiscal year end of June 30).

“*Dissemination Agent*” means, initially, the HdL Coren & Cone, or any successor Dissemination Agent designated in writing by the Successor Agency and which has filed with the Successor Agency a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the Successor Agency in connection with the issuance of the Bonds.

“*Participating Underwriter*” means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The Successor Agency shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2018, with the report for the 2016-17 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the Successor Agency shall provide the Annual Report to the Dissemination Agent (if other than the Successor Agency). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the Successor Agency) has not received a copy of the Annual Report, the Dissemination Agent shall contact the Successor Agency to determine if the Successor Agency is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Successor Agency may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the Successor Agency’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Successor Agency shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Successor Agency hereunder.

(b) If the Successor Agency does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the Successor Agency in a timely manner shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the Successor Agency, file a report with the Successor Agency certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The Successor Agency’s audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Successor Agency’s audited financial statements are not available by the Annual Report Date, the Annual Report

shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the Successor Agency for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

- (i) Principal amount of Bonds outstanding as of June 30 of the most recently-completed fiscal year.
- (ii) Balance in the Reserve Account and a statement of the Reserve Requirement as of June 30 of the most recently-completed fiscal year.
- (iii) The information in the following tables of the Official Statement for the most recently completed fiscal year: Tables 2, 3, 4 and 5 (except that no projections are required).
- (iv) Information about assessed value appeals pending in the Merged Project Area as of the end of the most recently completed fiscal year, if such information is electronically available from the County.
- (v) If the Teeter Plan was no longer in effect, tax increment revenue, unitary revenue, and supplemental taxes collected for the most recently completed fiscal year.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the Successor Agency shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Successor Agency or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The Successor Agency shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The Successor Agency shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

- (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 security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the Successor Agency or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the Successor Agency or an obligated person, or the sale of all or substantially all of the assets of the Successor Agency or an 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.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The Successor Agency shall, or shall cause the Dissemination Agent (if not the Successor Agency) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The Successor Agency acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The Successor Agency shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the

Successor Agency obtains knowledge of the occurrence of any of these Listed Events, the Successor Agency will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the Successor Agency will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Successor Agency in a proceeding under the United States 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 Successor Agency, 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 Successor Agency.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Successor Agency's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Successor Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The Successor Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the HdL Coren & Cone. Any Dissemination Agent may resign by providing 30 days' written notice to the Successor Agency.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Successor Agency may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Successor Agency to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Successor Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Successor Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Successor Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the Successor Agency fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Successor Agency to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Successor Agency to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Successor Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Successor Agency hereunder, and shall not be deemed to be acting in any fiduciary capacity for the Successor Agency, the Bond holders or any other party. The obligations of the Successor Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the Successor Agency for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Successor Agency, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: April 18, 2017

EUREKA SUCCESSOR AGENCY

By: _____

Name: _____

Title: _____

AGREED AND ACCEPTED:
HDL COREN & CONE,
AS DISSEMINATION AGENT

By: _____

Name: _____

Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Eureka Successor Agency

Name of Issue: \$5,925,000 Eureka Successor Agency 2017 Taxable Tax Allocation Refunding Bonds, Series A; and

\$13,080,000 Eureka Successor Agency 2017 Taxable Tax Allocation Refunding Bonds, Series B

Date of Issuance: April 18, 2017

NOTICE IS HEREBY GIVEN that the Successor Agency has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated April 18, 2017, executed and delivered by the Successor Agency in connection with the execution and delivery of the Bonds. The Successor Agency anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:

By: _____

Its: _____

APPENDIX E

**SUCCESSOR AGENCY FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDED JUNE 30, 2016**

CITY OF EUREKA
FINANCIAL STATEMENTS
JUNE 30, 2016

**CITY OF EUREKA
ANNUAL FINANCIAL REPORT
June 30, 2016**

TABLE OF CONTENTS

Page

FINANCIAL SECTION

| | |
|--|----|
| Independent Auditor's Report | 1 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position | 5 |
| Statement of Activities | 6 |
| Fund Financial Statements: | |
| Governmental Funds: | |
| Balance Sheet | 8 |
| Reconciliation of the Governmental Funds – Balance Sheet to the Statement of Net Position | 11 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances | 12 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 15 |
| Proprietary Funds: | |
| Statement of Net Position | 16 |
| Statement of Revenues, Expenses, and Changes in Net Position | 20 |
| Statement of Cash Flows | 22 |
| Fiduciary Funds: | |
| Statement of Fiduciary Net Position | 26 |
| Statement of Changes in Fiduciary Net Position | 27 |
| Notes to Basic Financial Statements | 29 |
| Required Supplementary Information: | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund | 85 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Successor Housing Authority Special Revenue Fund | 86 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Housing Special Revenue Fund | 87 |
| Schedule of Funding Progress- Local Employees' Retirement System (LERS) | 88 |
| Schedule of Changes in the Net Pension Liability and Related Ratios as of Measurement Date - Miscellaneous Plan | 90 |
| Schedule of Pension Contributions – Miscellaneous Plan | 91 |
| Schedule of Plan's Proportionate Share of Net Pension Liability and Related Ratios as of Measurement Date – Safety Plan | 92 |
| Schedule of Pension Contributions – Safety Plan | 93 |

**CITY OF EUREKA
ANNUAL FINANCIAL REPORT
June 30, 2016**

TABLE OF CONTENTS (CONTINUED)

| <u>FINANCIAL SECTION (CONTINUED)</u> | Page |
|---|-------------|
| Combining and Individual Fund Statements and Schedules: | |
| Nonmajor Governmental Funds: | |
| Combining Balance Sheet | 96 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances | 98 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual– Budgeted Nonmajor Governmental Funds | 100 |
| Internal Service Funds: | |
| Combining Statement of Net Position | 106 |
| Combining Statement of Revenues, Expenses, and Change in Net Position | 107 |
| Combining Statement of Cash Flows | 108 |
| Fiduciary Funds: | |
| Combining Statement of Net Position | 110 |
| Combining Statement of Changes in Net Position | 111 |
| Agency Fund: | |
| Statement of Changes in Assets and Liabilities | 112 |
| <u>STATISTICAL SECTION</u> | |
| Statistical section table of contents | 113 |
| Net Position by Component | 114 |
| Changes in Net Position | 115 |
| Fund Balances, Governmental Funds | 117 |
| Changes in Fund Balances, Governmental Funds | 118 |
| Tax Revenues by Source, Governmental Funds | 119 |
| Taxable Sales by Category | 120 |
| Transaction and Use Tax by Category | 121 |
| Direct and Overlapping Sales Tax Rates | 122 |
| Net Taxable Assessed Value History | 123 |
| Property Tax Rates | 124 |
| Principal Property Taxpayers | 125 |
| Property Tax Levies and Collections | 126 |
| Ratios of Outstanding Debt by Type | 127 |
| Ratios of General Bonded Debt Outstanding | 129 |
| Computation of Direct and Overlapping Debt | 130 |

**CITY OF EUREKA
ANNUAL FINANCIAL REPORT
June 30, 2016**

TABLE OF CONTENTS (CONTINUED)

| <u>STATISTICAL SECTION (CONTINUED)</u> | Page |
|--|-------------|
| Legal Debt Margin Information | 131 |
| Revenue Bond Coverage | 132 |
| Demographic and Economic Statistics..... | 135 |
| Principal Employers..... | 136 |
| Full-time Equivalent City Government Employees by Function/Program | 137 |
| Operating Indicators by Function/Program | 138 |
| Capital Asset Statistics by Function/Program | 139 |
| Wastewater Disclosure I..... | 140 |
| Wastewater Disclosure II..... | 142 |
| Water Disclosure I | 144 |
| Water Disclosure II | 146 |

FINANCIAL SECTION



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ALEXANDER C HOM, CPA
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Independent Auditor's Report

Honorable Mayor and City Council
City of Eureka
Eureka, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

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

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 of the notes to the basic financial statements, effective July 1, 2015, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Applications*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that, the budgetary comparison schedules on pages 85 through 87, the schedule of funding progress – local employees' retirement system on pages 88 and 89, Agent-Multiple Employer Defined Pension Plan: the schedule of changes in the net pension liability on page 90 and the schedule of pension contributions on page 91, and Cost Sharing Defined Pension Plan: the schedule of plan's proportionate share of net pension liability on page 92 and the schedule of pension contributions on page 93, be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining nonmajor funds financial statements, nonmajor funds budgetary comparison schedules, the combining internal service funds financial statements, the agency fund statement, the combining private purpose trust funds financial statements, and statistical section are presented for the purpose of additional analysis and are not required parts of the financial statements.

The combining nonmajor funds financial statements, nonmajor funds budgetary comparison schedules, the combining internal service funds financial statements, the agency fund statement, and the combining private purpose trust funds financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial

statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
March 31, 2017

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CITY OF EUREKA
STATEMENT OF NET POSITION
June 30, 2016

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|-----------------------|
| ASSETS | | | |
| Cash and investments | \$ 6,678,950 | \$ 11,054,984 | \$ 17,733,934 |
| Cash and investments with fiscal agents | 43,690 | 7,084,463 | 7,128,153 |
| Accounts receivable | 6,875,866 | 3,332,833 | 10,208,699 |
| Interest receivable | 2,122,007 | 60,011 | 2,182,018 |
| Prepaid items | 22,457 | | 22,457 |
| Inventory | | 9,000 | 9,000 |
| Notes and loans receivable | 13,667,706 | | 13,667,706 |
| Internal balances | (2,536,251) | 2,536,251 | |
| Land held for resale | 524,368 | | 524,368 |
| Due from RDA Successor Agency | 656,101 | 1,649,603 | 2,305,704 |
| Net pension asset | 2,264,710 | | 2,264,710 |
| Capital assets, not being depreciated | 30,000,765 | 49,718,029 | 79,718,794 |
| Capital assets, net of accumulated depreciation | 43,200,683 | 50,113,447 | 93,314,130 |
| Total Assets | 103,521,052 | 125,558,621 | 229,079,673 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pensions | 3,696,495 | 820,701 | 4,517,196 |
| Deferred loss on refunding | | 321,062 | 321,062 |
| Total Deferred Outflows of Resources | 3,696,495 | 1,141,763 | 4,838,258 |
| Total Assets and Deferred Outflows of Resources | 107,217,547 | 126,700,384 | 233,917,931 |
| LIABILITIES | | | |
| Accounts payable | 1,911,216 | 895,113 | 2,806,329 |
| Payroll and related liabilities | 311,947 | 110,528 | 422,475 |
| Deposits payable | 74,878 | 357,613 | 432,491 |
| Accrued interest payable | 12,985 | 499,568 | 512,553 |
| Claims and judgments payable | 254,061 | | 254,061 |
| Unearned revenue | | 576 | 576 |
| Noncurrent liabilities: | | | |
| Due within one year | 1,371,451 | 1,761,436 | 3,132,887 |
| Due in more than one year | 31,406,024 | 47,815,450 | 79,221,474 |
| Total Liabilities | 35,342,562 | 51,440,284 | 86,782,846 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pensions | 2,677,760 | 835,958 | 3,513,718 |
| Total Liabilities and Deferred Inflows of Resources | 38,020,322 | 52,276,242 | 90,296,564 |
| NET POSITION | | | |
| Net investment in capital assets | 72,708,479 | 69,318,162 | 142,026,641 |
| Restricted for: | | | |
| Public safety | 1,074,991 | | 1,074,991 |
| Streets and roads | 32,416 | | 32,416 |
| Public health | 273,477 | | 273,477 |
| Housing | 17,125,287 | | 17,125,287 |
| Unrestricted | (22,017,425) | 5,105,980 | (16,911,445) |
| Total Net Position | \$ 69,197,225 | \$ 74,424,142 | \$ 143,621,367 |

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

**CITY OF EUREKA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Program Revenues | | | |
|--------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 3,789,647 | \$ 3,666,629 | \$ 197,457 | \$ - |
| Community development | 2,918,394 | 179,765 | 4,005,464 | |
| Public safety | 6,372,900 | 673,700 | 416,893 | |
| Public works | 4,185,222 | 64,843 | 930,308 | 221,420 |
| Parks and recreation | 3,793,746 | 856,747 | | |
| Interest on long-term debt | 30,176 | | | |
| Total Governmental | <u>21,090,085</u> | <u>5,441,684</u> | <u>5,550,122</u> | <u>221,420</u> |
| Business-type activities: | | | | |
| Water | 7,067,406 | 7,688,777 | | |
| Wastewater | 7,864,985 | 7,163,817 | | |
| Harbor | 1,177,738 | 879,780 | | |
| Building | 701,207 | 873,775 | | |
| Transit | 2,080,888 | 1,748,162 | | |
| Golf | 26,750 | 39,792 | | |
| Total Business-type Activities | <u>18,918,974</u> | <u>18,394,103</u> | | |
| Total | <u>\$ 40,009,059</u> | <u>\$ 23,835,787</u> | <u>\$ 5,550,122</u> | <u>\$ 221,420</u> |

General Revenues:

- Property taxes
- Sales taxes
- Franchise fees
- Motor vehicle in-lieu, unrestricted
- Transient occupancy taxes
- Business license tax
- Investment earnings
- Miscellaneous

Total General Revenues

Change in Net Position

Net Position - beginning of fiscal year

Prior period adjustments

Net Position - beginning of fiscal year, restated

Net Position - end of fiscal year

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

Net (Expense) Revenue and Changes in Net Position

| <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|-----------------------|
| \$ 74,439 | \$ - | \$ 74,439 |
| 1,266,835 | | 1,266,835 |
| (5,282,307) | | (5,282,307) |
| (2,968,651) | | (2,968,651) |
| (2,936,999) | | (2,936,999) |
| (30,176) | | (30,176) |
| <u>(9,876,859)</u> | | <u>(9,876,859)</u> |
| | 621,371 | 621,371 |
| | (701,168) | (701,168) |
| | (297,958) | (297,958) |
| | 172,568 | 172,568 |
| | (332,726) | (332,726) |
| | 13,042 | 13,042 |
| | <u>(524,871)</u> | <u>(524,871)</u> |
| <u>(9,876,859)</u> | <u>(524,871)</u> | <u>(10,401,730)</u> |
| 4,161,361 | | 4,161,361 |
| 17,099,973 | | 17,099,973 |
| 1,186,077 | | 1,186,077 |
| 10,971 | | 10,971 |
| 2,871,396 | | 2,871,396 |
| 252,104 | | 252,104 |
| 22,783 | 20,629 | 43,412 |
| 408,721 | | 408,721 |
| <u>26,013,386</u> | <u>20,629</u> | <u>26,034,015</u> |
| 16,136,527 | (504,242) | 15,632,285 |
| 53,060,698 | 75,060,221 | 128,120,919 |
| | (131,837) | (131,837) |
| <u>53,060,698</u> | <u>74,928,384</u> | <u>127,989,082</u> |
| <u>\$ 69,197,225</u> | <u>\$ 74,424,142</u> | <u>\$ 143,621,367</u> |

**CITY OF EUREKA
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2016**

| | General | Successor Housing Authority | Housing |
|--|---------------------|-----------------------------------|---------------------|
| ASSETS | | | |
| Cash and investments | \$ - | \$ 813,110 | \$ 1,501,996 |
| Cash and investments with fiscal agents | 43,690 | | |
| Accounts receivable | 6,511,556 | | |
| Prepaid items | 2,457 | | |
| Notes and loans receivable | | 7,474,318 | 6,193,388 |
| Advances to RDA Successor Agency | | 656,101 | |
| Land held for resale | | 524,368 | |
| Total Assets | <u>\$ 6,557,703</u> | <u>\$ 9,467,897</u> | <u>\$ 7,695,384</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | | |
| Liabilities: | | | |
| Accounts payable | \$ 1,370,403 | \$ 4,928 | \$ 29,811 |
| Due to other funds | 436,503 | | |
| Deposits payable | 74,788 | | 90 |
| Payroll and related liabilities | 275,973 | 3,165 | |
| Total Liabilities | <u>2,157,667</u> | <u>8,093</u> | <u>29,901</u> |
| Deferred Inflows of Resources: | | | |
| Unavailable revenues | 451,940 | 7,474,318 | 6,193,388 |
| Fund Balances: | | | |
| Nonspendable: | | | |
| Prepaid expenditures | 2,457 | | |
| Restricted | 43,690 | 1,985,486 | 1,472,095 |
| Unassigned | 3,901,949 | | |
| Total Fund Balances | <u>3,948,096</u> | <u>1,985,486</u> | <u>1,472,095</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 6,557,703</u> | <u>\$ 9,467,897</u> | <u>\$ 7,695,384</u> |

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

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ 1,252,165 | \$ 3,567,271 |
| | 43,690 |
| 354,350 | 6,865,906 |
| | 2,457 |
| | 13,667,706 |
| | 656,101 |
| | 524,368 |
| <u>\$ 1,606,515</u> | <u>\$ 25,327,499</u> |

| | |
|------------------|-------------------|
| \$ 188,291 | \$ 1,593,433 |
| 1,486,810 | 1,923,313 |
| | 74,878 |
| 10,617 | 289,755 |
| <u>1,685,718</u> | <u>3,881,379</u> |
| | <u>14,119,646</u> |

| | |
|---------------------|----------------------|
| | 2,457 |
| 1,380,884 | 4,882,155 |
| <u>(1,460,087)</u> | <u>2,441,862</u> |
| <u>(79,203)</u> | <u>7,326,474</u> |
| <u>\$ 1,606,515</u> | <u>\$ 25,327,499</u> |

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CITY OF EUREKA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2016

Fund balances of governmental funds \$ 7,326,474

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds because of the following:

Capital assets used in Governmental Activities are not current resources and, therefore, are not reported in the Governmental Funds Balance Sheet.

| | | |
|--------------------------------|---------------------|------------|
| Capital assets | \$ 161,947,438 | |
| Less: accumulated depreciation | <u>(88,745,990)</u> | 73,201,448 |

Interest payable on long-term debt does not require current financial resources, therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet. (12,985)

The liabilities below are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.

| | | |
|-----------------------|------------------|--------------|
| Compensated absences | (1,201,283) | |
| Net pension liability | (31,039,533) | |
| Capital lease payable | <u>(536,659)</u> | (32,777,475) |

Internal service funds are used by management to charge the costs of certain activities, such as insurance and vehicle maintenance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. (net capital assets, capital lease, net pensions liability and compensated absences payable, reported above in the amount of \$1,356,161 (\$58,745), (\$2,201,726), and (\$47,213), respectively). 1,934,665

In governmental funds, other long-term assets include notes and loan receivable, and accounts receivable which are not available to pay for current-period expenditures, and therefore, are offset by unavailable revenues. 14,119,646

Net pension asset is not a current financial resource. Therefore, it is not reported in the Governmental Funds Balance Sheet. This amount is to be amortized in accordance with GASB No.27. 2,264,710

Deferred outflows and inflows of resources relating to pensions: In governmental funds, deferred outflows and inflows of resources relating to pensions are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources relating to pensions are reported.

| | | |
|---|------------------|-----------|
| Deferred inflows of resources relating to pensions | \$ (2,677,760) | |
| Deferred outflows of resources relating to pensions | <u>3,696,495</u> | |
| Net | | 1,018,735 |

In governmental funds, other long-term assets are not available to pay for current-period expenditures:

| | | |
|---|--|------------------|
| Interest receivable on loans receivable | | <u>2,122,007</u> |
|---|--|------------------|

Net position of governmental activities \$ 69,197,225

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

**CITY OF EUREKA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | General | Successor Housing Authority | Housing |
|---|---------------------|-----------------------------------|---------------------|
| REVENUES | | | |
| Taxes | \$ 22,243,009 | \$ - | \$ - |
| Licenses, permits, and fees | 1,282,621 | | |
| Fines and penalties | 224,087 | | |
| Investment income | 22,783 | | |
| Intergovernmental | 2,479,323 | 708,754 | 3,186,274 |
| Charges for services | 4,777,660 | | |
| Other revenues | 156,835 | 280,634 | 276,461 |
| Total Revenues | 31,186,318 | 989,388 | 3,462,735 |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 3,823,760 | | |
| Public safety | 18,426,013 | | |
| Public works | 1,630,886 | | |
| Community development | 1,053,715 | 183,494 | 3,445,030 |
| Culture and recreation | 3,459,113 | | |
| Capital outlay | 640,550 | | |
| Debt service: | | | |
| Principal payments | 252,520 | | |
| Interest and fiscal charges | 28,586 | | |
| Total Expenditures | 29,315,143 | 183,494 | 3,445,030 |
| Excess of Revenues Over (Under) Expenditures | 1,871,175 | 805,894 | 17,705 |
| Fund Balances, beginning of fiscal year | 2,076,921 | 1,179,592 | 1,454,390 |
| Fund Balances, end of fiscal year | <u>\$ 3,948,096</u> | <u>\$ 1,985,486</u> | <u>\$ 1,472,095</u> |

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

| Other Governmental Funds | Total Governmental Funds |
|--------------------------------|--------------------------------|
| \$ - | \$ 22,243,009 |
| 54,999 | 1,337,620 |
| 176,285 | 400,372 |
| | 22,783 |
| 1,567,734 | 7,942,085 |
| 14,614 | 4,792,274 |
| 37,221 | 751,151 |
| <u>1,850,853</u> | <u>37,489,294</u> |
| | 3,823,760 |
| 150,204 | 18,576,217 |
| 1,354,700 | 2,985,586 |
| | 4,682,239 |
| | 3,459,113 |
| 561,274 | 1,201,824 |
| | 252,520 |
| | <u>28,586</u> |
| <u>2,066,178</u> | <u>35,009,845</u> |
| (215,325) | 2,479,449 |
| 136,122 | 4,847,025 |
| <u>\$ (79,203)</u> | <u>\$ 7,326,474</u> |

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**CITY OF EUREKA
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES **\$ 2,479,449**

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense.

(Does not include Internal Service Funds)

| | | |
|---|--------------------|-------------|
| Capital outlay expenditures are, therefore, added back to fund balances | \$ 881,283 | |
| Depreciation expense not reported in governmental funds | <u>(2,364,890)</u> | (1,483,607) |

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Original issue premiums and discounts are reported as other services or uses in the governmental funds, but in the Statement of Net Position, the costs are deferred and amortized throughout the period during which the related debt is outstanding. Repayment of debt principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.

| | | |
|-----------------------------|--|---------|
| Repayment of debt principal | | 252,520 |
|-----------------------------|--|---------|

Notes receivable issued are expenditures, and principal payments on notes receivable are a revenue in the governmental funds; however, in the government-wide statements, these transactions increase or decrease the notes receivable and accrue interest on notes receivable.

| | | |
|---------------------|------------------|-----------|
| Interest receivable | 155,081 | |
| Notes receivable | <u>1,667,363</u> | 1,822,444 |

The amounts below included in the Statement of Activities do not provide (require) the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds (net change):

| | | |
|----------------------|----------------|---------|
| Interest payable | 1,678 | |
| Compensated absences | <u>(6,651)</u> | (4,973) |

Revenues that were not collected within 60 days of the fiscal year end and did not meet the revenue recognition criteria in the Fund Financial Statements are recognized as revenue in the Government-Wide Financial Statements.

(64,517)

In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs are recognized on the accrual basis. This fiscal year, the difference between accrual-basis pension costs and actual employer contributions was:

| | | |
|---------------|--|------------|
| Pension costs | | 12,148,902 |
|---------------|--|------------|

Changes in net pension asset did not require the use of current financial resources or meet revenue recognition criteria in the Fund Financial Statements and therefore, are not reported in governmental funds.

271,112

Internal service funds are used by management to charge the costs of certain activities, such as insurance and vehicle maintenance, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental activities.

715,197

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 16,136,527

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

**CITY OF EUREKA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 June 30, 2016**

| ASSETS | Enterprise Funds | | |
|---|------------------|--------------|-------------|
| | Water | Wastewater | Harbor |
| Current Assets: | | | |
| Cash and investments | \$ 2,634,119 | \$ 8,290,604 | \$ - |
| Cash and investments with fiscal agents | 6,044,162 | 1,040,301 | |
| Accounts receivable - net | 777,123 | 671,383 | 9,463 |
| Interest receivable | 7,310 | 52,701 | |
| Prepaid items | | | |
| Inventory | | | |
| Due from other funds | 4,785,781 | | |
| Total current assets | 14,248,495 | 10,054,989 | 9,463 |
| Noncurrent Assets: | | | |
| Advances to RDA Successor Agency | 131,369 | 1,518,234 | |
| Total noncurrent assets | 131,369 | 1,518,234 | |
| Capital Assets: | | | |
| Nondepreciable | | | |
| Land | 1,052,115 | 5,073,142 | 5,155,468 |
| Construction in progress | 3,072,255 | 34,923,671 | |
| Total nondepreciable capital assets | 4,124,370 | 39,996,813 | 5,155,468 |
| Depreciable | | | |
| Infrastructure | 14,817,807 | 5,383,291 | |
| Buildings | 723,908 | 6,264,431 | 4,646,614 |
| Improvements | 5,004,226 | 19,995,868 | 10,588,464 |
| Equipment | 16,075,408 | 32,671,023 | 1,116,705 |
| Total depreciable capital assets | 36,621,349 | 64,314,613 | 16,351,783 |
| Less accumulated depreciation | (15,063,556) | (44,079,749) | (8,765,778) |
| Net depreciable capital assets | 21,557,793 | 20,234,864 | 7,586,005 |
| Total capital assets, net | 25,682,163 | 60,231,677 | 12,741,473 |
| Total capital and noncurrent assets | 25,813,532 | 61,749,911 | 12,741,473 |
| Total Assets | 40,062,027 | 71,804,900 | 12,750,936 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pensions | 270,211 | 392,097 | 59,099 |
| Deferred loss on refunding | 321,062 | | |
| Total deferred outflows of resources | 591,273 | 392,097 | 59,099 |
| Total Assets and Deferred Outflows of Resources | 40,653,300 | 72,196,997 | 12,810,035 |

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

| Enterprise Funds | | | | Governmental Activities - Internal Service Funds |
|------------------|-------------|------------|---------------|--|
| Building | Transit | Golf | Totals | |
| \$ - | \$ - | \$ 130,261 | \$ 11,054,984 | \$ 3,111,679 |
| | | | 7,084,463 | |
| 1,450,491 | 424,373 | | 3,332,833 | 9,960 |
| | | | 60,011 | |
| | 9,000 | | 9,000 | 20,000 |
| | | | 4,785,781 | |
| 1,450,491 | 433,373 | 130,261 | 26,327,072 | 3,141,639 |
| | | | 1,649,603 | |
| | | | 1,649,603 | |
| | | 418,075 | 11,698,800 | |
| | | 23,303 | 38,019,229 | |
| | | 441,378 | 49,718,029 | |
| | | | 20,201,098 | |
| | | 158,411 | 11,793,364 | 429,246 |
| | | 261,518 | 35,850,076 | 31,236 |
| 116,950 | 3,155,460 | | 53,135,546 | 8,851,638 |
| 116,950 | 3,155,460 | 419,929 | 120,980,084 | 9,312,120 |
| (96,039) | (2,605,485) | (256,030) | (70,866,637) | (7,955,959) |
| 20,911 | 549,975 | 163,899 | 50,113,447 | 1,356,161 |
| 20,911 | 549,975 | 605,277 | 99,831,476 | 1,356,161 |
| 20,911 | 549,975 | 605,277 | 101,481,079 | 1,356,161 |
| 1,471,402 | 983,348 | 735,538 | 127,808,151 | 4,497,800 |
| 98,102 | | 1,192 | 820,701 | 160,412 |
| | | | 321,062 | |
| 98,102 | | 1,192 | 1,141,763 | 160,412 |
| 1,569,504 | 983,348 | 736,730 | 128,949,914 | 4,658,212 |

(Continued)

**CITY OF EUREKA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 June 30, 2016
 (Continued)**

| LIABILITIES | Enterprise Funds | | |
|---|------------------|---------------|--------------|
| | Water | Wastewater | Harbor |
| Current Liabilities: | | | |
| Accounts payable | \$ 359,921 | \$ 442,913 | \$ 28,948 |
| Payroll and related liabilities | 34,400 | 56,599 | 8,611 |
| Deposits payable | 324,721 | | 32,892 |
| Due to other funds | | | 465,873 |
| Unearned revenue | 576 | | |
| Accrued interest payable | 214,800 | 215,156 | 69,612 |
| Claims and judgments payable | | | |
| Loan payable, current portion | | | 98,342 |
| Bonds payable, current portion | 595,000 | 445,000 | |
| Capital lease payable, current portion | 340,592 | | |
| Compensated absences, current portion | 82,238 | 132,738 | 20,252 |
| Unamortized premium, current portion | 16,704 | 5,344 | |
| Total current liabilities | 1,968,952 | 1,297,750 | 724,530 |
| Noncurrent Liabilities: | | | |
| Loan payable | | | 1,589,210 |
| Bonds payable | 17,180,000 | 17,230,000 | |
| Net pension liability | 3,764,284 | 5,433,297 | 813,329 |
| Unamortized premium | 233,720 | 184,927 | |
| Total noncurrent liabilities | 21,178,004 | 22,848,224 | 2,402,539 |
| Total Liabilities | 23,146,956 | 24,145,974 | 3,127,069 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pensions | 285,973 | 388,361 | 53,387 |
| Total deferred inflows of resources | 285,973 | 388,361 | 53,387 |
| Total Liabilities and Deferred Inflows of Resources | 23,432,929 | 24,534,335 | 3,180,456 |
| NET POSITION | | | |
| Net investment in capital assets | 13,681,371 | 43,406,707 | 11,053,921 |
| Unrestricted | 3,539,000 | 4,255,955 | (1,424,342) |
| Total Net Position (Deficit) | \$ 17,220,371 | \$ 47,662,662 | \$ 9,629,579 |

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

| Enterprise Funds | | | | Governmental Activities - Internal Service Funds |
|-----------------------|-------------------|-------------------|----------------------|--|
| Building | Transit | Golf | Totals | |
| \$ 23,654 | \$ 24,792 | \$ 14,885 | \$ 895,113 | \$ 317,783 |
| 10,811 | | 107 | 110,528 | 22,192 |
| | | | 357,613 | |
| 1,263,758 | 519,899 | | 2,249,530 | 612,938 |
| | | | 576 | |
| | | | 499,568 | 254,061 |
| | | | 98,342 | |
| | | | 1,040,000 | |
| | | | 340,592 | 58,745 |
| 25,226 | | | 260,454 | 47,213 |
| | | | 22,048 | |
| <u>1,323,449</u> | <u>544,691</u> | <u>14,992</u> | <u>5,874,364</u> | <u>1,312,932</u> |
| | | | 1,589,210 | |
| | | | 34,410,000 | |
| 1,370,548 | | 16,135 | 11,397,593 | 2,201,726 |
| | | | 418,647 | |
| <u>1,370,548</u> | <u></u> | <u>16,135</u> | <u>47,815,450</u> | <u>2,201,726</u> |
| <u>2,693,997</u> | <u>544,691</u> | <u>31,127</u> | <u>53,689,814</u> | <u>3,514,658</u> |
| 107,405 | | 832 | 835,958 | 139,503 |
| <u>107,405</u> | <u></u> | <u>832</u> | <u>835,958</u> | <u>139,503</u> |
| <u>2,801,402</u> | <u>544,691</u> | <u>31,959</u> | <u>54,525,772</u> | <u>3,654,161</u> |
| 20,911 | 549,975 | 605,277 | 69,318,162 | 1,356,161 |
| (1,252,809) | (111,318) | 99,494 | 5,105,980 | (352,110) |
| <u>\$ (1,231,898)</u> | <u>\$ 438,657</u> | <u>\$ 704,771</u> | <u>\$ 74,424,142</u> | <u>\$ 1,004,051</u> |

**CITY OF EUREKA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Enterprise Funds | | |
|---|----------------------|----------------------|---------------------|
| | Water | Wastewater | Harbor |
| Operating Revenues: | | | |
| Charges for services | \$ 7,679,048 | \$ 6,673,482 | \$ 655,498 |
| Other operating revenues | 9,729 | 490,335 | |
| Intergovernmental | | | 224,282 |
| Total Operating Revenues | <u>7,688,777</u> | <u>7,163,817</u> | <u>879,780</u> |
| Operating Expenses: | | | |
| Purchase of water | 2,573,596 | | |
| Maintenance and operation | 2,019,162 | 5,328,145 | 719,563 |
| Administration | 657,268 | 459,433 | 36,821 |
| Insurance costs and claims | 107,655 | 117,702 | 14,264 |
| Depreciation | 836,403 | 1,100,299 | 330,797 |
| Total Operating Expenses | <u>6,194,084</u> | <u>7,005,579</u> | <u>1,101,445</u> |
| Operating Income (Loss) | <u>1,494,693</u> | <u>158,238</u> | <u>(221,665)</u> |
| Non-Operating Revenues (Expenses): | | | |
| Gain (loss) on sales of capital assets | | | |
| Investment income | 10,499 | 10,130 | |
| Interest expense | (873,322) | (859,406) | (76,293) |
| Total Non-Operating Revenue (Expense) | <u>(862,823)</u> | <u>(849,276)</u> | <u>(76,293)</u> |
| Change in Net Position | <u>631,870</u> | <u>(691,038)</u> | <u>(297,958)</u> |
| Net Position (Deficit), beginning of fiscal year | 16,588,501 | 48,353,700 | 9,927,537 |
| Prior Period Adjustments | | | |
| Net Position (Deficit), beginning of fiscal year, restated | <u>16,588,501</u> | <u>48,353,700</u> | <u>9,927,537</u> |
| Net Position (Deficit), end of fiscal year | <u>\$ 17,220,371</u> | <u>\$ 47,662,662</u> | <u>\$ 9,629,579</u> |

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

| Enterprise Funds | | | | Governmental Activities- Internal Service Funds |
|------------------|------------|------------|---------------|---|
| Building | Transit | Golf | Totals | |
| \$ 825,849 | \$ 353,290 | \$ - | \$ 16,187,167 | \$ 5,225,648 |
| 47,926 | | 39,792 | 587,782 | 18,928 |
| | 1,394,872 | | 1,619,154 | |
| 873,775 | 1,748,162 | 39,792 | 18,394,103 | 5,244,576 |
| | | | 2,573,596 | |
| 626,092 | 1,770,755 | 20,274 | 10,483,991 | 2,342,396 |
| 44,670 | | 720 | 1,198,912 | |
| 18,171 | 49,000 | 177 | 306,969 | 1,685,770 |
| 12,274 | 261,133 | 5,579 | 2,546,485 | 493,510 |
| 701,207 | 2,080,888 | 26,750 | 17,109,953 | 4,521,676 |
| 172,568 | (332,726) | 13,042 | 1,284,150 | 722,900 |
| | | | | (4,435) |
| | | | 20,629 | |
| | | | (1,809,021) | (3,268) |
| | | | (1,788,392) | (7,703) |
| 172,568 | (332,726) | 13,042 | (504,242) | 715,197 |
| (1,404,466) | 903,220 | 691,729 | 75,060,221 | 288,854 |
| | (131,837) | | (131,837) | |
| (1,404,466) | 771,383 | 691,729 | 74,928,384 | 288,854 |
| \$ (1,231,898) | \$ 438,657 | \$ 704,771 | \$ 74,424,142 | \$ 1,004,051 |

**CITY OF EUREKA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Enterprise Funds | | |
|---|---------------------|---------------------|-----------------|
| | Water | Wastewater | Harbor |
| Cash Flows from Operating Activities: | | | |
| Receipts from customers/interfund charges | \$ 7,882,174 | \$ 8,446,799 | \$ 898,856 |
| Payments to suppliers and users | (3,896,736) | (4,041,004) | (612,815) |
| Payments to employees | (1,626,302) | (2,369,736) | (348,843) |
| Net Cash Provided (Used) by Operating Activities | <u>2,359,136</u> | <u>2,036,059</u> | <u>(62,802)</u> |
| Cash Flows from Non-Capital Financing Activities: | | | |
| Due to/from other funds | 903,637 | 287,089 | 69,481 |
| Net Cash Provided (Used) by Non-Capital Financing Activities | <u>903,637</u> | <u>287,089</u> | <u>69,481</u> |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Acquisitions of capital assets | (335,281) | (2,049,612) | |
| Interest paid | (868,057) | (868,875) | (6,679) |
| Principal payments - long-term debt | (896,957) | (430,000) | |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(2,100,295)</u> | <u>(3,348,487)</u> | <u>(6,679)</u> |
| Cash Flows from Investing Activities: | | | |
| Interest received | 3,189 | 2,820 | |
| Net Cash Provided (Used) by Investing Activities | <u>3,189</u> | <u>2,820</u> | |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,165,667 | (1,022,519) | |
| Cash and Cash Equivalents, July 1, 2015 | <u>7,512,614</u> | <u>10,353,424</u> | |
| Cash and Cash Equivalents, June 30, 2016 | <u>\$ 8,678,281</u> | <u>\$ 9,330,905</u> | <u>\$ -</u> |
| Reconciliation of Cash and Cash Equivalents To Statement of Net Position | | | |
| Cash and investments | \$ 2,634,119 | \$ 8,290,604 | \$ - |
| Cash and investments with fiscal agents | <u>6,044,162</u> | <u>1,040,301</u> | |
| Total Cash and Cash Equivalents | <u>\$ 8,678,281</u> | <u>\$ 9,330,905</u> | <u>\$ -</u> |

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

| Enterprise Funds | | | | Governmental Activities - Internal Service Funds |
|------------------|--------------|------------|---------------|---|
| Building | Transit | Golf | Totals | |
| \$ 689,889 | \$ 2,543,870 | \$ 46,699 | \$ 20,508,287 | \$ 5,243,807 |
| (174,342) | (1,964,465) | (19,494) | (10,708,856) | (3,267,571) |
| (514,822) | | (6,166) | (4,865,869) | (890,008) |
| 725 | 579,405 | 21,039 | 4,933,562 | 1,086,228 |
| (725) | (579,405) | | 680,077 | (324,888) |
| (725) | (579,405) | | 680,077 | (324,888) |
| | | (118,834) | (2,503,727) | (289,857) |
| | | | (1,743,611) | (3,268) |
| | | | (1,326,957) | (57,133) |
| | | (118,834) | (5,574,295) | (354,693) |
| | | | 6,009 | |
| | | | 6,009 | |
| | | (97,795) | 45,353 | 406,647 |
| | | 228,056 | 18,094,094 | 2,705,032 |
| \$ - | \$ - | \$ 130,261 | \$ 18,139,447 | \$ 3,111,679 |
| \$ - | \$ - | \$ 130,261 | \$ 11,054,984 | \$ 3,111,679 |
| | | | 7,084,463 | |
| \$ - | \$ - | \$ 130,261 | \$ 18,139,447 | \$ 3,111,679 |

(Continued)

CITY OF EUREKA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016
 (Continued)

| | Enterprise Funds | | |
|---|---------------------|---------------------|--------------------|
| | Water | Wastewater | Harbor |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | |
| Operating Income (Loss) | \$ 1,494,693 | \$ 158,238 | \$ (221,665) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | |
| Depreciation | 836,403 | 1,100,299 | 330,797 |
| (Increase) Decrease in Operating Assets: | | | |
| Accounts receivable | 110,531 | 1,282,982 | 17,500 |
| Prepaid expenses | | | 6,681 |
| Inventory | | | |
| Deferred outflows of resources - pensions | (50,217) | (76,046) | (12,077) |
| Increase (Decrease) in Operating Liabilities: | | | |
| Accounts payable | (159,272) | (496,985) | (194,568) |
| Deposits payable | 82,923 | | 1,576 |
| Unearned revenue | (57) | | |
| Payroll and related liabilities | 2,574 | 917 | 271 |
| Deferred inflows of resources - pensions | (289,215) | (437,974) | (69,555) |
| Net pension liability | 326,773 | 494,850 | 78,588 |
| Claims and judgments payable | | | |
| Compensated absences | 4,000 | 9,778 | (350) |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 2,359,136</u> | <u>\$ 2,036,059</u> | <u>\$ (62,802)</u> |

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

| Enterprise Funds | | | | Governmental Activities - Internal Service Funds |
|------------------|-------------------|------------------|---------------------|---|
| Building | Transit | Golf | Totals | |
| \$ 172,568 | \$ (332,726) | \$ 13,042 | \$ 1,284,150 | \$ 722,900 |
| 12,274 | 261,133 | 5,579 | 2,546,485 | 493,510 |
| (183,886) | 795,708 | | 2,022,835 | (769) |
| | (6,480) | | 6,681 | |
| (17,804) | | (273) | (6,480) | (33,426) |
| | | | (156,417) | |
| 9,187 | (138,230) | 2,690 | (977,178) | (186,669) |
| | | | 84,499 | |
| | | | (57) | |
| 2,007 | | (14) | 5,755 | 1,825 |
| (102,539) | | (1,571) | (900,854) | (192,510) |
| 115,854 | | 1,775 | 1,017,840 | 217,510 |
| | | | | 63,904 |
| (6,936) | | (189) | 6,303 | (47) |
| <u>\$ 725</u> | <u>\$ 579,405</u> | <u>\$ 21,039</u> | <u>\$ 4,933,562</u> | <u>\$ 1,086,228</u> |

**CITY OF EUREKA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2016**

| | Agency Fund | Trust Funds | |
|--|-------------------|--|--------------------------------------|
| | | Fire and Police Pension Benefits Plan | Private Purpose Trust Funds |
| | Trust Holding | | |
| ASSETS | | | |
| Cash and investments | \$ 163,860 | \$ 14,790 | \$ 1,640,011 |
| Cash and investments with Fiscal Agent, Restricted | | | 1,073,206 |
| Other receivable | | | 16,600 |
| Due from other funds | | | 238,821 |
| Land held for resale | | | 4,488,678 |
| Capital assets, not being depreciated | | | 53,702 |
| Capital assets, net of accumulated depreciation | | | 1,896,058 |
| Total Assets | \$ 163,860 | 14,790 | 9,407,076 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred loss on refunding | | | 20,269 |
| LIABILITIES | | | |
| Accounts payable | \$ 845 | 2,209 | 7,889 |
| Payroll payable | | 14,283 | 1,160 |
| Interest payable | | | 185,518 |
| Due to other funds | | | 238,821 |
| Deposits payable | 163,015 | | |
| Unearned revenue | | | 1,769,233 |
| Noncurrent Liabilities: | | | |
| Due within one year | | | 1,483,110 |
| Due in more than one year | | | 21,467,659 |
| Total Liabilities | \$ 163,860 | 16,492 | 25,153,390 |
| Net Position (Deficit) | | | |
| Held in trust for pension benefits | | | |
| Unrestricted | | (1,702) | (15,726,045) |
| Total Net Position (Deficit) | | \$ (1,702) | \$ (15,726,045) |

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

**CITY OF EUREKA
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Year Ended June 30, 2016**

| | Trust Funds | |
|---|--|--------------------------------------|
| | Fire and Police Pension Benefits Plan | Private Purpose Trust Funds |
| ADDITIONS | | |
| Contributions: | | |
| Employer | \$ 397,095 | \$ - |
| Taxes | | 3,840,400 |
| Investment income | | 3,259 |
| Total Additions | <u>397,095</u> | <u>3,843,659</u> |
| DEDUCTIONS | | |
| Benefits | 403,568 | |
| Administration | | 163,610 |
| Depreciation | | 57,713 |
| Community development | | 1,077,291 |
| Public safety | | 84,242 |
| Interest expense | | 1,207,017 |
| Pass-through payments | | 13,665 |
| Total Deductions | <u>403,568</u> | <u>2,603,538</u> |
| Change in net position | (6,473) | 1,240,121 |
| Net Position (Deficit) - beginning of fiscal year | <u>4,771</u> | <u>(16,966,166)</u> |
| Net Position (Deficit) - end of fiscal year | <u>\$ (1,702)</u> | <u>\$ (15,726,045)</u> |

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

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NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Eureka have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The City of Eureka was incorporated as a town on April 18, 1856, under a special act of the legislature, reincorporated as a city on February 19, 1874, and incorporated under a Freeholder's Charter on February 18, 1895. The City operates under a Council-Manager form of government and is governed by an elected mayor and five elected city council members. The City provides the following services as authorized by its charter: public safety (police and fire), streets and highways, public improvements, land use, building and housing standards, culture-recreation programs, parks and recreation areas, utilities, public transit, and administrative and fiscal services.

As required by accounting principles generally accepted in the United States of America, these basic financial statements present financial information for the City of Eureka (the primary government) and its component units. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the basic financial statements to emphasize their legal separateness from the City. The City has no discrete component units. Each blended component unit has a fiscal year end of June 30. The blended component units are included in the City's reporting entity because of the significance of their operational and financial relationships with the City.

Blended Component Units

The following blended component units are included in the reporting entity as though they were part of the primary government. Separate financial statements for the blended component units are on file at the offices of the City of Eureka at 531 K Street, Eureka, California 95501.

EUREKA PUBLIC FINANCING AUTHORITY

The City created the Eureka Public Financing Authority to sell bonds and lend the proceeds of bond issues to Eureka Redevelopment Agency. The City Council also functions as the Board of the Eureka Public Financing Authority. The City performs all administrative, budgeting, and accounting functions of the Authority. The Authority is no longer in operation as of February 2012. All the redevelopment agency debts were transferred to the Eureka successor agency.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Joint Ventures

HUMBOLDT/DEL NORTE HAZARDOUS MATERIAL RESPONSE AUTHORITY

The Hazardous Materials Response Authority was created as a separate legal entity by a joint powers agreement between the Counties of Humboldt and Del Norte, and the Cities of Eureka, Crescent City, Arcata, Blue Lake, Fortuna, Ferndale, Rio Dell, and Trinidad. The purpose of this joint venture is to pool resources of the participants to provide a united, coordinated, orderly, positive, and more effective means for aiding and assisting in the formulation, administration, implementation, and maintenance of an area-wide hazardous materials response team.

The Authority is governed by a board of directors composed of one member and an alternate appointed by each participant. The Authority adopts its own budget and has the power to incur debts, liabilities, or obligations. The City of Eureka is responsible for directing the operations of the Hazardous Materials Response Teams and for the accounting of the Authority. The Authority is recorded as a private purpose trust fund of the City. The Authority, in turn, reimburses the City for the costs of operation and accounting services. Upon commencement of the Authority, the participants agreed to contribute a proportionate share of the costs of operation based on population. The participants do not have an on-going equity interest in the Authority. However, the participants do share the operation costs of the Authority. At termination of the agreement, all surplus monies will be returned to the participants in proportion to the amounts received by the Authority; property shall be divided in a manner agreed upon by the participants. Complete financial statements for the Hazardous Materials Response Authority are on file at the offices of the City of Eureka at 531 K Street, Eureka, California 95501.

HUMBOLDT TRANSIT AUTHORITY

The Transit Authority was created as a separate legal entity by a joint powers agreement between the County of Humboldt and the Cities of Fortuna, Eureka, Arcata, Trinidad, and Rio Dell. The governing board consists of a city council member and an alternate member appointed from each participating city, as well as two board members and up to two alternate members appointed by the Humboldt County Board of Supervisors.

The Authority is responsible for adopting its own budget and has the power to incur debts, liabilities, or obligations. On commencement of operations of the Authority, the County contributed 50 percent of the initial equity, and the participating cities jointly contributed 50 percent based upon population data. The participants do not have an on-going equity interest in the Authority. However, the participants do share operating costs of the Authority, and the current share of the City of Eureka is 25.6 percent. At termination of the agreement, all surplus monies will be returned to the participants in proportion to the amounts received; and property shall be divided in a manner agreed upon by the parties. Complete financial statements for Humboldt Transit Authority may be obtained at the offices of the Authority at 133 V Street, Eureka, California, 95501.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Joint Ventures (Continued)

HUMBOLDT WASTE MANAGEMENT AUTHORITY

The Humboldt Waste Management Authority was created as a separate entity by a joint powers agreement between the County of Humboldt and the Cities of Arcata, Eureka, Blue Lake, Ferndale, and Rio Dell. The governing board consists of one director and one alternate appointed by each member of the Authority. The Authority is responsible for adopting its own budget and has the power to incur debts, liabilities, or obligations.

The Authority was formed in October 1999 for the purpose of providing economical coordination of solid waste management services and efficiently and fairly assuring against potential adverse effects of past solid waste management services within the service area. It is intended that the Authority shall develop and fund programs for the (A) Siting, permitting, developing, constructing, maintaining, operating, or contracting for the construction and/or from operation of disposal sites, transfer facilities and equipment, materials recovery facilities, waste-to-energy facilities, and/or solid waste landfills; (B) preparing and implementing an Integrated Waste Management Plan and other planning documents; (C) disposal of waste generated in the incorporated and unincorporated area of the County and the granting of franchises for waste hauling; (D) planning, implementing, and supervising programs which serve all or most jurisdictions, including facilities, special wastes, and recycling market development. The general purpose also includes establishment of pooled insurance and other financial mechanisms to provide for the safe closure and long-term post-closure maintenance of the Cummings Road Sanitary Landfill (when closed). This may include ownership and/or management of the landfill during the final stages of the landfill's active life, during closure, and thereafter. Upon dissolution, the remaining assets of the Authority, after payment of or adequate provision for all debts, liabilities, and obligations of the Authority, shall be divided among the members in accordance with a unanimous agreement among them or in proportion to the total tonnage of solid waste each member caused to be delivered to the transfer facility. Financial statements may be obtained at the Humboldt Waste Management Authority, located at 1059 West Hawthorne Street, Eureka, California 95501.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The City's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental activities and business-type activities for the City, the primary government, accompanied by a total column. Fiduciary activities (either funds or component units) of the City are not included in these statements.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Government-wide Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City within three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement on Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated, also interfund services provided and used are not eliminated. The following interfund activities have been eliminated:

- Due to, Due from other funds
- Advances to, Advances from other funds
- Transfers in, Transfers out

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after fiscal year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, special assessments, intergovernmental revenues, other taxes, interest revenue, rental revenue, and certain charges for services. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Unearned revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unearned revenue is removed from the balance sheet and revenue is recognized.

The reconciliation of the Fund Financial Statements to the Government-wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows for all proprietary funds.

Columns representing internal service funds are also presented in these statements. However, internal service fund balances and activities have been combined with the governmental activities in the government-wide financial statements.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

Proprietary Fund Financial Statements (Continued)

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Position and Statement of Changes in Net Position. The City’s fiduciary funds are accounted for according to the nature of the fund. The City has two such funds which are accounted for using “economic resources” measurement focus and the accrual basis of accounting are the proprietary funds explained above. The one Agency fund of the City does not use or have a measurement focus.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the “economic resources” measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements (except as noted above). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement focus, basis of accounting, and financial statement presentation
(Continued)**

The government reports the following major governmental funds:

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

The **Successor Housing Authority fund** accounts for the low and moderate income housing program previously administrated by the Redevelopment Agency low and moderate income housing fund.

The **Housing fund** accounts for all housing funds of the City, including: the proceeds of Community Development Block grants, as required by federal regulations; reimbursement of block grant economic development loans ("program income"); rental rehabilitation state grant funds; Home Investment Partnership Program (HOME) for loans of federal and state grant funds; and local housing to operate as a revolving loan fund. Funding sources for the housing loan programs include grants and loan repayments.

The government reports the following major proprietary funds:

The **Water fund** is used to account for the operation and maintenance of the City's water utility. Revenues are primarily user charges. Rates are set periodically by the City Council.

The **Wastewater fund** is used to account for the operation and maintenance of the City's sewer utility.

The **Harbor fund** is used for administration and operation of the Humboldt Bay Harbor.

The **Building fund** is used for administration of construction regulation programs, building code enforcement, and public information programs.

The **Transit fund** is used for administration and operation of the Eureka Transit System and Dial-a-Ride/Lift program, as well as the City's share of a county-wide transit system.

The **Golf fund** is used for the administration of the Municipal Golf Course.

Additionally, the government reports the following fund types:

Governmental Fund Types

The Special Revenue Funds are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. These funds are required by statute or ordinance to finance particular functions or activities of government.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement focus, basis of accounting, and financial statement presentation
(Continued)**

Proprietary Fund Type

Internal service funds account for data processing, fleet management services, and risk management to other departments or agencies of the government on a cost reimbursement basis. Transactions for interfund services provided and used are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Fiduciary Fund Type

The pension trust fund accounts for the activities of the public safety employee's retirement system, which accumulates resources for pension benefit payments to qualified public safety employees.

The private-purpose trust fund accounts for the activities of the Humboldt Del Norte Hazard Materials Response Authority and the Redevelopment Agency Successor Agency.

The Agency Fund is used to account for funds received and held by the City in a custodial capacity.

Recognition of Interest Liability

Interest expenditures on long-term debt within governmental funds are recognized when payment is due. Proprietary fund interest expense is recognized as the liability is incurred.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from these estimates and assumptions.

D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity

1. Deposits and Investments

The City pools its available cash for investment purposes. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity
(Continued)**

1. Deposits and Investments (Continued)

In accordance with GASB Statement No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Under provisions of the City's investment policy, the City may invest in any instruments authorized by Section 53601 of the California Government Code.

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

Monies held by bond trustees are invested, as followed by California Government Code Section 53601 (1), in accordance with the provisions of the respective bond indentures involved.

During the fiscal year, the City may have held Structured Notes. Structured Notes are debt securities (other than Asset-backed Securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options. They are issued by corporations and government-sponsored enterprises such as the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). These securities could be called prior to maturity, depending on changes in interest rates.

For purposes of reporting cash flows, the City considers each fund's share in the cash and investments pool to be cash and cash equivalents, including cash with fiscal agents.

2. Receivables and Payables

Advances to other Funds

For governmental fund types, noncurrent portions of long term interfund loans receivable are equally offset by a restricted fund balance which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of long term interfund loans receivable are considered "available spendable resources".

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity
(Continued)**

3. Inventory and Prepaid Items

Inventories of supplies are expended when purchased because the amounts are not considered to be material. Inventory of land held for resale is valued at the lower of cost or net realizable value. Payments made to vendors for services that will benefit periods beyond June 30, 2016 are recorded as prepaid items.

4. Restricted Assets

Fiscal agents acting on behalf of the City hold investment funds arising from the proceeds of long-term debt issuances. The funds may be used for specific capital outlays or for the payment of certain bonds, certificates of participation or tax allocation bonds and have been invested only as permitted by specific State statutes or applicable City ordinances, resolution, or bond indenture.

Use of Restricted and Unrestricted Net Position - When an expense is incurred for purposes for which both restricted and unrestricted net position is available, the City's policy is to apply restricted net position first.

5. Deferred Outflow/Inflow of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources on the deferred loss on refunding of debt and pensions in the statement of net position.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The City has deferred inflow of resources deferred revenue on the fund financial statements and pensions in the statement of net position.

6. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair value on the date donated. City policy has set the capitalization threshold for reporting capital assets at \$5,000 including infrastructure.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity (Continued)

6. Capital Assets (Continued)

Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

| | |
|----------------------------|-------------|
| Water system | 20-50 years |
| Sewer system | 15-50 years |
| Buildings | 30-50 years |
| Improvements-not buildings | 20-40 years |
| Machinery and equipment | 3-20 years |
| Infrastructure | 15-50 years |

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the City has included infrastructure acquired or constructed in the Basic Financial Statements.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, sewer, and park lands. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping, and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Interest accrued during capital asset construction, if any, is capitalized for the business-type funds as part of the asset cost.

7. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity (Continued)

8. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Net Position and Fund Balance

Net Position and Fund Balance - In the government-wide financial statements, proprietary fund financial statements, and fiduciary fund financial statements, net position is reported in three categories: net investment in capital assets; restricted net position, and unrestricted net position. Restricted net position represents net position restricted by parties outside of the City (such as creditors, grantors, contributors, and laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The City's other restricted net position is temporarily restricted (ultimately expendable assets). All other net position is considered unrestricted.

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity
(Continued)**

9. Net Position and Fund Balance (Continued)

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available.

Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

10. Property Taxes

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity
(Continued)**

10. Property Taxes (Continued)

Property Valuations – are established by the Assessor of the County of Humboldt for the secured and unsecured property tax rolls; the utility property tax rolls are valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution Proposition 13 adopted by the voters on June 6, 1978 properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Levies – are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates – are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections – are the responsibility of the county tax collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

The County of Humboldt levies, bills, and collects property taxes and special assessments for the City. Property taxes levied are recorded as revenue when received, in the fiscal year of levy, due to the adoption of the “alternate method of property tax distribution”, known as the Teeter Plan, by the City and the County of Humboldt. The Teeter Plan authorizes the Auditor/Controller of the County of Humboldt to allocate 100 percent of the secured property taxes billed, but not yet paid. The County of Humboldt remits tax monies to the City in three installments as follows:

- 50 percent remitted in December
- 45 percent remitted in April
- 5 percent remitted in June

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Assets, liabilities, deferred outflow/inflow of resources, and net position or equity
(Continued)**

11. Pensions

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

E. New Accounting Pronouncements

Implemented:

Governmental Accounting Standards Board Statement No. 72

For the fiscal year ended June 30, 2016, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Applications*. This Statement is effective for periods beginning after June 15, 2015. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. Implementation of GASB Statement No. 72 did have an impact on the City's financial statements for the fiscal year ended June 30, 2016, see Note 3 – Cash and Investments for further detail.

**CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. New Accounting Pronouncements (Continued)

Pending Accounting Standards:

| | | |
|------------------|---|--|
| Statement No. 77 | "Tax Abatement Disclosures" | The provision of this statement is effective for fiscal years beginning after December 15, 2015. |
| Statement No. 78 | "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" | The provision of this statement is effective for fiscal years beginning after December 15, 2015. |
| Statement No. 79 | "Certain External Investment Pools and Pool Participants" | The provision of this statement is effective for fiscal years beginning after December 15, 2015. |
| Statement No. 80 | "Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14" | The provision of this statement is effective for fiscal years beginning after December 15, 2015. |
| Statement No. 81 | "Irrevocable Split-Interest Agreements" | The provision of this statement is effective for fiscal years beginning after December 15, 2016. |
| Statement No. 82 | "Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73" | The provision of this statement is effective for fiscal years beginning after December 15, 2017. |

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual appropriated budgets are adopted for all funds of the City. Appropriations include amounts encumbered at fiscal year-end as these encumbrances are not reappropriated in the following year. All annual appropriations lapse at fiscal year end. Legally adopted budgetary appropriations are enacted at the departmental level for current operating expenditures, with separate appropriations for capital and other projects, debt service, reserves, transfers and contingencies. Expenditures cannot legally exceed appropriations at these control levels. Amendments to the budget at the legal appropriation level must be approved by City Council. Amendments to the budget at less than the legal appropriation level may be made by management.

Project-length financial plans are adopted for capital and other projects. Appropriations for these projects are included in the annual appropriated budgets for each of the applicable funds. Unspent project amounts are included in the annual budgets of subsequent years until project completion.

**CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information (Continued)

Budgetary financial statements include revenues and expenditures which are presented in accordance with Accounting Principles Generally Accepted in the United States of America (USGAAP).

Formal budgetary integration is employed as a management control device. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances outstanding at fiscal year-end commitments will be re-appropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations

For the fiscal year ended June 30, 2016, the following funds reflected expenditures in excess of budgeted amounts:

| <u>Major fund</u> | <u>Amount of Excess</u> |
|------------------------|-------------------------|
| General Fund | |
| Capital Outlay: | \$ 68,382 |
| Debt service: | 1,304 |
| | |
| <u>Non-major funds</u> | |
| Special Revenue Funds: | |
| Demolition Projects | 51,941 |
| Airport | 1,223 |

C. Deficit fund equity/net position

Major fund

The Building Enterprise fund had a deficit net position balance of \$1,231,898 as of June 30, 2016. The deficit balance is due to elimination of a general fund subsidy. Increased enforcement activity and rate increases are expected to close the gap in the future.

Nonmajor funds

Deficit fund balances exist in the Gas Tax/State Highway Special Revenue Fund of \$181,092, Parking Special Revenue Fund of \$48, Demolition Projects Special Revenue Fund of \$1,269,940, and Airport Special Revenue Fund of \$9,007. These deficits are expected to be eliminated upon receipt of the grant revenues and reimbursements that were not recognized as a result of not meeting the availability criteria and interfund transfers.

**CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

C. Deficit fund equity/net position (Continued)

Internal Service fund

The Risk Management Internal Service Fund had a deficit balance at June 30, 2015 of \$917,980. The deficit is due to the City incurring costs in advance of receiving revenue.

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

| | <u>Government- Wide Statement of Net Position</u> | <u>Fiduciary Fund Statement of Net Position</u> | <u>Total</u> |
|---|---|---|--------------------------|
| Cash and investments | \$ 17,733,934 | \$ 1,818,661 | \$ 19,552,595 |
| Cash and investments with fiscal agents | <u>7,128,153</u> | <u>1,073,206</u> | <u>8,201,359</u> |
| Total Cash and Investments | <u>\$ 24,862,087</u> | <u>\$ 2,891,867</u> | <u>\$ 27,753,954</u> |

Cash and investments at June 30, 2016 consisted of the following:

| | |
|--------------------------------------|--------------------------|
| Cash on hand | \$ 8,530 |
| Deposits with financial institutions | 5,640,986 |
| Investments | <u>22,104,438</u> |
| Total Cash and Investments | <u>\$ 27,753,954</u> |

A. Investments Authorized by the California Government Code and the City's Investment Policy

The table in the next page identifies the investment types that are authorized for the City of Eureka (City) by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 CASH AND INVESTMENTS (Continued)

A. Investments Authorized by the California Government Code and the City's Investment Policy (Continued)

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio*</u> | <u>Maximum Investment in One Issuer</u> |
|---|-------------------------|---|---|
| Bankers Acceptances | 180 days | 40% | None |
| Certificates of Deposits | 180 days | 20% | None |
| Negotiable Certificates of Deposit | 2 years | 30% | None |
| Commercial Paper | 270 days | 25% | None |
| Corporate Medium Term Notes | 5 years | 30% | None |
| State of California Local Agency Investment Fund (State Pool) | N/A | Unlimited | \$50,000,000 |
| Money Market Funds | N/A | Unlimited | None |
| Passbook Savings and Money Market Accounts (Insured) | None | Unlimited | None |
| U.S. Treasury Obligations | None | Unlimited | None |
| U.S. Government Agency Issues | None | Unlimited | None |
| Repurchase Agreements | 30 days | 10% | None |
| Mortgage pass-through and asset backed securities | 5 years | 20% | None |

B. Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the Investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|---|-------------------------|--|---|
| Certificates of Deposit with Banks and Savings & Loans | None | None | None |
| United States Treasury Obligations | None | None | None |
| United States Government Sponsored Enterprise Securities | None | None | None |
| Municipal Obligations | None | None | None |
| Banker's Acceptances | 180 days | None | None |
| Commercial Paper | 270 days | None | None |
| Money Market Mutual Funds | N/A | None | None |
| Investment Contracts | None | None | None |
| State of California Local Agency Investment Fund (State Pool) | None | None | None |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 CASH AND INVESTMENTS (Continued)

C. Disclosures Relating to Interest Rate Risk

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

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

| Investment Type | Amount | Remaining Maturity (in Months) | | | |
|---------------------------|----------------------|--------------------------------|-----------------|-----------------|----------------|
| | | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | Over 60 Months |
| State Investment Pool | \$ 13,614,549 | \$ 13,614,549 | \$ - | \$ - | \$ - |
| Certificates of Deposit | 288,530 | 288,530 | | | |
| Held by Bond Trustees: | | | | | |
| Money Market Mutual Funds | 8,201,359 | 8,201,359 | | | |
| Total | \$ 22,104,438 | \$ 22,104,438 | \$ - | \$ - | \$ - |

D. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

E. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

| Investment Type | Amount | Minimum Legal Rating | Exempt From Disclosure | Rating as of Fiscal Year End | | | |
|---------------------------|----------------------|----------------------|------------------------|------------------------------|-------------|-------------|----------------------|
| | | | | AAA | AA | A | Not Rated |
| State Investment Pool | \$ 13,614,549 | N/A | \$ - | \$ - | \$ - | \$ - | \$ 13,614,549 |
| Certificates of Deposit | 288,530 | N/A | | | | | 288,530 |
| Held by Bond Trustees: | | | | | | | |
| Money Market Mutual Funds | 8,201,359 | N/A | | | | | 8,201,359 |
| Total | \$ 22,104,438 | | \$ - | \$ - | \$ - | \$ - | \$ 22,104,438 |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 CASH AND INVESTMENTS (Continued)

F. Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments.

G. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2016, all of the City's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts. As of June 30, 2016, the City's investment in the following type was held by the same broker-dealer (Counterparty) that was used by the City to buy the security:

| <u>Investment Type</u> | <u>Reported Amount</u> |
|-------------------------|------------------------|
| Certificates of Deposit | \$288,530 |

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 CASH AND INVESTMENTS (Continued)

Fair Value Measurements:

The City pool investment categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and,
- Level 3: Investments reflect prices based upon unobservable sources.

The City pool investment has the following recurring fair value measurements as of June 30, 2016:

| <u>Investment by Fair Value Level</u> | <u>Fair Value</u> | <u>Fair Value Measurements Using</u> | | |
|--|-------------------|---|---|--|
| | | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Input (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
| Debt securities | | | | |
| Certificates of deposits | \$ 288,530 | \$ 288,530 | | |
| Total Investments Measured at Fair Value | 288,530 | \$ 288,530 | \$ - | \$ - |
| Investments Measured at Amortized Cost | | | | |
| LAIF | 13,614,549 | | | |
| Total Pooled Investments | \$ 13,903,079 | | | |

The City also had investments in the money market mutual funds, however, these investments are not required to be measured under Level 1, 2 or 3.

NOTE 4 RECEIVABLES

Receivables as of fiscal year end for the government's individual major funds and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | <u>Accounts</u> | <u>Accrued Interest</u> | <u>Totals</u> |
|-----------------------------|-----------------|-----------------------------|---------------|
| Governmental Funds: | | | |
| General | \$ 6,511,556 | \$ - | \$ 6,511,556 |
| Nonmajor Governmental Funds | 354,350 | | 354,350 |
| Total - Governmental Funds | \$ 6,865,906 | \$ - | \$ 6,865,906 |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 RECEIVABLES (Continued)

Governmental funds report unavailable revenues in connection with receivables for revenues and notes and loans that are not considered to be available to liquidate liabilities of the current period. As of June 30, 2016, the various components of unearned revenue are as follows:

Unearned Revenue/Deferred Inflows of Resources:

Governmental Funds:

| | |
|-----------------------------|----------------------|
| General | \$ 451,940 |
| Successor Housing Authority | 7,474,318 |
| Housing | <u>6,193,388</u> |
| Total Unearned Revenues | <u>\$ 14,119,646</u> |

Receivables as of fiscal year end for the government's individual enterprise funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | Accounts | Accrued Interest | Totals |
|--------------------------|---------------------|---------------------|---------------------|
| Enterprise Funds: | | | |
| Water | \$ 777,123 | \$ 7,310 | \$ 784,433 |
| Wastewater | 671,383 | 52,701 | 724,084 |
| Harbor | 9,463 | | 9,463 |
| Building | 1,450,491 | | 1,450,491 |
| Transit | <u>424,373</u> | | <u>424,373</u> |
| Total - Enterprise Funds | <u>\$ 3,332,833</u> | <u>\$ 60,011</u> | <u>\$ 3,392,844</u> |

Receivables of the Water and Wastewater funds are reported net of nominal uncollectible accounts in the amount of \$13,587 and \$5,479 respectively.

Notes and Loans Receivable

The following schedule summarizes notes and loans receivable as of June 30, 2016:

| | |
|---|----------------------|
| Successor Housing Authority Fund Notes Receivable | \$ 7,474,318 |
| Housing Special Revenue Fund Loans Receivable | <u>6,193,388</u> |
| Total Notes Receivable, Governmental Funds | <u>\$ 13,667,706</u> |

These notes and loans represent amounts loaned to individuals and businesses to assist in the elimination of blight and/or assist in purchasing or rehabilitation of residences or businesses.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. Normally these balances occur as a result of expenditures/ expenses being paid prior to receiving revenue which causes a deficit in pooled cash. The composition of interfund balances as of June 30, 2016 is as follows:

A. Due to/ from other fund

| <u>Receivable Funds</u> | <u>Payable Funds</u> | <u>Amount</u> |
|-----------------------------|--|--------------------|
| Major Water Enterprise Fund | General Fund | \$ 436,503 |
| | Nonmajor Gas Tax/State Highway Special Revenue Fund | 87,949 |
| | Nonmajor Habitat Acquisition and Restoration Special Revenue Fund | 109,272 |
| | Nonmajor Capital Improvements Special Revenue Fund | 1,258 |
| | Nonmajor Demolition Projects Special Revenue Fund | 1,277,073 |
| | Nonmajor Airport Projects Special Revenue Fund | 11,258 |
| | Major Harbor Enterprise Fund | 465,873 |
| | Major Building Enterprise Fund | 1,263,758 |
| | Major Transit Enterprise Fund | 519,899 |
| | Risk Management Internal Service Fund | 612,938 |
| | | <u>\$4,785,781</u> |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 CAPITAL ASSETS

A summary of changes in the Governmental Activities capital assets at June 30, 2016 is as follows:

| | Balance at July 1, 2015 | Additions | Reductions | Transfers / Adjustments | Balance at June 30, 2016 |
|--|----------------------------|-----------------------|--------------------|----------------------------|-----------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 3,692,899 | \$ - | \$ - | \$ - | \$ 3,692,899 |
| Infrastructure | 23,922,864 | 102,324 | | | 24,025,188 |
| Construction in progress | 1,658,979 | 707,681 | | (320,777) | 2,045,883 |
| Artwork | 236,795 | | | | 236,795 |
| Total capital assets, not being depreciated | <u>29,511,537</u> | <u>810,005</u> | | <u>(320,777)</u> | <u>30,000,765</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 19,492,036 | | | 229,377 | 19,721,413 |
| Improvements other than buildings | 85,745,194 | | | | 85,745,194 |
| Machinery and equipment | 17,578,745 | 380,320 | (50,696) | | 17,908,369 |
| Infrastructure | 8,480,297 | | | 91,400 | 8,571,697 |
| Total capital assets being depreciated | <u>131,296,272</u> | <u>380,320</u> | <u>(50,696)</u> | <u>320,777</u> | <u>131,946,673</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | (7,345,582) | (416,646) | | | (7,762,228) |
| Improvements other than buildings | (63,152,192) | (1,161,351) | | | (64,313,543) |
| Machinery and equipment | (12,841,917) | (935,194) | 31,512 | | (13,745,599) |
| Infrastructure | (2,579,411) | (345,209) | | | (2,924,620) |
| Total accumulated depreciation | <u>(85,919,102)</u> | <u>(2,858,400)</u> | <u>31,512</u> | | <u>(88,745,990)</u> |
| Total capital assets being depreciated, net | <u>45,377,170</u> | <u>(2,478,080)</u> | <u>(19,184)</u> | <u>320,777</u> | <u>43,200,683</u> |
| Governmental activities capital assets, net | <u>\$ 74,888,707</u> | <u>\$ (1,668,075)</u> | <u>\$ (19,184)</u> | <u>\$ -</u> | <u>\$ 73,201,448</u> |

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

Governmental Activities:

| | |
|--|---------------------|
| General government | \$ 360,861 |
| Public safety | 543,199 |
| Public works | 1,252,493 |
| Community development | 280,308 |
| Culture and recreation | 421,539 |
| Total depreciation expense - governmental activities | <u>\$ 2,858,400</u> |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 CAPITAL ASSETS (Continued)

A summary of changes in the Business-type Activities capital assets at June 30, 2016 is as follows:

| | Balance at July 1, 2015 | Additions | Reductions | Transfers / Adjustments | Balance at June 30, 2016 |
|---|----------------------------|--------------------|-------------|----------------------------|-----------------------------|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 11,698,800 | \$ - | \$ - | \$ - | \$ 11,698,800 |
| Construction in progress | 36,198,895 | 2,352,357 | | (532,023) | 38,019,229 |
| Total capital assets, not being depreciated | <u>47,897,695</u> | <u>2,352,357</u> | | <u>(532,023)</u> | <u>49,718,029</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings | 11,685,197 | | | 108,167 | 11,793,364 |
| Improvements other than buildings | 35,820,795 | 10,850 | | 18,431 | 35,850,076 |
| Machinery and equipment | 52,995,026 | 140,520 | | | 53,135,546 |
| Infrastructure | 19,795,673 | | | 405,425 | 20,201,098 |
| Total capital assets being depreciated | <u>120,296,691</u> | <u>151,370</u> | | <u>532,023</u> | <u>120,980,084</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings | (5,980,385) | (240,854) | | | (6,221,239) |
| Improvements other than buildings | (21,515,061) | (568,854) | | | (22,083,915) |
| Machinery and equipment | (37,509,367) | (1,253,660) | | | (38,763,027) |
| Infrastructure | (3,315,339) | (483,117) | | | (3,798,456) |
| Total accumulated depreciation | <u>(68,320,152)</u> | <u>(2,546,485)</u> | | | <u>(70,866,637)</u> |
| Total capital assets being depreciated, net | <u>51,976,539</u> | <u>(2,395,115)</u> | | <u>532,023</u> | <u>50,113,447</u> |
| Business-type activities capital assets, net | <u>\$ 99,874,234</u> | <u>\$ (42,758)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 99,831,476</u> |

Depreciation was charged to business – type activities as follows:

Business-type Activities:

| | |
|---|---------------------|
| Water | \$ 836,403 |
| Wastewater | 1,100,299 |
| Harbor | 330,797 |
| Building | 12,274 |
| Transit | 261,133 |
| Golf | <u>5,579</u> |
| Total depreciation expense - business-type activities | <u>\$ 2,546,485</u> |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 OPERATING LEASES

The City leases (as lessee) equipment and real estate under operating leases, which are not, in the aggregate, material.

The City leases (as lessor) various office facilities & buildings, hangar facilities, tidelands & docks, and the golf course under operating leases to various entities and individuals. Total revenues from these leases for fiscal year ending June 30, 2016 were \$320,656. From this same period, the contingent rentals totaled \$56,389.

NOTE 8 LONG-TERM DEBT

A. Changes in long-term debt

Long-term liability activity for the fiscal year ended June 30, 2016, was as follows:

| | Balance at July 1, 2015 | Additions | Reductions | Balance at June 30, 2016 | Due Within One Year |
|---------------------------------|----------------------------|---------------------|------------------------|-----------------------------|------------------------|
| Governmental Activities: | | | | | |
| Compensated Absences | \$ 1,194,679 | \$ 787,899 | \$ (781,295) | \$ 1,201,283 | \$ 1,201,283 |
| Net Pension Liabilities | 38,183,484 | 7,581,699 | (14,725,650) | 31,039,533 | |
| Capital Leases | 846,312 | | (309,653) | 536,659 | 170,168 |
| Total | \$ 40,224,475 | \$ 8,369,598 | \$ (15,816,598) | \$ 32,777,475 | \$ 1,371,451 |

| | Balance at July 1, 2015 | Prior Period Adjustments | Additions | Reductions | Balance at June 30, 2016 | Due Within One Year |
|--------------------------------------|----------------------------|-----------------------------|---------------------|-----------------------|-----------------------------|------------------------|
| Business-type Activities: | | | | | | |
| Series 2002B CSCDA Revenue Bonds | \$ 2,370,000 | \$ - | \$ - | \$ (135,000) | \$ 2,235,000 | \$ 140,000 |
| Series 2003A CSCDA Revenue Bonds | 2,640,000 | | | (140,000) | 2,500,000 | 145,000 |
| Series 2005C CSCDA Revenue Bonds | 5,210,000 | | | (380,000) | 4,830,000 | 395,000 |
| Series 2006A CSCDA Revenue Bonds | 1,395,000 | | | (55,000) | 1,340,000 | 60,000 |
| Wastewater Revenue Bonds Series 2011 | 15,465,000 | | | (290,000) | 15,175,000 | 300,000 |
| Water Revenue Bonds Series 2012 | 9,370,000 | | | | 9,370,000 | |
| Total Bonds Payable | 36,450,000 | | | (1,000,000) | 35,450,000 | 1,040,000 |
| Bond Premium | 462,743 | | | (22,048) | 440,695 | 22,048 |
| Net Pension Liabilities | 10,379,753 | | 2,005,104 | (987,264) | 11,397,593 | |
| Compensated Absences | 254,151 | | 213,106 | (206,803) | 260,454 | 260,454 |
| Capital Lease | 667,549 | | | (326,957) | 340,592 | 340,592 |
| Intergovernmental Loan Payable | 1,687,552 | | | | 1,687,552 | 98,342 |
| Total | \$ 49,901,748 | \$ - | \$ 2,218,210 | \$ (2,543,072) | \$ 49,576,886 | \$ 1,761,436 |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 LONG-TERM DEBT (Continued)

C. Capital Leases

Governmental activities

During fiscal year 2012-13, the City entered into a capital lease for a fire truck and roofing at the City Hall with a maximum value of \$782,479. As of June 30, 2016, the balance of this lease is \$477,914.

During fiscal year 2012-13, the City entered into a capital lease for a network upgrade and a VoIP phone system with a maximum value of \$285,887. As of June 30, 2016, the balance of this lease is \$58,745.

These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. As of June 30, 2016, the total balance for all capital leases related to governmental activities is \$536,659.

Business-type activities

During fiscal year 2006-07, the City entered into a capital lease agreement for an Automated Water Metering System with a maximum value of \$2,853,500. Annual installments of \$354,794 begin December 19, 2007 through December 19, 2016 at an interest rate of 4.17%. As of June 30, 2016, the balance of this lease is \$340,592.

The following is a schedule of the future minimum lease payments under these capital leases

| <u>Fiscal Year Ending June 30,</u> | <u>Governmental Activities Amount</u> | <u>Business-type Activities Amount</u> |
|--|---|--|
| 2017 | \$ 189,943 | \$ 354,795 |
| 2018 | 129,542 | |
| 2019 | 129,542 | |
| 2020 | 129,542 | |
| Minimum lease payments | <u>578,569</u> | <u>354,795</u> |
| Less amount representing interest | <u>(41,910)</u> | <u>(14,203)</u> |
| Present value of minimum lease payments | <u>\$ 536,659</u> | <u>\$ 340,592</u> |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 LONG-TERM DEBT (Continued)

D. Intergovernmental Loan

Business-type activities

On September 26, 1996, the City and Redevelopment Agency jointly entered into a loan and operation contract with the California Department of Boating and Waterways for the purpose of repairing and refurbishing the Eureka Boat Basin. The loan of \$2,750,000 is payable at 4.5% interest over 30 years. The outstanding balance as of June 30, 2016 was \$1,687,552. Future minimum debt service requirements to maturity are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|-----------------------------------|---------------------|-------------------|---------------------|
| 2017 | \$ 98,342 | \$ 75,940 | \$ 174,282 |
| 2018 | 102,768 | 71,514 | 174,282 |
| 2019 | 107,392 | 66,890 | 174,282 |
| 2020 | 112,225 | 62,057 | 174,282 |
| 2021 | 117,275 | 57,007 | 174,282 |
| 2022-2026 | 670,447 | 200,963 | 871,410 |
| 2027-2029 | 479,103 | 43,752 | 522,855 |
| | <u>\$ 1,687,552</u> | <u>\$ 578,123</u> | <u>\$ 2,265,675</u> |

E. Revenue Bonds

Business-type activities

CSCDA Water Revenue Bonds (Pooled Financing Program), Series 2002B principal amount of \$3,625,000, due in annual installments through April 1, 2028; interest rates at 4.00% to 5.25%. Proceeds were used to finance various Water Utility projects. These bonds are payable exclusively from the revenues of the City's Water Utility, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2016 was \$2,235,000. Future debt service requirements to maturity are as follows:

| Fiscal Year Ending June 30, | Series 2002B CSCDA Revenue Bonds | | |
|-----------------------------------|----------------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2017 | \$ 140,000 | \$ 111,728 | \$ 251,728 |
| 2018 | 145,000 | 104,318 | 249,318 |
| 2019 | 155,000 | 96,518 | 251,518 |
| 2020 | 160,000 | 88,488 | 248,488 |
| 2021 | 170,000 | 80,238 | 250,238 |
| 2022-2026 | 995,000 | 258,283 | 1,253,283 |
| 2027-2028 | 470,000 | 24,937 | 494,937 |
| Totals | <u>\$ 2,235,000</u> | <u>\$ 764,510</u> | <u>\$ 2,999,510</u> |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 LONG-TERM DEBT (Continued)

E. Revenue Bonds (Continued)

Business-type activities (Continued)

CSCDA Wastewater Revenue Bonds (Pooled Financing Program), Series 2003A principal amount of \$4,040,000 due in annual installments through April 1, 2029; interest rates at 2.00% to 5.25%. Proceeds were used to finance various Wastewater Utility projects. These bonds are payable exclusively from the revenues of the City's Wastewater Utility, and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2016 was \$2,500,000. Future debt service requirements to maturity are as follows:

| Fiscal Year Ending June 30, | Series 2003A CSCDA Revenue Bonds | | |
|-----------------------------------|----------------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2017 | \$ 145,000 | \$ 115,940 | \$ 260,940 |
| 2018 | 150,000 | 110,500 | 260,500 |
| 2019 | 155,000 | 104,782 | 259,782 |
| 2020 | 160,000 | 97,676 | 257,676 |
| 2021 | 170,000 | 89,013 | 259,013 |
| 2022-2026 | 1,000,000 | 298,877 | 1,298,877 |
| 2027-2029 | 720,000 | 52,252 | 772,252 |
| Totals | \$ 2,500,000 | \$ 869,040 | \$ 3,369,040 |

CSCDA Water Revenue Bonds (Pooled Financing Program), Series 2005C principal amount of \$8,110,000, due in annual installments through April 1, 2026; interest rates at 2.60% to 5.00%. Proceeds were used to advance refund the City's CSCDA 2000A Water and Wastewater Revenue Bonds. These bonds are payable exclusively from the City's Water Utility and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2016 was \$4,830,000. Future debt service requirements to maturity are as follows:

| Fiscal Year Ending June 30, | Series 2005C CSCDA Revenue Bonds | | |
|-----------------------------------|----------------------------------|---------------------|---------------------|
| | Principal | Interest | Total |
| 2017 | \$ 395,000 | \$ 220,594 | \$ 615,594 |
| 2018 | 410,000 | 204,995 | 614,995 |
| 2019 | 425,000 | 188,500 | 613,500 |
| 2020 | 440,000 | 169,000 | 609,000 |
| 2021 | 465,000 | 146,375 | 611,375 |
| 2022-2026 | 2,695,000 | 349,625 | 3,044,625 |
| Totals | \$ 4,830,000 | \$ 1,279,089 | \$ 6,109,089 |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 LONG-TERM DEBT (Continued)

E. Revenue Bonds (Continued)

Business-type activities (Continued)

CSCDA Water Revenue Bonds (Pooled Financing Program), Series 2006A principal amount of \$1,795,000, due in annual installments through April 1, 2032; interest rates at 3.00% to 5.00%. Proceeds were used to finance various Water System Projects. The bonds are payable solely from the revenue of the City's Water Utilities and are secured by a lien and pledge of such revenues. The bonds are not secured by the taxing power of the City of Eureka. The outstanding balance as of June 30, 2016 was \$1,340,000. Future debt service requirements to maturity are as follows:

| Fiscal Year Ending June 30, | Series 2006A CSCDA Revenue Bonds | | |
|--------------------------------|----------------------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| 2017 | \$ 60,000 | \$ 59,631 | \$ 119,631 |
| 2018 | 60,000 | 57,268 | 117,268 |
| 2019 | 65,000 | 54,768 | 119,768 |
| 2020 | 65,000 | 52,128 | 117,128 |
| 2021 | 70,000 | 49,300 | 119,300 |
| 2022-2026 | 405,000 | 192,971 | 597,971 |
| 2027-2031 | 500,000 | 84,603 | 584,603 |
| 2032 | 115,000 | 2,588 | 117,588 |
| Totals | <u>\$ 1,340,000</u> | <u>\$ 553,257</u> | <u>\$ 1,893,257</u> |

The Wastewater Revenue Bonds, Series 2011 were issued in the amount of \$16,280,000, due in annual installments through October 1, 2041; interest rates at 2.00% to 5.00%. The purpose of this issue was to finance capital improvements including, but not limited to, the acquisition, construction and improvement of 1.5 miles of interceptor sewer piping and connections along the floor of the Martin Slough Valley, a pumping station, and approximately 1.6 miles of sewer force main piping from the pumping station to the City's wastewater treatment plant. The balance of the proceeds was used to pay the cost of issuing the bonds and to set up reserves for near term interest and future debt service payments. The bonds are payable solely from the revenue of the City's Wastewater System Revenues and are secured by a lien and pledge of such revenues. The outstanding balance as of June 30, 2016 was \$15,175,000.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 LONG-TERM DEBT (Continued)

E. Revenue Bonds (Continued)

Business-type activities (Continued)

| Fiscal Year Ending June 30, | Wastewater Revenue Bonds Series 2011 | | |
|--------------------------------|--------------------------------------|----------------------|----------------------|
| | Principal | Interest | Total |
| 2017 | \$ 300,000 | \$ 736,056 | \$ 1,036,056 |
| 2018 | 310,000 | 723,081 | 1,033,081 |
| 2019 | 325,000 | 708,794 | 1,033,794 |
| 2020 | 340,000 | 692,982 | 1,032,982 |
| 2021 | 360,000 | 675,482 | 1,035,482 |
| 2022-2026 | 2,105,000 | 3,079,785 | 5,184,785 |
| 2027-2031 | 2,675,000 | 2,500,239 | 5,175,239 |
| 2032-2036 | 3,395,000 | 1,781,222 | 5,176,222 |
| 2037-2041 | 4,355,000 | 818,875 | 5,173,875 |
| 2042 | 1,010,000 | 25,250 | 1,035,250 |
| Totals | <u>\$ 15,175,000</u> | <u>\$ 11,741,766</u> | <u>\$ 26,916,766</u> |

The Water Revenue Bonds, Series 2012 were issued in the amount of \$9,370,000, due in annual installments through October 1, 2042; interest rates at 4.00% to 5.00%. The purpose of this issue was to finance the cost of improvements to the Water System of the City. The balance of the proceeds was used to pay the cost of issuing the bonds and to set up reserves for near term interest and future debt service payments. The bonds are payable solely from the revenue of the City's Water System Revenues and are secured by a lien and pledge of such revenues. The outstanding balance as of June 30, 2016 was \$9,370,000. Future debt service requirements to maturity are as follows:

| Fiscal Year Ending June 30, | Water Revenue Bonds Series 2012 | | |
|-----------------------------------|---------------------------------|---------------------|----------------------|
| | Principal | Interest | Total |
| 2017 | \$ - | \$ 424,800 | \$ 424,800 |
| 2018 | | 424,800 | 424,800 |
| 2019 | | 424,800 | 424,800 |
| 2020 | | 424,800 | 424,800 |
| 2021 | | 424,800 | 424,800 |
| 2022-2026 | | 2,124,000 | 2,124,000 |
| 2027-2031 | 1,160,000 | 2,046,650 | 3,206,650 |
| 2032-2036 | 2,830,000 | 1,562,300 | 4,392,300 |
| 2037-2041 | 3,670,000 | 818,375 | 4,488,375 |
| 2042-2043 | 1,710,000 | 78,425 | 1,788,425 |
| Totals | <u>\$ 9,370,000</u> | <u>\$ 8,753,750</u> | <u>\$ 18,123,750</u> |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 LONG-TERM DEBT (Continued)

The annual requirements to amortize outstanding bonded indebtedness as of June 30, 2016 are as follows:

| Fiscal Year Ending June 30, | Business-type | | | Total |
|--------------------------------------|----------------------|--------------------------------|---------------------------|----------------------|
| | CSCDA Bonds | Wastewater Revenue Bonds | Water Revenue Bonds | |
| 2017 | \$ 740,000 | \$ 300,000 | \$ - | \$ 1,040,000 |
| 2018 | 765,000 | 310,000 | | 1,075,000 |
| 2019 | 800,000 | 325,000 | | 1,125,000 |
| 2020 | 825,000 | 340,000 | | 1,165,000 |
| 2021 | 875,000 | 360,000 | | 1,235,000 |
| 2022-2026 | 5,095,000 | 2,105,000 | | 7,200,000 |
| 2027-2031 | 1,690,000 | 2,675,000 | 1,160,000 | 5,525,000 |
| 2032-2036 | 115,000 | 3,395,000 | 2,830,000 | 6,340,000 |
| 2037-2041 | | 4,355,000 | 3,670,000 | 8,025,000 |
| 2042-2043 | | 1,010,000 | 1,710,000 | 2,720,000 |
| | <u>\$ 10,905,000</u> | <u>\$ 15,175,000</u> | <u>\$ 9,370,000</u> | <u>\$ 35,450,000</u> |

F. Compensated Absences

Employees may accumulate up to 30 days of vacation leave, except management employees, who may accumulate up to 44 days. Employees may accumulate an indefinite amount of sick leave. Vacation leave accrues at a rate determined by the employee's years of service and whether they work an 8-hour or 24-hour shift. The number of hours that accrue per month varies from 8 to 22. Vacation leave vests as it is accrued and unused vacation leave is payable upon retirement or termination. Compensation hours (executive leave) accrue for management and mid-management at 9 and 6 days per year, respectively. Compensation hours also accrue for police, fire and other specified employees in lieu of cash payments for overtime. A liability has been created to account for the accrued vacation and compensation leave in the government-wide financial statements. The City has, in the past, liquidated compensated leave in the general fund and all the proprietary funds. Vested vacation pay is expensed as earned in the proprietary fund types. The City's liability for earned vacation and compensation pay consisted of the following amounts as of June 30, 2016:

| | |
|----------------------------------|---------------------|
| Governmental Funds | \$ 1,154,070 |
| Internal Service Funds | <u>47,213</u> |
| Subtotal Governmental Activities | 1,201,283 |
| Business-type Funds | <u>260,454</u> |
| Total | <u>\$ 1,461,737</u> |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 OTHER INFORMATION

A. Risk Management

The City of Eureka is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The City participates in a public entity risk pool for workers' compensation, general liability and property insurance coverage. During fiscal year 2015-16, there were no significant reductions in insurance coverage.

B. Risk Pool Arrangements

The City is an associate member of the Redwood Empire Municipal Insurance Fund (REMIF), a public entity pool comprised of fifteen northern California charter and associate member cities. REMIF is organized under a Joint Powers Agreement pursuant to the California Government Code. The purpose of REMIF is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

For each of its insurance programs, REMIF has a multilevel risk sharing arrangement. Initially each individual charter or associate member city participating in a program assumes its own losses up to a predetermined deductible level. Losses and claims in excess of the deductibles and within REMIF's stated retention limits are paid out of a central pool maintained by REMIF. This central pool is funded by all of the cities participating in that program through premium assessments. REMIF purchases excess loss insurance policies (reinsurance) to provide coverage for losses and claims in excess of REMIF's stated retention limits up to specified amounts. Losses and claims ceded to reinsurers would represent a contingent liability to REMIF if the reinsurers were unable to meet their existing obligations under the reinsurance agreements. Losses and claims which surpass the limits of the excess of loss insurance policies are the responsibility of the individual city in which the loss or claim originates.

REMIF programs do not insure the City's losses resulting from events which occurred prior to March 1, 1993, the date on which the City became an associate member of REMIF.

The City of Eureka participates in the following three REMIF programs:

General Liability Insurance – Annual premiums are paid by the member cities and are adjusted retrospectively to cover costs. The City of Eureka self-insures for the first \$25,000 of each loss and pays 100% of all losses incurred under \$25,000. The City does not share or pay for losses of other cities under a range of between \$5,000 to \$25,000, depending on the entity's deductible amount. Participating cities then share in the next \$25,000 to \$500,000 per loss occurrence. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, professional liability, and certain other coverage. REMIF is a member of the California Joint Powers Risk Management Authority, which provides REMIF with an additional \$9,500,000 liability insurance coverage over and above REMIF retention level of \$500,000.

Worker's Compensation – Periodic deposits are paid by member cities and are adjusted retrospectively to cover costs. The City of Eureka is self-insured for the first \$10,000 of each loss and pays 100% of all losses incurred under \$10,000. The City does not share or pay for losses of other cities under \$10,000.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 OTHER INFORMATION (Continued)

B. Risk Pool Arrangements (Continued)

Losses of \$10,000 to \$500,000 are prorated among all participating cities. Losses in excess of \$500,000 are covered by excess insurance purchased by participating cities, as part of the pool, to State statutory limits.

Property Insurance – The City participates in REMIF’s property insurance program. The annual deposits paid by participating member cities are based upon deductibility levels and are not subject to retroactive adjustments. The City of Eureka has a deductible level of \$10,000 and a coverage limit of \$300,000,000 declared value.

The following is a summary of the financial statements of REMIF as of and for the fiscal year ended June 30, 2016:

| | |
|--------------------------|---------------|
| Total Assets | \$ 18,982,986 |
| Total Deferred Outflows | 515,364 |
| Total Liabilities | 21,934,697 |
| Total Deferred Inflows | 188,410 |
| Total Net Position | (2,624,757) |
| Total Revenues | 23,921,893 |
| Total Expenses | 23,859,933 |
| Decrease in Net Position | 61,960 |

Other Insurance Programs

The City maintains the following programs for exposure to losses which are not covered by REMIF:

General Liability Insurance – Losses incurred after February 28, 1993, are covered by REMIF, as described in Paragraph A above. For losses incurred prior to March 1, 1993, the City accrues its share of general liability based on an analysis of past experience.

The City self-insures for \$25,000 per occurrence. The City’s excess coverage is \$500,000 per occurrence with \$5,000,000 annual general aggregate coverage on the primary policy.

The total excess liability provides \$40,000,000 coverage per occurrence or in the aggregate annually.

Worker’s Compensation Insurance – Losses incurred after February 28, 1993, are covered by REMIF, as described in Paragraph A above. For losses incurred prior to March 1, 1993, the City accrued workers’ compensation liability based on an actuarial evaluation of claims, which was accomplished during the year ended June 30, 1996. The City self-insures claims up to \$90,000 during the first payment year following the date of the accident, \$50,000 during the second payment year, and \$40,000 during the third and each subsequent payment year following the date of the accident resulting in injury. Excess worker’s compensation insurance coverage is maintained with a limit of \$2,000,000 to protect against catastrophic losses.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 OTHER INFORMATION (Continued)

B. Risk Pool Arrangements (Continued)

Group Health and Benefits – On August 1, 2002 the City terminated a self-insured group health and benefit program for its employees and eligible dependents. The self-insured group health and benefits “tail” claims were paid through June 30, 2003. City employees choose from a number of benefit plans (dental, health, vision, life insurance, long-term disability, 125 plan medical and/or dependent care) available to them through the City using the monthly fringe benefit contribution from the City. Each plan requires an employee deductible amount and pays benefit percentages that vary depending on plan carrier.

NOTE 10 CLAIMS ADJUSTMENTS

The City maintains an internal service fund to account for general liability insurance, worker’s compensation insurance, and group health and benefits insurance. The primary source of revenue for this fund consists of charges for services to the other funds of the City of Eureka. Claims liabilities are based on the requirements of Governmental Accounting Standards Board Statement Nos. 10 and 30, which require that claims liabilities, including IBNR (incurred but not reported claims), be based on the estimated ultimate cost of settling the claims, using past experience adjusted for current trends and any other factors that would modify past experience. Claims liabilities include specific, incremental claim adjustment expenditures/expenses. Expenditures/expenses and liabilities may be estimated through a case by case review of all claims, the application of historical experience to the outstanding claims, or a combination of these methods. Estimates of IBNR losses are based on historical experience. Claims liability has not been accrued for risks of losses which have been transferred to the public entity risk pool (REMIF).

The following schedule presents changes in accrued claims payable for the fiscal years ended June 30, 2016 and June 30, 2015:

| | General Liability Insurance | Worker's Compensation Insurance | Total |
|--|-----------------------------------|---------------------------------------|--------------|
| Accrued claims payable, June 30, 2014 | \$ (89,616) | \$ (148,642) | \$ (238,258) |
| Provision for insured events payments | 818,465 | 837,562 | 1,656,027 |
| Payments made to public entity risk pool | (694,768) | (682,375) | (1,377,143) |
| Direct payments made by the City | (134,017) | (96,766) | (230,783) |
| Accrued claims payable, June 30, 2015 | \$ (99,936) | \$ (90,221) | \$ (190,157) |
| Provision for insured events payments | 545,660 | 798,134 | 1,343,794 |
| Payments made to public entity risk pool | (545,660) | (634,643) | (1,180,303) |
| Direct payments made by the City | (47,907) | (179,488) | (227,395) |
| Accrued claims payable, June 30, 2016 | \$ (147,843) | \$ (106,218) | \$ (254,061) |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Local Employees' Retirement System (LERS):

Plan description

The City of Eureka (City) is the administrator of the Fire and Police Pension Benefits Plan (Plan), which is a single-employer public employee retirement system (LERS) originally established by the City in accordance with the City charter and state statutes for the benefit of its employees. This plan was formally terminated June 30, 1984, when its only remaining participants were retired members and employees who did not elect to be covered by the state public employees' retirement system at August 24, 1969. The last active member retired in 1988.

Members of the Plan were given credit for service from their date of hire to the date of the Plan termination. Active and retired members were given a one-time election to receive, in lieu of other benefits promised under the Plan, a single-sum payment. The buy-out during fiscal year 1984-85 totaled \$9,513,214. There have been no additional buy-out payments since 1985.

LERS is included as part of the primary government of the City and is included in the City's financial statements as a fiduciary fund. As of June 30, 2016, LERS membership consisted of 12 police and fire retirees and beneficiaries currently receiving benefits. Under LERS, after twenty-five years or more of service, in the aggregate, or upon reaching the age of sixty-five years, each covered employee was entitled to receive a yearly pension, in semi-monthly installments, equal to one-half the amount of salary attached to the rank which he/she may have held in the Fire or Police Department. Any employee who had not worked the full period of twenty-five years before reaching the age of sixty-five was entitled to have the amount of pension prorated according to the number of years worked in proportion to the period of twenty-five years of active service required for the pension provision.

Basis of Accounting – The City of Eureka LERS financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized in the period in which the contributions are due. Benefit payments are recognized when due and payable in accordance with the terms of the plan.

Summary of significant accounting policies and plan asset matters

Methods Used to Value Investments – Investments are reported at fair value. Cash and Cash equivalents are reported at cost, which approximates fair value (see also Note 1, Section I). Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported as estimated fair value.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Local Employees' Retirement System (LERS) (Continued):

Contributions required and contributions made

The City's Municipal Code, Title III, Chapter 34, assigns the authority to establish and amend benefits provisions of the Plan to the City Council.

Funding Policy – Actuarial determined funding policy provides for recommended period employer contributions for a projected forty-year cash flow under a thirty-year funding policy. During the last 5 fiscal years, contributions were not made in accordance with actuarially determined requirements. During the fiscal year 2006-07, contributions from the General Fund were made to cover benefits on a “pay as you go” basis. No contributions were made during the fiscal year 2007-08. During the fiscal years 2009-10, 2010-11, 2011-12, 2012-2013, 2013-2014, 2014-2015, and 2015-2016 contributions from the General Fund were made to cover benefits on a “pay as you go” basis. All administrative costs are financed by the City.

Annual Pension Cost and Net Pension Obligation – The City's annual pension cost and net pension obligation to LERS for the 2015-16 fiscal year was as follows:

| | |
|--|---------------------------|
| Annual required contribution | \$ 40,126 |
| Interest on net pension obligation (asset) | (119,603) |
| Adjustments to annual required contribution | 205,244 |
| Annual pension cost | <u>125,767</u> |
| Contribution made | <u>(396,879)</u> |
| Increase (decrease) in net pension obligation (asset) | (271,112) |
| Net pension obligation (asset), beginning of fiscal year | <u>(1,993,598)</u> |
| Net pension obligation (asset), end of fiscal year | <u>\$ (2,264,710)</u> |

The annual required contribution for the fiscal year 2015-16 was determined as part of the June 30, 2016 actuarial review using the entry age normal cost method, with the determination of the initial unfunded actuarial liability as of June 30, 1988, and amortizing that value over the remaining portion of forty years, with such forty year period beginning with the date of the initial funding method at July 1, 1975. The unfunded actuarial liability is being amortized as a level dollar of projected payroll.

The actuarial assumptions included: (a) Rate of return on the investment of present and future assets of six percent per year, (b) projected salary increases of four percent per year attributable to inflation, and; (c) post-retirement mortality rates based on the 1971 Group Annuity Mortality Table, with a five-year setback for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Local Employees' Retirement System (LERS) (Continued):

Contributions required and contributions made (Continued)

There was a material change in actuarial method for the fiscal year 1997-98 used to determine the Net Pension Obligation. The major change in the calculations dealt with the actuarial required contribution (ARC) for each of the years prior to 1997. The prior number was calculated with the recommended annual contributions being used as the ARC. Such recommended amounts amortized all gains and losses over a period that ends on June 30, 2016. The 2008-09 calculations were based on the required contributions under the entry age normal cost method, with the initial unfunded liability amortized over a period of forty years starting on July 1, 1974, actuarial experience gains and losses amortized over fifteen years from the date of recognition, and gains and losses created due to a change in actuarial assumptions amortized over thirty years. The June 30, 2016 actuarial valuation bases the calculations on the entry age normal cost method, with the initial unfunded liability amortized over a thirty year period starting on July 1, 1975, actuarial experience gains and losses being amortized over fifteen years, and gains and losses created due to a change in actuarial assumptions being amortized over thirty years. Except for the change in amortization of the initial unfunded liability from forty to thirty years noted above, there were no other material changes in the actuarial assumptions or benefit provisions.

Three year trend information

| Fiscal Year Ended June 30, | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation (Assets) |
|----------------------------------|---------------------------------|-------------------------------------|--|
| 2014 | \$ 12,186 | 100% | \$ (1,683,798) |
| 2015 | 87,862 | 100% | (1,993,598) |
| 2016 | 125,767 | 100% | (2,264,710) |

Funded Status — Most Recent Actuarial Valuation

According to the Plan's June 30, 2016 actuarial valuation, total actuarial assets of \$0 represented 0% of the total actuarial accrued liabilities of \$3,625,385 as of June 30, 2016. Additionally, total unfunded actuarial liabilities were \$3,627,087 at June 30, 2016 according to the valuation. For multiyear trend information, please refer to the schedules of funding progress in the supplementary information section of these financial statements. As noted in GASB Statement No. 50, this reference to the schedules of funding progress does not represent or imply incorporation of the schedules of funding progress into notes to the financial statements.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Agent Multiple-Employer Defined Benefit Pension Plan

A. General Information about the Pension Plan

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

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and 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:

| | City Miscellaneous Plan | | |
|---|-------------------------|----------------------------|--------------------------|
| | Tier I | Tier I | PEPRA |
| Hire date | Prior to August 1, 2002 | On or after August 1, 2002 | On or after July 1, 2013 |
| Benefit formula | 2.7% @ 55 | 2.7% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 50-55 | 50-55 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.7% | 2.0% to 2.7% | 1.0% to 2.5% |
| Required employee contribution rates | 7.00% | 8.00% | 6.25% |
| Required employer contribution rates | 26.362% | 26.362% | 26.362% |

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

| | <u>Miscellaneous</u> |
|--|----------------------|
| Inactive employees or beneficiaries currently receiving benefits | 249 |
| Inactive employees entitled to but not yet receiving benefits | 187 |
| Active employees | 164 |
| Total | 600 |

CITY OF EUREKA
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Agent Multiple-Employer Defined Benefit Pension Plan (Continued)

A. General Information about the Pension Plan (Continued)

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the fiscal year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

B. Net Pension Liability

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

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

| | |
|-----------------------------------|---|
| | <u>Miscellaneous</u> |
| Valuation Date | June 30, 2014 |
| Measurement Date | June 30, 2015 |
| Actuarial Cost Method | Entry Age Normal in Accordance with the Requirements of GASB 68 |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Salary Increases | Varies by Entry Age and Service 7.50 % Net of Pension Plan Investment Expenses, includes Inflation |
| Investment Rate of Return | Derived using CalPERS' Membership Data for all Funds |
| Mortality Rate Table ¹ | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |
| Post Retirement Benefit Increase | |

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Agent Multiple-Employer Defined Benefit Pension Plan (Continued)

B. Net Pension Liability (Continued)

Change of Assumptions - GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate – The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

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

In determining the long-term expected rate of return, staff took into account both short-term and long term market return expectations as well as the expected pension fund (Public Employees’ Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Agent Multiple-Employer Defined Benefit Pension Plan (Continued)

B. Net Pension Liability (Continued)

| <u>Asset Class</u> | <u>New Strategic Allocation</u> | <u>Real Return Year 1 - 10(a)</u> | <u>Real Return Years 11+(b)</u> |
|-------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Global Equity | 51.00% | 5.25% | 5.71% |
| Global Fixed Income | 19.00% | 0.99% | 2.43% |
| Inflation Sensitive | 6.00% | 0.45% | 3.36% |
| Private Equity | 10.00% | 6.83% | 6.95% |
| Real Estate | 10.00% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.00% | 4.50% | 5.09% |
| Liquidity | 2.00% | -0.55% | -1.05% |
| Total | 100.00% | | |

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

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

C. Changes in the Net Pension Liability

The change in the Net Pension Liability for each Plan follows:

Miscellaneous Plan:

| | <u>Increase (Decrease)</u> | | |
|--|--------------------------------|------------------------------------|--------------------------------------|
| | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Pension Liability (Asset)</u> |
| Balance at June 30, 2014 | \$ 89,143,879 | \$ 63,221,061 | \$ 25,922,818 |
| Changes during the year: | | | |
| Service Cost | 1,554,810 | - | 1,554,810 |
| Interest on the Total Pension Liability | 6,520,030 | - | 6,520,030 |
| Change of Assumptions | (1,505,340) | - | (1,505,340) |
| Differences between Expected and Actual Experience | (906,323) | - | (906,323) |
| Plan to Plan Resource Movement | - | (914,730) | 914,730 |
| Contribution from the Employer | - | 1,988,547 | (1,988,547) |
| Contribution from the Employees | - | 670,876 | (670,876) |
| Net Investment Income | - | 1,454,617 | (1,454,617) |
| Benefit Payments | (4,560,948) | (4,560,948) | - |
| Administrative Expense | - | (71,224) | 71,224 |
| Net Changes | 1,102,229 | (1,432,862) | 2,535,091 |
| Balance at June 30, 2015 | \$ 90,246,108 | \$ 61,788,199 | \$ 28,457,909 |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Agent Multiple-Employer Defined Benefit Pension Plan (Continued)

C. Changes in the Net Pension Liability (Continued)

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

| | <u>Miscellaneous</u> |
|-----------------------|----------------------|
| 1% Decrease | 6.65% |
| Net Pension Liability | \$ 39,779,037 |
| Current Discount Rate | 7.65% |
| Net Pension Liability | \$ 28,457,909 |
| 1% Increase | 8.65% |
| Net Pension Liability | \$ 19,036,361 |

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

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

For the fiscal year ended June 30, 2016, the City recognized pension expense of \$1,950,383. At June 30, 2016, the Local Government reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Pension contributions subsequent to measurement date | \$ 2,048,588 | \$ - |
| Changes of assumptions | - | (903,204) |
| Differences between expected and actual experiences | - | (543,794) |
| Net differences between projected and actual earnings on plan investments | - | (646,869) |
| Total | <u>\$ 2,048,588</u> | <u>\$ (2,093,867)</u> |

\$2,048,588 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| <u>Fiscal Year Ended June 30</u> | |
|--------------------------------------|----------------|
| 2017 | \$ (1,397,481) |
| 2018 | (915,149) |
| 2019 | (432,817) |
| 2020 | 651,580 |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Cost-Sharing Employer Defined Benefit Pension Plan

A. General Information about the Pension Plan

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

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and 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:

| | City Safety Plan - Police | |
|---|---------------------------|-----------------------------|
| | Tier I | PEPRA |
| | Prior to January 1, 2013 | On or after January 1, 2013 |
| Hire date | | |
| Benefit formula | 3.0% @ 50 | 2.7% @ 57 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 55 | 50 - 57 |
| Monthly benefits, as a % of eligible compensation | 3% | 2.0% to 2.7% |
| Required employee contribution rates | 9.00% | 11.923% |
| Required employer contribution rates | 19.263% | 11.923% |

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the fiscal year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the fiscal year ended June 30, 2016, the contributions recognized as a reduction to the net pension liability for the plan was \$1,695,798.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Cost-Sharing Employer Defined Benefit Pension Plan (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the City reported net pension liability for its proportionate share of the net pension liability was \$13,979,217.

The City's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

| | <u>Safety-Police</u> |
|------------------------------|----------------------|
| Proportion - June 30, 2014 | 0.33729% |
| Proportion - June 30, 2015 | 0.34809% |
| Change - Increase (Decrease) | 0.01080% |

For the fiscal year ended June 30, 2016, the City recognized pension expense of \$1,077,711. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual experience | \$ - | \$ (187,601) |
| Changes of assumptions | | (862,843) |
| Changes of employer's proportions | 918,128 | (79,919) |
| Net difference between projected and actual earnings on pension plan investments | - | (437,294) |
| Changes in proportion and differences between City contributions and proportionate share of contributions | - | 147,806 |
| City contributions subsequent to the measurement date | 1,550,480 | - |
| | \$ 2,468,608 | \$ (1,419,851) |

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Cost-Sharing Employer Defined Benefit Pension Plan (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

\$1,550,480 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Fiscal Year Ended June 30 | | |
|------------------------------|----|-----------|
| 2017 | \$ | (147,118) |
| 2018 | | (138,840) |
| 2019 | | (106,443) |
| 2020 | | (109,322) |

C. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

| | |
|---------------------------|---|
| | <u>Safety - Police</u> |
| Valuation Date | June 30, 2014 |
| Measurement Date | June 30, 2015 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | 3.30%-14.20% |
| Investment Rate of Return | 7.50% |
| Mortality(1) | Derived using CalPERS' Membership Data for all Funds |

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be found on the CalPERS website.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Cost-Sharing Employer Defined Benefit Pension Plan (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Change of Assumptions - GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate – The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

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

In determining the long-term expected rate of return, staff took into account both short-term and long term market return expectations as well as the expected pension fund (Public Employees’ Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 11 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

Cost-Sharing Employer Defined Benefit Pension Plan (Continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

C.

| <u>Asset Class</u> | <u>New Strategic Allocation</u> | <u>Real Return Year 1 - 10(a)</u> | <u>Real Return Years 11+(b)</u> |
|-------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Global Equity | 51.00% | 5.25% | 5.71% |
| Global Fixed Income | 19.00% | 0.99% | 2.43% |
| Inflation Sensitive | 6.00% | 0.45% | 3.36% |
| Private Equity | 10.00% | 6.83% | 6.95% |
| Real Estate | 10.00% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.00% | 4.50% | 5.09% |
| Liquidity | 2.00% | -0.55% | -1.05% |
| Total | 100.00% | | |

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

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

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

| | <u>Safety - Police</u> |
|-----------------------|------------------------|
| 1% Decrease | 6.65% |
| Net Pension Liability | \$ 20,834,605 |
| Current Discount Rate | 7.65% |
| Net Pension Liability | \$ 13,979,217 |
| 1% Increase | 8.65% |
| Net Pension Liability | \$ 8,357,925 |

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

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 DEFERRED COMPENSATION PLANS

The City offers its employees two deferred compensation plans in accordance with Internal Revenue Code Section 457 as follows:

Full-time employees

This plan is available to all City full-time employees and permits them to defer a portion of their salary until future years. Participation in the plan is optional.

Part-time employees

This plan covers part-time employees, who in lieu of paying FICA, contribute 7.5 percent of their earnings as retirement benefits.

The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City deducts deferred compensation from employee compensation and forwards it to the Plan's administrator on a semi-monthly basis. The City amended its plan in order to conform to the amendments of the Internal Revenue Code. The amendments provide that the assets of the Plan shall be held for the exclusive benefit of the plan participants and their beneficiaries, and the assets shall not be diverted for any other purposes. The City has little administrative involvement, does not have custody of the assets, and does not perform the investing function. In addition, the City has no liability for any losses that may be incurred by the Plan.

NOTE 13 COMMITMENTS AND CONTINGENCIES

There are pending claims and litigation against the City, which are considered normal to the City's operation. City management is of the opinion that potential claims against the City not covered by insurance resulting from such litigation would not materially affect the basic financial statements of the City beyond funded reserves.

NOTE 14 NET POSITION AND FUND BALANCES

GASB Statement No. 34 adds the concept of Net Position, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

a. Net Position

Net position is divided into three classifications under GASB Statement No. 34. These classifications apply only to net position as determined at the government-wide level, and are described below:

Net Investment in Capital Assets describes the portion of net position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 14 NET POSITION AND FUND BALANCES (Continued)

a. Net Position (Continued)

Restricted describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include debt service requirements, and redevelopment funds restricted to low and moderate income housing purposes.

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

The government-wide statement of net position reports \$18,506,171 of restricted net position.

b. Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented on the next page.

| Fund Balances | General | Successor Housing Authority | Housing | Nonmajor Governmental Funds | Total |
|-------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|
| <u>Nonspendable:</u> | | | | | |
| Prepaid expenditures | \$ 2,457 | \$ - | \$ - | \$ - | \$ 2,457 |
| Total Nonspendable | <u>2,457</u> | | | | <u>2,457</u> |
| <u>Restricted for:</u> | | | | | |
| Housing | | 1,985,486 | 1,472,095 | | 3,457,581 |
| Law enforcement | | | | 1,074,991 | 1,074,991 |
| Public health | | | | 273,477 | 273,477 |
| Road improvements | 43,690 | | | 32,416 | 76,106 |
| Total Restricted | <u>43,690</u> | <u>1,985,486</u> | <u>1,472,095</u> | <u>1,380,884</u> | <u>4,882,155</u> |
| Unassigned: | <u>3,901,949</u> | | | <u>(1,460,087)</u> | <u>2,441,862</u> |
| Total Fund Balances | <u>\$ 3,948,096</u> | <u>\$ 1,985,486</u> | <u>\$ 1,472,095</u> | <u>\$ (79,203)</u> | <u>\$ 7,326,474</u> |

NOTE 15 SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Eureka that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or other unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 15 SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence as the date of the dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of activity of the redevelopment agency continued to be reported in the governmental funds of the City. After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 15 SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

Capital Asset activity for the fiscal year ended June 30, 2016 was as follows:

Private Purpose Trust

| | Balance at July 1, 2015 | Additions | Reductions | Balance at June 30, 2016 |
|--|----------------------------|-------------|------------|-----------------------------|
| Capital assets, not being depreciated: | | | | |
| Artwork | \$ 53,702 | \$ - | \$ - | \$ 53,702 |
| Total capital assets, not being depreciated | 53,702 | | | 53,702 |
| Capital assets, being depreciated: | | | | |
| Buildings | 1,945,282 | | | 1,945,282 |
| Machinery and equipment | 181,628 | | | 181,628 |
| Total capital assets being depreciated | 2,126,910 | | | 2,126,910 |
| Less accumulated depreciation for: | | | | |
| Buildings | (145,896) | (48,632) | | (194,528) |
| Machinery and equipment | (27,243) | (9,081) | | (36,324) |
| Total accumulated depreciation | (173,139) | (57,713) | | (230,852) |
| Total capital assets being depreciated, net | 1,953,771 | (57,713) | | 1,896,058 |
| Capital assets, net | \$ 2,007,473 | \$ (57,713) | \$ - | \$ 1,949,760 |

The following is a schedule of long-term liabilities for the fiscal year ended June 30, 2016:

| | Balance at July 1, 2015 | Additions | Reductions | Balance at June 30, 2016 | Due Within One Year |
|-------------------------------------|----------------------------|-----------|----------------|-----------------------------|------------------------|
| Revenue Bonds Payable | | | | | |
| 2003 Tax Allocation Revenue Bonds | \$ 12,125,000 | \$ - | \$ (1,125,000) | \$ 11,000,000 | \$ 1,175,000 |
| 2010 Lease Revenue Bonds Series A | 4,600,000 | | (135,000) | 4,465,000 | 140,000 |
| 2010 Lease Revenue Bonds Series B | 4,095,000 | | (50,000) | 4,045,000 | 50,000 |
| Total Bonds Payable | 20,820,000 | | (1,310,000) | 19,510,000 | 1,365,000 |
| Bond Discount | (102,500) | | 4,144 | (98,356) | (4,144) |
| Advance payable to City | 2,607,535 | | (301,831) | 2,305,704 | |
| California Infrastructure Bank Loan | 1,352,310 | | (118,889) | 1,233,421 | 122,254 |
| Total | \$ 24,677,345 | \$ - | \$ (1,726,576) | \$ 22,950,769 | \$ 1,483,110 |

**CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 15 SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

Revenue Bonds

2003 Tax Allocation Revenue Refunding Bonds, issued by Eureka Public Financing Authority (Authority), in the amount of \$15,250,000. The bond issue consisted of the following: \$15,250,000 serial bonds carrying interest rates of 4.00% to 4.80% and maturing in annual increments of \$1,000,000 to \$1,600,000 with maturity dates of November 1 each year from 2012 through 2023. The outstanding balance as of June 30, 2016 was \$11,000,000.

These bonds are secured by a first lien on and pledge of all the amounts payable by the Agency and the Authority pursuant to loan agreements between the Agency and the Authority, and other revenues specified in the indenture. Each loan agreement is secured by a first pledge of and lien on the incremental tax revenues received by the Agency from redevelopment project areas. Each loan is additionally secured by a first and exclusive pledge of and lien upon all of the money held in the Reserve Account established with respect to the related loan. These bonds are payable solely from the revenues discussed in this paragraph and are not secured by the general taxing power of the City of Eureka.

Future minimum debt service requirements to maturity are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|-----------------------------------|----------------------|---------------------|----------------------|
| 2017 | \$ 1,175,000 | \$ 478,043 | \$ 1,653,043 |
| 2018 | 1,225,000 | 427,030 | 1,652,030 |
| 2019 | 1,280,000 | 372,533 | 1,652,533 |
| 2020 | 1,335,000 | 313,669 | 1,648,669 |
| 2021 | 1,395,000 | 250,528 | 1,645,528 |
| 2022-2023 | 4,590,000 | 335,323 | 4,925,323 |
| | <u>\$ 11,000,000</u> | <u>\$ 2,177,126</u> | <u>\$ 13,177,126</u> |

The Eureka Public Financing Authority also issued two series of bonds in January 2010.

The 2010 Lease Revenue Bonds, Series A (Taxable) were issued in the amount of \$4,960,000. The purpose of this issue was to pay off an advance owed to the City of Eureka's General Fund in the amount of \$3,584,373. The balance of the proceeds was used to pay the cost of issuing the bonds and to set up reserves for near term interest and future debt service payments. Interest rates on this issue of bond indebtedness vary from 5.5% to 8.0%. The bond issue matures in annual increments with maturity dates on November 1 of each year from 2012 through 2032, the termination date of the Eureka Redevelopment Agency (Agency) at which time the remaining balance becomes due. The bonds were issued with \$89,468 discount. The outstanding balance as of June 30, 2016 was \$4,465,000.

**CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 15 SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

Revenue Bonds (Continued)

The 2010 Lease Revenue Bonds, Series B (Tax Exempt) were issued in the amount of \$4,235,000. The purpose of this issue was to finance the costs of certain public capital improvements within the Redevelopment project area to include improvements to the Boardwalk with the construction of the C Street Market Square and the Fishermen's Terminal Building. A portion of the proceeds will also be used to repay a note payable from the Eureka Redevelopment Agency to the City of Eureka Wastewater Fund. The balance of the proceeds was used to pay the cost of issuing the bonds and to set up reserves for near term interest and future debt service payments. Interest rates on this issue of bond indebtedness vary from 2.25% to 5.875%. The bond issue matures in annual increments with maturity dates on November 1 of each fiscal year from 2012 through 2037, the termination date of the agency, at which time the remaining balance becomes due. The outstanding balance as of June 30, 2016 was \$4,045,000.

Future minimum debt service requirements to maturity are as follows:

| Fiscal Year Ending June 30, | Series A Bonds | | Series B Bonds | | Total | |
|-----------------------------------|----------------|--------------|----------------|--------------|--------------|--------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | \$ 140,000 | \$ 338,550 | \$ 50,000 | \$ 231,011 | \$ 190,000 | \$ 569,561 |
| 2018 | 150,000 | 328,400 | 55,000 | 228,783 | 205,000 | 557,183 |
| 2019 | 160,000 | 317,550 | 55,000 | 226,343 | 215,000 | 543,893 |
| 2020 | 170,000 | 306,000 | 60,000 | 223,665 | 230,000 | 529,665 |
| 2021 | 185,000 | 293,575 | 60,000 | 220,725 | 245,000 | 514,300 |
| 2022-2026 | 1,140,000 | 1,234,876 | 365,000 | 1,047,864 | 1,505,000 | 2,282,740 |
| 2027-2031 | 1,655,000 | 697,800 | 480,000 | 930,200 | 2,135,000 | 1,628,000 |
| 2032-2036 | 865,000 | 70,600 | 2,190,000 | 634,794 | 3,055,000 | 705,394 |
| 2037 | | | 730,000 | 21,444 | 730,000 | 21,444 |
| Totals | \$ 4,465,000 | \$ 3,587,351 | \$ 4,045,000 | \$ 3,764,829 | \$ 8,510,000 | \$ 7,352,180 |

Intergovernmental Loan

California Infrastructure Bank Loan (I-Bank)

On February 1, 2008, the Eureka Redevelopment Agency (Agency) entered into an agreement with I-Bank to borrow \$2,000,000 at 2.83% to construct C Street Market Square.

Loan proceeds are disbursed to the Agency as capital costs are incurred and submitted. Annual principal payments and semi-annual interest payments are due through November 2024. The agency will be credited for interest on undisbursed proceeds at 2.83%. A loan initiation fee of \$17,000 is being amortized over the seventeen years of the loan. The amount outstanding as of June 30, 2016 was \$1,233,421.

CITY OF EUREKA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 15 SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (Continued)

Intergovernmental Loan (Continued)

The following is the debt service schedule:

| Fiscal Fiscal Year Ending June 30, | Principal | Interest | Total |
|--|---------------------|-------------------|---------------------|
| 2017 | \$ 122,254 | \$ 33,176 | \$ 155,430 |
| 2018 | 125,714 | 29,667 | 155,381 |
| 2019 | 129,271 | 26,059 | 155,330 |
| 2020 | 132,930 | 22,349 | 155,279 |
| 2021 | 136,692 | 18,534 | 155,226 |
| 2022-2026 | 586,560 | 33,780 | 620,340 |
| | <u>\$ 1,233,421</u> | <u>\$ 163,565</u> | <u>\$ 1,396,986</u> |

Advances to/from City of Eureka

Due to the State SERAF payment requirement during fiscal year 2010, the Redevelopment Agency Debt Service Fund had insufficient cash to make the payment. Borrowing from the Redevelopment Low and Moderate Housing Special Revenue Fund was authorized by State SERAF legislation. The fund will repay the Housing Fund by June 2016. The outstanding balance as of June 30, 2016 was \$656,101.

The Redevelopment Agency Debt Service Fund borrowed funds from the Water Fund for water redevelopment project costs. Interest accrues on these advances at a variable rate based on current earnings for the City as a whole. At the end of the fiscal year, unpaid interest is added to the principal of the advances. The outstanding balance as of June 30, 2016 was \$131,369.

The Redevelopment Agency Debt Service Fund borrowed funds from the Wastewater Fund for wastewater redevelopment project costs. Interest accrues on these advances at a variable rate based on current earnings for the City as a whole. At the end of the fiscal year, unpaid interest is added to the principal of the advances. The outstanding balance as of June 30, 2016 was \$1,518,234.

NOTE 16 PRIOR PERIOD ADJUSTMENTS

The following summarizes the effect of the prior period adjustments to beginning net position as of July 1, 2015:

| Reason for adjustments | Business-type Activities | Proprietary Fund Transit Enterprise Fund |
|--------------------------------|-----------------------------|--|
| (Overstatement) of receivables | \$ (131,837) | \$ (131,837) |

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF EUREKA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| Taxes | \$ 21,374,318 | \$ 21,374,318 | \$ 22,243,009 | \$ 868,691 |
| Licenses, permits, and fees | 1,267,800 | 1,267,800 | 1,282,621 | 14,821 |
| Fines and penalties | 206,142 | 206,142 | 224,087 | 17,945 |
| Investment income | 4,000 | 4,000 | 22,783 | 18,783 |
| Intergovernmental | 2,246,510 | 2,246,510 | 2,479,323 | 232,813 |
| Charges for services | 4,885,324 | 4,885,324 | 4,777,660 | (107,664) |
| Other revenues | 108,959 | 108,959 | 156,835 | 47,876 |
| Total Revenues | <u>30,093,053</u> | <u>30,093,053</u> | <u>31,186,318</u> | <u>1,093,265</u> |
| Expenditures: | | | | |
| General government- | | | | |
| Council | 121,650 | 121,650 | 122,538 | (888) |
| Mayor | 28,442 | 28,442 | 27,601 | 841 |
| City Manager | 277,610 | 277,610 | 282,402 | (4,792) |
| City Clerk | 266,048 | 266,048 | 257,426 | 8,622 |
| Human Resources | 501,271 | 501,271 | 499,067 | 2,204 |
| Finance | 575,875 | 575,875 | 617,477 | (41,602) |
| City Attorney | 574,673 | 574,673 | 521,557 | 53,116 |
| Non-departmental | 1,487,144 | 1,487,144 | 1,495,692 | (8,548) |
| Public safety- | | | | |
| Police | 11,564,344 | 11,564,344 | 10,979,924 | 584,420 |
| Fire | 6,221,546 | 6,221,546 | 6,523,746 | (302,200) |
| Public works- | | | | |
| Engineering | 401,531 | 401,531 | 388,315 | 13,216 |
| Maintenance | 1,338,993 | 1,338,993 | 1,242,571 | 96,422 |
| Community development | 1,241,562 | 1,241,562 | 1,053,715 | 187,847 |
| Culture and recreation | 3,508,613 | 3,508,613 | 3,459,113 | 49,500 |
| Capital outlay | 492,000 | 572,168 | 640,550 | (68,382) |
| Debt service - | | | | |
| Principal payments | 1,173,589 | 1,173,589 | 1,174,863 | (1,274) |
| Interest and fiscal charges | 28,556 | 28,556 | 28,586 | (30) |
| Total Expenditures | <u>29,803,447</u> | <u>29,883,615</u> | <u>29,315,143</u> | <u>568,472</u> |
| Excess of revenues over (under) expenditures | 289,606 | 209,438 | 1,871,175 | 1,661,737 |
| Fund Balance, beginning of fiscal year | <u>2,076,921</u> | <u>2,076,921</u> | <u>2,076,921</u> | |
| Fund Balance, end of fiscal year | <u>\$ 2,366,527</u> | <u>\$ 2,286,359</u> | <u>\$ 3,948,096</u> | <u>\$ 1,661,737</u> |

CITY OF EUREKA
 SUCCESSOR HOUSING AUTHORITY SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|---------------------|-------------------|---------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ - | \$ - | \$ 708,754 | \$ 708,754 |
| Other revenues | | | 280,634 | 280,634 |
| Total Revenues | | | 989,388 | 989,388 |
| Expenditures: | | | | |
| Current: | | | | |
| Community development | 146,876 | 396,876 | 183,494 | 213,382 |
| Total Expenditures | 146,876 | 396,876 | 183,494 | 213,382 |
| Excess of Revenues Over (Under) Expenditures | (146,876) | (396,876) | 805,894 | 1,202,770 |
| Fund Balance, beginning of fiscal year | 1,179,592 | 1,179,592 | 1,179,592 | |
| Fund Balance, end of fiscal year | <u>\$ 1,032,716</u> | <u>\$ 782,716</u> | <u>\$ 1,985,486</u> | <u>\$ 1,202,770</u> |

**CITY OF EUREKA
HOUSING SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|----------------------------|----------------------------|----------------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 5,663,644 | \$ 5,663,644 | \$ 3,186,274 | \$ (2,477,370) |
| Other revenues | | | 276,461 | 276,461 |
| Total Revenues | <u>5,663,644</u> | <u>5,663,644</u> | <u>3,462,735</u> | <u>(2,200,909)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Community development | <u>6,009,644</u> | <u>6,034,644</u> | <u>3,445,030</u> | <u>2,589,614</u> |
| Total Expenditures | <u>6,009,644</u> | <u>6,034,644</u> | <u>3,445,030</u> | <u>2,589,614</u> |
| Excess of Revenues Over (Under) Expenditures | (346,000) | (371,000) | 17,705 | 388,705 |
| Fund Balance, beginning of fiscal year | <u>1,454,390</u> | <u>1,454,390</u> | <u>1,454,390</u> | |
| Fund Balance, end of fiscal year | <u><u>\$ 1,108,390</u></u> | <u><u>\$ 1,083,390</u></u> | <u><u>\$ 1,472,095</u></u> | <u><u>\$ 388,705</u></u> |

CITY OF EUREKA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

SCHEDULE OF FUNDING PROGRESS - Local Employees' Retirement System (LERS)

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) (AVA) | Actuarial Accrued Liabilities (AAL) | Unfunded AAL (UAAL) | Funded Ratio (AVA)/(AAL) | Annual Covered Payroll | UAAL as a Percentage of Covered payroll |
|--------------------------------|--|--|---------------------------|--------------------------------|------------------------------|---|
| 6/30/1996 | \$ 1,500,695 | \$ 6,955,634 | \$ 5,454,939 | 21.6% | N/A | N/A |
| 6/30/1997 | 1,486,314 | 6,851,822 | 5,365,508 | 21.7% | N/A | N/A |
| 6/30/1998 | 1,477,862 | 7,013,672 | 5,535,810 | 21.1% | N/A | N/A |
| 6/30/1999 | 1,177,209 | 6,883,361 | 5,706,152 | 17.1% | N/A | N/A |
| 6/30/2000 | 1,271,710 | 6,178,799 | 4,907,089 | 20.6% | N/A | N/A |
| 6/30/2001 | 1,426,952 | 6,078,866 | 4,651,914 | 23.5% | N/A | N/A |
| 6/30/2002 | 1,521,478 | 6,648,840 | 5,127,362 | 22.9% | N/A | N/A |
| 6/30/2003 | 1,310,755 | 6,517,915 | 5,207,160 | 20.1% | N/A | N/A |
| 6/30/2004 | 1,253,920 | 5,749,458 | 4,495,538 | 21.8% | N/A | N/A |
| 6/30/2005 | 875,905 | 5,599,704 | 4,723,799 | 15.6% | N/A | N/A |
| 6/30/2006 | 904,323 | 4,985,969 | 4,081,646 | 18.1% | N/A | N/A |
| 6/30/2007 | 1,284,477 | 4,806,301 | 3,521,524 | 26.7% | N/A | N/A |
| 6/30/2008 | 849,471 | 4,959,400 | 4,109,929 | 17.1% | N/A | N/A |
| 6/30/2009 | 634,937 | 4,740,136 | 4,105,199 | 13.4% | N/A | N/A |
| 6/30/2010 | 348,920 | 4,926,194 | 4,577,274 | 7.1% | N/A | N/A |
| 6/30/2011 | 15,016 | 4,682,353 | 4,667,337 | 0.3% | N/A | N/A |
| 6/30/2012 | 51,919 | 4,020,040 | 3,968,121 | 1.3% | N/A | N/A |
| 6/30/2013 | 25,252 | 3,792,045 | 3,766,793 | 0.7% | N/A | N/A |
| 6/30/2014 | 46,751 | 3,565,386 | 3,518,635 | 1.3% | N/A | N/A |
| 6/30/2015 | 4,771 | 3,345,646 | 3,340,875 | 0.1% | N/A | N/A |
| 6/30/2016 | (1,702) | 3,625,385 | 3,627,087 | 0.0% | N/A | N/A |

**CITY OF EUREKA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016**

SCHEDULE OF FUNDING PROGRESS - Local Employees' Retirement System (LERS)
(Continued)

Schedule of Employer Contributions

| Fiscal Year Ended June 30 | Annual Required Contribution | Percentage Contributed |
|---------------------------------|------------------------------------|---------------------------|
| 1996 | \$ 590,693 | 85% |
| 1997 | 590,693 | 69% |
| 1998 | 616,275 | 69% |
| 1999 | 616,275 | 24% |
| 2000 | 556,724 | 90% |
| 2001 | 556,724 | 90% |
| 2002 | 607,686 | 68% |
| 2003 | 607,686 | 74% |
| 2004 | 571,992 | 74% |
| 2005 | (121,420) | 100% |
| 2006 | (163,025) | 100% |
| 2007 | (121,366) | 100% |
| 2008 | (88,525) | 100% |
| 2009 | (31,650) | 100% |
| 2010 | 8,496 | 100% |
| 2011 | 12,791 | 100% |
| 2012 | (24,914) | 100% |
| 2013 | (45,499) | 100% |
| 2014 | (42,325) | 100% |
| 2015 | 15,251 | 100% |
| 2016 | 40,126 | 100% |

Information as of the latest actuarial valuation follows:

| | |
|-------------------------------|---|
| Valuation date | July 1, 2016 (June 30, 2016) |
| Actuarial cost method | Entry Age |
| Amortization method | Straight Line Amortization – Closed |
| Remaining amortization period | 40 year period beginning with the date of initial funding method (7/1/1975) |
| Asset valuation method | Smoothed market value |
| Actuarial assumptions: | |
| Investment rate of return | 3.0% |
| Projected salary increases | 2.0% |

**CITY OF EUREKA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016**

**Agent Multiple-Employer Defined Benefit Pension Plan
Last 10 Fiscal Years*
Miscellaneous Plan**

Schedule of Changes in the Net Pension Liability and Related Ratios

| | <u>Miscellaneous Plan 2016 2014-15¹</u> | <u>Miscellaneous Plan 2015 2013-14¹</u> |
|--|--|--|
| Measurement Period | | |
| Total Pension Liability | | |
| Service Cost | \$ 1,554,810 | \$ 1,692,491 |
| Interest on the Total Pension Liability | 6,520,030 | 6,305,116 |
| Change of Assumptions | (1,505,340) | - |
| Differences between Expected and Actual Experience | (906,323) | - |
| Benefit Payments, including Refunds of Employee Contributions | (4,560,948) | (4,151,414) |
| Net Change in Total Pension Liability | <u>1,102,229</u> | <u>3,846,193</u> |
| Total Pension Liability - Beginning | <u>89,143,879</u> | <u>85,297,686</u> |
| Total Pension Liability - Ending (a) | <u>\$ 90,246,108</u> | <u>\$ 89,143,879</u> |
| Plan Fiduciary Net Position | | |
| Contributions from the Employer | \$ 1,988,547 | \$ 2,166,174 |
| Contributions from the Employees | 670,876 | 698,583 |
| Net investment income ² | 1,454,617 | 9,486,624 |
| Benefit Payments | (4,560,948) | (4,151,414) |
| Plan to Plan Resource Movement | (914,730) | - |
| Administrative Expense | (71,224) | - |
| Net Change in Plan Fiduciary Net Position | <u>(1,432,862)</u> | <u>8,199,967</u> |
| Plan Fiduciary Net Position - Beginning | <u>63,221,061</u> | <u>55,021,094</u> |
| Plan Fiduciary Net Position - Ending (b) | <u>\$ 61,788,199</u> | <u>\$ 63,221,061</u> |
| Net Pension Liability - Ending (a)-(b) | <u>\$ 28,457,909</u> | <u>\$ 25,922,818</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 68.47% | 70.92% |
| Covered Employee Payroll ³ | \$ 8,762,456 | \$ 8,774,837 |
| Net Pension Liability as Percentage of Covered Employee Payroll | 324.77% | 295.42% |

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Net of administrative expenses.

³ Net of administrative expenses. Covered-Employee Payroll presented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Note to Schedule:

Benefit Changes: The figures above do not include any liability impact may have resulted from plan changes which occurred after June 30, 2014. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in Assumptions: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**CITY OF EUREKA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016**

**Agent Multiple-Employer Defined Benefit Pension Plan
Last 10 Fiscal Years*
Miscellaneous Plan**

Schedule of Contributions¹

| | Miscellaneous Plan Fiscal Year 2015-16 | Miscellaneous Plan Fiscal Year 2014-15 |
|---|---|---|
| Actuarially Determined Contribution ² | \$ 2,048,588 | \$ 1,659,010 |
| Contributions in Relation to the Actuarially Determined Contribution ² | (2,048,588) | (1,659,010) |
| Contribution Deficiency (Excess) | \$ - | \$ - |
| Covered Employee Payroll ³ | \$ 8,762,456 | \$ 8,774,837 |
| Contributions as a Percentage of Covered Employee Payroll ³ | 23.38% | 18.91% |

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

| | |
|----------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method/Period | For detail, see June 30, 2012 Funding Valuation Report |
| Asset Valuation Method | Actuarial Value of Assets. For details, see June 30, 2011 Funding Valuation Report. |
| Inflation | 2.75% |
| Salary Increases | Varies by Entry Age and Service |
| Payroll Growth | 3.00% |
| Investment Rate of Return | 7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation. |
| Retirement Age | The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. |
| Mortality | The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates included 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries. |

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**CITY OF EUREKA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016**

**Cost Sharing Defined Benefit Pension Plan
Last 10 Fiscal Years*
Safety Plan**

Schedule of Plan's Proportionate Share of the Net Pension Liability and Related Ratios

| | <u>Safety Plan-Police</u> <u>2016 ¹</u> | <u>Safety Plan-Police</u> <u>2015 ¹</u> |
|---|---|---|
| Plan's proportion of the Net Pension Liability (Asset) | 0.16052% | 0.20332% |
| Plan's proportionate share of the Net Pension Liability (Asset) | \$ 13,979,217 | \$ 12,651,826 |
| Covered employee payroll ² | \$ 3,788,120 | 3,664,127 |
| Plan's proportionate share of the Net Pension Liability (Asset) as a percentage of its covered employee payroll | 369.03% | 345.29% |
| Plan's fiduciary net position | \$ 12,930,427 | \$ 7,024,877 |
| Plan's proportionate share of the Fiduciary Net Pension Liability (Asset) as a percentage of the Plan's Total Pension Liability | 92.50% | 55.52% |

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

**CITY OF EUREKA
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016**

**Cost Sharing Defined Benefit Pension Plan
Last 10 Fiscal Years*
Safety Plan**

Schedule of Contributions¹

| | Safety Plan - Police Fiscal Year 2015-16 | Safety Plan - Police Fiscal Year 2014-15 |
|---|---|---|
| Actuarially Determined Contribution ² | \$ 1,550,480 | \$ 1,695,798 |
| Contributions in Relation to the Actuarially Determined Contribution ² | (1,550,480) | (1,695,798) |
| Contribution Deficiency (Excess) | \$ - | \$ - |
| Covered Employee Payroll ³ | \$ 3,788,120 | \$ 3,664,127 |
| Contributions as a Percentage of Covered Employee Payroll ³ | 40.93% | 46.28% |

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.

³ Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

| | |
|----------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method/Period | For detail, see June 30, 2012 Funding Valuation Report |
| Asset Valuation Method | Actuarial Value of Assets. For details, see June 30, 2012 Funding Valuation Report. |
| Inflation | 2.75% |
| Salary Increases | Varies by Entry Age and Service |
| Payroll Growth | 3.00% |
| Investment Rate of Return | 7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation. |
| Retirement Age | The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. |
| Mortality | The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates included 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries. |

* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

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NONMAJOR GOVERNMENTAL FUNDS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. These funds are required by statute or ordinance to finance particular functions or activities of government. The Special Revenue Funds of the City are:

- **Gas Tax/State Highway Funds** – These funds are required by state law to account for gas tax monies allocated by the State. Taxes levied by the State on gasoline and other motor fuels are allocated among cities, counties, and the State. The funds can be used for street and road expenditures, as defined by state law. Occasionally, other street and road related grants are receipted into these funds. Other revenues include State Highway funds traded for Federal ISTEA funds (per California Senate Bill 1435). The funds can be used for the same purposes as gas tax funds (see above). Under SB 45, the State Transportation Improvement Plan provides funding for approved local street projects. Revenues are derived from both state and federal funds. Revenue received from CalTrans through the sale of property to fund projects that provide congestion relief for travel through the City is also allocated here. These funds are also used to account for revenue received from the State for the purpose of street and highway pavement maintenance, rehabilitation, and reconstruction of necessary associated facilities such as drainage and traffic devices.
- **Habitat Acquisition and Restoration Fund** – This fund is used to account for grants and other funds restricted or designated specially for acquisition, restoration, or mitigation projects approved by the City.
- **Environmental Programs Fund** – Revenues to this fund are restricted by law for implementation of various environmental programs throughout the City, particularly solid waste source reduction.
- **Special Police Funds** – These funds are used to account for revenues from several programs which are restricted as to use for police programs. These include drug asset forfeitures, vehicle theft funds, the State supplemental law enforcement services program, traffic offender funds, abandoned vehicle abatement funds, and the California law enforcement equipment program fund.
- **Parking Fund** – Revenues to this fund consist primarily of parking fees and fines that are used for the maintenance of parking lots, signs, meters and enforcement activities.
- **Capital Improvements Fund** – Revenues to this fund include state and federal grants and transfers from other City funds designated by Council action to be used for specified capital maintenance/improvement projects.
- **Demolition Projects Fund** – Revenues to this fund consist primarily of transfers from the General Fund and are to be used for abatement actions authorized by the Municipal Code or by the Uniform Building Code.
- **Airport Fund** – Revenues to this fund are restricted by law for maintenance and capital improvements at the Eureka Municipal Airport.
- **Special Fire Funds** – These funds receive revenues from the Hazardous Materials (Hazmat) Authority, the General Fund, and grants and response charges to operate the Hazmat response team.

**CITY OF EUREKA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2016**

| | Special Revenue Funds | | | | |
|--|------------------------------|--|---------------------------|-------------------|-----------------|
| | Gas Tax/ State Highway | Habitat Acquisition and Restoration | Environmental Programs | Special Police | Parking |
| Assets | | | | | |
| Cash and investments | \$ - | \$ - | \$ 212,978 | \$ 741,504 | \$ 6,945 |
| Accounts receivable | 39,262 | 140,526 | 61,856 | 63,328 | |
| Total Assets | <u>\$ 39,262</u> | <u>\$ 140,526</u> | <u>\$ 274,834</u> | <u>\$ 804,832</u> | <u>\$ 6,945</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 124,877 | \$ 3,392 | \$ 1,357 | \$ 18,371 | \$ 5,211 |
| Due to other funds | 87,949 | 109,272 | | | |
| Payroll and related liabilities | 7,528 | | | 1,200 | 1,782 |
| Total Liabilities | <u>220,354</u> | <u>112,664</u> | <u>1,357</u> | <u>19,571</u> | <u>6,993</u> |
| Fund Balances: | | | | | |
| Restricted | | 27,862 | 273,477 | 785,261 | |
| Unassigned | (181,092) | | | | (48) |
| Total Fund Balances (Deficit) | <u>(181,092)</u> | <u>27,862</u> | <u>273,477</u> | <u>785,261</u> | <u>(48)</u> |
| Total Liabilities and Fund Balances | <u>\$ 39,262</u> | <u>\$ 140,526</u> | <u>\$ 274,834</u> | <u>\$ 804,832</u> | <u>\$ 6,945</u> |

Special Revenue Funds

| <u>Capital Improvements</u> | <u>Demolition Projects</u> | <u>Airport</u> | <u>Special Fire</u> | <u>Total Nonmajor Governmental Funds</u> |
|---------------------------------|--------------------------------|-----------------|-------------------------|--|
| \$ 1,008 | \$ - | \$ - | \$ 289,730 | \$ 1,252,165 |
| 4,804 | 41,924 | 2,650 | | 354,350 |
| <u>\$ 5,812</u> | <u>\$ 41,924</u> | <u>\$ 2,650</u> | <u>\$ 289,730</u> | <u>\$ 1,606,515</u> |
| \$ - | \$ 34,791 | \$ 292 | \$ - | \$ 188,291 |
| 1,258 | 1,277,073 | 11,258 | | 1,486,810 |
| | | 107 | | 10,617 |
| <u>1,258</u> | <u>1,311,864</u> | <u>11,657</u> | | <u>1,685,718</u> |
| 4,554 | | | 289,730 | 1,380,884 |
| | (1,269,940) | (9,007) | | (1,460,087) |
| <u>4,554</u> | <u>(1,269,940)</u> | <u>(9,007)</u> | <u>289,730</u> | <u>(79,203)</u> |
| <u>\$ 5,812</u> | <u>\$ 41,924</u> | <u>\$ 2,650</u> | <u>\$ 289,730</u> | <u>\$ 1,606,515</u> |

CITY OF EUREKA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Special Revenue Funds | | | | |
|--|------------------------------|--|---------------------------|-------------------|----------------|
| | Gas Tax/ State Highway | Habitat Acquisition and Restoration | Environmental Programs | Special Police | Parking |
| REVENUES | | | | | |
| Licenses, permits, and fees | \$ - | \$ - | \$ - | \$ - | \$ 54,999 |
| Fines and penalties | | | | 104,244 | 72,041 |
| Intergovernmental | 834,908 | 175,069 | 169,501 | 388,256 | |
| Charges for services | | | | 14,614 | |
| Other revenues | | | | 3,846 | |
| Total Revenues | 834,908 | 175,069 | 169,501 | 510,960 | 127,040 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Public safety | | | | 85,693 | 64,511 |
| Public works | 1,035,402 | 38,350 | 55,534 | | 70,856 |
| Capital outlay | 398,915 | | | 162,359 | |
| Total Expenditures | 1,434,317 | 38,350 | 55,534 | 248,052 | 135,367 |
| Excess of Revenues Over (Under) Expenditures | (599,409) | 136,719 | 113,967 | 262,908 | (8,327) |
| Fund Balances (Deficits), beginning of fiscal year | 418,317 | (108,857) | 159,510 | 522,353 | 8,279 |
| Fund Balances (Deficits), end of fiscal year | <u>\$ (181,092)</u> | <u>\$ 27,862</u> | <u>\$ 273,477</u> | <u>\$ 785,261</u> | <u>\$ (48)</u> |

Special Revenue Funds

| Capital Improvements | Demolition Projects | Airport | Special Fire | Total Nonmajor Governmental Funds |
|-------------------------|------------------------|-------------------|-------------------|--|
| \$ - | \$ - | \$ - | \$ - | \$ 54,999 |
| | | | | 176,285 |
| | | | | 1,567,734 |
| | | | | 14,614 |
| | 21,430 | 11,725 | 220 | 37,221 |
| | 21,430 | 11,725 | 220 | 1,850,853 |
| | | | | 150,204 |
| | 88,950 | 65,608 | | 1,354,700 |
| | | | | 561,274 |
| | 88,950 | 65,608 | | 2,066,178 |
| | (67,520) | (53,883) | 220 | (215,325) |
| 4,554 | (1,202,420) | 44,876 | 289,510 | 136,122 |
| <u>\$ 4,554</u> | <u>\$ (1,269,940)</u> | <u>\$ (9,007)</u> | <u>\$ 289,730</u> | <u>\$ (79,203)</u> |

CITY OF EUREKA
NONMAJOR GOVERNMENTAL FUNDS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Gas Tax / State Highway | | | Habitat Acquisition and Restoration | | |
|--|-----------------------------|---------------------------|------------------------------|-------------------------------------|-------------------------|------------------------------|
| | Final Budget | Actual | Variance Positive (Negative) | Final Budget | Actual | Variance Positive (Negative) |
| Revenues: | | | | | | |
| Licenses, permits, and fees | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Fines and penalties | | | | | | |
| Investment income | | | | | | |
| Intergovernmental | 686,725 | 834,908 | 148,183 | | 175,069 | 175,069 |
| Charges for services | | | | | | |
| Other revenues | | | | | | |
| Total Revenues | 686,725 | 834,908 | 148,183 | | 175,069 | 175,069 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Public safety | | | | | | |
| Public works | 1,112,198 | 1,035,402 | 76,796 | 130,906 | 38,350 | 92,556 |
| Community development | | | | | | |
| Capital outlay | 1,786,858 | 398,915 | 1,387,943 | | | |
| Total Expenditures | 2,899,056 | 1,434,317 | 1,464,739 | 130,906 | 38,350 | 92,556 |
| Excess of Revenues Over (Under) Expenditures | (2,212,331) | (599,409) | 1,612,922 | (130,906) | 136,719 | 267,625 |
| Fund Balances (Deficits), beginning of fiscal year | 418,317 | 418,317 | | (108,857) | (108,857) | |
| Fund Balances (Deficits), end of fiscal year | <u><u>\$(1,794,014)</u></u> | <u><u>\$(181,092)</u></u> | <u><u>\$ 1,612,922</u></u> | <u><u>\$(239,763)</u></u> | <u><u>\$ 27,862</u></u> | <u><u>\$ 267,625</u></u> |

| Environmental Programs | | | Special Police | | | Parking | | |
|------------------------|-------------------|------------------------------|------------------|-------------------|------------------------------|-----------------|----------------|------------------------------|
| Final Budget | Actual | Variance Positive (Negative) | Final Budget | Actual | Variance Positive (Negative) | Final Budget | Actual | Variance Positive (Negative) |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 66,130 | \$ 54,999 | \$ (11,131) |
| | | | | 104,244 | 104,244 | 108,000 | 72,041 | (35,959) |
| 45,000 | 169,501 | 124,501 | 150,000 | 388,256 | 238,256 | | | |
| | | | 30,000 | 14,614 | (15,386) | | | |
| | | | | 3,846 | 3,846 | | | |
| 45,000 | 169,501 | 124,501 | 180,000 | 510,960 | 330,960 | 174,130 | 127,040 | (47,090) |
| | | | 150,088 | 85,693 | 64,395 | 103,418 | 64,511 | 38,907 |
| 59,248 | 55,534 | 3,714 | | | | 74,337 | 70,856 | 3,481 |
| | | | 503,215 | 162,359 | 340,856 | | | |
| 59,248 | 55,534 | 3,714 | 653,303 | 248,052 | 405,251 | 177,755 | 135,367 | 42,388 |
| (14,248) | 113,967 | 128,215 | (473,303) | 262,908 | 736,211 | (3,625) | (8,327) | (4,702) |
| 159,510 | 159,510 | | 522,353 | 522,353 | | 8,279 | 8,279 | |
| <u>\$ 145,262</u> | <u>\$ 273,477</u> | <u>\$ 128,215</u> | <u>\$ 49,050</u> | <u>\$ 785,261</u> | <u>\$ 736,211</u> | <u>\$ 4,654</u> | <u>\$ (48)</u> | <u>\$ (4,702)</u> |

(Continued)

CITY OF EUREKA
NONMAJOR GOVERNMENTAL FUNDS
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

| | Capital Improvements | | | Demolition Projects | | |
|--|----------------------|----------|------------------------------|---------------------|----------------|------------------------------|
| | Final Budget | Actual | Variance Positive (Negative) | Final Budget | Actual | Variance Positive (Negative) |
| Revenues: | | | | | | |
| Licenses, permits, and fees | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Investment income | | | | | | |
| Intergovernmental | | | | | | |
| Charges for services | | | | | | |
| Other revenues | | | | | 21,430 | 21,430 |
| Total Revenues | | | | | 21,430 | 21,430 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Public safety | | | | | | |
| Public works | | | | 37,009 | 88,950 | (51,941) |
| Capital outlay | | | | | | |
| Total Expenditures | | | | 37,009 | 88,950 | (51,941) |
| Excess of Revenues Over (Under) Expenditures | | | | (37,009) | (67,520) | (30,511) |
| Fund Balances (Deficits), beginning of fiscal year | 4,554 | 4,554 | | (1,202,420) | (1,202,420) | |
| Fund Balances (Deficits), end of fiscal year | \$ 4,554 | \$ 4,554 | \$ - | \$ (1,239,429) | \$ (1,269,940) | \$ (30,511) |

| Airport | | | Special Fire | | |
|--------------|------------|------------------------------|--------------|------------|------------------------------|
| Final Budget | Actual | Variance Positive (Negative) | Final Budget | Actual | Variance Positive (Negative) |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 11,000 | 11,725 | 725 | | 220 | 220 |
| 11,000 | 11,725 | 725 | | 220 | 220 |
| 64,385 | 65,608 | (1,223) | | | |
| 64,385 | 65,608 | (1,223) | | | |
| (53,385) | (53,883) | (498) | | 220 | 220 |
| 44,876 | 44,876 | | 289,510 | 289,510 | |
| \$ (8,509) | \$ (9,007) | \$ (498) | \$ 289,510 | \$ 289,730 | \$ 220 |

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INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

The concept of major funds introduced by GASB Statement No. 34 does not extend to internal service funds because they do not do business with outside parties. GASB Statement No. 34 requires that for the Statement of Activities, the net revenues or expenses of each internal service fund be eliminated by netting them against the operations of the other City departments which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Position.

However, internal service funds are still presented separately in the Fund Financial Statements, including the funds below:

- **Equipment Operations Fund** - This fund was established as an internal service fund through which City departments are charged for the use of vehicles and other equipment, based on actual operating costs. In addition, rates for vehicles and heavy equipment include a depreciation contribution factor to establish a reserve for future replacement.

- **Risk Management Fund** - This fund is used to account for the City's workers' compensation program, general liability and property insurance program, and group health program. In March, 1993 the City joined the Redwood Empire Municipal Insurance Fund for its workers' compensation and liability insurance programs, changing from self-insurance to a municipal insurance pool. The City will continue to administer worker's compensation claims from prior to March, 1993, and existing liability claims. In August 2002, the City changed from its group health self-insurance program and joined three separate municipal insurance pools that are dependent on the respective employees' bargaining unit. Prior claims were paid through May 2003.

- **Information Technology Operations Fund** - This fund was established to develop a reserve account for information technology equipment and software and will be used to fund future equipment and major software replacements based on an analysis of future needs. Each department is assessed an annual amount that will provide adequate funds to replace current computer and related equipment. In addition, the fund provides City-wide support for all office automation equipment.

CITY OF EUREKA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2016

| ASSETS | Equipment Operations | Risk Management | Information Technology Operations | Totals |
|---|-------------------------|---------------------|---|---------------------|
| Current assets: | | | | |
| Cash and investments | \$ 2,276,869 | \$ - | \$ 834,810 | \$ 3,111,679 |
| Accounts receivable - net | 7,500 | 2,460 | | 9,960 |
| Prepaid expenses | | 20,000 | | 20,000 |
| Total current assets | <u>2,284,369</u> | <u>22,460</u> | <u>834,810</u> | <u>3,141,639</u> |
| Capital Assets: | | | | |
| Depreciable | | | | |
| Buildings | 429,246 | | | 429,246 |
| Improvements | 31,236 | | | 31,236 |
| Equipment | 7,410,262 | | 1,441,376 | 8,851,638 |
| Total depreciable capital assets | 7,870,744 | | 1,441,376 | 9,312,120 |
| Less accumulated depreciation | <u>(6,697,997)</u> | | <u>(1,257,962)</u> | <u>(7,955,959)</u> |
| Total capital assets, net | <u>1,172,747</u> | | <u>183,414</u> | <u>1,356,161</u> |
| Total Assets | <u>3,457,116</u> | <u>22,460</u> | <u>1,018,224</u> | <u>4,497,800</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Pensions | 105,788 | | 54,624 | 160,412 |
| Total deferred outflows of resources | <u>105,788</u> | | <u>54,624</u> | <u>160,412</u> |
| Total Assets and Deferred Outflows of Resources | <u>3,562,904</u> | <u>22,460</u> | <u>1,072,848</u> | <u>4,658,212</u> |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accounts payable | 71,240 | 73,441 | 173,102 | 317,783 |
| Due to other funds | | 612,938 | | 612,938 |
| Claims and judgments payable | | 254,061 | | 254,061 |
| Capital lease payable, current portion | | | 58,745 | 58,745 |
| Compensated absences | 39,838 | | 7,375 | 47,213 |
| Payroll and related liabilities | 14,355 | | 7,837 | 22,192 |
| Total current liabilities | <u>125,433</u> | <u>940,440</u> | <u>247,059</u> | <u>1,312,932</u> |
| Noncurrent Liabilities: | | | | |
| Net pension liabilities | 1,439,847 | | 761,879 | 2,201,726 |
| Total noncurrent liabilities | <u>1,439,847</u> | | <u>761,879</u> | <u>2,201,726</u> |
| Total liabilities | <u>1,565,280</u> | <u>940,440</u> | <u>1,008,938</u> | <u>3,514,658</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Pensions | 80,851 | | 58,652 | 139,503 |
| Total deferred inflows of resources | <u>80,851</u> | | <u>58,652</u> | <u>139,503</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>1,646,131</u> | <u>940,440</u> | <u>1,067,590</u> | <u>3,654,161</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 1,172,747 | | 183,414 | 1,356,161 |
| Unrestricted | 744,026 | (917,980) | (178,156) | (352,110) |
| Total Net Position (Deficits) | <u>\$ 1,916,773</u> | <u>\$ (917,980)</u> | <u>\$ 5,258</u> | <u>\$ 1,004,051</u> |

**CITY OF EUREKA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Equipment Operations | Risk Management | Information Technology Operations | Totals |
|---|-------------------------|---------------------|---|---------------------|
| Operating Revenues: | | | | |
| Charges for services | \$ 1,847,547 | \$ 2,044,364 | \$ 1,333,737 | \$ 5,225,648 |
| Other operating revenues | 18,928 | | | 18,928 |
| Total Operating Revenues | 1,866,475 | 2,044,364 | 1,333,737 | 5,244,576 |
| Operating Expenses: | | | | |
| Maintenance and operation | 1,380,272 | 33,691 | 928,433 | 2,342,396 |
| Administration | | | | |
| Insurance costs and claims | 40,675 | 1,645,095 | | 1,685,770 |
| Depreciation | 312,969 | | 180,541 | 493,510 |
| Total Expenses | 1,733,916 | 1,678,786 | 1,108,974 | 4,521,676 |
| Operating Income (Loss) | 132,559 | 365,578 | 224,763 | 722,900 |
| Non-Operating Revenues (Expenses) | | | | |
| Gain(Loss) on sales of capital assets | (4,435) | | | (4,435) |
| Interest expense | | | (3,268) | (3,268) |
| Total Non-Operating Revenues/(Expenses) | (4,435) | | (3,268) | (7,703) |
| Change in Net Position | 128,124 | 365,578 | 221,495 | 715,197 |
| Net Position (Deficits), beginning of fiscal year | 1,788,649 | (1,283,558) | (216,237) | 288,854 |
| Net Position (Deficits), end of fiscal year | \$ 1,916,773 | \$ (917,980) | \$ 5,258 | \$ 1,004,051 |

**CITY OF EUREKA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Equipment Operations | Risk Management | Information Technology Operations | Totals |
|--|-------------------------|--------------------|---|---------------------|
| Cash Flows from Operating Activities: | | | | |
| Receipts from customers/interfund charges | \$ 1,858,975 | \$ 2,051,095 | \$ 1,333,737 | \$ 5,243,807 |
| Payments to suppliers and users | (814,492) | (1,726,207) | (726,872) | (3,267,571) |
| Payments to employees | (589,934) | | (300,074) | (890,008) |
| Net Cash Provided (Used) by Operating Activities | <u>454,549</u> | <u>324,888</u> | <u>306,791</u> | <u>1,086,228</u> |
| Cash Flows from Capital and Related Financing Activities: | | | | |
| Principal payments - long-term debt | | | (57,133) | (57,133) |
| Interest paid | | | (3,268) | (3,268) |
| Acquisitions of capital assets | (289,857) | | | (289,857) |
| Proceeds from the sale of city property | (4,435) | | | (4,435) |
| Net Cash Used by Capital and Related Financing Activities | <u>(294,292)</u> | | <u>(60,401)</u> | <u>(354,693)</u> |
| Net Increase in Cash and Cash Equivalents | 160,257 | | 246,390 | 406,647 |
| Cash and Cash Equivalents, July 1, 2015 | <u>2,116,612</u> | | <u>588,420</u> | <u>2,705,032</u> |
| Cash and Cash Equivalents, June 30, 2016 | <u>\$ 2,276,869</u> | <u>\$ -</u> | <u>\$ 834,810</u> | <u>\$ 3,111,679</u> |
| Cash and Investments on Combining Statement of Net Position | <u>\$ 2,276,869</u> | <u>\$ -</u> | <u>\$ 834,810</u> | <u>\$ 3,111,679</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Operating Income (Loss) | \$ 132,559 | \$ 365,578 | \$ 224,763 | \$ 722,900 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash provided (used) by operating activities: | | | | |
| Depreciation | 312,969 | | 180,541 | 493,510 |
| (Increase) Decrease in Operating Assets: | | | | |
| Accounts receivable | (7,500) | 6,731 | | (769) |
| Deferred outflows of resources - pensions | (23,375) | | (10,051) | (33,426) |
| Increase (Decrease) in Operating Liabilities: | | | | |
| Claims and judgments payable | | 63,904 | | 63,904 |
| Accounts payable | 20,066 | (111,325) | (95,410) | (186,669) |
| Compensated absences | 1,971 | | (2,018) | (47) |
| Deferred inflows of resources - pensions | (134,623) | | (57,887) | (192,510) |
| Net pension liability | 152,105 | | 65,405 | 217,510 |
| Payroll and related liabilities | 377 | | 1,448 | 1,825 |
| Net Cash Provided by Operating Activities | <u>\$ 454,549</u> | <u>\$ 324,888</u> | <u>\$ 306,791</u> | <u>\$ 1,086,228</u> |

FIDUCIARY FUNDS

PRIVATE-PURPOSE TRUST FUNDS

Private-Purpose Trust Funds are used to account for the receipt and disbursements of various taxes, deposits, deductions, and property collected by the City, acting in the capacity of an agent for distribution to other governmental units or other organizations. Fiduciary fund financial statements include a statement of net position and statement of changes in net position.

The Private-Purpose Trust Funds are used to account for assets held by the City as an agent for other governmental units.

- **Hazardous Material Response Authority Fund** – This fund receives revenues from the Hazardous Materials (Hazmat) Authority, the General Fund, grants and response charges to operate the Hazmat response team.

Private-Purpose Trust Funds are used to account for assets held by the City as trustee for the Redevelopment Agency Successor Agency.

- **Successor Agency Administration Fund** – This fund was established to account for administrative services provided by the City to the former Redevelopment Agency.

- **Successor Agency Capital Project Fund** – This fund was established to account for the capital improvements of the former Redevelopment Agency which are financed by proceeds of tax allocation bonds and City advances.

- **Successor Agency Debt Service Fund** – This fund are used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest of the former Redevelopment Agency.

**CITY OF EUREKA
PRIVATE-PURPOSE TRUST FUNDS
COMBINING STATEMENT OF NET POSITION
June 30, 2016**

| | Hazardous Material Response Authority | Successor Agency Capital Project | Successor Agency Debt Service | Totals |
|--|--|---|--|------------------------|
| Assets: | | | | |
| Cash and Investments | \$ 56,003 | \$ - | \$ 1,584,008 | \$ 1,640,011 |
| Cash and Investments with Fiscal Agent, Restricted | | 293,824 | 779,382 | 1,073,206 |
| Other Receivable | | 16,600 | | 16,600 |
| Due from Other Funds | | | 238,821 | 238,821 |
| Land Held for Resale | | 4,488,678 | | 4,488,678 |
| Capital Assets, Not Being Depreciated | | 53,702 | | 53,702 |
| Capital Assets, Net of Accumulated Depreciation | | 1,896,058 | | 1,896,058 |
| Total Assets | 56,003 | 6,748,862 | 2,602,211 | 9,407,076 |
| DEFERRED OUTFLOWS OF RESOURCES: | | | | |
| Deferred loss on refunding | | | 20,269 | 20,269 |
| Liabilities: | | | | |
| Accounts Payable | 7,640 | | 249 | 7,889 |
| Payroll Payable | | 15 | 1,145 | 1,160 |
| Interest Payable | | | 185,518 | 185,518 |
| Due to Other Funds | | 238,821 | | 238,821 |
| Unearned Revenue | | | 1,769,233 | 1,769,233 |
| Noncurrent Liabilities: | | | | |
| Due within One Year | | | 1,483,110 | 1,483,110 |
| Due in More than One Year | | | 21,467,659 | 21,467,659 |
| Total Liabilities | 7,640 | 238,836 | 24,906,914 | 25,153,390 |
| Net Position: | | | | |
| Unrestricted | 48,363 | 6,510,026 | (22,284,434) | (15,726,045) |
| Total Net Position (Deficits) | \$ 48,363 | \$ 6,510,026 | \$ (22,284,434) | \$ (15,726,045) |

**CITY OF EUREKA
PRIVATE-PURPOSE TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Hazardous Material Response Authority | Successor Agency Capital Project | Successor Agency Debt Service | Totals |
|---|--|---|--|------------------------|
| Additions: | | | | |
| Taxes | \$ - | \$ - | \$ 3,840,400 | \$ 3,840,400 |
| Investment income | | 892 | 2,367 | 3,259 |
| Total Additions | | <u>892</u> | <u>3,842,767</u> | <u>3,843,659</u> |
| Deductions: | | | | |
| Administration | | | 163,610 | 163,610 |
| Depreciation | | 57,713 | | 57,713 |
| Community development | | 146,907 | 930,384 | 1,077,291 |
| Public safety | 84,242 | | | 84,242 |
| Interest expense | | | 1,207,017 | 1,207,017 |
| Pass-through payments | | | 13,665 | 13,665 |
| Total Deductions | <u>84,242</u> | <u>204,620</u> | <u>2,314,676</u> | <u>2,603,538</u> |
| Change in Net Position | (84,242) | (203,728) | 1,528,091 | 1,240,121 |
| Net Position (Deficits), beginning of fiscal year | <u>132,605</u> | <u>6,713,754</u> | <u>(23,812,525)</u> | <u>(16,966,166)</u> |
| Net Position (Deficits), end of fiscal year | <u>\$ 48,363</u> | <u>\$ 6,510,026</u> | <u>\$ (22,284,434)</u> | <u>\$ (15,726,045)</u> |

**CITY OF EUREKA
 AGENCY FUND
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 For the Fiscal Year Ended June 30, 2016**

| | Balance July 1, 2015 | Additions | Deductions | Balance June 30, 2016 |
|----------------------------------|-------------------------|------------------|------------------|--------------------------|
| <u>Trust Holding Fund</u> | | | | |
| <u>Assets:</u> | | | | |
| Cash and investments | \$ 163,330 | \$ 36,389 | \$ 35,859 | \$ 163,860 |
| Total Assets | <u>\$ 163,330</u> | <u>\$ 36,389</u> | <u>\$ 35,859</u> | <u>\$ 163,860</u> |
| <u>Liabilities:</u> | | | | |
| Accounts payable | \$ 750 | \$ 845 | \$ 750 | \$ 845 |
| Deposits payable | 162,580 | 35,544 | 35,109 | 163,015 |
| Total Liabilities | <u>\$ 163,330</u> | <u>\$ 36,389</u> | <u>\$ 35,859</u> | <u>\$ 163,860</u> |

STATISTICAL SECTION

CITY OF EUREKA, CALIFORNIA
STATISTICAL SECTION TABLE OF CONTENTS
FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)

| | Page |
|---|---------|
| Financial Trends | 114-118 |
| <p>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</p> | |
| Revenue Capacity | 119-126 |
| <p>These schedules contain information to help the reader assess the City's ability to generate revenues. Property taxes, sales tax, state motor vehicle in lieu tax, intergovernmental revenue and charges for services are the City's most significant revenue sources.</p> | |
| Debt Capacity | 127-134 |
| <p>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</p> | |
| Demographic and Economic Information | 135-136 |
| <p>These schedules offer demographic and economic indicators to help the reader understand the environment with which the City's financial activities take place.</p> | |
| Operating Information | 137-143 |
| <p>These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.</p> | |

City of Eureka, California
 Net Position By Component
 June 30, 2016
 Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Governmental activities: | | | | | | | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 59,992,180 | \$ 59,572,311 | \$ 58,614,367 | \$ 51,063,708 | \$ 51,594,125 | \$ 73,735,755 | \$ 72,624,706 | \$ 71,899,224 | \$ 74,086,086 | \$ 72,708,480 |
| Restricted for: | | | | | | | | | | |
| Capital Projects (2) | | | | 6,509,829 | | | | | | |
| Public Safety (2) | 360,547 | 312,457 | 222,458 | | 601,565 | 772,115 | 519,948 | 748,457 | 820,142 | 1,074,991 |
| Streets and Roads (2) | 615,192 | 1,366,470 | 2,042,478 | | 1,639,450 | 1,148,809 | 972,895 | 616,015 | 422,871 | 32,416 |
| Public Health (3) | | | | | 12,267 | 8,376 | | 69,735 | 159,510 | 273,477 |
| Special Projects | | | | 478,013 | | | | | | |
| Community Redevelopment | 13,564,799 | 14,722,787 | 15,914,014 | 16,783,354 | 15,884,648 | 14,809,855 | 15,081,422 | 15,005,246 | 12,495,421 | 17,125,287 |
| Community Development | | | | | 6,669,420 | | | | | |
| Debt Service | | 18,000 | | 4,471,878 | | | | | | |
| Airport (2) | 203,584 | 224,943 | 241,392 | | 225,190 | 203,019 | 120,386 | 63,073 | 44,876 | |
| Unrestricted | 3,213,134 | 1,785,784 | 845,387 | (2,420,313) | (138,542) | 3,961,681 | (5,204,140) | (5,379,685) | (34,968,208) | (21,989,563) |
| Total governmental activities net position | \$ 77,949,436 | \$ 78,002,752 | \$ 77,880,096 | \$ 76,886,469 | \$ 76,488,123 | \$ 94,639,610 | \$ 84,115,217 | \$ 83,022,065 | \$ 53,060,698 | \$ 69,225,088 |
| % change from prior year | 2.91% | 0.07% | -0.16% | -1.28% | -0.52% | 23.73% | -11.12% | -1.30% | -36.09% | 30.46% |
| Business-Type Activities: | | | | | | | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 58,399,172 | \$ 59,101,682 | \$ 58,603,096 | \$ 59,594,461 | \$ 40,495,614 | \$ 34,636,218 | \$ 62,448,109 | \$ 66,465,352 | \$ 68,041,655 | \$ 69,318,162 |
| Restricted for: | | | | | | | | | | |
| Capital Projects | 2,612,843 | 2,127,767 | 10,355,814 | 5,506,810 | 6,118,838 | 25,595,984 | | | | |
| Debt Service | | | | 191,731 | | | | | | |
| Special Projects | | | | 686,093 | | | | | | |
| Unrestricted | 10,276,472 | 10,170,448 | 2,924,239 | 3,859,139 | 22,869,456 | 11,956,472 | 14,413,729 | 14,169,955 | 7,018,566 | 5,105,980 |
| Total business-type activities net position | \$ 71,288,487 | \$ 71,399,897 | \$ 71,883,149 | \$ 69,838,234 | \$ 69,483,908 | \$ 72,188,674 | \$ 76,861,838 | \$ 80,635,307 | \$ 75,060,221 | \$ 74,424,142 |
| % change from prior year | -3.17% | 0.16% | 0.68% | -2.84% | -0.51% | 3.89% | 6.47% | 4.91% | -6.91% | -0.85% |
| Primary Government | | | | | | | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 118,391,352 | \$ 118,673,993 | \$ 117,217,463 | \$ 110,658,169 | \$ 92,089,739 | \$ 108,371,973 | \$ 135,072,815 | \$ 138,364,576 | \$ 142,127,741 | \$ 142,026,642 |
| Restricted for: | | | | | | | | | | |
| Capital Projects (2) | | | | 12,016,639 | 6,118,838 | 25,595,984 | | | | |
| Public Safety (2) | 360,547 | 312,457 | 222,458 | | 601,565 | 772,115 | 519,948 | 748,457 | 820,142 | 1,074,991 |
| Streets and Roads (2) | 615,192 | 1,366,470 | 2,042,478 | | 1,639,450 | 1,148,809 | 972,895 | 616,015 | 422,871 | 32,416 |
| Public Health (3) | | | | | 12,267 | 8,376 | | 69,735 | 159,510 | 273,477 |
| Special Projects | 2,612,843 | 2,127,767 | 10,355,814 | 1,164,106 | | | | | | |
| Community Redevelopment | 13,564,799 | 14,722,787 | 15,914,014 | 16,783,354 | 15,884,648 | 14,809,855 | 15,081,422 | 15,005,246 | 12,495,421 | 17,125,287 |
| Community Development | | | | | 6,669,420 | | | | | |
| Debt Service | | 18,000 | | 4,663,609 | | | | | | |
| Airport (2) | 203,584 | 224,943 | 241,392 | | 225,190 | 203,019 | 120,386 | 63,073 | 44,876 | |
| Unrestricted | 13,489,606 | 11,956,232 | 3,769,626 | 1,438,826 | 22,730,914 | 15,918,153 | 9,209,589 | 8,790,270 | (27,949,642) | (16,883,583) |
| Total primary government net position | \$ 149,237,923 | \$ 149,402,649 | \$ 149,763,245 | \$ 146,724,703 | \$ 145,972,031 | \$ 166,828,284 | \$ 160,977,055 | \$ 163,657,372 | \$ 128,120,919 | \$ 143,649,230 |
| % change from prior year | -0.09% | 0.11% | 0.24% | -2.03% | -0.51% | 14.29% | -3.51% | 1.67% | -21.71% | 12.12% |

- (1) This schedule reports using the accrual basis of accounting.
- (2) Public Safety, Streets and Roads, and Airport are all included in the Capital Projects category in fiscal year 2010.
- (3) Category added for fiscal year 2011.
- (4) Reporting standards require that net assets be reported in three components in the financial statements: invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are considered restricted when (1) an external party, such as the state or federal government, places a restriction on how the resources may be used, or (2) enabling legislation is enacted by the City, as is the case with several special revenue funds restricted to the purposes of the fund.
- (5) See Schedule 2 for changes in net assets from year to year.

City of Eureka, California
Changes in Net Position
June 30, 2016
Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Expenses | | | | | | | | | | |
| <i>Governmental Activities:</i> | | | | | | | | | | |
| General Government | \$ 3,681,651 | \$ 4,635,673 | \$ 4,783,555 | \$ 3,948,020 | \$ 4,353,283 | \$ 4,312,756 | \$ 6,593,798 | \$ 6,311,284 | \$ 3,512,445 | \$ 3,789,646 |
| Community Development | 4,606,187 | 3,909,922 | 4,105,920 | 2,787,902 | 4,733,321 | 2,091,087 | 1,757,218 | 1,188,687 | 3,603,437 | 2,918,394 |
| Public Safety | 11,583,891 | 12,662,643 | 13,984,279 | 13,954,934 | 16,181,737 | 17,199,265 | 17,814,730 | 18,128,007 | 18,718,608 | 6,372,900 |
| Public Works | 5,025,214 | 3,383,320 | 3,219,875 | 6,358,368 | 6,186,286 | 6,995,378 | 5,670,114 | 4,916,185 | 5,062,481 | 4,185,222 |
| Parks and Recreation | 2,472,534 | 2,445,431 | 2,384,666 | 2,115,173 | 2,288,725 | 2,547,945 | 2,638,220 | 2,858,707 | 3,399,624 | 3,793,746 |
| Interest on Long-term Debt | 2,007,686 | 1,958,961 | 1,235,223 | 1,385,114 | 1,613,024 | 585,265 | 33,601 | 62,527 | 40,434 | 30,176 |
| Unallocated Depreciation (8) | 2,065,839 | 2,199,036 | 2,236,926 | | | | | | | |
| Total Governmental Activities Expenses | 31,443,002 | 31,194,986 | 31,950,444 | 30,549,511 | 35,356,376 | 33,731,696 | 34,507,681 | 33,465,397 | 34,337,029 | 21,090,084 |
| <i>Business-type Activities:</i> | | | | | | | | | | |
| Water | 4,304,934 | 4,377,659 | 4,597,300 | 5,178,222 | 5,488,885 | 6,027,265 | 6,287,307 | 6,685,292 | 6,911,668 | 7,067,406 |
| Wastewater | 5,323,328 | 5,467,779 | 5,454,659 | 5,958,382 | 6,217,621 | 6,616,107 | 6,859,484 | 6,408,711 | 6,067,647 | 7,864,985 |
| Harbor | 1,324,716 | 1,165,873 | 1,159,840 | 1,124,184 | 1,051,246 | 1,130,664 | 1,084,837 | 1,080,001 | 1,138,937 | 1,177,738 |
| Building | 562,867 | 593,859 | 613,222 | 567,019 | 569,063 | 791,204 | 815,596 | 1,006,132 | 1,309,222 | 701,207 |
| Transit | 1,801,921 | 1,953,606 | 1,748,801 | 1,825,016 | 1,850,309 | 2,120,479 | 2,164,325 | 2,868,674 | 2,140,261 | 2,080,888 |
| Golf | 21,205 | 25,800 | 21,887 | 13,920 | 17,953 | 12,451 | 29,804 | 15,292 | 13,282 | 26,750 |
| Total Business-type Activities Expenses | 13,338,971 | 13,584,576 | 13,595,709 | 14,666,743 | 15,195,077 | 16,698,170 | 17,241,353 | 18,064,102 | 17,581,017 | 18,918,974 |
| Total Primary Government Expenses | \$ 44,781,973 | \$ 44,779,562 | \$ 45,546,153 | \$ 45,216,254 | \$ 50,551,453 | \$ 50,429,866 | \$ 51,749,034 | \$ 51,529,499 | \$ 51,918,046 | \$ 40,009,058 |
| Program Revenues | | | | | | | | | | |
| <i>Governmental Activities:</i> | | | | | | | | | | |
| Charges for Services | | | | | | | | | | |
| General Government | \$ 1,702,342 | \$ 656,584 | \$ 1,560,185 | \$ 1,598,159 | \$ 2,703,298 | \$ 2,465,528 | \$ 2,209,039 | \$ 2,608,005 | \$ 3,039,949 | \$ 3,666,629 |
| Community Development | 445,116 | 640,538 | 122,917 | 514,814 | 204,143 | 180,954 | 201,418 | 162,464 | 292,129 | 179,765 |
| Public Safety | 609,765 | 783,418 | 991,146 | 1,071,152 | 956,618 | 853,818 | 921,529 | 986,573 | 966,910 | 673,700 |
| Public Works | 106,727 | 109,145 | 135,798 | 750,499 | 951,437 | 640,947 | 640,147 | 772,853 | 93,153 | 64,843 |
| Parks and Recreation | 446,885 | 525,158 | 556,282 | 569,360 | 711,415 | 972,891 | 668,474 | 720,164 | 882,453 | 856,747 |
| Operating Grants and Contributions | 2,021,282 | 2,397,762 | 2,126,731 | 335,636 | 4,161,544 | 2,397,480 | 2,718,014 | 2,370,916 | 4,550,186 | 5,550,122 |
| Capital Grants and Contributions | 1,939,634 | 2,275,470 | 3,441,840 | 2,208,338 | 1,317,677 | 369,854 | 316,294 | 886,675 | 1,741,845 | 221,420 |
| Total Governmental Activities Program Revenues | 7,271,751 | 7,388,075 | 8,934,899 | 7,047,958 | 11,006,132 | 7,881,472 | 7,674,915 | 8,507,650 | 11,566,625 | 11,213,226 |
| <i>Business-type Activities:</i> | | | | | | | | | | |
| Charges for Services | | | | | | | | | | |
| Water | 5,280,355 | 4,937,339 | 5,259,568 | 5,300,379 | 5,564,933 | 6,329,690 | 6,287,307 | 7,887,408 | 7,714,657 | 7,688,777 |
| Wastewater | 4,668,237 | 4,916,158 | 4,447,298 | 4,909,320 | 5,465,754 | 6,389,510 | 6,859,484 | 12,370,941 | 11,218,893 | 7,163,817 |
| Harbor | 560,880 | 650,154 | 670,275 | 540,785 | 624,569 | 779,144 | 1,084,837 | 1,084,221 | 918,264 | 879,780 |
| Building | 394,603 | 512,065 | 384,634 | 642,815 | 496,274 | 522,817 | 815,596 | 863,099 | 1,507,249 | 873,775 |
| Transit | 1,508,536 | 1,925,780 | 1,713,283 | 2,374,688 | 2,058,568 | 1,974,494 | 2,164,325 | 2,629,199 | 1,721,357 | 1,748,162 |
| Golf | 19,780 | 24,015 | 22,378 | 26,861 | 23,187 | 22,980 | 29,804 | 25,582 | 26,256 | 39,792 |
| Operating Grants and Contributions | | | | | 241,400 | | | | | |
| Capital Grants and Contributions | 890,000 | 127,651 | | 542,493 | | 3,420,342 | 2,673,933 | 555,640 | | |
| Total Business-type Activities Program Revenues | 13,322,391 | 13,093,162 | 12,497,436 | 14,337,341 | 14,474,685 | 19,438,977 | 19,915,286 | 25,416,090 | 23,106,676 | 18,394,103 |
| Total Primary Government Program Revenues | \$ 20,594,142 | \$ 20,481,237 | \$ 21,432,335 | \$ 21,385,299 | \$ 25,480,817 | \$ 27,320,449 | \$ 27,590,201 | \$ 33,923,740 | \$ 34,673,301 | \$ 29,607,329 |

City of Eureka, California
Changes in Net Position
June 30, 2016
Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Net (Expenses)/Revenues (3) | | | | | | | | | | |
| <i>Governmental Activities</i> | \$ (24,171,251) | \$ (23,806,911) | \$ (23,015,545) | \$ (23,501,553) | \$ (24,350,244) | \$ (25,850,224) | \$ (26,832,766) | \$ (24,957,747) | \$ (22,770,404) | \$ (9,876,858) |
| <i>Business-type Activities</i> | (16,580) | (491,414) | (1,098,273) | (329,402) | (720,392) | 2,740,807 | 2,673,933 | 7,351,988 | 5,525,659 | (524,871) |
| Total Primary Government Net (Expenses) | <u>\$ (24,187,831)</u> | <u>\$ (24,298,325)</u> | <u>\$ (24,113,818)</u> | <u>\$ (23,830,955)</u> | <u>\$ (25,070,636)</u> | <u>\$ (23,109,417)</u> | <u>\$ (24,158,833)</u> | <u>\$ (17,605,759)</u> | <u>\$ (17,244,745)</u> | <u>\$ (10,401,729)</u> |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| <i>Governmental Activities:</i> | | | | | | | | | | |
| Taxes | | | | | | | | | | |
| Property Taxes | \$ 5,891,831 | \$ 6,015,229 | \$ 6,767,867 | \$ 6,539,634 | \$ 8,572,335 | \$ 6,063,480 | \$ 4,065,538 | \$ 4,053,018 | \$ 3,874,764 | \$ 4,161,361 |
| Sales Taxes | 9,767,022 | 9,863,454 | 8,411,860 | 7,820,946 | 9,312,779 | 8,894,475 | 8,584,878 | 9,856,486 | 9,893,389 | 10,848,407 |
| Transient Occupancy Tax | 1,587,382 | 1,742,728 | 1,817,628 | 2,032,584 | 1,877,436 | 2,019,361 | 2,032,949 | 2,125,469 | 2,419,501 | 2,871,396 |
| Transaction & Use Tax (6) (9) | | | 382,389 | 1,628,022 | 2,688,403 | 5,582,371 | 5,969,180 | 6,162,202 | 6,203,864 | 6,251,566 |
| Utility User's Tax (4) | 1,334,370 | 1,454,764 | 1,171,659 | (5,437) | | | | | | |
| Business License Tax | 279,589 | 268,092 | 262,680 | 274,377 | 239,577 | 237,286 | 235,026 | 232,914 | 237,672 | 252,104 |
| Permits and Franchise Tax | 820,889 | 848,153 | 904,913 | 837,157 | 851,300 | 853,047 | 853,679 | 888,602 | 882,318 | 1,186,077 |
| Investment Income | 2,000,148 | 1,619,030 | 1,130,512 | 362,666 | 427,100 | 61,875 | 401,770 | 2,769 | 10,025 | 22,783 |
| Gain on Sale of Capital Asset | | 1,153 | | | 113,636 | | | | | |
| Disposal of Capital Asset | | (68,860) | | | | | | | | |
| Motor Vehicle In-lieu, unrestricted (5) | 1,908,795 | 2,007,793 | 2,095,742 | 2,152,526 | 124,558 | 13,498 | 13,986 | | 11,181 | 10,971 |
| Other Taxes (7) | | | | 506,881 | | | | | | |
| Miscellaneous | 263,469 | 186,373 | 626,772 | 624,645 | 401,704 | 1,198,577 | 1,408,295 | 551,351 | 285,182 | 408,721 |
| Transfers | (270,630) | (180,710) | (466,675) | (478,335) | (470,067) | 260,267 | (102,047) | (11,440) | | |
| Trust Funds | | | | | | 18,731,372 | | | | |
| Total Governmental Activities | <u>23,582,865</u> | <u>23,757,199</u> | <u>23,105,347</u> | <u>22,295,666</u> | <u>24,138,761</u> | <u>43,915,609</u> | <u>23,463,254</u> | <u>23,861,371</u> | <u>23,817,896</u> | <u>26,013,386</u> |
| <i>Business-type Activities:</i> | | | | | | | | | | |
| Property Taxes | | | | | | | | 112,141 | | |
| Investment Income | 513,009 | 487,928 | 622,839 | 333,083 | | 154,388 | 214,476 | 23,267 | 14,894 | 20,629 |
| Gain on sale of Capital Asset | | | 5,573 | | 225,015 | | 47,452 | | | |
| Miscellaneous | | 11,021 | 455,251 | 438 | | | | | | |
| Transfers | 270,630 | 180,710 | 466,675 | 478,335 | 470,067 | (260,267) | 102,047 | 11,440 | | |
| Total Business-type Activities | <u>783,639</u> | <u>679,659</u> | <u>1,550,338</u> | <u>811,856</u> | <u>695,082</u> | <u>(105,879)</u> | <u>363,975</u> | <u>146,848</u> | <u>14,894</u> | <u>20,629</u> |
| Total Primary Government | <u>\$ 24,366,504</u> | <u>\$ 24,436,858</u> | <u>\$ 24,655,685</u> | <u>\$ 23,107,522</u> | <u>\$ 24,833,843</u> | <u>\$ 43,809,730</u> | <u>\$ 23,827,229</u> | <u>\$ 24,008,219</u> | <u>\$ 23,832,790</u> | <u>\$ 26,034,015</u> |
| Change in Net Position | | | | | | | | | | |
| <i>Governmental Activities</i> | \$ (588,386) | \$ (49,712) | \$ 89,802 | \$ (1,205,887) | \$ (211,483) | \$ 18,065,385 | \$ (3,369,512) | \$ (1,096,376) | \$ 1,047,492 | \$ 16,136,528 |
| <i>Business-type Activities</i> | 767,059 | 188,245 | 452,065 | 482,454 | (25,310) | 2,634,928 | 3,037,908 | 7,498,836 | 5,540,553 | (504,242) |
| Total Primary Government | <u>\$ 178,673</u> | <u>\$ 138,533</u> | <u>\$ 541,867</u> | <u>\$ (723,433)</u> | <u>\$ (236,793)</u> | <u>\$ 20,700,313</u> | <u>\$ (331,604)</u> | <u>\$ 6,402,460</u> | <u>\$ 6,588,045</u> | <u>\$ 15,632,286</u> |

(1) This schedule reports using the accrual basis of accounting.

(2) Expenses include allocated indirect expenses.

(3) Net (expenses) is the difference between the expenses and program revenues. It indicates the degree to which a function or program is supported with its own fees and program-specific grants versus its reliance upon funding from taxes and other general revenues. A number in parenthesis are net expenses indicating that expenses were greater than program revenues and therefore general revenues were needed to finance that function or program. Numbers without parenthesis are net revenues, meaning that program revenues were more than sufficient to cover expenditures.

(4) On November 7, 2006, City voters approved a four year extension of the Utility User's Tax @ 3% through June 30, 2011, with the cap increased to \$2,000 from \$1,000 effective July 1, 2007.

(5) Motor Vehicle In-Lieu Tax is derived from an annual fee paid by automobile owners registering their vehicles with the State of California Department of Motor Vehicles in lieu of local property tax. The tax rate is two percent (2%) of the market value of the vehicle. In the past, this revenue was included in Property Taxes for reporting purposes.

(6) On November 4, 2008 City voters approved a new Transaction & Use Tax of 1/4% in lieu of the Utility User's Tax. This tax was implemented on April 1, 2009 and the Utility User's Tax was discontinued.

(7) Category added for fiscal year 2010.

(8) Unallocated depreciation for fiscal year 2010 is included with other expense categories with the majority being in Public Works.

(9) On November 2, 2010, City voters approved Measure O, creating a new general use sales tax of 1/2%. This tax was implemented on April 1, 2011 bringing the City's direct sales tax rate to 1.5%. It is effective for five years.

City of Eureka, California
Fund Balances, Governmental Funds
June 30, 2016
Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|-------------------------------------|---------------------|---------------------|---------------------|----------------------|----------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| General Fund | | | | | | | | | | |
| Reserved for: | | | | | | | | | | |
| Parking | \$ 28,000 | \$ 28,000 | \$ 28,000 | \$ 28,000 | | | | | | |
| Prepaid Items | 17,655 | 24,829 | 36,551 | 40,343 | \$ 5,879 | \$ 238,434 | \$ 85,935 | \$ 6,915 | \$ 40,837 | \$ 2,457 |
| Advances | 4,854,076 | 4,571,015 | 3,509,275 | | | | | | | 43,690 |
| Land Held for Resale | | | | | | | | | | |
| Unreserved/Unassigned | <u>974,547</u> | <u>1,012,166</u> | <u>357,337</u> | <u>2,227,128</u> | <u>2,056,339</u> | <u>2,053,897</u> | <u>1,822,717</u> | <u>2,054,276</u> | <u>2,036,084</u> | <u>3,901,949</u> |
| Total General Fund | <u>5,874,278</u> | <u>5,636,010</u> | <u>3,931,163</u> | <u>2,295,471</u> | <u>2,062,218</u> | <u>2,292,331</u> | <u>1,908,652</u> | <u>2,061,191</u> | <u>2,076,921</u> | <u>3,948,096</u> |
| All Other Governmental Funds | | | | | | | | | | |
| Reserved for: | | | | | | | | | | |
| Encumbrances | | | | 179,830 | | | | | | |
| Fire Tower (2) | | | | 14,287 | | | | | | |
| Debt Service (2) | | | | 829,896 | | | | | | |
| Capital Projects (2) | | | | 3,641,982 | | | | | | 27,862 |
| Public Safety (3) | | | | | 601,565 | 772,115 | 519,948 | 734,110 | 820,142 | 1,074,991 |
| Public Health (3) | | | | | 12,267 | 8,376 | | 69,735 | 159,510 | 273,477 |
| Road Improvements (3) | | | | | 1,639,450 | 1,148,809 | 972,895 | 464,832 | 422,871 | 4,554 |
| Airport (3) | | | | | 225,190 | 203,019 | 120,386 | 63,073 | 44,876 | |
| Debt Service (3) | | | | | 49,418 | 5,688 | | | | |
| Housing (3) | | | | | 6,669,420 | 1,180,469 | 1,330,060 | 1,284,347 | 1,179,592 | 1,985,486 |
| Low/Moderate Income Housing/Housing | 3,389,651 | 1,927,176 | 1,058,713 | 4,441,812 | 3,632,327 | 1,639,178 | 1,790,388 | 2,028,313 | 1,454,390 | 1,472,095 |
| Advances | 101,355 | 89,690 | 77,237 | 63,944 | | | | | | |
| Land Held for Resale | 4,613,178 | 4,613,178 | 4,913,351 | 211,388 | | | | | | |
| Unreserved, reported in: | | | | | | | | | | |
| Special Revenue Funds | 1,726,163 | 2,846,285 | 4,406,101 | 4,664,137 | | | | | | |
| Capital Projects Funds | 822,031 | 133,883 | | 46,567 | | | | | | |
| Debt Service Funds | (9,607,392) | (8,321,041) | (8,035,800) | (5,041,261) | (3,393,275) | | | | | |
| Other Governmental Funds | | | | | (503,737) | (717,814) | (985,907) | (1,151,305) | (1,311,277) | (1,460,087) |
| Total Other Governmental Funds | <u>1,044,986</u> | <u>1,289,171</u> | <u>2,419,602</u> | <u>9,052,582</u> | <u>8,932,625</u> | <u>4,239,840</u> | <u>3,747,770</u> | <u>3,493,105</u> | <u>2,770,104</u> | <u>3,378,378</u> |
| Total Governmental Funds | <u>\$ 6,919,264</u> | <u>\$ 6,925,181</u> | <u>\$ 6,350,765</u> | <u>\$ 11,348,053</u> | <u>\$ 10,994,843</u> | <u>\$ 6,532,171</u> | <u>\$ 5,656,422</u> | <u>\$ 5,554,296</u> | <u>\$ 4,847,025</u> | <u>\$ 7,326,474</u> |
| % change from prior year | -47.07% | 0.09% | -8.29% | 78.69% | -3.11% | -40.59% | -13.41% | -1.81% | -12.73% | 51.15% |

117

(1) This schedule reports using the modified accrual basis of accounting
(2) Category added for fiscal year 2010.
(3) Category added for fiscal year 2011.

City of Eureka, California
 Changes in Fund Balance
 Governmental Funds
 June 30, 2016
 Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|---|-----------------------|--------------------|---------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| REVENUES | | | | | | | | | | |
| Taxes | \$ 18,431,298 | \$ 19,506,211 | \$ 18,883,237 | \$ 17,770,206 | \$ 20,683,188 | \$ 20,363,254 | \$ 19,542,556 | \$ 20,390,227 | \$ 20,548,084 | \$ 22,243,009 |
| Licenses, Permits and Fees | 820,889 | 848,153 | 904,913 | 959,829 | 998,156 | 1,002,508 | 1,002,305 | 1,015,408 | 1,017,758 | 1,337,620 |
| Fines and Penalties | 176,083 | 409,635 | 269,986 | 372,359 | 407,856 | 417,532 | 478,662 | 461,027 | 520,983 | 400,372 |
| Investment Income | 1,752,598 | 1,372,724 | 697,452 | 752,838 | 131,972 | 16,416 | 66,105 | 3,968 | 10,025 | 22,783 |
| Intergovernmental | 4,281,889 | 5,385,743 | 5,198,346 | 5,230,818 | 7,294,876 | 4,738,897 | 5,438,016 | 5,146,109 | 8,306,356 | 7,942,085 |
| Charges for Services | 3,423,401 | 3,328,071 | 3,550,311 | 3,501,967 | 4,816,242 | 4,136,068 | 3,889,291 | 4,491,319 | 4,428,641 | 4,792,274 |
| Other Revenues | 250,039 | 242,422 | 620,842 | 1,012,883 | 1,330,671 | 2,334,043 | 1,923,111 | 810,388 | 439,776 | 751,151 |
| Total Revenues | 29,136,197 | 31,092,959 | 30,125,087 | 29,600,900 | 35,662,961 | 33,008,718 | 32,340,046 | 32,318,446 | 35,271,623 | 37,489,294 |
| % change from prior year | 2.25% | 6.72% | -3.11% | -1.74% | 20.48% | -7.44% | -2.03% | -0.07% | 9.14% | 6.29% |
| EXPENDITURES | | | | | | | | | | |
| Current: | | | | | | | | | | |
| General Government | 3,650,520 | 4,054,890 | 4,156,256 | 2,875,677 | 3,836,207 | 3,628,888 | 3,939,443 | 3,743,451 | 3,684,498 | 3,823,760 |
| Public Safety | 12,367,339 | 12,152,997 | 13,280,688 | 13,993,430 | 15,740,199 | 16,920,048 | 18,282,736 | 18,578,985 | 18,782,487 | 18,576,217 |
| Public Works | 2,992,935 | 3,055,382 | 2,903,711 | 3,328,618 | 2,570,916 | 3,146,394 | 3,410,709 | 3,366,679 | 3,302,241 | 2,985,586 |
| Community Development | 4,822,158 | 4,615,290 | 4,055,656 | 4,045,524 | 3,483,826 | 1,773,822 | 1,779,995 | 994,976 | 4,096,054 | 4,682,239 |
| Culture and Recreation | 2,334,103 | 2,221,695 | 2,150,235 | 2,006,956 | 2,258,357 | 2,550,073 | 2,601,363 | 2,831,926 | 3,073,410 | 3,459,113 |
| Capital Outlay | 4,758,090 | 2,461,930 | 1,982,474 | 4,909,814 | 5,610,463 | 3,151,886 | 3,619,482 | 2,497,544 | 2,673,386 | 1,201,824 |
| Debt Service: | | | | | | | | | | |
| Principal | 148,183 | 161,287 | 175,690 | 303,018 | 314,679 | 326,811 | 230,087 | 329,680 | 238,421 | 252,520 |
| Interest and fiscal charges | 1,857,798 | 1,899,939 | 1,169,101 | 1,217,704 | 1,536,134 | 760,226 | 32,412 | 65,891 | 42,685 | 28,586 |
| Cost of Issuance | | | | 257,200 | | | | | | |
| Total Expenditures | 32,931,126 | 30,623,410 | 29,873,811 | 32,937,941 | 35,350,781 | 32,258,148 | 33,896,227 | 32,409,132 | 35,893,182 | 35,009,845 |
| % change from prior year | 11.42% | -7.01% | -2.45% | 10.26% | 7.33% | -8.75% | 5.08% | -4.39% | 10.75% | -2.46% |
| Excess of Revenues Over (Under) Expenditures | (3,794,929) | 469,549 | 251,276 | (3,337,041) | 312,180 | 750,570 | (1,556,181) | (90,686) | (621,559) | 2,479,449 |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | |
| Transfers from Other Funds | 1,527,976 | 1,537,155 | 3,229,150 | 11,020,178 | 7,503,599 | 1,595,233 | 2,667 | | | |
| Transfers to Other Funds | (1,786,935) | (2,612,967) | (4,546,625) | (12,503,315) | (8,673,666) | (2,272,078) | (104,714) | (11,440) | | |
| Proceeds from Long Term Debt | | | | 9,817,465 | 574,641 | | 782,479 | | | |
| Sale of Capital Assets | | 13,000 | 17,550 | | 116,899 | | | | | |
| Proceeds from Loans and Advances | 1,119,079 | 507,594 | 290,692 | | | | | | | |
| Total Other Financing Sources (Uses) | 860,120 | (555,218) | (1,009,233) | 8,334,328 | (478,527) | (676,845) | 680,432 | (11,440) | - | - |
| Prior Period Adjustment | | | | | | | | | (85,712) | |
| Extraordinary Item - Gain/(Loss) on Transfer of Assets and Liabilities to RDA Successor Trust Funds | | | | | | (4,613,294) | | | | |
| Net Change in Fund Balance | \$ (2,934,809) | \$ (85,669) | \$ (757,957) | \$ 4,997,287 | \$ (166,347) | \$ (4,539,569) | \$ (875,749) | \$ (102,126) | \$ (707,271) | \$ 2,479,449 |
| Debt Service as a Percentage of Non-capital Expenditures | 7.12% | 7.32% | 4.82% | 6.34% | 6.22% | 3.73% | 0.87% | 1.32% | 0.85% | 0.83% |

(1) This schedule reports using the modified accrual basis of accounting

City of Eureka, California
Tax Revenues by Source
June 30, 2016
Last Ten Fiscal Years

| Fiscal Year | Property | Sales | Occupancy | Utility User (2) | Transaction and Use Tax (3) | Business License | Other |
|---------------------|---------------|---------------|-----------|------------------|-----------------------------------|---------------------|---------|
| 2007 | 5,421,915 | 9,832,534 | 1,587,382 | 1,334,370 | | 279,589 | 95 |
| 2008 | 6,015,229 (4) | 9,863,454 (5) | 1,742,728 | 1,454,764 | | 268,092 | 136 |
| 2009 | 6,767,867 (6) | 8,411,860 | 1,817,628 | 1,171,659 | 382,389 | 262,680 | 82 |
| 2010 | 6,539,634 (3) | 7,820,946 | 2,032,584 | (5,437) | 1,628,022 | 274,377 | 11 |
| 2011 | 8,572,335 | 9,312,779 | 1,877,436 | - | 2,688,403 (7) | 239,577 | 31 |
| 2012 | 6,063,480 | 8,894,475 | 2,019,361 | - | 5,582,371 | 237,286 | 50 |
| 2013 | 4,065,538 | 8,584,878 | 2,032,949 | - | 5,969,180 | 235,026 | 53 |
| 2014 | 4,053,018 | 9,856,486 | 2,125,469 | - | 6,162,202 | 232,914 | 52 |
| 2015 | 3,874,764 | 9,893,389 | 2,419,501 | - | 6,203,864 | 237,672 | 59 |
| 2016 | 4,161,361 | 10,848,407 | 2,871,396 | - | 6,251,566 | 252,104 | 49 |
| Change 2007-2016 | -23.25% | 10.33% | 80.89% | -100.00% | N/A | -9.83% | -48.42% |

(1) This schedule reports using the modified accrual basis of accounting.

(2) On November 7, 2006, City voters approved a four year extension of the Utility User's Tax @ 3% through June 30, 2011 with the cap increased to \$2,000 from \$1,000 effective July 1, 2007.

(3) On November 4, 2008, City voters approved a new Transaction & Use Tax of 1/4% in lieu of the Utility User's Tax. This tax was implemented on April 1, 2009 at which time the Utility User's Tax was discontinued.

(4) Includes \$394,405 in deferred property taxes from FY 2006-07.

(5) Includes public safety sales tax and sales tax received through State and County pools.

(6) Includes \$292,261 in retro-active unitary \$1.00 rate apportionments to the Eureka Redevelopment Agency for FY 2005-06 through FY 2007-08.

(7) On November 2, 2010, City voters approved Measure O, creating a new general use sales tax of 1/2%. This tax was implemented on April 1, 2011 bringing the City's direct sales tax rate to 1.5%. It is effective for 5 years.

City of Eureka, California
Sales Tax by Category
June 30, 2016
Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| General Consumer Goods | \$ 3,064,228 | \$ 3,016,448 | \$ 2,811,224 | \$ 2,795,733 | \$ 2,846,891 | \$ 2,848,952 | \$ 3,025,640 | \$ 3,029,341 | \$ 3,098,773 | \$ 3,368,496 |
| Autos and Transportation | 1,788,420 | 1,671,628 | 1,261,457 | 1,265,065 | 1,385,153 | 1,508,155 | 1,734,020 | 1,928,258 | 2,070,078 | 2,163,784 |
| Building and Construction | 965,817 | 883,059 | 713,867 | 727,961 | 689,080 | 724,208 | 737,861 | 692,926 | 772,796 | 808,648 |
| Fuel and Service Stations | 967,886 | 971,471 | 784,340 | 754,419 | 886,917 | 944,898 | 906,447 | 920,161 | 923,211 | 803,785 |
| Business and Industry | 917,243 | 445,028 | 769,706 | 727,129 | 711,572 | 649,664 | 664,658 | 708,942 | 696,546 | 689,675 |
| Restaurants and Hotels | 644,371 | 711,783 | 617,506 | 653,545 | 643,051 | 669,422 | 693,887 | 790,799 | 802,328 | 872,540 |
| Food and Drugs | 433,697 | 608,934 | 503,271 | 484,066 | 479,149 | 479,222 | 453,796 | 460,641 | 472,719 | 481,819 |
| Transfers and Unidentified | | | | | | | | | 2,467 | (3,997) |
| Total | <u>\$ 8,781,662</u> | <u>\$ 8,308,351</u> | <u>\$ 7,461,371</u> | <u>\$ 7,407,918</u> | <u>\$ 7,641,813</u> | <u>\$ 7,824,521</u> | <u>\$ 8,216,309</u> | <u>\$ 8,531,068</u> | <u>\$ 8,838,918</u> | <u>\$ 9,184,750</u> |

(1) Under California Revenue and Taxation Code Section 7056, disclosure of individual sales tax remitters and their tax liability is prohibited.

(2) Source: Hinderliler de Llamas and Associates - this data does not include sales tax revenue that is temporarily diverted by the State to service state bonds.

(3) Does not include public safety sales tax and sales tax received through State and County pools.

City of Eureka, California
Transaction & Use Tax by Category
June 30, 2016

| | Fiscal Year | | | | | | | | | |
|-----------------------------------|-------------------|-----|---------------------|---------------------|-----|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2009 | (1) | 2010 | 2011 | (2) | 2012 | 2013 | 2014 | 2015 | 2016 |
| General Consumer Goods | \$ 144,506 | | \$ 702,360 | \$ 1,011,115 | | \$ 2,217,913 | \$ 2,338,326 | \$ 2,334,239 | \$ 2,407,158 | \$ 2,574,828 |
| Autos and Transportation | 48,966 | | 220,154 | 370,774 | | 760,656 | 855,560 | 878,161 | 857,020 | 936,182 |
| Building and Construction | 38,579 | | 158,052 | 247,257 | | 513,074 | 579,075 | 536,531 | 591,656 | 609,234 |
| Business and Industry | 62,829 | | 274,489 | 403,666 | | 814,139 | 809,515 | 954,390 | 833,565 | 856,726 |
| Food and Drugs | 34,132 | | 123,091 | 178,915 | | 358,223 | 342,640 | 347,102 | 346,394 | 366,390 |
| Fuel and Service Stations | 30,758 | | 145,281 | 251,857 | | 517,812 | 514,764 | 515,786 | 518,537 | 474,963 |
| Restaurants and Hotels | 33,330 | | 155,359 | 239,605 | | 493,408 | 529,055 | 595,070 | 604,380 | 653,706 |
| Transfers and Unidentified | - | | 293 | - | | - | 245 | 923 | 2,534 | 920 |
| Total | <u>\$ 393,100</u> | | <u>\$ 1,779,079</u> | <u>\$ 2,703,189</u> | | <u>\$ 5,675,225</u> | <u>\$ 5,969,180</u> | <u>\$ 6,162,202</u> | <u>\$ 6,161,244</u> | <u>\$ 6,472,949</u> |
| City transaction and use tax rate | 0.25% | | 0.25% | 0.25% - 0.75% | | 0.75% | 0.75% | 0.75% | 0.75% | 0.75% |

(1) On November 4, 2008, City voters approved a new Transaction & Use Tax of 1/4% in lieu of the Utility User's Tax. This tax was implemented for the first time on April 1, 2009 therefore, ten years of data is not available but will be accumulated over time.

(2) On November 2, 2010, City voters approved an additional Transaction & Use Tax of 1/2%. This tax was implemented on April 1, 2011. It will sunset after five years unless an extension is approved by City voters.

City of Eureka, California
Direct and Overlapping Sales Tax Rates
June 30, 2016
Last Ten Fiscal Years

| <u>Fiscal Year</u> | <u>City Direct Rate</u> | <u>Humboldt County</u> |
|--------------------|-------------------------|------------------------|
| 2007 | 0.75% | 0.25% |
| 2008 | 0.75% | 0.25% |
| 2009 (1) | 1.00% | 0.25% |
| 2010 | 1.00% | 0.25% |
| 2011 (2) | 1.50% | 0.25% |
| 2012 | 1.50% | 0.25% |
| 2013 | 1.50% | 0.25% |
| 2014 | 1.50% | 0.25% |
| 2015 | 1.50% | 0.50% |
| 2016 | 1.50% | 0.50% |

(1) On November 4, 2008 City voters approved a new Transaction & Use Tax of 1/4% in lieu of the Utility User's Tax. This new tax rate became effective on 4/1/09.

(2) On November 2, 2010, City voters approved Measure O, creating a new general use sales tax of 1/2%. This tax was implemented on April 1, 2011 bringing the City's direct sales tax rate to 1.5%. It is effective for 5 years.

Source: California State Board of Equalization

City of Eureka, California
Net Taxable Assessed Value History
June 30, 2016
Last Ten Fiscal Years

| Fiscal Year | Secured | Unsecured | SBE Nonunitary | Net Total Assessed Value | % Change |
|--------------------|----------------|------------------|-----------------------|---------------------------------|-----------------|
| 2007 | 1,593,937,128 | 155,016,291 | 3,371,263 | 1,752,324,682 | 7.95% |
| 2008 | 1,711,569,430 | 159,589,282 | 862,447 | 1,872,021,159 | 6.83% |
| 2009 | 1,829,399,444 | 159,010,534 | 862,447 | 1,989,272,425 | 6.26% |
| 2010 | 1,900,133,398 | 157,047,991 | 1,138,181 | 2,058,319,570 | 3.47% |
| 2011 | 1,885,289,687 | 159,933,253 | 1,138,181 | 2,046,361,121 | -0.58% |
| 2012 | 1,880,551,895 | 155,677,612 | 1,138,181 | 2,037,367,688 | -0.44% |
| 2013 | 1,897,238,531 | 148,225,050 | 959,109 | 2,046,422,690 | 0.44% |
| 2014 | 1,922,116,912 | 148,069,621 | 959,109 | 2,071,145,642 | 1.21% |
| 2015 | 1,962,269,233 | 154,442,502 | 959,109 | 2,117,670,844 | 2.25% |
| 2016 | 2,019,528,143 | 162,357,948 | 959,109 | 2,182,845,200 | 3.08% |

Sources: Humboldt County Assessor 2004-05 to 2013-14 Combined Tax Rolls
HdL, Coren & Cone

City of Eureka, California
 Direct and Overlapping Property Tax Rates
 June 30, 2016
 Last Ten Fiscal Years

| Agency | | Fiscal Year | | | | | | | | | |
|---|------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Basic Levy | (1) | 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 |
| CR 2005/2007 Go Bond | | 0.01000 | 0.01500 | 0.01200 | 0.01300 | 0.01300 | 0.01200 | 0.01100 | 0.01100 | 0.01300 | 0.01000 |
| Eureka Unified Elementary | | 0.02100 | 0.01600 | 0.01900 | 0.01800 | 0.01800 | 0.02000 | 0.01400 | 0.02200 | 0.02100 | 0.02000 |
| Eureka Unified High | | 0.04200 | 0.03600 | 0.03300 | 0.03500 | 0.03800 | 0.03600 | 0.03000 | 0.03400 | 0.03300 | 0.03400 |
| Eureka Usd 2015 | | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.05500 |
| Freshwater Elementary Go Bonds 2001 | | 0.04800 | 0.04200 | 0.04100 | 0.04100 | 0.04100 | 0.03500 | 0.03800 | 0.03900 | 0.03700 | 0.03500 |
| Jacoby Creek Elementary School | | 0.01600 | 0.01200 | 0.02300 | 0.01300 | 0.01300 | 0.01900 | 0.01700 | 0.01600 | 0.00000 | 0.00000 |
| Northern Humboldt Unified School Dist 2010 Bond | | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.00000 | 0.01800 | 0.01900 | 0.01800 | 0.01700 | 0.01700 |
| South Bay Elementary Go Bonds 1999 | | 0.01200 | 0.00900 | 0.00800 | 0.00600 | 0.00600 | 0.00500 | 0.00300 | 0.00400 | 0.00400 | 0.00500 |
| Total Direct and Overlapping Tax Rates | (2) | 1.14900 | 1.13000 | 1.13600 | 1.12600 | 1.12900 | 1.14500 | 1.13200 | 1.14400 | 1.12500 | 1.17600 |
| City's Share of 1% Levy Per Prop 13 | (3) | 0.16232 | 0.16232 | 0.16232 | 0.16232 | 0.16232 | 0.16232 | 0.16232 | 0.16232 | 0.16232 | 0.16232 |
| Redevelopment Rate | (4) | 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 | 1.00000 | | | | |
| Total Direct Rate | (5) | 0.35545 | 0.30479 | 0.30969 | 0.30958 | 0.30697 | 0.30821 | 0.30363 | 0.09352 | 0.08756 | 0.08764 |

- (1) In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount. This 1.00% is shared by all taxing agencies for which the subject property resides within. In addition to the 1.00% fixed amount, property owners are charged taxes as a percentage of assessed property values for the payment of any voter approved bonds.
- (2) Overlapping rates are those of local and county governments that apply to property owners within the City. Not all overlapping rates apply to all city property owners.
- (3) City's share of 1% Levy is based on the City's share of the general fund tax rate area with the largest net taxable value within the city. ERAF general fund tax shifts may not be included in tax ratio figures.
- (4) RDA rate is based on the largest RDA tax rate area (TRA) and includes only rate(s) from indebtedness prior to 1989 as per California State statute. RDA direct and overlapping rates are applied only to the incremental property values. The approval of ABX1 26 eliminated Redevelopment from the State of California for the fiscal year 2012-13 and years thereafter.
- (5) Total Direct Rate is the weighted average of all individual direct rates applied by the government preparing the statistical section information.

Sources: Hdl, Coren & Cone
 Humboldt County Assessor 2006-07 to 2015-16 Tax Rate Table

City of Eureka, California
Principal Property Tax Payers
June 30, 2016
Current Year and Nine Years Ago

| 2006-07 | | | | |
|-----------------------------------|------------------|-----------------------|------|--|
| Company | Type of Business | Assessed Valuation | Rank | Percentage of Total Assessed Valuation |
| Bayshore Mall | Shopping Mall | \$ 48,097,967 | 1 | 2.74% |
| Target Corporation | Durable Goods | 14,644,315 | 2 | 0.84% |
| Costco Wholesale Corporation | Durable Goods | 14,641,673 | 3 | 0.84% |
| L & H Properties LLC | Developer | 8,711,447 | 4 | 0.50% |
| Humboldt Partners | Bank | 8,418,093 | 5 | 0.48% |
| Schmidbauer Lumber Inc. | Wood Products | 7,939,401 | 6 | 0.45% |
| Commercial Net Lease Realty, Inc. | Developer | 7,900,000 | 7 | 0.45% |
| Cox Communications Humboldt Inc. | Entertainment | 7,881,561 | 8 | 0.45% |
| Chevron USA Products Company | Energy | 7,628,221 | 9 | 0.44% |
| The Country Inn | Hotel | 7,606,455 | 10 | 0.43% |
| Totals | | <u>\$133,469,133</u> | | <u>7.62%</u> |

| 2015-16 | | | | |
|------------------------------|-------------------|----------------------------------|------|--|
| Company | Type of Business | Taxable Assessed Valuation | Rank | Percentage of Total Assessed Valuation |
| Bayshore Mall | Shopping Mall | \$ 29,751,030 | 1 | 1.36% |
| Costco Wholesale Corporation | Durable Goods | 17,206,764 | 2 | 0.79% |
| Table Bluff Brewing Inc. | Non-durable Goods | 16,768,349 | 3 | 0.77% |
| Target Corporation | Durable Goods | 16,009,014 | 4 | 0.73% |
| Red House Fandango LLC | Non-durable Goods | 13,801,238 | 5 | 0.63% |
| PWM Inc. | Durable Goods | 13,119,186 | 6 | 0.60% |
| CUE LLC | Investment | 11,821,026 | 7 | 0.54% |
| Schmidbauer Lumber Inc. | Lumber | 11,733,747 | 8 | 0.54% |
| The Country Inn | Hotel | 10,682,562 | 9 | 0.49% |
| Ronald J Harris Trust | Investment | 10,643,462 | 10 | 0.49% |
| Totals | | <u>\$ 151,536,378</u> | | <u>6.94%</u> |

Source: HdL Coren and Cone CAFR Report

City of Eureka, California
Property Tax Levies and Collections (1)
June 30, 2016
Last Ten Fiscal Years

| Fiscal Year | Taxes Levied For The Fiscal Year | Collected Within the Fiscal Year of the Levy | |
|--------------------|---|---|---------------------------|
| | | Amount | Percent of of Levy |
| 2007 | 5,421,915 | 5,421,915 | 100.0% |
| 2008 | 6,015,229 | 6,015,229 | 100.0% |
| 2009 | 6,767,867 | 6,767,867 | 100.0% |
| 2010 | 6,539,634 | 6,539,634 | 100.0% |
| 2011 | 8,572,335 | 8,572,335 | 100.0% |
| 2012 | 6,063,480 | 6,063,480 | 100.0% |
| 2013 | 4,065,538 | 4,065,538 | 100.0% |
| 2014 | 4,053,018 | 4,053,018 | 100.0% |
| 2015 | 3,874,764 | 3,874,764 | 100.0% |
| 2016 | 4,161,361 | 4,161,361 | 100.0% |

(1) Property taxes are levied and collected pursuant to an arrangement commonly referred to as the Teeter Plan. Under the Teeter Plan, the County allocates and remits to the County the full amount of each years tax levy, and the County then retains any delinquencies collected by the County.

(2) Article XIII A of the California Constitution (Proposition 13) precludes cities from levying a property tax, except for payment of voter approved indebtedness. The county levies all general purpose property taxes and allocates them based on a state-mandated formula to other governmental entities. The amounts shown under "Total Tax Levy" were determined by the county using that formula.

(3) Totals include property taxes/property tax increment collected from former RDA

Source: Humboldt County Auditor and City of Eureka financial records

City of Eureka, California
 Ratios of Outstanding Debt by Type
 June 30, 2016
 Last Ten Fiscal Years

| Fiscal Year | Governmental Activities | | | Business-type Activities | | | | | Total Primary Government | Percentage of Personal Income (1) | Debt Per Capita |
|-------------|-------------------------|----------------|--------------------------|--------------------------|------------------|--------------|------------------|----------------|--------------------------|-----------------------------------|-----------------|
| | Redevelopment Bonds | Capital Leases | Infrastructure Bank Loan | Water Bonds | Wastewater Bonds | Harbor Bonds | Harbor Term Loan | Capital Leases | | | |
| 2007 | 15,250,000 | 1,651,321 | - | 12,905,000 | 3,620,000 | 700,000 | 2,402,380 | 2,518,695 | \$ 39,047,396 | 5.08% | 1,496 |
| 2008 | 15,250,000 | 1,513,584 | 462,514 | 12,470,000 | 3,510,000 | 630,000 | 2,336,205 | 2,535,728 | \$ 38,708,031 | 4.92% | 1,480 |
| 2009 | 15,250,000 | 1,389,559 | 645,940 | 12,020,000 | 3,395,000 | 555,000 | 2,267,053 | 2,372,060 | \$ 37,894,612 | 4.83% | 1,457 |
| 2010 | 24,445,000 | 1,186,883 | 1,573,403 | 11,555,000 | 3,280,000 | 475,000 | 2,194,788 | 2,116,181 | \$ 46,826,255 | 5.16% | 1,721 |
| 2011 | 24,445,000 | 975,826 | 1,796,136 | 11,070,000 | 19,440,000 | 390,000 | 2,119,271 | 1,849,631 | \$ 62,085,864 | 7.27% | 2,282 |
| 2012 | 24,445,000 | 746,143 | 1,689,703 | 19,945,000 | 19,315,000 | 300,000 | 2,040,357 | 1,571,966 | \$ 70,053,169 | 7.80% | 2,598 |
| 2013 | 23,285,000 | 1,307,739 | 1,580,362 | 19,430,000 | 18,920,000 | 205,000 | 1,957,891 | 1,282,723 | \$ 67,968,715 | 10.95% | 2,515 |
| 2014 | 22,080,000 | 968,855 | 1,467,927 | 18,895,000 | 18,520,000 | 105,000 | 1,871,714 | 981,418 | \$ 64,889,914 | 10.68% | 2,411 |
| 2015 | 20,820,000 | 726,385 | 1,352,310 | 18,345,000 | 18,105,000 | - | 1,781,659 | 667,549 | \$ 61,797,903 | 10.92% | 2,284 |
| 2016 | 19,510,000 | 473,865 | 1,233,420 | 17,775,000 | 17,670,000 | - | 1,687,552 | 399,336 | \$ 58,749,173 | 10.27% | 2,195 |

(1) Personal Income from Bureau of Economic Analysis, Regional Economic Accounts and is based on Micropolitan population of Eureka-Arcata-Fortuna. Data for the City of Eureka alone is not available.

(2) Details regarding the City's outstanding debt can be found in the notes to the financial statements.

(3) Due to the dissolution of the Eureka Redevelopment Agency (ERA), all of the ERA's debt have been moved to the Eureka Successor Agency Fiduciary Fund.

City of Eureka, California
 Ratios of Outstanding Debt by Type
 June 30, 2016
 Last Ten Fiscal Years

| Fiscal Year | Fiduciary Activities (1) | | Total Fiduciary Activities |
|-------------|--------------------------|--------------------------|----------------------------|
| | Redevelopment Bonds | Infrastructure Bank Loan | |
| 2007 | - | - | \$ - |
| 2008 | - | - | \$ - |
| 2009 | - | - | \$ - |
| 2010 | - | - | \$ - |
| 2011 | - | - | \$ - |
| 2012 | 24,445,000 | 1,689,703 | \$ 26,134,703 |
| 2013 | 23,285,000 | 1,580,362 | \$ 24,865,362 |
| 2014 | 22,080,000 | 1,467,927 | \$ 23,547,927 |
| 2015 | 20,820,000 | 1,352,310 | \$ 22,172,310 |
| 2016 | 19,510,000 | 1,233,420 | \$ 20,743,420 |

(1) Due to the dissolution of the Eureka Redevelopment Agency (ERA), all of the ERA's debt have been moved to the Eureka Successor Agency Fiduciary Fund.

City of Eureka, California
Ratios of General Bonded Debt Outstanding
June 30, 2016
Last Ten Fiscal Years

| <u>Fiscal Year</u> | <u>General Bonded Debt Outstanding</u> Redevelopment Bonds | <u>Percentage of Actual Taxable Value of Property</u> | <u>Per Capita</u> |
|--------------------|---|---|-------------------|
| 2007 | 15,250,000 | 3.1960% | 584.36 |
| 2008 | 15,250,000 | 2.9963% | 583.02 |
| 2009 | 15,250,000 | 2.7825% | 586.49 |
| 2010 | 24,445,000 (1) | 4.3321% | 898.45 |
| 2011 | 24,445,000 | 4.4016% | 898.45 |
| 2012 | 24,445,000 | 4.3973% | 906.71 |
| 2013 | 23,285,000 | 4.1720% | 861.74 |
| 2014 | 22,080,000 | 3.8917% | 820.39 |
| 2015 | 20,820,000 | 3.5945% | 769.63 |
| 2016 | 19,510,000 | 3.2815% | 728.94 |

(1) The ERA issued Series A and Series B bonds in 2010 both of which are secured by incremental tax revenues. Series A is for \$4,960,000, while Series B is for \$4,235,000. With the dissolution of Redevelopment, this only includes the total actual taxable value of parcels in the former Redevelopment Agency which are now in the Successor Agency.

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

City of Eureka, California
 Computation of Direct and Overlapping Debt
 June 30, 2016

| | Percentage Applicable to City of Eureka (1) | Outstanding Debt 6/30/2016 | City of Eureka Share of Debt |
|---|--|----------------------------------|------------------------------------|
| <u>OVERLAPPING DEBT REPAID WITH PROPERTY TAXES:</u> | | | |
| Redwoods Joint Community College District | 12.922% | \$ 31,015,000 | \$ 4,007,758 |
| Eureka Unified School District | 54.210% | 50,834,989 | 27,557,648 |
| Eureka Unified School District School Facilities Improvement District No. 1 | 79.058% | 7,774,943 | 6,146,714 |
| North Humboldt Union High School District | 0.162% | 21,035,223 | 34,077 |
| Freshwater School District | 0.393% | 735,000 | 2,889 |
| South Bay Union School District | 2.232% | 999,000 | 22,298 |
| Humboldt Bay Harbor Recreation and Conservation District | 18.152% | 2,080,000 | 377,562 |
| TOTAL OVERLAPPING DEBT REPAID WITH PROPERTY TAXES | | \$ 114,474,155 | \$ 38,148,946 |
| <u>OVERLAPPING GENERAL FUND DEBT:</u> | | | |
| Humboldt County Certificates of Participation | 18.152% | \$ 13,150,000 | \$ 2,386,988 |
| Humboldt County Board of Education Certificates of Participation | 18.152% | 3,160,000 | 573,603 |
| Redwoods Joint Community College District Certificates of Participation | 12.922% | 56,200 | 7,262 |
| TOTAL OVERLAPPING GENERAL FUND DEBT | | \$ 16,366,200 | \$ 2,967,853 |
| <u>OVERLAPPING TAX INCREMENT DEBT (SUCCESSOR AGENCY):</u> | | | |
| City of Eureka Tax Allocation Bonds | 100.000% | \$ 11,000,000 | \$ 11,000,000 |
| City of Eureka Lease Revenue Bonds | 100.000% | 8,510,000 | 8,510,000 |
| | | 19,510,000 | 19,510,000 |
| CITY DIRECT DEBT | | | - (2) |
| COMBINED TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT | | | <u>\$ 60,626,799 (2)</u> |

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.

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

Source: California Municipal Statistics, Inc.

City of Eureka, California
 Legal Debt Margin Information
 June 30, 2016
 Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Total assessed value of all real and personal property | \$1,899,833,280 | \$1,872,021,159 | \$1,989,272,425 | \$2,058,319,570 | \$2,046,361,121 | \$2,037,367,688 | \$2,046,422,690 | \$2,071,145,642 | \$2,117,670,844 | \$2,182,845,200 |
| Debt limit percentage (1) | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% | 3.75% |
| Total debt limit | 71,243,748 | 70,200,793 | 74,597,716 | 77,186,984 | 76,738,542 | 76,401,288 | 76,740,851 | 77,667,962 | 79,412,657 | 81,856,695 |
| Amount of debt applicable to debt limit | - | - | - | - | - | - | - | - | - | - |
| Legal debt margin | <u>\$ 71,243,748</u> | <u>\$ 70,200,793</u> | <u>\$ 74,597,716</u> | <u>\$ 77,186,984</u> | <u>\$ 76,738,542</u> | <u>\$ 76,401,288</u> | <u>\$ 76,740,851</u> | <u>\$ 77,667,962</u> | <u>\$ 79,412,657</u> | <u>\$ 81,856,695</u> |

(1) Assessed value of property is subject to taxation at full market value since the passage of Proposition 13.

City of Eureka, California
Revenue Bond Coverage
Water Revenue Bonds
June 30, 2016
Last Ten Fiscal Years

| Fiscal Year | Gross Revenues (1) | Operating Expenses (2) | Net Revenue Available for Debt Service | Debt Service Requirements | | | Coverage |
|-------------|--------------------|------------------------|--|---------------------------|----------|-----------|----------|
| | | | | Principal | Interest | Total (3) | |
| 2007 | 5,534,052 | 3,215,538 | 2,318,514 | 299,476 | 683,522 | 982,998 | 2.36 |
| 2008 | 5,359,540 | 2,995,541 | 2,363,999 | 435,000 | 579,954 | 1,014,954 | 2.33 |
| 2009 | 5,576,060 | 3,168,209 | 2,407,851 | 450,000 | 545,580 | 995,580 | 2.42 |
| 2010 | 5,447,189 | 3,789,650 | 1,657,539 | 465,000 | 540,797 | 1,005,797 | 1.65 |
| 2011 | 5,637,856 | 4,089,787 | 1,548,069 | 485,000 | 548,299 | 1,033,299 | 1.50 |
| 2012 | 6,405,429 | 4,159,856 | 2,245,573 | 495,000 | 549,370 | 1,044,370 | 2.15 |
| 2013 | 6,817,119 | 4,542,895 | 2,274,224 | 515,000 | 813,814 | 1,328,814 | 1.71 |
| 2014 | 7,761,934 | 5,313,494 | 2,448,440 | 535,000 | 882,053 | 1,417,053 | 1.73 |
| 2015 | 7,716,089 | 5,098,576 | 2,617,513 | 550,000 | 861,733 | 1,411,733 | 1.85 |
| 2016 | 7,698,750 | 5,301,682 | 2,397,068 | 570,000 | 840,218 | 1,410,218 | 1.70 |

- (1) Total revenues (including interest) exclusive of intergovernmental .
- (2) Operating expenses exclude depreciation and non depreciable capital expenditures.
- (3) Debt service does not include principal and interest payments on capital leases which are secured by equipment and not by revenues.
- (4) Full accrual accounting established.

City of Eureka, California
Revenue Bond Coverage
Wastewater Revenue Bonds
June 30, 2016
Last Ten Fiscal Years

| Fiscal Year | Gross Revenues (1) | Operating Expenses (2) | Net Revenue Available for Debt Service | Debt Service Requirements | | | Coverage |
|-------------|--------------------|------------------------|--|---------------------------|----------|-----------|----------|
| | | | | Principal | Interest | Total | |
| 2007 | 4,360,413 | 3,719,541 | 640,872 | 110,000 | 121,987 | 231,987 | 2.76 |
| 2008 | 4,573,978 | 3,819,053 | 754,925 | 110,000 | 194,798 | 304,798 | 2.48 |
| 2009 | 5,195,835 | 3,901,440 | 1,294,395 | 115,000 | 151,129 | 266,129 | 4.86 |
| 2010 | 5,495,832 | 4,167,213 | 1,328,619 | 115,000 | 150,169 | 265,169 | 5.01 |
| 2011 | 5,607,882 | 4,458,319 | 1,149,563 | 120,000 | 311,759 | 431,759 | 2.66 |
| 2012 | 6,478,852 | 4,222,375 | 2,256,477 | 125,000 | 911,453 | 1,036,453 | 2.18 |
| 2013 | 8,630,575 | 4,689,847 | 3,940,728 | 395,000 | 907,031 | 1,302,031 | 3.03 |
| 2014 | 7,869,630 | 4,387,205 | 3,482,425 | 400,000 | 896,278 | 1,296,278 | 2.69 |
| 2015 | 11,227,774 | 4,805,335 | 6,422,439 | 415,000 | 883,620 | 1,298,620 | 4.95 |
| 2016 | 8,268,581 | 7,960,504 | 308,077 | 430,000 | 868,875 | 1,298,875 | 0.24 |

- (1) Total revenues (including interest) exclusive of intergovernmental.
(2) Operating expenses exclude depreciation and non depreciable capital expenditures.
(3) Full accrual accounting established.

City of Eureka
Revenue Bond Coverage
Harbor Bonds
June 30, 2016
Last Ten Fiscal Years

| Fiscal Year | Gross Revenues (1) | Operating Expenses (2) | Net Revenue Available for Debt Service (3) | Debt Service Requirements | | | Coverage |
|-------------|--------------------|------------------------|--|---------------------------|----------|---------|----------|
| | | | | Principal | Interest | Total | |
| 2007 | 608,892 | 766,184 | (157,292) | 128,325 | 158,207 | 286,532 | (0.55) |
| 2008 | 650,154 | 579,120 | 71,034 | 136,175 | 150,632 | 286,807 | 0.25 |
| 2009 | 639,108 | 614,057 | 25,051 | 144,153 | 142,592 | 286,745 | 0.09 |
| 2010 | 540,785 | 621,614 | (80,829) | 152,265 | 134,080 | 286,345 | (0.28) |
| 2011 | 615,297 | 566,529 | 48,768 | 160,517 | 125,090 | 285,607 | 0.17 |
| 2012 | 764,536 | 644,514 | 120,022 | 168,915 | 115,617 | 284,532 | 0.42 |
| 2013 | 676,578 | 630,691 | 45,887 | 182,466 | 108,860 | 291,326 | 0.16 |
| 2014 | 675,310 | 644,205 | 31,105 | 191,177 | 95,193 | 286,370 | 0.11 |
| 2015 | 697,529 | 712,529 | (15,000) | 90,055 | 84,227 | 174,282 | (0.09) |
| 2016 | 655,500 | 773,691 | (118,191) | 94,107 | 80,175 | 174,282 | (0.68) |

- (1) Total revenues (including interest) exclusive of intergovernmental.
- (2) Operating expenses exclude depreciation & expenditures of grant revenue and non depreciable capital expenditures.
- (3) Interest expense on other existing debt is included in when calculating Net Revenue Available for Debt Service on the Harbor Revenue Bond.
- (4) Full accrual accounting established.

City of Eureka, California
Demographic and Economic Statistics
June 30, 2016
Last Ten Fiscal Years

| Fiscal Year | Population | Personal Income | Per Capita Personal Income | Unemployment Rate |
|--------------------|-------------------|------------------------|-----------------------------------|--------------------------|
| 2007 | 26,227 | 517,434,000 | 19,729 | 5.9% |
| 2008 | 26,083 | 537,077,000 | 20,591 | 6.3% |
| 2009 | 26,031 | 541,193,000 | 20,790 | 7.7% |
| 2010 | 25,994 | 524,205,000 | 20,166 | 11.7% |
| 2011 | 26,066 | 572,696,000 | 21,971 | 12.2% |
| 2012 | 26,960 | 618,840,000 | 22,954 | 12.0% |
| 2013 | 27,021 | 620,834,000 | 22,976 | 9.0% |
| 2014 | 26,914 | 607,449,000 | 22,570 | 7.9% |
| 2015 | 27,052 | 565,874,000 | 20,918 | 6.6% |
| 2016 | 26,765 | 571,905,000 | 21,368 | 5.5% |

(*) Statistics are from HdL Coren and Cone CAFR Report.

City of Eureka, California
Principal Employers
June 30, 2016
Current Year and Nine Years Ago

| 2007 | | | | |
|--------------------------|-----------------------------|-----------|------|---|
| Employer (1) | Type of Business | Employees | Rank | Percentage of Total City Employment (2) |
| Schmidbauer Lumber | Wood products | 165 | 1 | 0.23% |
| SN Servicing Corporation | Financial Services | 145 | 2 | 0.20% |
| Costco Wholesale #125 | Department Store | 127 | 3 | 0.18% |
| Times Standard | Newspaper | 106 | 4 | 0.15% |
| Target Stores | Department Store | 106 | 5 | 0.15% |
| Pierson Building Center | Lumber & Building Materials | 100 | 6 | 0.14% |
| Mervyn's # 206 | Department Store | 96 | 7 | 0.13% |
| Pacific Choice Seafoods | Fish & Seafoods | 90 | 8 | 0.12% |
| Winco Foods | Grocery Store | 87 | 9 | 0.12% |
| Eureka Internal Medicine | Medical | 84 | 10 | 0.12% |
| Total | | 1,106 | | 1.54% |

| 2016 | | | | |
|-------------------------|-----------------------------|-----------|------|---|
| Employer (1) | Type of Business | Employees | Rank | Percentage of Total City Employment (2) |
| Costco Wholesale # 125 | Department Store | 187 | 1 | 0.27% |
| Winco Foods | Grocery Store | 164 | 2 | 0.23% |
| Walmart | Department Store | 150 | 3 | 0.21% |
| Kohl's | Department Store | 114 | 4 | 0.16% |
| Schmidbauer Lumber | Wood Products | 111 | 5 | 0.16% |
| Target Stores | Department Store | 100 | 6 | 0.14% |
| Pierson Building Center | Lumber & Building Materials | 100 | 7 | 0.14% |
| Times Standard | Newspaper | 89 | 8 | 0.13% |
| North Coast Fabricators | Construction | 87 | 9 | 0.12% |
| Pacific Choice Seafoods | Fish & Seafoods | 86 | 10 | 0.12% |
| Total | | 1,188 | | 1.68% |

(1) Excludes non-profit and governmental employers.

(2) Total City Employment information is not available for Eureka only. Calculations on this schedule are based on total employment for the Eureka-Arcata-Fortuna Metropolitan area.

Source: Top Ten Employers from City of Eureka business license records
Metropolitan Total Employment from Bureau of Economic Analysis, Regional Economic Accounts

U.S. Bureau of Economic Analysis (To find Total Employment)

City of Eureka, California
 Full-time Equivalent City Government Employees by Function/Program
 June 30, 2016
 Last Ten Fiscal Years

| Function/Program | Fiscal Year | | | | | | | | | |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| General Government | | | | | | | | | | |
| City Manager | 3.00 | 3.00 | 3.00 | 1.50 | 1.50 | 1.50 | 2.00 | 4.50 | 1.50 | 1.50 |
| City Clerk / IT | 2.00 | 2.00 | 2.00 | 1.50 | 1.50 | 1.50 | 1.50 | 5.50 | 5.50 | 5.50 |
| Personnel | 4.00 | 4.00 | 4.00 | 3.00 | 3.00 | 3.75 | 3.80 | 3.80 | 3.80 | 4.00 |
| Finance | 15.20 | 15.20 | 15.20 | 14.15 | 14.05 | 14.25 | 15.70 | 12.20 | 12.20 | 11.00 |
| City Attorney | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 3.00 | 3.00 |
| Police | | | | | | | | | | |
| Officers | 49.00 | 49.00 | 50.00 | 52.00 | 52.00 | 53.00 | 53.00 | 55.00 | 55.00 | 55.00 |
| Civilians | 34.00 | 33.00 | 31.00 | 31.00 | 31.60 | 31.60 | 31.60 | 31.60 | 32.00 | 26.00 |
| Fire (2) | | | | | | | | | | |
| Firefighters and Officers | 41.00 | 41.00 | 41.00 | 41.00 | 42.00 | 41.00 | 41.00 | 41.00 | - | - |
| Civilians | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | - | - |
| Parks & Recreation | | | | | | | | | | |
| Park / Facilities Operations | 9.60 | 9.60 | 8.80 | 7.00 | 8.80 | 8.80 | 7.00 | 9.70 | 17.70 | 17.20 |
| Harbor | 4.00 | 4.00 | 3.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 3.50 |
| Recreation | 7.74 | 7.94 | 7.74 | 7.44 | 7.44 | 7.16 | 7.16 | 7.86 | 7.04 | 7.04 |
| Sequoia Park Zoo | 6.25 | 6.50 | 6.50 | 7.30 | 7.30 | 7.30 | 7.30 | 7.30 | 7.30 | 8.30 |
| Public Works | | | | | | | | | | |
| Administration (1) | - | - | - | 3.75 | 3.45 | 4.25 | 4.25 | 4.25 | 5.25 | 4.40 |
| Environmental Programs (1) | - | - | - | 0.30 | 0.30 | 0.20 | 0.20 | 0.20 | 0.20 | - |
| Building (3) | - | - | - | - | - | - | - | - | 4.00 | 5.30 |
| Engineering | 13.00 | 13.00 | 11.00 | 11.00 | 11.00 | 11.00 | 10.00 | 10.00 | 9.00 | 8.00 |
| Streets/Alley Maintenance | 4.83 | 4.83 | 4.83 | 4.83 | 4.83 | 5.83 | 5.83 | 5.00 | 5.00 | 7.50 |
| Facilities Operations | 8.84 | 8.84 | 7.84 | 7.00 | 5.00 | 6.00 | 6.00 | 6.00 | - | - |
| Water Distribution Maintenance | 11.92 | 11.42 | 11.42 | 10.84 | 9.84 | 10.59 | 10.59 | 10.00 | 9.50 | 7.50 |
| Sewer Collection Maintenance | 13.41 | 12.91 | 12.91 | 11.33 | 10.33 | 11.08 | 11.08 | 10.00 | 9.50 | 9.50 |
| Equipment Operations | 8.34 | 8.34 | 8.34 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.30 |
| Stormwater | 4.80 | 4.80 | 4.50 | 3.70 | 2.70 | 2.50 | 2.50 | 2.80 | 2.80 | 1.50 |
| Water Treatment | 3.30 | 3.30 | 3.90 | 3.75 | 5.25 | 4.25 | 4.25 | 5.00 | 5.00 | 3.80 |
| Wastewater Treatment | 17.00 | 17.50 | 17.40 | 17.25 | 15.75 | 15.75 | 14.75 | 14.75 | 14.75 | 14.20 |
| Development Services | | | | | | | | | | |
| Community Development | 6.00 | 6.00 | 6.00 | 4.50 | 4.50 | 5.00 | 6.00 | 6.00 | 12.00 | 11.00 |
| Redevelopment | 5.75 | 5.75 | 6.00 | 6.00 | 6.00 | 4.00 | 4.00 | - | - | - |
| Building (3) | 5.40 | 5.40 | 5.40 | 5.30 | 5.25 | 6.25 | 6.25 | 7.00 | - | - |
| Total | 282.38 | 281.33 | 275.78 | 271.44 | 269.39 | 272.56 | 271.76 | 275.46 | 234.04 | 223.04 |

(1) The Administrative Division and the Environmental Programs Division of the Public Works Department were created in fiscal year 2009-10.

(2) City of Eureka Fire Department positions were eliminated. All personnel were re-hired by Humboldt Bay Fire JPA in fiscal year 14/15.

(3) Building Department was combined with Public Works Department as a separate division.

Notes: A full-time employee is scheduled to work 2080 hours per year (including vacation and sick leave).
 Full-time equivalent employment is calculated by dividing total labor hours by 2080.

Source: City of Eureka Finance Department

City of Eureka, California
 Operating Indicators by Function/Program
 June 30, 2016
 Last Ten Fiscal Years

| Function/Program | Fiscal Year | | | | | | | | | |
|--|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| General Government | | | | | | | | | | |
| Council Agenda Items Considered | 345 | 420 | 342 | 229 | 453 | 432 | 280 | 229 | 281 | 281 |
| Ordinances Adopted | 5 | 19 | 11 | 11 | 13 | 16 | 13 | 16 | 16 | 16 |
| Resolutions Adopted | 52 | 64 | 68 | 73 | 76 | 54 | 44 | 66 | 66 | 66 |
| Finance | | | | | | | | | | |
| Business Licenses | 2,267 | 2,328 | 2,331 | 2,490 | 2,506 | 2,546 | 2,563 | 2,392 | 2,499 | 2,499 |
| Transit | | | | | | | | | | |
| Passengers | 286,684 | 290,252 | 269,991 | 263,933 | 253,839 | 265,591 | 251,497 | 257,226 | 236,222 | 237,677 |
| Revenue Service Miles | 310,031 | 318,295 | 306,888 | 265,509 | 253,972 | 226,502 | 236,406 | 203,601 | 160,061 | 158,688 |
| Police | | | | | | | | | | |
| Physical Arrests | 4,638 | 4,747 | 4,754 | 3,186 | 4,669 | 5,019 | 5,686 | 4,493 | 4,179 | 3,808 |
| Parking Violations | 2,252 | 8,292 | 5,191 | 2,268 | 4,572 | 4,107 | 4,347 | 4,290 | 3,296 | 3,117 |
| Traffic Violations | 4,947 | 4,069 | 6,955 | 5,423 | 4,508 | 4,899 | 3,541 | 5,639 | 3,995 | 2,132 |
| Engineering | | | | | | | | | | |
| Permits Issued (water, sewer, encroachment) | 259 | 235 | 188 | 175 | 168 | 193 | 215 | 201 | 228 | 262 |
| Public Works | | | | | | | | | | |
| Water Connections | 9,785 | 9,787 | 9,714 | 9,940 | 9,458 | 9,825 | 9,905 | 9,849 | 10,005 | 9,975 |
| Average Daily Consumption in Gallons | 3,333,499 | 3,310,200 | 3,304,753 | 3,402,438 | 3,313,307 | 3,205,389 | 3,330,260 | 3,163,115 | 2,650,634 | 2,405,910 |
| Wastewater Connections | 9,507 | 9,438 | 9,595 | 9,583 | 9,237 | 9,825 | 9,347 | 9,784 | 9,859 | 9,929 |
| Building | | | | | | | | | | |
| Permits Issued | 1,187 | 1,143 | 956 | 1,122 | 1,011 | 934 | 1,103 | 1,174 | 1,114 | 1,214 |
| Community Development | | | | | | | | | | |
| Permit Applications | 309 | 326 | 292 | 280 | 198 | 235 | 261 | 200 | 429 | 559 |
| Zone Reclassifications | 3 | 1 | - | 1 | 2 | 2 | - | 1 | 1 | - |
| Amendments to General Plan | 3 | 1 | 1 | 1 | 2 | - | 1 | 1 | - | 1 |
| Redevelopment/Successor Agency | | | | | | | | | | |
| Business Loans | - | - | - | - | - | - | - | - | - | 1 |
| Housing Loans | 9 | 14 | 16 | 5 | 2 | - | - | - | 2 | 4 |
| Housing Rehabilitation Loans | 6 | 6 | 2 | 2 | 8 | 2 | 1 | - | - | - |

Sources: Various City Departments

City of Eureka, California
 Capital Asset Statistics by Function/Program
 June 30, 2016
 Last Ten Fiscal Years

| Function/Program | Fiscal Year | | | | | | | | | |
|---------------------------------|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Police | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Satellite Offices | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Patrol Units | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 31 |
| Engineering | | | | | | | | | | |
| Street Lights | 1,918 | 2,230 | 2,230 | 2,230 | 2,154 | 2,155 | 2,155 | 2,230 | 2,230 | 2,230 |
| Traffic Signals - City | 25 | 25 | 25 | 25 | 26 | 26 | 26 | 26 | 26 | 26 |
| Traffic Signals - State | 26 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 | 27 |
| Public Works | | | | | | | | | | |
| Miles of Streets | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 | 125 |
| Miles of Water Line | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 | 150 |
| Miles of Sewers | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Parks and Recreation | | | | | | | | | | |
| Acreage | 242 | 242 | 242 | 242 | 245 | 245 | 245 | 245 | 245 | 245 |
| Parks | 13 | 13 | 13 | 14 | 14 | 14 | 14 | 14 | 14 | 14 |
| Golf Courses | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Community Recreation Facilities | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Tennis Courts | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Ballfields | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 4 |
| Outdoor Amphitheater | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Zoo | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |

(1) Increase in this number accounts for lights in City owned parking lots.

Source: Various City departments

City of Eureka, California
Wastewater System
Summary of Historic Operating Results
June 30, 2016
Last Ten Fiscal Years

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|---------------------|
| Revenues (1) | | | | | | | | | | |
| Service charges | \$ 3,999,115 | \$ 4,180,577 | \$ 4,344,538 | \$ 4,491,800 | \$ 4,709,028 | \$ 5,268,768 | \$ 5,823,364 | \$ 6,993,204 | \$ 6,791,792 | \$ 6,653,859 |
| Connection fees | 51,866 | 63,711 | 44,493 | 29,870 | 9,140 | 17,770 | 13,380 | 13,610 | 23,940 | 19,620 |
| Other operating revenues | | | 58,267 | 232,169 | 460,540 | 352,364 | 83,889 | 91,185 | 5,086 | 8,486 |
| Investment income | 305,314 | 127,869 | 293,286 | 199,500 | 140,524 | 89,342 | 23,210 | 19,658 | 9,828 | 10,131 |
| Miscellaneous | 4,118 | 201,821 | 455,251 | 542,493 | 288,650 | 750,608 | 2,686,732 | 751,973 | 4,397,128 | 1,576,485 |
| Total revenues | \$ 4,360,413 | \$ 4,573,978 | \$ 5,195,835 | \$ 5,495,832 | \$ 5,607,882 | \$ 6,478,852 | \$ 8,630,575 | \$ 7,869,630 | \$ 11,227,774 | \$ 8,268,581 |
| Expenses (2) | 3,719,541 | 3,819,053 | 3,901,440 | 4,167,213 | 4,458,319 | 4,222,375 | 4,689,847 | 4,387,205 | 4,805,335 | 7,960,504 |
| System net revenues | \$ 640,872 | \$ 754,925 | \$ 1,294,395 | \$ 1,328,619 | \$ 1,149,563 | \$ 2,256,477 | \$ 3,940,728 | \$ 3,482,425 | \$ 6,422,439 | \$ 308,077 |
| Debt service | | | | | | | | | | |
| CSCDA Series 2003A Revenue Bonds | \$ 231,987 | \$ 304,798 | \$ 266,129 | \$ 265,169 | \$ 266,931 | \$ 262,240 | \$ 263,291 | \$ 260,171 | \$ 260,764 | \$ 261,019 |
| Wastewater Revenue Bonds, Series 2011 | - | - | - | - | 164,828 | 774,213 | 1,038,740 | 1,036,106 | 1,037,856 | 1,037,856 |
| Total debt service | \$ 231,987 | \$ 304,798 | \$ 266,129 | \$ 265,169 | \$ 431,759 | \$ 1,036,453 | \$ 1,302,031 | \$ 1,296,277 | \$ 1,298,620 | \$ 1,298,875 |
| Debt service coverage ratio | 2.76 | 2.48 | 4.86 | 5.01 | 2.66 | 2.18 | 3.03 | 2.69 | 4.95 | 0.24 |

(1) Total revenues (including interest) exclusive of intergovernmental.

(2) Excludes depreciation, capital expenditures, and debt service.

Source: City of Eureka financial records

City of Eureka, California
Number of Wastewater Connections by User Type
June 30, 2016

| User Type | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Single family residential | 7,508 | 7,716 | 7,655 | 7,784 | 7,525 | 7,884 | 7,596 | 7,922 | 7,952 | 8,002 |
| Multiple family residential | 707 | 703 | 778 | 744 | 702 | 734 | 696 | 753 | 776 | 785 |
| Commercial / Industrial | 1,042 | 1,020 | 1,162 | 1,055 | 1,010 | 1,078 | 1,055 | 1,109 | 1,131 | 1,142 |
| Total | 9,257 | 9,439 | 9,595 | 9,583 | 9,237 | 9,696 | 9,347 | 9,784 | 9,859 | 9,929 |

Source: City of Eureka financial records

**City of Eureka, California
Wastewater System
Service Charge Revenues by Class of User
June 30, 2016**

| User Type | Year Revenue (1) | Percentage of Total Service Charge Revenue |
|-----------------------------|---------------------|--|
| Single family residential | \$ 3,247,083 | 48.8% |
| Multiple family residential | 904,925 | 13.6% |
| Commercial / Industrial | 2,508,505 | 37.7% |
| Total | \$ 6,653,859 | 100% |

(1) Excludes revenues from customers outside city limits.

Source: City of Eureka financial records

**City of Eureka, California
Wastewater System
Largest Users by Service Charge Revenues
June 30, 2016**

| User (1) | Type of Business | Service Charge Revenue | Percentage of Annual Service Charge Revenue |
|------------------------|------------------|------------------------------|---|
| Pacific Seafood | Food Processing | \$ 134,880 | 2.03% |
| Red House Fandango LLC | Commercial | 110,215 | 1.66% |
| RL Eureka, LLC | Hotel | 46,036 | 0.69% |
| Mission Linen Supply | Laundry Service | 43,831 | 0.66% |
| Costco Wholesale #125 | Department Store | 35,205 | 0.53% |

(1) Excludes non-profit and governmental employers

Source: City of Eureka financial records

City of Eureka, California
Water System
Summary of Historic Operating Results
June 30, 2016
Last Ten Fiscal Years

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues (1) | | | | | | | | | | |
| Service Charges | \$ 5,105,843 | \$ 4,785,606 | \$ 5,204,095 | \$ 5,203,959 | \$ 5,498,292 | \$ 6,250,374 | \$ 6,621,231 | \$ 7,669,759 | \$ 7,574,536 | \$ 7,569,819 |
| Connection Fees | 44,775 | 70,159 | 53,449 | 57,237 | 55,351 | 67,180 | 141,809 | 80,170 | 115,217 | 109,227 |
| Investment income | 253,697 | 283,530 | 316,492 | 184,899 | 75,659 | 75,739 | 37,012 | 7,443 | 1,430 | 9,975 |
| Miscellaneous | 129,737 | 220,245 | 2,024 | 1,094 | 8,554 | 12,136 | 17,067 | 4,562 | 24,906 | 9,729 |
| Total revenues | <u>5,534,052</u> | <u>5,359,540</u> | <u>5,576,060</u> | <u>5,447,189</u> | <u>5,637,856</u> | <u>6,405,429</u> | <u>6,817,119</u> | <u>7,761,934</u> | <u>7,716,089</u> | <u>7,698,750</u> |
| Expenses (2) | <u>3,215,595</u> | <u>2,995,541</u> | <u>3,168,209</u> | <u>3,789,650</u> | <u>4,089,787</u> | <u>4,159,856</u> | <u>4,542,895</u> | <u>5,313,494</u> | <u>5,098,576</u> | <u>5,301,682</u> |
| System net revenues | <u>\$ 2,318,457</u> | <u>\$ 2,363,999</u> | <u>\$ 2,407,851</u> | <u>\$ 1,657,539</u> | <u>\$ 1,548,069</u> | <u>\$ 2,245,573</u> | <u>\$ 2,274,224</u> | <u>\$ 2,448,440</u> | <u>\$ 2,617,513</u> | <u>\$ 2,397,068</u> |
| Parity Debt service | | | | | | | | | | |
| CSCDA Series 2002B Revenue Bonds | \$ 253,843 | \$ 235,395 | \$ 223,840 | \$ 235,045 | \$ 257,054 | \$ 257,863 | \$ 254,418 | \$ 254,286 | \$ 253,868 | \$ 253,236 |
| CSCDA Series 2005C Revenue Bonds | 598,923 | 659,893 | 651,397 | 647,287 | 652,162 | 646,395 | 619,060 | 616,983 | 614,109 | 615,323 |
| CSCDA Series 2006A Revenue Bonds | 130,232 | 119,666 | 120,343 | 123,465 | 124,083 | 119,611 | 117,856 | 120,984 | 118,956 | 116,859 |
| Water Revenue Bonds Series 2012 | - | - | - | - | - | 20,501 | 424,800 | 424,800 | 424,800 | 424,800 |
| Total debt service | <u>\$ 982,998</u> | <u>\$ 1,014,954</u> | <u>\$ 995,580</u> | <u>\$ 1,005,797</u> | <u>\$ 1,033,299</u> | <u>\$ 1,044,370</u> | <u>\$ 1,416,134</u> | <u>\$ 1,417,053</u> | <u>\$ 1,411,733</u> | <u>\$ 1,410,218</u> |
| Debt service coverage ratio | 2.36 | 2.33 | 2.42 | 1.65 | 1.50 | 2.15 | 1.61 | 1.73 | 1.85 | 1.70 |

- (1) Total revenues (including interest) exclusive of intergovernmental
(2) Excludes depreciation, capital expenditures, and debt service
(3) The CSCDA Series 2000A Revenue Bonds were defeased in September 2005

Source: City of Eureka financial records

City of Eureka, California
Number of Water Connections by User Type
June 30, 2016

| User Type | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|
| Single family residential | 7885 | 7,910 | 7,775 | 7,973 | 7,611 | 7,898 | 7,924 | 7,914 | 7,955 | 7,963 |
| Multiple family residential | 719 | 740 | 778 | 767 | 717 | 748 | 754 | 756 | 800 | 791 |
| Commercial / Industrial | 1124 | 1,137 | 1,041 | 1,169 | 1,099 | 1,148 | 1,227 | 1,179 | 1,250 | 1,221 |
| Total | <u>9,728</u> | <u>9,787</u> | <u>9,594</u> | <u>9,909</u> | <u>9,427</u> | <u>9,794</u> | <u>9,905</u> | <u>9,849</u> | <u>10,005</u> | <u>9,975</u> |

Source: City of Eureka financial records

**City of Eureka, California
Water System
Service Charge Revenues by Class of User
June 30, 2016**

| User Type | Year Revenue (1) | Percentage of Total Service Charge Revenue |
|-----------------------------|--------------------|--|
| Single family residential | \$6,055,855 | 80% |
| Multiple family residential | \$605,586 | 8% |
| Commercial / Industrial | \$908,378 | 12% |
| Total | \$7,569,819 | 100% |

(1) Excludes revenues from customers outside city limits.

Source: City of Eureka financial records

**City of Eureka, California
Water System
Largest Users by Service Charge Revenues
June 30, 2016**

| User (1) | Type of Business | Service Charge Revenue | Percentage of Annual Service Charge Revenue |
|------------------------|------------------|------------------------------|---|
| Pacific Seafood | Food Processing | \$ 136,664 | 2.0% |
| Red House Fandango LLC | Commercial | 33,361 | 0.5% |
| Coast Seafoods Co | Food Processing | 32,937 | 0.5% |
| Mission Linen Supply | Laundry Service | 23,045 | 0.3% |
| Holiday Inn Express | Hotel | 20,572 | 0.3% |

(1) Excludes non-profit and governmental employers

Source: City of Eureka financial records

**CITY OF EUREKA, CALIFORNIA
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

City of Eureka
Single Audit Report
June 30, 2016
TABLE OF CONTENTS

| | |
|---|----|
| Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 1 |
| Independent Auditor’s Report on Compliance For Each Major Program and on Internal Control over Compliance Required By Uniform Guidance..... | 3 |
| Schedule of Expenditures of Federal Awards..... | 5 |
| Notes to the Schedule of Expenditures of Federal Awards..... | 6 |
| Schedule of Findings and Questioned Costs..... | 8 |
| Corrective Action Plan..... | 11 |
| Schedule of Prior Year Findings..... | 12 |



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Eureka (City), California, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. During our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Findings 2016-01 through 2016-04 described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

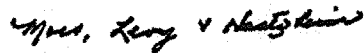
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Moss, Levy & Hartzheim LLP
Culver City, California
March 31, 2017



MOSS, LEVY & HARTZHEIM LLP

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the City of Eureka's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the fiscal year ended June 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 31, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
March 31, 2017

CITY OF EUREKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Fiscal Year Ended June 30, 2016

| Federal Grantor/Pass-Through Grantor Program Title | Federal CFDA Number | Agency or Pass-Through Program Number | Federal Expenditures |
|---|---------------------------|---|-------------------------|
| Department of Transportation: | | | |
| Passed through the State of California - CALTRANS | | | |
| Highway Planning and Construction | 20.205 | RPSTPLE-5017(014) | 29,722 |
| Highway Planning and Construction | 20.205 | RPSTPLE-5017(020) | 34,159 |
| Highway Planning and Construction | 20.600 | ATPL-5017 (043) | 102,797 |
| National Priority Safety Programs | 20.616 | PS1501 | <u>20,837</u> |
| | | | 187,515 |
| Passed through the County of Humboldt | | | |
| MAP 21 | 20.205 | RSTFTFAL | <u>308,639</u> |
| Total Department of Transportation | | | <u>496,154</u> |
| Department of Housing and Urban Development: | | | |
| Passed through the State of California | | | |
| Community Development Block Grant | 14.228 | Program Income | <u>3,325,072</u> * |
| Total Department of Housing and Urban Development | | | <u>3,325,072</u> |
| Department of Justice: | | | |
| Edward Byrne Memorial Justice Assistance - (JAG) | 16.738 | 2014-DJ-BX-0871 | <u>12,448</u> |
| Total Department of Justice | | | <u>12,448</u> |
| Department of the Interior | | | |
| National Park Service | 15.916 | LW-12-010 | <u>168,400</u> |
| Total Department of the Interior | | | <u>168,400</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 4,002,074</u> |

* Denotes major program

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

CITY OF EUREKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2016

1. REPORTING ENTITY

The financial reporting entity consists of (a) the primary government, City of Eureka (City), and (b) component units which include organizations for which the primary government is financially accountable, and other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component unit of the City is the Eureka Public Financing Authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Funds received under the various grant programs have been recorded within the General, Special Revenue, Capital projects, and Enterprise funds of the City. The City utilizes the modified accrual method of accounting for the general, special revenue, and capital project funds, and the accrual method for the enterprise funds. Expenditures of Federal Awards, reported on the accompanying Schedule of Expenditures of Federal Awards (Schedule) are recognized when incurred.

Schedule of Expenditures of Federal Awards

The accompanying schedule presents the activity of all Federal financial assistance programs of the City, Federal financial assistance received directly from Federal agencies, as well as Federal financial assistance passed through the State of California and the County of Humboldt.

The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City as a whole.

3. PROGRAM DESCRIPTIONS

Department of Transportation

Highway Planning and Construction

The objective of the Highway Planning and Construction is to assist State transportation agencies in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing and rehabilitating the National Highway System (NHS), and for transportation improvements to public roads; to provide aid for the repair of Federal-aid highways following disasters; to foster safe highway design; to replace or rehabilitate deficient or obsolete bridges; and to provide for other special purposes.

National Priority Safety Programs

The purpose of this grant is to encourage States to address national priorities for reducing highway deaths and injuries through occupant protection programs, state traffic safety information system improvements, impaired driving countermeasures, passage of effective laws to reduce distracted driving, implementation of motorcyclist safety programs, and the implementation of graduated driving licensing laws.

CITY OF EUREKA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2016

3. PROGRAM DESCRIPTIONS (CONTINUED)

Department of Transportation (Continue)

MAP-21

The purpose of this grant is to transform the policy and programmatic framework for investments to guide the growth and development of the country's vital transportation infrastructure. It creates a streamlined, performance-based, and multimodal program to address the many challenges facing the U.S. transportation system. These challenges include improving safety, maintaining infrastructure condition, reducing traffic congestion, improving efficiency of the system and freight movement, protecting the environment, and reducing delays in project delivery.

Department of Housing and Urban Development

Community Development Block Grant (CDBG), Housing RLA, and Business RLA

The Community Development Block Grant (CDBG) Program was authorized under Title I of the Housing and Community Development Act of 1974. The primary objective of the CDBG Program is the development of viable urban communities, including adequate housing, a suitable living environment, and expansion of economic opportunities, principally for persons of low to moderate income. Under this program, the Department of Housing and Urban Development (HUD) distributes funds based upon approved applications to eligible local governmental units for the purpose of community improvement and betterment. The City uses CDBG funds to finance a comprehensive home improvement program that assists low and moderate-income residents through low interest subsidies and deferred loans.

Department of Justice

Edward Byrne Memorial Justice Assistance Grant (JAG) / Office of Justice Programs

The purpose of the Edward Byrne Memorial Justice Assistance Grant (JAG) is to provide States and units of local government with funds to provide additional personnel, equipment, supplies, contractual support, training, technical assistance, and information systems for criminal justice.

Department of the Interior

National Park Service

The purpose of this grant is to provide financial assistance to the States and their political subdivisions for the preparation of Statewide Comprehensive Outdoor Recreation Plans (SCORPs) and acquisition and development of outdoor recreation areas and facilities for the general public, to meet current and future needs.

4. AMOUNTS PROVIDED TO SUBRECIPIENTS

For the fiscal year ended June 30, 2016, the City did not have payments passed through to other agencies.

CITY OF EUREKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weaknesses?

 X Yes _____ None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weaknesses?

_____ Yes X None reported

Type of auditor’s report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, 2 CFR 200.516 (a)

_____ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.228

Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee:

 X Yes _____ No

CITY OF EUREKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

2016-01 Finding – Internal controls over capital assets:

During our audit of capital assets, we noted that the City has not performed a full inventory of its capital assets for many years, in order to confirm presence, condition, and use of those assets, and to review for possible impairment or obsolescence.

Effect:

Capital asset balances could be misstated due to the lack of inspection of the physical assets for existence, completeness, accuracy, condition and usefulness.

Identification of a repeat finding:

This is a repeat finding from the immediate previous audit, 2015-01.

Recommendation:

Management should ensure that:

- Capital assets are periodically inspected for existence, possible impairment, and estimated remaining useful economic life.
- Continued presence and condition of those capital assets are confirmed, and adjustments to carrying values, where appropriate, are made so that the value of capital assets on the Statement of Net Position can be evaluated with more certainty.

Views of responsible officials and planned corrective actions:

Management agrees with the above finding, but due to budgetary and time constraints proposes to perform a full inventory over the course of three years.

2016-02 Finding – Internal controls over cash receipts at the Marina Center:

During our review of internal controls over cash receipts at the Marina Center, we noted the following deficiencies:

- There was a lack of segregation of duties over the cash receipts process. The individual who receives cash also prepares the deposits.
- Generic receipt books were used and they are not used in sequential order.

Effect:

Lack of controls over cash receipts can lead to a misappropriation of funds or errors that could go undetected.

Identification of a repeat finding:

This is a repeat finding from the immediate previous audit, 2015-02.

Recommendation:

We recommend that the City should properly segregate the responsibilities of cash receipts, the usage of receipts book should be monitored by the Finance Department.

Views of responsible officials and planned corrective actions:

Management agrees, and will purchase a numbered receipt book. Due to budgetary constraints, we are unable to add staff that would provide adequate segregation of duties, we propose to conduct random checks of postings. Staff will conduct these verifications in the coming year. Staff will work with department to implement charging interest.

CITY OF EUREKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Significant Deficiencies (Continued)

2016-03 Finding – Internal control deficiencies over cash receipts at the Adorni Center:

During our review of internal controls over cash receipts at the Adorni Center, we noted the following deficiencies:

- RecPro open accounts receivable balances report was not reviewed periodically.

Effect:

Overall weaknesses over cash receipts at various areas in the Center create opportunities for potential misappropriation of funds to occur and go undetected.

Identification of a repeat finding:

This is a repeat finding from the immediate previous audit, 2015-03.

Recommendation:

We recommend that the City implement policies and procedures at the Adorni Center to ensure that there are adequate controls over the cash receipts process and review the RecPro open accounts receivable report periodically.

Views of responsible officials and planned corrective actions:

Management agrees. Staff will reconcile RecPro reports with Incode on a quarterly basis, and will work with department staff to ensure that supporting documentation is appropriately maintained.

2016-04 Finding – Internal control deficiencies over cash receipts at the Sequoia Zoo:

During our review of internal controls over cash receipts at the Sequoia Zoo, we noted that the cashier who receives cash also reconciles sales, prepares daily deposits, and inputs the sales transaction information into the POS system.

Effect:

Lack of segregation of duties over cash receipts can cause a potential for a misappropriation of funds or errors that could go undetected.

Identification of a repeat finding:

This is a repeat finding from the immediate previous audit, 2015-04.

Recommendation:

We recommend that the City segregate and rotate the duties of the cash receipts, depositing, and recording functions at the Sequoia Zoo, which management should supervise and review on a periodic basis.

Views of responsible officials and planned corrective actions:

Management agrees, although due to budgetary constraints we are unable to add staff that would provide adequate segregation of duties, we propose to conduct random checks of postings. Staff will conduct these verifications in the coming year.

SECTION III - MAJOR FEDERAL AWARD PROGRAM

There were no federal award findings or questioned costs.

CITY OF EUREKA
CORRECTIVE ACTION PLAN
June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

2016-01 Finding – Internal controls over capital assets:

Name of contact person: Wendy Howard, Finance Director

Corrective action: Due to budgetary and time constraints proposes to perform a full inventory over the course of three years.

Proposed completion date: December 2017

2016-02 Finding – Internal controls over cash receipts at the Marina Center:

Name of contact person: Wendy Howard, Finance Director

Corrective action: City will purchase a numbered receipt book. Due to budgetary constraints, we are unable to add staff that would provide adequate segregation of duties, we propose to conduct random checks of postings. Staff will conduct these verifications in the coming year.

Proposed completion date: December 2017

2016-03 Finding – Internal control deficiencies over cash receipts at the Adorni Center:

Name of contact person: Wendy Howard, Finance Director

Corrective action: Staff will reconcile RecPro reports with Incode on a quarterly basis, and will work with department staff to ensure that supporting documentation is appropriately maintained.

Proposed completion date: December 2017

2016-04 Finding – Internal control deficiencies over cash receipts at the Sequoia Zoo:

Name of contact person: Wendy Howard, Finance Director

Corrective action: Due to budgetary constraints we are unable to add staff that would provide adequate segregation of duties, we propose to conduct random checks of postings. Staff will conduct these verifications in the coming year.

Proposed completion date: December 2017

CITY OF EUREKA
STATUS OF PRIOR YEAR FINDINGS
June 30, 2016

SECTION IV – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

SECTION II - FINANCIAL STATEMENT FINDINGS

2015-01 Finding – Internal controls over capital assets:

During our audit of capital assets, we noted that the City has not performed a full inventory of its capital assets for many years, in order to confirm presence, condition, and use of those assets, and to review for possible impairment or obsolescence.

Effect:

Capital asset balances could be misstated due to the lack of inspection of the physical assets for existence, completeness, accuracy, condition and usefulness.

Recommendation:

Management should ensure that:

- Capital assets are periodically inspected for existence, possible impairment, and estimated remaining useful economic life.
- Continued presence and condition of those capital assets are confirmed, and adjustments to carrying values, where appropriate, are made so that the value of capital assets on the Statement of Net Position can be evaluated with more certainty.

Status:

Not Implemented. See Current Year Finding 2016-01.

2015-02 Finding – Internal controls over cash receipts at the Marina Center:

During our review of internal controls over cash receipts at the Marina Center, we noted the following deficiencies:

- There was a lack of segregation of duties over the cash receipts process. The individual who receives cash also prepares the deposits.
- Generic receipt books were used and they are not used in sequential order.
- Interest was not charged to the late paid customers.

Effect:

Lack of controls over cash receipts can lead to a misappropriation of funds or errors that could go undetected.

Recommendation:

We recommend that the City should properly segregate the responsibilities of cash receipts, the usage of receipts book should be monitored by the Finance Department, and the interest should be charged to all late customers.

Status:

Partially Implemented. See Current Year Finding 2016-02.

CITY OF EUREKA
STATUS OF PRIOR YEAR FINDINGS
June 30, 2016

SECTION IV – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

SECTION II - FINANCIAL STATEMENT FINDINGS

2015-01 Finding – Internal controls over capital assets:

During our audit of capital assets, we noted that the City has not performed a full inventory of its capital assets for many years, in order to confirm presence, condition, and use of those assets, and to review for possible impairment or obsolescence.

Effect:

Capital asset balances could be misstated due to the lack of inspection of the physical assets for existence, completeness, accuracy, condition and usefulness.

Recommendation:

Management should ensure that:

- Capital assets are periodically inspected for existence, possible impairment and estimated remaining useful economic life.
- Continued presence and condition of those capital assets are confirmed, and adjustments to carrying values, where appropriate, are made so that the value of capital assets on the balance sheet can be evaluated with more certainty.

Status:

Not Implemented. See Current Year Finding 2016-01.

2015-02 Finding – Internal controls over cash receipts at the Marina Center:

During our review of internal controls over cash receipts at the Marina Center, we noted the following deficiencies:

- There was a lack of segregation of duties over the cash receipts process. The individual who receives cash also prepares the deposits.
- Generic receipt books were used and they are not used in sequential order.
- Interest was not charged to the late paid customers.

Effect:

Lack of controls over cash receipts can lead to a misappropriation of funds or errors that could go undetected.

Recommendation:

We recommend that the City should properly segregate the responsibilities of cash receipts, the usage of receipts book should be monitored by the Finance Department, and the interest should be charged to all late customers.

Status:

Partially Implemented. See Current Year Finding 2016-02.

CITY OF EUREKA
STATUS OF PRIOR YEAR FINDINGS
June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Significant Deficiencies (Continued)

2015-03 Finding – Internal control deficiencies over cash receipts at the Adorni Center:

During our review of internal controls over cash receipts at the Adorni Center, we noted the following deficiencies:

- RecPro open accounts receivable balances report was not reviewed periodically.
- Supporting documentation for cash receipts collected for off-site activities that the Adorni Center accepts payments for are not retained onsite. When requested from the off-site programs, the Center was not able to provide supporting documentation.

Effect:

Overall weaknesses over cash receipts at various areas in the Center create opportunities for potential misappropriation of funds to occur and go undetected.

Recommendation:

We recommend that the City implement policies and procedures at the Adorni Center to ensure that there are adequate controls over the cash receipts process and review the RecPro open accounts receivable report periodically.

Status:

Not Implemented. See Current Year Finding 2016-03.

2015-04 Finding – Internal control deficiencies over cash receipts at the Sequoia Zoo:

During our review of internal controls over cash receipts at the Sequoia Zoo, we noted that the cashier who receives cash also reconciles sales, prepares daily deposits, and inputs the sales transaction information into the POS system.

Effect:

Lack of segregation of duties over cash receipts can cause a potential for a misappropriation of funds or errors that could go undetected.

Recommendation:

We recommend that the City segregate and rotate the duties of the cash receipts, depositing, and recording functions at the Sequoia Zoo, which management should supervise and review on a periodic basis.

Status:

Not Implemented. See Current Year Finding 2016-04.

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APPENDIX F

STATE DEPARTMENT OF FINANCE APPROVAL LETTER

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REVISED

March 10, 2017

Ms. Wendy Howard, Finance Director
City of Eureka
531 K Street
Eureka, CA 95501

Dear Ms. Howard:

Subject: Approval of Oversight Board Action

This letter supersedes the California Department of Finance's (Finance) February 24, 2017 Oversight Board (OB) Resolution No. 2016-02 determination letter. The City of Eureka Successor Agency (Agency) notified Finance of its December 19, 2016 OB resolution 2016-02 on December 22, 2016. Pursuant to Health and Safety Code (HSC) section 34179 (h), Finance completed its review of the OB action and issued our determination on February 24, 2017. Subsequent to that determination, new information was provided and Finance is revising its determination.

Based on our review of additional information received and application of the law, OB Resolution 2016-02, approving the issuance of refunding bonds, making related findings and declarations and taking related actions in connection therewith, is approved.

The Agency desires to issue 2017 Tax Allocation Refunding Bonds, Series A and B, to refund the following obligations:

- Amended and Restated Loan Agreement dated January 1, 2006 (2006 Loan Agreement)
- Tax Allocation Loan Agreement dated October 1, 2008 (2008 Loan Agreement)
- Reimbursement Agreement dated January 1, 2010 (2010 Reimbursement Agreement)

Subsequent to Finance's determination letter, the Agency provided a signed copy of the 2006 Loan Agreement. Finance is approving the refunding of the 2006 Loan Agreement, 2008 Loan Agreement, and the 2010 Reimbursement Agreement. Finance's approval of the refunding of the 2006 Loan Agreement, the 2008 Loan Agreement, and the 2010 Reimbursement Agreement is based on our understanding that no refunding bonds will be issued unless such bonds meet the requirements outlined in HSC section 34177.5 (a). Following the issuance, the payments for the refunding bonds should be placed on a future Recognized Obligation Payment Schedule (ROPS) for Finance's review and approval.

To the extent the indebtedness obligations approved for refunding are refunded in accordance with HSC section 34177.5 and prior to the next ROPS submission, the Agency may use Redevelopment Property Tax Trust Funds received for payment of the currently listed obligations being refunded. Any indebtedness for which refunding is finalized must be

Ms. Wendy Howard
March 10, 2017
Page 2

separately identified as a new item on a subsequent ROPS and will be subject to Finance's review and approval. Further, pursuant to HSC section 34186 (a), the Agency is required to report estimated obligations and actual payments. Any unspent funds should be reported as prior period adjustments.

In addition, the resolution states the Agency is authorized to recover its costs related to the issuance of the refunding bonds from the proceeds and receive its full administrative cost allowance under HSC Section 34171 (b). While Finance does not object to these actions, any associated costs must be placed on a subsequent ROPS for Finance's review and approval before they can be considered enforceable.

This is our determination with respect to the OB action taken.

Please direct inquiries to Cindie Lor, Supervisor, or Todd Vermillion, Lead Analyst, at (916) 322-2985.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Mr. Cyndy Day-Wilson, City Attorney, City of Eureka
Mr. Joe Mellett, Auditor-Controller, Humboldt County

APPENDIX G

SUPPLEMENTAL INFORMATION – CITY OF EUREKA AND THE COUNTY OF HUMBOLDT

The following information concerning the City of Eureka (the “**City**”) and Humboldt County (the “**County**”) is included only for the purpose of supplying general information regarding the area of the Merged Project Area. The 2017 Bonds are not a debt of the City, the County, the State of California (the “**State**”) or any of its political subdivisions (other than the Successor Agency), and none of the City, the County, the State or any of its political subdivisions (other than the Successor Agency) is liable therefor.

General

The City. The City is the principal city and county seat of the County in the Redwood Empire region of the State. The City is located on U.S. Route 101 on the shores of Humboldt Bay, 270 miles north of San Francisco and 100 miles south of the Oregon border.

The County. The County is the largest and most populous of the north coast counties. The County was created from the western portion of Trinity County in 1853. The County’s name is derived from Humboldt Bay. Originally discovered in 1806 by a hunting party, the bay was not rediscovered until 1849 and then named in honor of the naturalist and explorer Baron Alexander Von Humboldt. The County’s 3,600 square miles are known for their rural beauty, roughly 80% of which is designated recreation areas and timber land. The County is home to the biggest and oldest redwood trees in the world. Natural resources also make the County a primary tourist destination. Popular sites include: Six Rivers National Forest, King Range National Conservation Area, Humboldt Redwoods State Park, Redwoods National Park, and Richardson Grove State Park.

Population

The following table lists population figures for the County and major cities in the County (including the City) as of January 1, for the last five completed calendar years.

COUNTY OF HUMBOLDT Population Estimates - Calendar Years 2012 through 2016

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|-------------------|---------------|---------------|---------------|---------------|---------------|
| Arcata | 17,918 | 18,002 | 17,983 | 18,085 | 18,169 |
| Blue Lake | 1,270 | 1,279 | 1,278 | 1,278 | 1,287 |
| Eureka | 27,060 | 26,894 | 26,874 | 26,811 | 26,765 |
| Ferndale | 1,396 | 1,426 | 1,429 | 1,435 | 1,434 |
| Fortuna | 11,870 | 11,787 | 11,840 | 11,882 | 11,848 |
| Rio Dell | 3,384 | 3,409 | 3,412 | 3,414 | 3,416 |
| Trinidad | 368 | 370 | 368 | 368 | 367 |
| Balance of County | 72,023 | 71,831 | 71,759 | 71,779 | 71,830 |
| County Total | 135,289 | 134,998 | 134,943 | 135,052 | 135,116 |

Source: State Department of Finance estimates.

Employment and Industry

The table below provides information about employment rates and employment by industry type for the County for calendar years 2012 through 2016.

COUNTY OF HUMBOLDT
Annual Averages of Civilian Labor Force, Employment and Unemployment
and Employment by Industry
Calendar Years 2012 through 2016
(March 2016 Benchmark)

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|--------|--------|--------|--------|--------|
| Civilian Labor Force ⁽¹⁾ | 64,380 | 63,220 | 62,730 | 62,630 | 62,670 |
| Employment | 58,210 | 58,090 | 58,560 | 59,110 | 59,610 |
| Unemployment | 6,170 | 5,130 | 4,170 | 3,520 | 3,060 |
| Unemployment Rate | 9.6% | 8.1% | 6.7% | 5.6% | 4.9% |
| <u>Wage and Salary Employment⁽²⁾</u> | | | | | |
| Agriculture | 870 | 810 | 820 | 890 | 880 |
| Mining and Logging | 360 | 360 | 340 | 320 | 310 |
| Construction | 1,700 | 1,600 | 1,600 | 1,740 | 1,750 |
| Manufacturing | 2,000 | 2,070 | 2,070 | 2,010 | 2,080 |
| Wholesale Trade | 1,030 | 1,000 | 980 | 900 | 980 |
| Retail Trade | 6,840 | 6,920 | 7,010 | 7,150 | 7,440 |
| Transportation, Warehousing and Utilities | 1,290 | 1,280 | 1,270 | 1,220 | 1,170 |
| Information | 520 | 500 | 500 | 500 | 460 |
| Financial Activities Professional and Business Services | 1,600 | 1,600 | 1,590 | 1,610 | 1,620 |
| Services | 2,650 | 2,630 | 2,580 | 2,690 | 2,780 |
| Educational and Health Services | 7,440 | 7,770 | 8,000 | 8,030 | 8,330 |
| Leisure and Hospitality | 5,130 | 5,130 | 5,280 | 5,510 | 5,860 |
| Other Services | 1,840 | 1,920 | 1,890 | 1,870 | 1,800 |
| Federal Government | 730 | 710 | 730 | 770 | 780 |
| State Government | 3,300 | 3,370 | 3,450 | 3,450 | 3,490 |
| Local Government | 9,490 | 9,400 | 9,570 | 9,750 | 9,940 |
| Total, All Industries ⁽³⁾ | 46,790 | 47,070 | 47,650 | 48,410 | 49,670 |

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

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Major Employers

The table below lists the major employers in the County as of January 2017, listed alphabetically.

COUNTY OF HUMBOLDT Major Employers As of January 2017

| Employer Name | Location | Industry |
|--------------------------------|-----------------|---|
| Bettendorf Trucking | Arcata | Trucking |
| Blue Lake Casino & Hotel | Blue Lake | Casinos |
| CHER-AE Heights Casino | Trinidad | Casinos |
| Costco | Eureka | Wholesale Clubs |
| County-Humboldt-Health & Human | Eureka | Government Offices-County |
| Eureka City Clerk | Eureka | Government Offices-City, Village & Twp |
| Eureka High School | Eureka | Schools |
| Green Diamond Resource Co | Korbel | Foresters-Consulting |
| Green Diamond Resource Co | Trinidad | Foresters-Consulting |
| Humboldt Cnty Office-Education | Eureka | Schools |
| Humboldt County Dept-Health | Eureka | Clinics |
| Humboldt County Mental Health | Eureka | Hospitals |
| Humboldt County Sheriff Dept | Eureka | Government Offices-County |
| Humboldt County Social Svc | Eureka | Government Offices-County |
| Mad River Community Hospital | Arcata | Hospitals |
| Pacific Choice Seafood Inc | Eureka | Prepared Fish & Seafood Products (mfrs) |
| Sierra Pacific Industries | Arcata | Lumber-Manufacturers |
| St Joseph Hospital | Eureka | Hospitals |
| Sun Valley Group | Arcata | Greenhouses |
| Target | Eureka | Department Stores |
| Trinidad Rancheria | Trinidad | Associations |
| Umpqua Bank | Eureka | Banks |
| United Indian Health Svc | Arcata | Clinics |
| Walmart | Eureka | Department Stores |
| Winco Foods | Eureka | Grocers-Retail |

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2017 1st Edition.

Effective Buying Income

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

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2011 through 2015. Annual figures are not yet available for calendar year 2016.

**CITY OF EUREKA, COUNTY OF HUMBOLDT, THE STATE OF CALIFORNIA
AND THE UNITED STATES
Effective Buying Income
As of January 1, 2011 through 2015**

| Year | Area | Total Effective Buying Income (000's Omitted) | Median Household Effective Buying Income |
|------|--------------------|---|--|
| 2011 | City of Eureka | \$394,668 | \$26,747 |
| | County of Humboldt | 2,331,183 | 31,610 |
| | California | 814,578,458 | 47,062 |
| | United States | 6,438,704,664 | 41,253 |
| 2012 | City of Eureka | \$451,630 | \$30,849 |
| | County of Humboldt | 2,523,933 | 33,631 |
| | California | 864,088,828 | 47,307 |
| | United States | 6,737,867,730 | 41,358 |
| 2013 | City of Eureka | \$463,278 | \$33,144 |
| | County of Humboldt | 2,529,585 | 35,638 |
| | California | 858,676,636 | 48,340 |
| | United States | 6,982,757,379 | 43,715 |
| 2014 | City of Eureka | \$479,155 | \$33,491 |
| | County of Humboldt | 2,743,460 | 38,451 |
| | California | 901,189,699 | 50,072 |
| | United States | 7,357,153,421 | 45,448 |
| 2015 | City of Eureka | \$477,970 | \$34,529 |
| | County of Humboldt | 2,795,240 | 39,485 |
| | California | 981,231,666 | 53,589 |
| | United States | 7,757,960,399 | 46,738 |

Source: The Nielsen Company (US), Inc.

Commercial Activity

Summaries of historic taxable sales within the City and the County during 2011 through 2015 are shown in the following tables. Figures are not available for 2016.

During calendar year 2015, total taxable transactions in the City were reported to be \$866,206,443, representing a 0.9% increase over the total taxable transactions of \$858,242,000 that were reported in the City during calendar year 2014.

CITY OF EUREKA
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Figures in Thousands)

| Year | Retail Stores | | Total Outlets | |
|---------------------|-----------------------------|-------------------------|----------------------------|-------------------------|
| | Retail Permits on July 1 | Taxable Transactions | Total Permits on July 1 | Taxable Transactions |
| 2011 | 862 | \$628,178 | 1,245 | \$768,878 |
| 2012 | 879 | 666,222 | 1,258 | 806,874 |
| 2013 | 906 | 700,009 | 1,277 | 843,333 |
| 2014 | 922 | 707,629 | 1,304 | 858,242 |
| 2015 ⁽¹⁾ | 867 | 711,912 | 1,377 | 866,206 |

(1) Permit figures as of second quarter for calendar year 2015. Data for calendar year 2015 is preliminary and subject to review and adjustment.

Source: State Board of Equalization.

During calendar year 2015, total taxable transactions in the County were reported to be \$1,985,208,747, representing a 4.5% increase over the total taxable transactions of \$1,899,619,000 that were reported in the County calendar year 2014.

COUNTY OF HUMBOLDT
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Figures in Thousands)

| Year | Retail Stores | | Total Outlets | |
|---------------------|-----------------------------|-------------------------|----------------------------|-------------------------|
| | Retail Permits on July 1 | Taxable Transactions | Total Permits on July 1 | Taxable Transactions |
| 2011 | 3,172 | \$1,224,525 | 4,491 | \$1,698,178 |
| 2012 | 3,208 | 1,298,773 | 4,499 | 1,768,170 |
| 2013 | 3,343 | 1,370,743 | 4,600 | 1,869,677 |
| 2014 | 3,440 | 1,412,669 | 4,706 | 1,899,619 |
| 2015 ⁽¹⁾ | 3,213 | 1,474,165 | 5,105 | 1,985,209 |

(1) Permit figures as of fourth quarter for calendar year 2015. Data for calendar year 2015 is preliminary and subject to review and adjustment.

Source: State Board of Equalization.

Construction Activity

Building activity for the past five years in the City and the County are shown in the following tables. Annual figures are not yet available for calendar year 2016.

CITY OF EUREKA Total Building Permit Valuations For Calendar Years 2011 through 2015 (Valuations in Thousands)

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|----------------------------|-----------------|----------------|----------------|----------------|-----------------|
| <u>Permit Valuation</u> | | | | | |
| New Single-family | \$0.0 | \$3,289.6 | \$855.6 | \$1,291.5 | \$337.4 |
| New Multi-family | 0.0 | 213.9 | 190.6 | 141.3 | 887.2 |
| Res. Alterations/Additions | <u>2,048.9</u> | <u>2,255.0</u> | <u>2,340.9</u> | <u>2,191.8</u> | <u>1,996.6</u> |
| Total Residential | 2,048.9 | 5,758.5 | 3,387.1 | 3,624.6 | 3,221.2 |
| | | | | | |
| New Commercial | 125.0 | 8,004.5 | 9,797.3 | 7,478.5 | 1,896.7 |
| New Industrial | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| New Other | 0.0 | 0.0 | 224.5 | 197.1 | 720.4 |
| Com. Alterations/Additions | <u>10,005.7</u> | <u>3,090.7</u> | <u>4,745.6</u> | <u>6,183.5</u> | <u>41,276.3</u> |
| Total Nonresidential | 10,130.7 | 11,095.2 | 14,767.4 | 13,859.1 | 43,893.4 |
| | | | | | |
| <u>New Dwelling Units</u> | | | | | |
| Single Family | 0 | 22 | 5 | 7 | 2 |
| Multiple Family | <u>0</u> | <u>2</u> | <u>2</u> | <u>2</u> | <u>4</u> |
| TOTAL | 0 | 24 | 7 | 9 | 6 |

Source: Construction Industry Research Board, Building Permit Summary.

COUNTY OF HUMBOLDT Total Building Permit Valuations For Calendar Years 2011 through 2015 (Valuations in Thousands)

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <u>Permit Valuation</u> | | | | | |
| New Single-family | \$21,367.6 | \$16,492.6 | \$19,627.7 | \$24,382.2 | \$25,200.1 |
| New Multi-family | 7,865.0 | 4,229.1 | 3,352.0 | 5,381.8 | 3,255.8 |
| Res. Alterations/Additions | <u>10,020.5</u> | <u>10,803.0</u> | <u>13,165.4</u> | <u>13,773.6</u> | <u>11,341.3</u> |
| Total Residential | 39,253.1 | 31,524.7 | 36,145.1 | 43,537.6 | 39,797.2 |
| | | | | | |
| New Commercial | 743.9 | 18,527.0 | 15,936.1 | 24,225.9 | 8,002.5 |
| New Industrial | 0.0 | 1,833.1 | 442.0 | 2,924.9 | 2,534.1 |
| New Other | 0.0 | 3,990.0 | 1,276.3 | 5,204.1 | 1,911.2 |
| Com. Alterations/Additions | <u>8,356.9</u> | <u>10,454.8</u> | <u>13,157.9</u> | <u>14,798.7</u> | <u>48,406.3</u> |
| Total Nonresidential | 9,100.8 | 34,804.9 | 30,812.3 | 47,153.6 | 60,854.1 |
| | | | | | |
| <u>New Dwelling Units</u> | | | | | |
| Single Family | 146 | 95 | 108 | 148 | 133 |
| Multiple Family | <u>115</u> | <u>68</u> | <u>36</u> | <u>71</u> | <u>22</u> |
| TOTAL | 261 | 163 | 144 | 219 | 155 |

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

Humboldt Transit Authority (“HTA”) operates two fixed route transit bus systems: Redwood Transit System and Eureka Transit Service. The Redwood Transit System provides intercity service to and within communities between Trinidad and Scotia, including Manila, King Salmon, Field's Landing, Loleta, Fernbridge and Fortuna. HTA also offers service between McKinleyville or Arcata and Willow Creek and an express bus between Arcata and College of the Redwoods when classes are in session. The Eureka Transit Service operates in the City of Eureka, it provides local service on four scheduled routes in Eureka and its adjacent unincorporated communities. Connections can be made to the Redwood Transit System at several places in Eureka. Some other local public transit systems are: Arcata and Mad River Transit System, Blue Lake Rancheria Transit Authority and Del Norte County's Redwood Coast Transit.

Amtrak Thruway bus has stops in many towns in the region, including Eureka, Arcata, and Fortuna. These stops are not managed by Amtrak and therefore have no services beyond serving passengers. Full service is only provided at the train station in Martinez, near San Francisco.

Arcata-Eureka Airport is located in McKinleyville. Commercial flights are available. Other general aviation airports are located at Dinsmore, Garberville, Kneeland, Murray Field (Eureka), Samoa Field and Rohnerville (Fortuna).

California's second largest natural bay, Port of Humboldt Bay, is located in the County.

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APPENDIX H
FISCAL CONSULTANT'S REPORT

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**CITY OF EUREKA
REDEVELOPMENT SUCCESSOR AGENCY**

Eureka Merged Redevelopment Project Areas

**PROJECTED TAXABLE VALUES AND
ANTICIPATED TAX INCREMENT REVENUES**

March 22, 2017

I. Introduction

The City of Eureka Redevelopment Successor Agency 2017 Taxable Tax Allocation Refunding Bonds, Series A (the “2017A Taxable Bonds”) and the 2017 Series B Bonds (the “2017B Bonds”) are being issued by the City of Eureka Redevelopment Successor Agency (the “Successor Agency”). The 2017A Taxable and 2017B Bonds (together the “2017 Bonds”) are being issued to refinance certain outstanding obligations originally incurred by the former Eureka Redevelopment Agency (the “Former Agency”).

The Successor Agency is issuing the 2017A Taxable Bonds to prepay a portion of its reimbursement obligation (the “2010 Reimbursement Obligation”) under a Reimbursement Agreement dated January 1, 2010 (the “2010 Reimbursement Agreement”), by and between the Former Agency, the City of Eureka (the “City”) and the Eureka Public Financing Authority (the “Authority”). Under the 2010 Reimbursement Agreement, the Former Agency agreed to reimburse the City for lease payments made to the Authority which lease payments secure the Authority's (i) \$4,960,000 original principal amount of 2010 Lease Revenue Bonds, Taxable Series A (the interest with respect to which is subject to federal income taxation) (the “2010A Bonds”) and (ii) \$4,235,000 original principal amount of 2010 Lease Revenue Bonds, Series B (the interest with respect to which is not subject to federal income taxation) (the “2010B Bonds”). Taken together, the 2010A Bonds and the 2010B Bonds are herein referred to as the 2010 Bonds. The proceeds from the prepayment of the 2010 Reimbursement Obligation with proceeds of the 2017A Taxable Bonds will be used to defease and redeem all the outstanding 2010A Bonds.

The remaining proceeds of the 2017A Taxable Bonds will be used to (i) fund a debt service reserve account for the 2017 Bonds by depositing in such fund an amount equal to the Reserve Requirement (as hereinafter defined) allocable to the 2017 Series A Taxable Bonds or to pay the premium of a debt service reserve policy for the 2017 Bonds allocable to the 2017 Series A Taxable Bonds and (ii) pay the costs of issuing the 2017 Series A Taxable Bonds.

The Successor Agency is issuing the 2017B Bonds to (i) refinance the portion of the 2010 Reimbursement Obligation not refinanced with the proceeds of the 2017A Taxable Bonds and (ii) refinance loans made to the Former Agency by the Authority pursuant to three separate loan agreements each dated October 1, 2003 which were subsequently amended and restated pursuant to the Amended and Restated Loan Agreement dated January 1, 2006 (the “Loan Agreement”), among the Former Agency, the Authority and U.S. Bank National Association. The payments required to be made by the Successor Agency under the Loan Agreement secure the Authority's \$15,250,000 Eureka Public Financing Authority 2003 Tax Allocation Revenue Refunding Bonds (Eureka Redevelopment Projects) (the “2003 Bonds”). The proceeds from the prepayment of the 2010 Reimbursement Obligation with proceeds of the 2017B Bonds will be used to defease and redeem all the outstanding 2010B Bonds. The proceeds from the prepayment of the payments required to be made under the Loan Agreement will be used to defease and redeem all the outstanding 2003 Bonds.

The remaining proceeds of the 2017B Bonds will be used to (i) fund a debt service reserve account for the 2017 Bonds by depositing in such account an amount equal to the Reserve Requirement that is allocable to

the 2017B Bonds or to pay the premium of a debt service reserve policy for the 2017 Bonds allocable to the 2017B Bonds and (ii) pay the costs of issuing the 2017B Bonds.

The 2017 Bonds are special obligations of the Successor Agency and debt service on the 2017 Bonds is payable from the pledged Tax Revenues and amounts held in the Redevelopment Obligation Repayment Fund (the "RORF"), and the Successor Agency is not obligated to pay them except from the Tax Revenues and amounts held in the RORF. All the 2017 Bonds are equally secured by a pledge of, and charge and lien upon, all the Tax Revenues and amounts held in the RORF, and such amounts constitute a trust fund for the security and payment of the interest on and the principal of the 2017 Bonds. The Bonds are not a debt of the City of Eureka (the "City"), the State of California or any of its political subdivisions (other than the Successor Agency), and neither said City, said State nor any of its political subdivisions (other than the Successor Agency) is liable therefor, nor in any event shall the 2016 Bonds be payable out of any funds or properties other than those of the Successor Agency.

On June 29, 2011, the California Legislature and Governor enacted Assembly Bill x1 26 (ABx1 26), which generally dissolved redevelopment agencies statewide as of February 1, 2012. The bill was challenged by a suit filed before the California Supreme Court, but was upheld by the Court on December 29, 2012. On June 27, 2012 Assembly Bill 1484 (AB 1484) was signed into law, modifying and supplementing ABx1 26. In accordance with Section 34177.5(g) of the California Health and Safety Code, the Successor Agency bonds shall be considered indebtedness incurred by the dissolved redevelopment agency, with the same legal effect as if the bonds, indebtedness, financing agreement, or amended enforceable obligation had been issued, incurred, or entered into prior to June 29, 2011, in full conformity with the applicable provisions of the California Community Redevelopment Law (being Part 1 of Division 24 of the Health and Safety Code and is being referred to herein as the "Law") that existed prior to that date, shall be included in the successor agency's Recognized Obligation Payment Schedule (the "ROPS"), and shall be secured by a pledge of, and lien on, and shall be repaid from moneys deposited from time to time in the Redevelopment Property Tax Trust Fund (the "RPTTF").

The City Council adopted the Eureka Century III NDP Phase I Redevelopment Project (the "Phase I Project") on April 18, 1972 and subsequently adopted the Eureka Century III NDP Phase II Project (the "Phase II Project") on May 1, 1973. The City Council adopted the Eureka Tomorrow Redevelopment Project (the "Tomorrow Project") on December 4, 1973. The three component project areas were fiscally merged and they encompass approximately 1,261 acres. For purposes of this report, the merged project areas are referred to as Merged Project Area.

The Law provided for the creation of redevelopment agencies by cities and counties for purpose of the elimination of blight. The Law, together with Article 16, Section 16 of the California Constitution, authorized redevelopment agencies to receive that portion of property tax revenue generated by project area taxable values that are in excess of the Base Year value. The Base Year value is defined as the amount of the taxable values within the project area boundaries on the last equalized tax roll prior to adoption of the project area. The amount of current year taxable value that is in excess of the Base Year value is referred to as incremental taxable value. Tax revenues generated from the incremental taxable value are generally referred to as Tax Increment Revenues. The Law provides that the tax increment revenues may be pledged by the redevelopment agency to the repayment of agency indebtedness.

In this report, Tax Increment Revenues with the addition of Unitary Tax Revenue (see Section IV, Allocation of State Assessed Unitary Taxes) are referred to as Gross Tax Revenues. For purposes of this report, Tax

Revenues are defined as Gross Tax Revenues less; (i) the SB 2557 County Administrative fees and collection charges (see Section IV, County Collection Charges). Net Tax Revenues are Tax Revenues less tax sharing payments that have a lien on Tax Revenues that is subordinate to the debt service on the 2017 Bonds.

The purpose of this fiscal consultant report (the "Report") is to examine the assessed values of the current fiscal year and project for nine fiscal years the amount of tax increment revenues anticipated to be received by the Successor Agency from the Merged Project Area. The Law and the limits within the component redevelopment plans determine the amount of Merged Project Area Gross Tax Revenues. The amount of the Tax Revenues available for the payment of debt service on the 2016 Bonds is also affected by prior obligations undertaken by the Successor Agency and the Former Agency. Based on our research, we project that the Tax Revenues that will be pledged to the payment of debt service on the Bonds will be as shown in Table A below.

| Table A | | | | | | |
|---|---------------------------|------------------------|--------------------|---------------------------------------|---------------|-------------------------|
| Merged Project Area Tax Revenues | | | | | | |
| (000's omitted) | | | | | | |
| Fiscal Year | Gross Tax Revenues | SB 2557 Charges | Tax Revenue | Statutory Tax Sharing Payments | | Net Tax Revenues |
| | | | | Tier 1 | Tier 2 | |
| 2016-17 | \$5,544 | (\$116) | \$5,427 | (\$455) | (\$ 83) | \$4,889 |
| 2017-18 | 5,675 | (119) | 5,556 | (481) | (105) | 4,969 |
| 2018-19 | 5,789 | (122) | 5,667 | (504) | (125) | 5,039 |
| 2019-00 | 5,906 | (124) | 5,781 | (527) | (144) | 5,110 |
| 2000-21 | 6,024 | (127) | 5,898 | (551) | (164) | 5,183 |
| 2021-22 | 6,145 | (129) | 6,016 | (575) | (184) | 5,257 |
| 2022-23 | 6,269 | (132) | 6,137 | (600) | (205) | 5,332 |
| 2023-24 | 6,395 | (134) | 6,261 | (625) | (226) | 5,409 |
| 2024-25 | 6,524 | (137) | 6,387 | (651) | (248) | 5,488 |
| 2025-26 | 6,655 | (140) | 6,515 | (677) | (270) | 5,568 |

The taxable values of property and the resulting Tax Revenues for each subarea of the Merged Project Area summarized above are reflected on Tables 1 and 2 of the projections (attached). These projections are based on assumptions determined by our review of the taxable value history of the Merged Project Area and the property tax assessment and property tax apportionment procedures of Humboldt County (the "County"). The projection illustrates the entire amount of Tax Revenues projected as being available from the Merged Project Area. Future year assessed values and Tax Revenues are projections based upon the assumptions described in this Report, and are not guaranteed as to accuracy. This Report is not to be construed as a representation of such by HdL Coren & Cone.

II. The Merged Project Area

The Former Agency was activated in 1971 by the City Council at which time the City Council declared itself to be the governing board of the Former Agency. The three component redevelopment plans were fiscally merged and, prior to dissolution of redevelopment agencies by the State of California, shared limits on the amount of tax increment that could be allocated to the Merged Project Area and the amount of indebtedness secured by the Merged Project Area revenues that could be outstanding at any one time. The three component project areas are briefly described below.

Phase 1 Project

The Phase 1 Project was the Agency's first Redevelopment Plan was adopted by the City Council of the City of Eureka on April 18, 1972. It consists of approximately 15.76 acres and occupies approximately eight square blocks between F and B Streets along First and Third Streets. The properties in the Phase 1 Project are substantially developed and are predominantly commercial developments that serve visitors to the area.

Phase 2 Project

The Redevelopment Plan for the Phase 2 Project was adopted by the City Council on May 1, 1973. It consists of approximately 53.52 acres and occupies approximately eighteen square blocks. The Phase II Project contains much of the original downtown area and possesses a mixture of commercial, visitor service, residential and office uses. The properties in the Phase 2 Project are substantially developed and are predominantly made up of commercial developments that serve visitors to the area.

Tomorrow Project

The Redevelopment Plan for the Tomorrow Project was adopted by the City Council on December 4, 1973. It consists of approximately 1,192 acres and encompasses much of the waterfront and industrial land within the City. The eastern portion of the Tomorrow Project is a mixture of residential and commercial development. The center and western portions of the Tomorrow Project are primarily commercial with visitor related uses. The far western portion of the Tomorrow Project is, for the most part, made up of industrial uses and vacant land. The City's boat basin and related commercial fishing facilities are also located in the western portion of the Tomorrow Project.

A. Land Use

Table B represents the breakdown of land use in the Merged Project Area by the number of parcels and by assessed value for fiscal year 2016-17. Unsecured, SBE Non-Unitary and Cross Reference values are connected with parcels that are already accounted for in other categories. It should be noted that the figures below include the net taxable value for all parcels. This information is based on County land use designations as provided by the County.

| Table B Merged Project Area – Land Use Categories | | | |
|--|--------------------|----------------------|-------------------|
| Category | No. Parcels | Taxable Value | % of Total |
| Residential | 755 | \$140,233,443 | 22.73% |
| Commercial | 507 | 330,715,426 | 53.60% |
| Industrial | 81 | 48,772,242 | 7.90% |
| Vacant | 198 | 19,051,883 | 3.09% |
| Government Owned | 13 | 213,832 | 0.03% |
| Exempt | 158 | 0 | 0.00% |
| SBE Non-Unitary | | 1,037,620 | 0.17% |
| Cross Reference | | 21,500 | 0.00% |
| Unsecured | | 76,958,281 | 12.47% |
| Totals: | 1,712 | \$617,004,227 | 100.00% |

B. Redevelopment Plan Limits

Chapter 942, Statutes of 1993 (See Section VI B below), as codified in Section 33333.6 of the Law, limited the life of redevelopment plans adopted prior to January 1, 1994 to 40 years from the date of adoption or

January 1, 2009, whichever was later. It also limited the period within which a redevelopment project area could receive tax increment to the life of the redevelopment plan plus ten years beyond the termination of redevelopment activities except to accommodate certain specific low and moderate-income housing obligations or to pay debt service on bonds, indebtedness or other financial obligations authorized prior to January 1, 1994. Such redevelopment plans were further required to include a limitation on the number of tax increment dollars that could be allocated to the redevelopment agency; a time limit on the establishing of indebtedness to be repaid with tax increment; and a limit on the amount of bonded indebtedness to be repaid with tax increment that could be outstanding at one time. These limits could be extended only by an amendment of the redevelopment plan.

For redevelopment plans adopted prior to 1994, Chapter 942 stipulated that the time limit for establishing indebtedness could not exceed 20 years from the adoption of the redevelopment plan or January 1, 2004, whichever was later. Chapter 741, Statutes of 2001, was adopted under SB 211 and amended several sections of the Law that control time limitations for redevelopment project areas. Limitations, that under prior legislation could not be amended or had different amendment procedures, in accordance with this section, could be modified through project area amendments as set forth in this section of the Law (see Section VI, Legislation). Pursuant to Senate Bill 1045 (see Section VI) agencies were permitted to extend the term of redevelopment plan effectiveness by one year. This extension in turn extended the terms of the redevelopment plan's effectiveness and the period within which the project areas could repay indebtedness by one year. Pursuant to Senate Bill 1096 (see Section VI) agencies were permitted to extend the term of the redevelopment plan and the period within which an agency may repay indebtedness by up to two additional years.

On September 22, 2015, the Governor signed Senate Bill 107 ("SB 107"). This legislation implemented several revisions to the Health and Safety Code including an amendment to Section 34189 that impacts the time and tax increment limits of former redevelopment project areas. The legislation eliminated the effectiveness of both annual and cumulative tax increment limits and time limits on repayment of indebtedness for all enforceable obligations (as defined under Health and Safety Code Sections 34171(d)(1) and 34191.4), except in cases where contractual agreements that contain specific terms to terminate payment based on a project area reaching its tax increment and/or time limits. The Auditor Controller has informed HdLCC that, due to the amended Section 34189, the Auditor Controller will not limit the amount of tax increment revenue deposited into the RPTTF due to the time limits or due to the annual tax increment limit contained in the Merged Project Area Redevelopment Plan. Pursuant to SB 107, Tax Revenues will continue to be allocated from the Merged Project Area until such time as all authorized enforceable obligations, including the 2017 Bonds, have been repaid.

III. Project Area Assessed Values

A. Assessed Values

Taxable values are prepared and reported by the County Auditor-Controller (the "CAC") each fiscal year and represent the aggregation of all locally assessed properties that are part of each component project area. The assessments are assigned to Tax Rate Areas (TRA) that are coterminous with the boundaries of the Merged Project Area. The historic reported taxable values for the Merged Project Area were reviewed in order to ascertain the rate of taxable property valuation growth over the most recent ten fiscal years beginning with 2007-08. Between 2007-08 and 2016-17 the taxable value within the Merged Project Area increased by \$108,039,846 (21.23%) in the aggregate. Among the component project areas, growth was uniform over this

period. This represents an average annual assessed value growth of 2.15% despite a reduction in value that occurred in fiscal years 2010-11 and almost no growth in value between 2010-11 and 2012-13. Growth in the Merged Project Area has historically been steady with moderate growth in value from year to year. Assessed value within the Merged Project Area for 2016-17 is \$46.7 million (9.3%) greater than the peak values in 2009-10 prior to the economic downturn.

Assessed values within the Merged Project Area increased in the aggregate by 3.78% for 2016-17. Secured values increased by \$12.3 million (2.33%) and unsecured values increased by \$10.1 million (15.2%) over the values for 2015-16. The largest value increase was among residential properties that grew by \$11.9 million (3.7%) in taxable value with the second largest source of growth being among unsecured values that grew by \$10.1 million (15.39%) over the 2015-16 values. This large increase in unsecured value was primarily the result of the addition of \$9,535,150 in personal property value by Pacific Choice Seafood Inc. This company is a producer of seafood that has been in business for 75 years.

Residential values in the Merged Project Area did not experience the significant declines in value that effected most areas of California during the recent recession. After reaching a peak in value in 2009-10, residential values were simply flat through fiscal year 2013-14 and then began to increase. Residential values in 2014-15 were 1% greater than in 2013-14 and have increase by about 2% in each of the past two fiscal years. Residential values in 2016-17 are 6.2% greater than the previous peak year in 2009-10. The Merged Project Area was not appreciably impacted by reduction of value pursuant to Prop 8. Data provided by CoreLogic (DataQuick) indicates that median sales prices for those sales that have occurred within the Merged Project Area have increased from \$146,500 to \$232,000 (58.4%) over the past 4 years.

The detailed history of assessed values for each of the component project areas from 2007-08 to 2016-17 is illustrated on Table 3 (attached) for each sub-area tax increment projection.

B. Top Ten Taxable Property Owners

A review of the top ten taxpayers in the Merged Project Area for fiscal year 2016-17 was conducted and broken down within each of the component project areas. Within the Merged Project Area, the aggregate total taxable value for the ten largest taxpayers totaled \$111,443,642. This amount is 20.54% of the \$542.6 million Merged Project Area incremental value. The top taxpayer in the Merged Project Area is Costco Wholesale Corporation that controls 1 secured parcel and one unsecured assessment with a combined valuation of \$17,753,641. The value of the Costco Wholesale Corporation parcel and unsecured assessment is 3.27% of the Merged Project Area's total incremental value. The second largest taxpayer in the Merged Project Area is Target Corporation that controls a total of \$16,053,298 in secured assessed value. This amount is 2.96% of the Merged Project Area's incremental value. Table D below illustrates the percentage of incremental value for the top ten taxpayers and their relative importance to the incremental value of the Merged Project Area.

The property owners within the Merged Project Area top ten taxpayer list are all located within the largest of the component project areas, the Tomorrow Project.

Table D
Top Ten Property Taxpayers for the Merged Project Area

| Property Owner | Combined Value | % of Total Assessed Value | % of Total Incremental Value | Primary Land Use |
|------------------------------------|----------------------|---------------------------|------------------------------|-------------------------------|
| Costco Wholesale Corp. (1) | \$17,753,641 | 2.88% | 3.27% | Costco Wholesale Retail Store |
| Target Corporation | 16,053,298 | 2.60% | 2.96% | Target Discount Dept. Store |
| Pacific Choice Seafood Inc. (1) | 12,846,128 | 2.08% | 2.37% | Seafood processing facilities |
| CUE LLC | 12,234,694 | 1.98% | 2.25% | Commercial/Industrial Bldgs. |
| Schmidbauer Lumber Inc. (1) | 11,388,462 | 1.85% | 2.10% | Lumber mill & wood products |
| PWM Inc. (1) | 10,468,872 | 1.70% | 1.93% | Commercial/Motel/Vacant Prop. |
| Humboldt Partners | 10,348,539 | 1.68% | 1.91% | Commercial Offices |
| Shailesh & Jayshree Patel Co Trust | 7,816,769 | 1.27% | 1.44% | Holiday Inn Express & Vacant |
| Carter Family Real Estate Co LLC | 6,593,379 | 1.07% | 1.22% | Commercial/Residential/Motel |
| RL Eureka LLC | 5,939,860 | 0.96% | 1.09% | Red Lion Hotel |
| Top Taxpayer Total Value | \$111,443,642 | | | |
| Project Area Assessed Value | \$617,004,227 | 18.06% | | |
| Project Area Inc. Value | \$542,603,361 | | 20.54% | |

(1) Taxpayers with unsecured value within their Combined Value.

IV. Tax Allocation and Disbursement

A. Property Taxes

The taxable values of property are established each year on the January 1 property tax lien date. Real property values reflect the reported assessed values for secured and unsecured land and improvements. The base year value of a parcel is the value established as the full market value upon a parcel's sale, improvement or other type of reassessment. Article XIII A of the California Constitution (Proposition 13) provides that a parcel's base year value is established when locally assessed real property undergoes a change in ownership or when new construction occurs. Following the year that a parcel's base year value is first enrolled, the parcel's value is factored annually for inflation. The term base year value does not, in this instance, refer to the base year value of the Project Area. Pursuant to Article XIII A, Section 2(b) of the State Constitution and California Revenue and Taxation Code Section 51, the percentage increase in the parcel's value cannot exceed 2% of the prior year's value.

Secured property includes property on which any property tax levied by a county becomes a lien on that property. Unsecured property typically includes value for tenant improvements, fixtures, inventory and personal property. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on certain other secured property owned by the taxpayer. The taxes levied on unsecured property are levied at the previous year's secured property tax rate. Utility property assessed by the State Board of Equalization (the Board) may be revalued annually and such assessments are not subject to the inflation limitations established by Proposition 13. The taxable value of Personal Property is also established on the lien dates and is not subject to the annual 2% limit of locally assessed real property.

Each year the Board announces the applicable adjustment factor. Since the adoption of Proposition 13, inflation has, in most years, exceeded 2% and the announced factor has reflected the 2% cap. Through 2016-

17 there have been 10 occasions when the inflation factor was been less than 2%. Until 2010-11 the annual adjustment never resulted in a reduction to the base year values of individual parcels, however, the factor that was applied to real property assessed values for the January 1, 2010 assessment date was a -0.237% and this resulted in a reduction to the adjusted base year value of parcels. The changes in the California Consumer Price Index (CCPI) from October of one year and October of the next year are used to determine the adjustment factor for the January assessment date. Table E below reflects the inflation adjustment factors for the current fiscal year, ten prior fiscal years and the adjustment factor for the next fiscal year.

| Table E | |
|--|------------------------------|
| Historical Inflation Adjustment Factors | |
| <u>Fiscal Year</u> | <u>Inflation Adj. Factor</u> |
| 2006-07 | 2.000% |
| 2007-08 | 2.000% |
| 2008-09 | 2.000% |
| 2009-10 | 2.000% |
| 2010-11 | -0.237% |
| 2011-12 | 0.753% |
| 2012-13 | 2.000% |
| 2013-14 | 2.000% |
| 2014-15 | 0.454% |
| 2015-16 | 1.998% |
| 2016-17 | 1.525% |
| 2017-18 | 2.000% |

On December 13, 2016, the Board determined that the inflationary adjustment for 2017-18 would be 2.000%. For purposes of the projection we have assumed that the inflation adjustment factor for fiscal year 2018-19 and future years will be 2.00%. This assumption is based on the fact that the inflation adjustment factor has been at the maximum allowed amount of 2.00% in 32 of the 42 years since the adoption of Proposition 13. We believe that assuming the resumption of a 2.00% inflation adjustment factor is justified by historical experience.

B. Supplemental Assessments

Chapter 498 of the Statutes of 1983 provides for the reassessment of property upon a change of ownership or completion of new construction. Such reassessment is referred to as the Supplemental Assessment and is determined by applying the current year's tax rate to the amount of the increase or decrease in a property's value and prorating the resulting property taxes to reflect the portion of the tax year remaining as determined by the date of the change in ownership or completion of new construction. Supplemental Assessments become a lien against Real Property.

Since 1984-85, revenues derived from Supplemental Assessments have been allocated to redevelopment agencies and taxing entities in the same manner as regularly collected property taxes. The receipt of Supplemental Assessment Revenues by taxing entities typically follows the change of ownership by a year or more. We have not included revenues resulting from Supplemental Assessments in the projections.

C. Tax Rates

Tax rates will vary from area to area within the State, as well as within a community and a project area. The tax rate for any particular parcel is based upon the jurisdictions levying the tax rate for the area where the parcel is located. The tax rate consists of the general levy rate of \$1.00 per \$100 of taxable value and the

over-ride tax rate. The over-ride rate is that portion of the tax rate that exceeds the general levy tax rate and is levied to pay voter approved indebtedness or contractual obligations that existed prior to the enactment of Proposition 13.

A Constitutional amendment approved in June 1983 allows the levy of over-ride tax rates to repay indebtedness for the acquisition and improvement of real property, upon approval by a two-thirds vote. A subsequent amendment of the Constitution prohibits the allocation to redevelopment agencies of tax revenues derived from over-ride tax rates levied for repayment of indebtedness approved by the voters after December 31, 1988. Tax rates that were levied to support any debt approved by voters after December 31, 1988 were not allocated to redevelopment agencies. The over-ride tax rates typically decline each year as a result of (1) increasing property values (which would reduce the over-ride rate that must be levied to meet debt service) and (2) the eventual retirement of debt over time.

Section 34183(a)(1) of the Law as amended by AB1x 26 requires the Auditor Controller to allocate all revenues attributable to tax rates levied to make annual repayments of the principal and interest on any bonded indebtedness for the acquisition or improvement of real property to the taxing entity levying the tax rate. Prior to adoption of ABx1 26 there were no over-ride tax rates that were being levied within the Merged Project Area for repayment of indebtedness for acquisition or improvement of real property. As a result, the tax increment revenues being deposited into the RPTTF include only revenues derived from the general levy tax rate.

The Merged Project Area contains a total of 7 Tax Rate Areas (TRAs). A TRA is a geographic area within which the taxes on all property are levied by a certain set of taxing entities. These taxing entities each receive a prorated share of the general levy and those taxing entities with voter approved over-ride tax rates receive the revenue resulting from that over-ride tax rate. School Districts levy over-ride tax rates within the Merged Project Area that received voter approval after 1989 and have never resulted in revenue being allocated to the Former Agency or the Successor Agency. Revenue from these tax rates is paid directly to the districts by the CAC and have no effect on the revenues of the Successor Agency.

As the result of the enactment of SB 107, the Law has been changed such that tax revenue from certain debt service override tax rates for payment of pension fund obligations and obligations related to purchase of water pursuant to a State Water Contract is now to be allocated directly to the taxing entity levying that tax rate except to the extent that this revenue has been pledged to the payment of bonded indebtedness. There are no such pension fund obligations or State Water Contract tax levies within the Merged Project Area. The projections assume that tax increment revenue will only be allocated to the Successor Agency from the 1% general levy tax rate.

D. Allocation of Taxes

Taxes are due in two equal installments. Installments of taxes levied upon secured property become delinquent on December 10 and April 10. Taxes on unsecured property are due March 1 and become delinquent August 31. In accordance with Revenue and Taxation Code Section 4701ff the County utilizes an Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds, also known as a Teeter Plan. This methodology is used for the allocation of secured tax increment revenue only. This methodology was adopted by the Humboldt County Board of Supervisors prior to 2001. Under this method, the taxing entities, including redevelopment agencies in Humboldt County receive 100 percent of the secured taxes levied on the extended tax roll subject to corrections, cancellations and refunds. The secured tax revenues of the taxing entities are not subject to revenue loss due to delinquencies or gains due to

redemptions. Unsecured tax revenues are not allocated pursuant to the Teeter Plan and allocated to the Successor Agency based on collections.

The CAC indicates that collections on unsecured property taxes are normally estimated at 90%. Counties utilizing the Teeter Plan are required to maintain an amount equivalent to 2% of the total of all taxes and assessments levied on the secured roll for the year for participating entities in the county in a tax loss reserve fund, or 50 percent of the total delinquent secured taxes and assessments to cover losses that may occur due to property tax delinquencies. Revenues that are derived from the supplemental tax roll are allocated to the Successor Agency under a separate methodology (see Section IV B, Supplemental Assessments).

As of February 1, 2012, the allocation of tax increment revenue was dictated by the legislation adopted as ABx1 26 (See Legislation, Section VI). Revenue to Successor Agencies is now made on January 2 and June 1 of each fiscal year. All tax increment revenue is accumulated by the CAC in the RPTTF for allocation on these two dates. The tax increment revenue available for allocation on January 1 consists of revenues collected after June 1 of the previous fiscal year and for collections in November and December of the current fiscal year. The tax increment revenues available for allocation on June 1 include revenues collected from January 1 to June 1 of the current fiscal year.

From the amounts accumulated in the RPTTF for each allocation date, the CAC is to deduct its own administrative charges and is to calculate and deduct amounts owed to taxing entities for tax sharing agreements entered into pursuant to Section 33401 of the Law and for statutory tax sharing obligations required by Sections 33607.5 and 33607.7 of the Law. The amount remaining after these reductions, if any, is what is available for payment by the Successor Agency of debt obligations of the former redevelopment agency.

Prior to receiving revenues on January 2 and June 1, the Successor Agency must adopt a ROPS that lists the debt obligations of the former redevelopment agency that must be paid during the upcoming six month periods of January 1 through June 30 and July 1 through December 31. There is provision in the legislation for a Successor Agency to request additional amounts in one ROPS payment to allow it to make payments that may be beyond the revenues available in the upcoming allocation cycle. The ROPS must be approved by an Oversight Board that is established in the legislation with membership consisting of representatives from various taxing entities. The ROPS must also receive approval from the State Department of Finance.

The Successor Agency is entitled to receive an amount to cover the administrative costs of winding down the business of the former redevelopment agency. This amount is set by the legislation at a minimum \$250,000 per year and a maximum that is 3% of the amount allocated from the RPTTF. To the extent that revenues are insufficient to pay all the approved ROPS obligations, the Successor Agency's administrative allowance will be reduced or eliminated.

If there are RPTTF amounts remaining after reductions for county administrative charges, pass through obligations, ROPS obligations and Successor Agency administrative allowance, these remainder amounts are referred to as Residual Revenue. Residual Revenue for each allocation cycle is proportionately allocated to the taxing entities and to the Educational Revenue and Augmentation Fund (the "ERAF").

E. Assessment Appeals

Assessment appeals granted under Section 51 of the Revenue and Taxation Code (also known as Prop 8 Appeals) require that, for each subsequent lien date, the value of real property shall be adjusted to be the

lesser of its base year value as adjusted by the inflation factor pursuant to Article XIII A of the State Constitution or its full cash value taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. Reductions made under this code section may be initiated by the Assessor or requested by the property owner.

After a roll reduction is granted under Section 51, the property is reviewed on an annual basis to determine the full cash value of the property and the valuation is adjusted accordingly. This may result in further reductions or in value increases. Such increases shall be consistent with the full cash value of the property and, as a result, may exceed the maximum annual inflationary growth rate allowed on other properties under Article XIII A of the State Constitution. Once the property has regained its prior value, adjusted for inflation it, once again, is subject to the annual inflationary factor growth rate allowed under Article XIII A. (See Section X).

Assessment appeals may also be requested as adjustments to a property's base year value. If such an appeal is granted with a change in value, the base year value of the property is adjusted accordingly and that value is subsequently adjusted for new construction, demolition and any other changes requiring revaluation of the parcel's land, improvement and personal property values and by the annual inflationary factor growth rate allowed under Article XIII A.

Assessment appeals data is not readily available from Humboldt County. County-wide appeals data was requested from the Appeals Board and this information was analyzed to see what, if any, impact appeals may have on the projection of Tax Revenues. Table F below outlines the appeals filed within the Project Area based on the data provided by the Appeals Board.

| Table F Pending Assessment Appeals | | | | |
|---|----------------------------|---------------------------------|--------------------------------|-------------------------------------|
| Fiscal Year | No. Pending Appeals | Value on Pending Appeals | Owners Opinion of Value | Maximum Potential Value Loss |
| 2012-13 | 0 | | | |
| 2013-14 | 0 | | | |
| 2014-15 | 0 | | | |
| 2015-16 | 1 | 4,135,496 | 3,298,000 | 837,496 |
| 2016-17 | 4 | 7,607,496 | 5,847,000 | 1,760,533 |

According to the data provided by the Appeals Board, none of the 5 currently pending appeals are on properties owned by the top ten taxpayers. There is insufficient information with which the potential for value loss on these several assessment appeals can be estimated. No adjustment to the projections has been made for these pending assessment appeals.

G. County Collection Charges

Chapter 466, adopted by Senate Bill 2557, allows counties to recover charges for property tax administration in an amount equal to their 1989-90 property tax administration costs, as adjusted annually. The amounts that are reimbursed are the costs connected with the collection and distribution of property taxes for the Tax Collector, the CAC and the Assessor. The portions of the reimbursement amount that are allocated to each taxing entity within the County are based on the percentage of the total assessed value in the County that

each taxing entity's assessed value represents. The Collection Reimbursement charge within the Merged Project Area for 2015-16 was \$113,132. This amount was approximately 2.10% of the Merged Project Area's Gross Tax Revenue for 2015-16. The County Collection charges for 2016-17 are not yet available. The estimated charge for 2016-17 and future years has been based on the same percentage of Gross Revenue as 2015-16.

In addition to the amounts charged by the County for administration of property taxes under SB 2557, pursuant to ABx1 26, the County may charge an administrative fee for administration of the RPTTF. The amount charged by the County for such administration for the January 2, 2016 RPTTF allocation was less than \$1,000. This nominal amount has not been factored into the projections.

H. Allocation of State Assessed Unitary Taxes

Legislation enacted in 1986 (Chapter 1457) and 1987 (Chapter 921) provided for a modification of the distribution of tax revenues derived from utility property assessed by the State Board of Equalization, other than railroads. Prior to the 1988-89 fiscal year, property assessed by the SBE was assessed statewide and was allocated according to the location of individual components of a utility in a tax rate area. Commencing in 1988-89, tax revenues derived from unitary property and assessed by the SBE are accumulated in a single Tax Rate Area for the County. It is then distributed to each taxing entity in the County in the following manner: (1) each taxing entity will receive the same amount as in the previous year plus an increase for inflation of up to two percent; (2) if utility tax revenues are insufficient to provide the same amount as in the previous year, each taxing entity's share would be reduced pro-rata county wide; and (3) any increase in revenue above two percent would be allocated in the same proportion as the taxing entity's local secured taxable values are to the local secured taxable values of the County.

To administer the allocation of unitary tax revenues to redevelopment agencies, the County no longer includes the taxable value of utilities as part of the reported taxable values of the project area, therefore, the base year of project areas have been reduced by the amount of utility value that existed originally in the base year. The CAC allocated an aggregate total of \$117,828 of unitary tax revenue to the Merged Project Area for 2015-16. The amount of unitary tax revenue to be allocated for 2016-17 is not yet available. For purposes of the projections we estimate that the amount of unitary tax revenue allocated in 2015-16 will be allocated annually for each fiscal year of the projection.

V. Low and Moderate Income Housing Set-Aside

Sections 33334.2 and 33334.3 of the Law required redevelopment agencies to set aside not less than 20 percent of all tax increment revenues from project areas adopted after December 31, 1976 into a low and moderate income housing fund (the "Housing Set-Aside Requirement"). Sections 33334.3, 33334.6 and 33334.7 of the Law extend this requirement to redevelopment projects adopted prior to January 1, 1977. With the adoption of AB1x 26, the Housing Set-Aside Requirement was eliminated. The housing fund into which these set-aside amounts were formerly deposited has been eliminated and any unencumbered amounts remaining in that fund have been identified through a mandated Due Diligence Review. The amounts found to be unencumbered through this Due Diligence Review have been paid to the County and these funds have been allocated to the taxing entities within the former project area.

VI. Legislation

In order to address State Budget deficits, the Legislature enacted SB 614, SB 844 and SB 1135 that required payments from redevelopment agencies for the 1992-93, 1993-94 and 1994-95 fiscal years into a countywide ERAF. The Former Agency could have used any funds legally available and not legally obligated for other uses, including agency reserve funds, bond proceeds, earned income, and proceeds of land sales, but not moneys in the Low and Moderate Income Housing Fund (the "Housing Fund") to satisfy this obligation. From 1995-96 to 2001-02, state budgets were adopted with no additional shifting of tax increment revenues from redevelopment agencies, however, the 2002-03 State Budget required a shift of \$75 million of tax increment revenues statewide from redevelopment agencies to ERAF to meet the state budget shortfall. AB 1768 (Chapter 1127, Statutes of 2002) was enacted by the Legislature and signed by the Governor and based upon the methodology provided in the 2002-03 budget, the shift requirement for the former redevelopment agencies to make payments into the ERAF was limited to fiscal year 2002-03 only.

As part of the State's 2003-04 budget legislation, SB 1045 (Chapter 260, Statutes of 2003) required redevelopment agencies statewide to contribute \$135 million to local County ERAF which reduced the amount of State funding for schools. This transfer of funds was limited to fiscal year 2003-04 only. Under the Law as amended by SB 1045, the redevelopment agencies were authorized to use a simplified methodology to amend the individual redevelopment plans to extend by one year the effectiveness of the plan and the time during which the agencies could repay debt with tax increment revenues. In addition, the amount of this payment and the ERAF payments made in prior years were to be deducted from the cumulative tax increment amounts applied to a project area's cumulative tax increment revenue limit. The passage of SB 107 has clarified that these redevelopment plan time limits are no longer applicable to the Successor Agency's enforceable obligations generally. See the discussion in the last paragraph of Section II – Redevelopment Plan Limits.

After the State's budget for 2004-05 was approved by the legislature and signed by the Governor, Senate Bill 1096 was adopted. Pursuant to SB 1096, redevelopment agencies within the State were required to pay a total of \$250 million to ERAF for fiscal year 2004-05 and for 2005-06. The payments were due on May 10 of each fiscal year. As in previous years, payments were permitted to be made from any available funds other than the Housing Fund. If an agency was unable to make a payment, it was allowed to borrow up to 50% of the current year Housing Tax Set-Aside Requirement, however, the borrowed amount was required to be repaid to the Housing Fund within 10 years of the last ERAF payment (May 10, 2006). Under SB 1096, redevelopment plans with less than ten years of effectiveness remaining from June 30, 2005, could be extended by one year for each year that an ERAF payment is made. For redevelopment plans with 10 to 20 years of effectiveness remaining after June 30, 2005, the plans may be extended by one year for each year that an ERAF payment is made if the city council could find that the former redevelopment agency was in compliance with specified state housing requirements. These requirements are: 1) that the agency is setting aside 20% of gross tax increment revenues; 2) that housing implementation plans are in place; 3) that replacement housing and inclusionary housing requirements are being met; and, 4) that no excess surplus exists. As outlined below, the method by which ERAF loans from the Housing Fund may be repaid has been modified by the adoption of AB 1484. The requirement for repayment of these loans by certain dates has been eliminated.

In July, 2009, the Legislature adopted AB 26 4x as a means of implementing a package of 30 bills that were adopted in order to close the State's budget deficit. Under this legislation the former redevelopment agencies statewide were required to pay into their county's "Supplemental" ERAF (the "SERAF"), \$1.7 billion in

fiscal year 2009-10 and were required to pay another \$350 million in fiscal year 2010-11. Based on a State Controller formula, the former redevelopment agencies were required to pay the required amounts by May, 2010 and May, 2011 respectively.

Under this legislation, the former redevelopment agencies could use any available funds to make the SERAF payments. If Housing Set-Aside Requirement or Housing Fund amounts were borrowed to make the SERAF payment, the borrowed amounts were required to be repaid to the Housing Fund by June 30, 2015 and June 30, 2016 respectively. Under the requirements of Section 34191.4 amended by AB 1484, however, redevelopment agencies that borrowed from the Housing Fund to make the required SERAF payments for 2010 and for 2011 may only repay the borrowed amounts from annual amounts that are 50% of the increase in annual Residual Revenues that are above the Residual Revenue for fiscal year 2012-13. Repayment amounts are, under current legislation, to be repaid to the Successor Housing Agency established pursuant to AB 1x 26 and AB 1484 (see below). Repayment of SERAF payment amounts borrowed from the Housing Fund may only be repaid from growth in Residual Revenue. As a result, the repayment of these amounts will have no impact on the Successor Agency's ability to repay indebtedness.

AB 1x 26 and AB 1x 27 were introduced in May 2011 as placeholder bills and were substantially amended on June 14, 2011. These bills proposed to dramatically modify the Law as part of the fiscal year 2011-12 State budget legislation. AB 1x 26 would dissolve redevelopment agencies statewide effective October 1, 2011 and suspend all redevelopment activities as of its effective date. AB 1x 27 would allow redevelopment agencies to avoid dissolution by opting into a voluntary program requiring them to make substantial annual contributions to local school and special districts. The bills were signed by the Governor in late June, 2011 and were challenged by a suit filed before the California Supreme Court by the CRA. On December 29, 2011, the Supreme Court ruled that AB 1x 27 was unconstitutional and that AB 1x 26 was not unconstitutional. On June 27, 2012 the legislature passed and the Governor signed Assembly Bill 1484. This legislation made certain revisions to the language of AB 1x 26 based on experience after its implementation.

Once the obligations of the former redevelopment agencies have been recognized as Enforceable Obligations, the Successor Agency is obliged to manage the repayment of those Enforceable Obligations through the semiannual adoption of ROPS by the Oversight Board that is made up of representatives of taxing entities within the former redevelopment agency. Membership of the Oversight Board is dictated by Section 34179 of the Law. Beginning in 2018, there will be a single Oversight Board in each county that will be responsible for adoption of ROPS for all successor agencies in the county. The ROPS establishes the amounts that may be paid by the Successor Agency on the former redevelopment agency's debts during the six-month periods following payments to the Successor Agency from the RPTTF by the CAC on January 2 and June 1 of each year.

The legislature has recently approved SB 107. Among the changes to the dissolution statutes that were included in SB 107 was an amendment to Health and Safety Code Section 34189(a). This amendment makes it clear that the effectiveness of time and tax increment limits from the redevelopment plans of the former project areas are no longer applicable to the Successor Agency's receipt of tax increment revenue for payment of enforceable obligations (as defined under Health and Safety Code Sections 34171(d)(1) and 34191.4). Section 34189(a) provides, however, that the elimination of these limits will not result in the restoration or continuation of funding for projects whose contractual terms specified that project funding would cease once the limitations in the redevelopment plans had been reached. It doesn't appear that the

Successor Agency's ability to make payments on its enforceable obligations will be affected by this change to the law.

Numerous lawsuits have been filed on various aspects of AB 1x 26 and AB 1484 which could impact the dissolution of redevelopment agencies. Our projections could be impacted by future court decisions.

VII. Tax Sharing Agreements and Other Obligations

The legislation that dissolved redevelopment agencies also required that the calculation and payment of tax sharing amounts be taken over by the County Auditor-Controllers. Since February, 2012, the tax sharing obligations outlined below have been administered by the CAC's office.

A. Tax Sharing Agreements

The Former Agency did not enter into any tax sharing agreements with affected taxing entities.

B. Statutory Tax Sharing Payments

Each of the component project areas are subject to the statutory tax sharing requirements of Section 33607.7 of the Health and Safety Code. These requirements are discussed below.

Phase 1 Project

The City Council adopted an amendment to the Redevelopment Plan as allowed under SB 211 which eliminated the limitation on the issuance of new indebtedness to be repaid with tax increment revenue. The Phase 1 Project is subject to tax sharing payments to those taxing entities with which they did not already have tax sharing agreements pursuant to Section 33607.7 of the Law. These payments will be made in accordance with the three-tiered formulas for statutory tax sharing payments required of those project areas adopted after January 1, 1994. Since the existing time limit on incurrence of new debt was January 1, 2004, these statutory tax-sharing payments began in fiscal year 2004-05, the year following the year within which the former limit was surpassed.

Beginning in 2004-05 and using the Project Area's 2003-04 assessed values as an adjusted base value, the Successor Agency began paying the combined taxing entities 25% of the revenue generated by the Phase 1 Project's annual incremental value net of the Housing Set-Aside requirement. Beginning in 2014-13 and using the project area's 2013-14 assessed values as a second adjusted base year value for the second tier of statutory tax sharing payments, the CAC began paying the combined taxing entities 21% of the revenue generated by the Phase 1 Project's annual second tier of incremental value net of the Housing Set-Aside requirement. The third tier of statutory tax sharing payments will not be initiated before the 2017 Bonds are repaid.

Phase 2 Project

The City Council adopted an amendment to the Redevelopment Plan as allowed under SB 211 which eliminated the limitation on the issuance of new indebtedness to be repaid with tax increment revenue. The Phase 2 Project was subject to the initiation of tax sharing payments to those taxing entities with which they do not already have tax sharing agreements. These payments began to be made pursuant to Section 33607.7 of the Law and in accordance with the three-tiered formulas for statutory tax sharing payments required of

those project areas adopted after January 1, 1994. Since the existing time limit on incurrence of new debt was passed as of January 1, 2004, these statutory tax-sharing payments began in fiscal year 2004-05, the year following the year within which the former limit was surpassed.

Beginning in 2004-05 and using the Project Area's 2003-04 assessed values as an adjusted base value, the Former Agency was obligated to pay the combined taxing entities 25% of the revenue generated by the Phase 2 Project's annual incremental value net of the Housing Set-Aside requirement. Beginning in 2014-15 and using the project area's 2013-14 assessed values as a second adjusted base value for the second tier of statutory tax sharing payments, the CAC began paying the combined taxing entities 21% of the revenue generated by the Phase 2 Project's annual second tier of incremental value net of the Housing Set-Aside requirement. The third tier of statutory tax sharing payments will not be initiated before the 2017 Bonds are repaid.

Tomorrow Project

The City Council adopted an amendment to the Tomorrow Project Redevelopment Plan as allowed under SB 211 which eliminated the limitation on the issuance of new indebtedness to be repaid with tax increment revenue. The Tomorrow Project was made subject to the initiation of tax sharing payments to those taxing entities with which they do not already have tax sharing agreements. These payments will be made pursuant to Section 33607.7 of the Law and in accordance with the three-tiered formulas for statutory tax sharing payments required of those project areas adopted after January 1, 1994. Since the existing time limit on incurrence of new debt is passed as of January 1, 2004, these statutory tax-sharing payments began in fiscal year 2004-05, the year following the year within which the former limit was surpassed.

Beginning in 2004-05 and using the Tomorrow Project's 2003-04 assessed values as an adjusted base value, the Former Agency was obligated to pay the combined taxing entities 25% of the revenue generated by the Tomorrow Project's annual incremental value net of the Housing Set-Aside requirement. Beginning in 2014-15 and using the project area's 2013-14 assessed values as a second adjusted base value for the second tier of statutory tax sharing payments, the CAC began to pay the combined taxing entities 21% of the revenue generated by the Tomorrow Project's annual second tier of incremental value net of the Housing Set-Aside requirement. The third tier of statutory tax sharing payments will not be initiated before the 2017 Bonds are repaid.

Subordination of Statutory Tax Sharing Payments

Section 33607.5(e) of the Law as it existed prior to the dissolution of redevelopment and Section 34177.5(c) of the Law as amended by the dissolution legislation specifies a procedure whereby the Successor Agency may request subordination of the statutory tax sharing payments to payment of debt service on the 2017 Bonds by the Merged Project's taxing entities. As part of this request, the Successor Agency must provide substantial evidence to the taxing entities that it has reasonable expectation that it will have sufficient funds to make the debt service payments on the 2017 Bonds as well as making the required statutory tax sharing payments.

The taxing entities may respond and agree to the subordination request, they may do nothing and after 45 days be deemed to have agreed to the subordination or they may disapprove the subordination request. A taxing entity may disapprove a subordination request only if it believes based on substantial evidence that the Successor Agency's financial estimates are incorrect and that the Successor Agency will not be able to make debt service and the tax sharing payments. It is the Successor Agency's belief that sufficient evidence can be provided to warrant subordination of the tax sharing payments and that no later than 45 days from receipt of

the notice by the taxing entities, the tax sharing payments will be subordinate to the payment of debt service on the 2017 Bonds. Subordination of the statutory tax sharing payments will be requested pursuant to Section 34177.5(c) and is expected to be achieved prior to the closing of the Bonds.

VIII. Development Activities

Changes in value due to transfers of ownership occurring after the lien date for the 2016-17 fiscal year will affect the taxable values for fiscal year 2017-18. New development continues to occur within the combined Merged Project that is above and beyond changes of ownership but no additional value has been included in the projections for new construction. The Table G below reflects the values changes incorporated into the projected values for 2016-17 and 2017-18 based on the transfers of ownership occurring after January 1, 2015 and after January 1, 2016.

Table G
Project Area Transfers of Ownership after 2016-17 Lien Dates

| | No. of Transfers | Combined Sale Price | Combined Enrolled Value | Total Change in Value |
|-------------------------------|---------------------|------------------------|----------------------------|--------------------------|
| Phase 1 Project | 1 | \$ 440,000 | \$ 103,064 | \$ 336,936 |
| Phase 2 Project | 4 | 940,000 | 898,726 | 41,274 |
| Tomorrow Project | 27 | 9,686,500 | 8,106,539 | 1,579,961 |
| Value Added to 2017-18 | 32 | \$11,066,500 | \$9,108,329 | \$1,958,171 |

IX. Trended Taxable Value Growth

In accordance with Proposition 13, growth in real property land and improvement values may reflect the year-to-year inflationary rate not to exceed 2% for any given year. A 2% growth rate is the maximum inflationary growth rate permitted by law and this rate of growth has been realized in all but ten years since 1976-77. The years in which less than two percent growth was realized included fiscal years 1983-84 (1.0%), 1995-96 (1.19%), 1996-97 (1.11%), 1999-00 (1.85%), 2004-05 (1.867%), 2010-11 (-0.237%), 2011-12 (0.753%), 2014-15 (0.454%), 2015-16 (1.998%) and 2016-17 (1.525%). The State Board recently announced that the inflation adjustment for 2017-18 will be 2.00%. We have assumed a continuation of 2% annual inflationary growth in all fiscal years after 2017-18. Future values will also be impacted by changes of ownership and new construction not reflected in our projections. In addition, the values of property previously reduced in value due to assessment appeals based on reduced market values could increase more than 2% when real estate values increase more than 2% (see Section IV A above). Seismic activity and environmental conditions such as hazardous substances that are not anticipated in this Report might also impact taxable assessed values and Gross Revenues. HdL Coren & Cone makes no representation that taxable assessed values will actually grow at the rate projected.

Anticipated revenues could be adjusted as a result of unidentified assessment appeal refunds, other Assessor corrections discussed previously, or unanticipated increases or decreases in property tax values. Estimated valuations from developments included in this analysis are based upon our understanding of the general

practices of the County Assessor and CAC. General assessment practices are subject to policy changes, legislative changes, and the judgment of individual appraisers. While we believe our estimates to be reasonable, taxable values resulting from actual appraisals may vary from the amounts assumed in the projections.

**City of Eureka Redevelopment Successor Agency
Eureka Merged Redevelopment Project Areas**



Projection of Incremental Taxable Value & Tax Increment Revenue

(000's Omitted)

03/22/17

Table 1

| Taxable Values (1) | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Real Property (2) | 557,684 | 570,795 | 582,211 | 593,855 | 605,733 | 617,847 | 630,204 | 642,808 | 655,664 | 668,778 |
| Personal Property (3) | <u>59,321</u> | <u>59,321</u> | <u>59,321</u> | <u>59,321</u> | <u>59,321</u> | <u>59,321</u> | <u>59,321</u> | <u>59,321</u> | <u>59,321</u> | <u>59,321</u> |
| Total Projected Value | 617,004 | 630,116 | 641,532 | 653,176 | 665,053 | 677,168 | 689,525 | 702,129 | 714,985 | 728,098 |
| Taxable Value over Base | 74,401 | 542,603 | 555,715 | 567,131 | 578,775 | 590,652 | 602,767 | 615,124 | 627,728 | 640,584 |
| Gross Tax Increment Revenue (4) | 5,426 | 5,557 | 5,671 | 5,788 | 5,907 | 6,028 | 6,151 | 6,277 | 6,406 | 6,537 |
| Unitary Tax Revenue | <u>118</u> | <u>118</u> | <u>118</u> | <u>118</u> | <u>118</u> | <u>118</u> | <u>118</u> | <u>118</u> | <u>118</u> | <u>118</u> |
| Gross Tax Revenues | 5,544 | 5,675 | 5,789 | 5,906 | 6,024 | 6,145 | 6,269 | 6,395 | 6,524 | 6,655 |
| LESS: | | | | | | | | | | |
| SB 2557 Admin. Fee (5) | (116) | (119) | (122) | (124) | (127) | (129) | (132) | (134) | (137) | (140) |
| Tax Revenues | 5,427 | 5,556 | 5,667 | 5,781 | 5,898 | 6,016 | 6,137 | 6,261 | 6,387 | 6,515 |
| <u>Subordinate Pass Throughs</u> | | | | | | | | | | |
| SB 211 Statutory Tax Sharing Tier 1 (6) | (455) | (481) | (504) | (527) | (551) | (575) | (600) | (625) | (651) | (677) |
| SB 211 Statutory Tax Sharing Tier 2 (6) | (83) | (105) | (125) | (144) | (164) | (184) | (205) | (226) | (248) | (270) |
| Net Tax Revenues | 4,889 | 4,969 | 5,039 | 5,110 | 5,183 | 5,257 | 5,332 | 5,409 | 5,488 | 5,568 |

- (1) Taxable values as reported by Humboldt County.
- (2) Real property consists of land and improvements. Increased for inflation at 2.00% annually. Values are increased in 2017-18 for real property transfers totalling \$1,958,171.
- (3) Personal property is held constant at 2016-17 level.
- (4) Projected Gross Tax Increment is based upon incremental taxable values factored against an assumed Project tax rate and adjusted for indebtedness approved by voters prior to 1988. Future tax rates are assumed to remain constant at \$1.00 per \$100 of taxable assessed value.
- (5) County Administration charges are estimated at 2.10% of Gross Revenues.
- (6) The Agency has eliminated the Plan's time limit for incurrence of new indebtedness. The Agency is required to make statutory tax sharing payments as outlined in Section 33607.7 of the Law. Beginning in 2004-05 and using the assessed values for 2003-04 as an adjusted base year Taxing Entities that do not have existing tax sharing agreements receive their shares of 25% of tax increment revenue net of Housing Set-Aside. Beginning in the 11th year after the initiation of statutory tax sharing payments, eligible Taxing Entities receive 21% of tax revenue on incremental value above the 10th year value net of Housing Set-Aside. Beginning in the 31st year after initiation of statutory tax sharing payments, Taxing Entities also receive 14% of tax revenue on incremental value above the 30th year value net of Housing Set-Aside.

**City of Eureka Redevelopment Successor Agency
Eureka Merged Redevelopment Project Areas**



PROJECTION OF INCREMENTAL VALUE AND TAX INCREMENT REVENUE

(000s Omitted)

03/22/17

Table 2

| | Total <u>Taxable Value</u> | Taxable Value <u>Over Base</u> | Gross Tax <u>Revenue</u> | SB 2557 <u>Charge</u> | Tax Revenues | Statutory Pass-Throughs | | Net Tax <u>Revenues</u> |
|------------|-------------------------------|-----------------------------------|-----------------------------|--------------------------|----------------|-------------------------|---------------|----------------------------|
| | | | | | | <u>Tier 1</u> | <u>Tier 2</u> | |
| 1 2016-17 | 617,004 | 542,603 | 5,544 | (116) | 5,427 | (455) | (83) | 4,889 |
| 2 2017-18 | 630,116 | 555,715 | 5,675 | (119) | 5,556 | (481) | (105) | 4,969 |
| 3 2018-19 | 641,532 | 567,131 | 5,789 | (122) | 5,667 | (504) | (125) | 5,039 |
| 4 2019-20 | 653,176 | 578,775 | 5,906 | (124) | 5,781 | (527) | (144) | 5,110 |
| 5 2020-21 | 665,053 | 590,652 | 6,024 | (127) | 5,898 | (551) | (164) | 5,183 |
| 6 2021-22 | 677,168 | 602,767 | 6,145 | (129) | 6,016 | (575) | (184) | 5,257 |
| 7 2022-23 | 689,525 | 615,124 | 6,269 | (132) | 6,137 | (600) | (205) | 5,332 |
| 8 2023-24 | 702,129 | 627,728 | 6,395 | (134) | 6,261 | (625) | (226) | 5,409 |
| 9 2024-25 | 714,985 | 640,584 | 6,524 | (137) | 6,387 | (651) | (248) | 5,488 |
| 10 2025-26 | 728,098 | 653,698 | 6,655 | (140) | 6,515 | (677) | (270) | 5,568 |
| 11 2026-27 | 741,474 | 667,073 | 6,789 | (143) | 6,646 | (704) | (293) | 5,650 |
| 12 2027-28 | 755,117 | 680,716 | 6,925 | (146) | 6,779 | (731) | (315) | 5,733 |
| 13 2028-29 | 769,033 | 694,632 | 7,064 | (148) | 6,916 | (759) | (339) | 5,818 |
| 14 2029-30 | 783,227 | 708,826 | 7,206 | (151) | 7,055 | (787) | (363) | 5,905 |
| 15 2030-31 | 797,705 | 723,305 | 7,351 | (154) | 7,196 | (816) | (387) | 5,993 |
| 16 2031-32 | 812,473 | 738,072 | 7,499 | (158) | 7,341 | (846) | (412) | 6,083 |
| 17 2032-33 | 827,536 | 753,135 | 7,649 | (161) | 7,488 | (876) | (437) | 6,176 |
| 18 2033-34 | 842,900 | 768,500 | 7,803 | (164) | 7,639 | (907) | (463) | 6,269 |
| 19 2035-36 | 858,572 | 784,171 | 7,960 | (167) | 7,792 | (938) | (489) | 6,365 |
| 20 2036-37 | 874,557 | 800,156 | 8,119 | (171) | 7,949 | (970) | (516) | 6,463 |
| | | | 135,290 | (2,843) | 132,448 | (13,978) | (5,769) | 112,700 |

**City of Eureka Redevelopment Successor Agency
Eureka Merged Redevelopment Project Areas**



HISTORICAL VALUES (1)

Table 3

03/22/17

| | Base Year | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Secured (2) | Various | | | | | | | | | | |
| Land | 55,194,466 | 144,828,240 | 153,170,384 | 159,239,614 | 158,889,952 | 161,279,371 | 163,709,086 | 167,890,580 | 168,831,671 | 174,410,762 | 177,440,543 |
| Improvements | 4,109,480 | 307,463,621 | 333,192,994 | 346,317,189 | 338,806,926 | 341,815,161 | 346,770,042 | 359,281,965 | 369,410,005 | 382,783,561 | 393,013,699 |
| Personal Property | 0 | 14,230,185 | 14,784,416 | 14,447,579 | 13,208,650 | 12,757,795 | 12,733,940 | 13,302,115 | 15,194,821 | 14,598,464 | 14,513,255 |
| Exemptions | 0 | <u>(25,288,556)</u> | <u>(25,607,154)</u> | <u>(25,960,702)</u> | <u>(26,010,542)</u> | <u>(27,727,456)</u> | <u>(31,836,473)</u> | <u>(39,794,744)</u> | <u>(43,545,087)</u> | <u>(44,053,357)</u> | <u>(44,921,551)</u> |
| Total Secured | 59,303,946 | 441,233,490 | 475,540,640 | 494,043,680 | 484,894,986 | 488,124,871 | 491,376,595 | 500,679,916 | 509,891,410 | 527,739,430 | 540,045,946 |
| Unsecured | | | | | | | | | | | |
| Land | 0 | 2,492,342 | 2,558,831 | 2,392,560 | 2,252,611 | 2,467,493 | 2,214,003 | 2,026,399 | 1,885,503 | 1,425,675 | 2,837,850 |
| Improvements | 0 | 25,840,298 | 28,802,198 | 29,434,810 | 30,213,360 | 28,046,530 | 28,205,803 | 27,806,014 | 29,189,993 | 29,737,437 | 29,312,979 |
| Personal Property | 15,096,920 | 41,800,711 | 44,122,566 | 41,529,720 | 40,260,526 | 39,349,857 | 38,715,561 | 39,407,008 | 40,353,147 | 37,470,430 | 46,675,861 |
| Exemptions | 0 | <u>(2,402,460)</u> | <u>(2,861,461)</u> | <u>(3,125,405)</u> | <u>(2,253,095)</u> | <u>(2,080,699)</u> | <u>(2,383,745)</u> | <u>(2,556,700)</u> | <u>(2,094,775)</u> | <u>(1,819,334)</u> | <u>(1,868,409)</u> |
| Total Unsecured | 15,096,920 | 67,730,891 | 72,622,134 | 70,231,685 | 70,473,402 | 67,783,181 | 66,751,622 | 66,682,721 | 69,333,868 | 66,814,208 | 76,958,281 |
| GRAND TOTAL | 74,400,866 | 508,964,381 | 548,162,774 | 564,275,365 | 555,368,388 | 555,908,052 | 558,128,217 | 567,362,637 | 579,225,278 | 594,553,638 | 617,004,227 |
| Growth In Total Value (%) | | | 7.70% | 2.94% | -1.58% | 0.10% | 0.40% | 1.65% | 2.09% | 2.65% | 3.78% |
| Incremental Value | | 434,563,515 | 473,761,908 | 489,874,499 | 480,967,522 | 481,507,186 | 483,727,351 | 492,961,771 | 504,824,412 | 520,152,772 | 542,603,361 |

(1) Source: County of Humboldt.

(2) Secured values include state assessed non-unitary utility property.

**City of Eureka Redevelopment Successor Agency
Eureka Merged Redevelopment Project Areas**

TOP TEN TAXABLE PROPERTY OWNERS

Fiscal Year 2016-17

Table 4



3/22/2017

| | Secured | | | Unsecured | | | Total | | | Project Area | Property Uses |
|--|----------------|---------|----------------------------|----------------|---------|------------------------------|--------------------|----------------------------|-------------------------|---------------------------------|--|
| | Assessed Value | Parcels | % of Project Secured Value | Assessed Value | Parcels | % of Project Unsecured Value | Assessed Value | % of Project Taxable Value | % of Project Inc. Value | | |
| 1. COSTCO Wholesale Corporation | \$14,211,421 | 1 | 2.63% | \$3,542,220 | 1 | 4.60% | \$17,753,641 | 2.88% | 3.27% | Tomorrow Project Area | Costco Wholesale Retail Store |
| 2. Target Corporation | \$16,053,298 | 1 | 2.97% | \$0 | 0 | 0.00% | \$16,053,298 | 2.60% | 2.96% | Tomorrow Project Area | Target Discount Department Store |
| 3. Pacific Choice Seafood Inc. | \$0 | 0 | 0.00% | \$12,846,128 | 3 | 16.69% | \$12,846,128 | 2.08% | 2.37% | Tomorrow Project Area | Seafood Processing Facilities |
| 4. CUE LLC | \$12,234,694 | 14 | 2.27% | \$0 | 0 | 0.00% | \$12,234,694 | 1.98% | 2.25% | Tomorrow Project Area | Non-contiguous Commercial/Industrial/Vacant Properties |
| 5. Schmidbauer Lumber Inc. | \$11,087,339 | 4 | 2.05% | \$301,123 | 2 | 0.39% | \$11,388,462 | 1.85% | 2.10% | Tomorrow Project Area | Lumber Mill and Wood Products |
| 6. PWM Inc. | \$10,422,672 | 16 | 1.93% | \$46,200 | 1 | 0.06% | \$10,468,872 | 1.70% | 1.93% | Tomorrow Project Area | Non-contiguous Commercial/Motel/Vacant Properties |
| 7. Humboldt Partners | \$10,348,539 | 2 | 1.92% | \$0 | 0 | 0.00% | \$10,348,539 | 1.68% | 1.91% | Tomorrow Project Area | Commercial Offices |
| 8. Shailesh and Jaysree Patel Co. Trust | \$7,816,769 | 2 | 1.45% | \$0 | 0 | 0.00% | \$7,816,769 | 1.27% | 1.44% | Tomorrow Project Area | Holiday Inn Express Motel/Vacant Land |
| 9. Carter Family Real Estate Company LLC | \$6,593,379 | 20 | 1.22% | \$0 | 0 | 0.00% | \$6,593,379 | 1.07% | 1.22% | Tomorrow/Century III ND Phase 2 | Commercial/Residential/Vacant/Office/Motel Properties |
| 10. RL Eureka LLC | \$5,939,860 | 2 | 1.10% | \$0 | 0 | 0.00% | <u>\$5,939,860</u> | 0.96% | 1.09% | Tomorrow Project Area | Red Lion Hotel |
| Totals: | \$94,707,971 | 62 | | \$16,735,671 | 7 | | \$111,443,642 | | | | |
| Total Assessed Values: | \$540,045,946 | | 17.54% | \$76,958,281 | | 21.75% | \$617,004,227 | 18.06% | | | |
| Incremental Assessed Value: | \$480,742,000 | | 19.70% | \$61,861,361 | | 27.05% | \$542,603,361 | | 20.54% | | |

**City of Eureka Redevelopment Successor Agency
Eureka Merged Redevelopment Project Areas**

New Development
Table 5



03/22/17

| <u>REAL</u> | <u>SqFt/ Units</u> | <u>Value</u> | <u>Total Value</u> | <u>Less Existing</u> | <u>Total Value</u> | | <u>2016-17</u> | <u>2017-18</u> | <u>2018-19</u> | <u>2019-20</u> |
|------------------------------------|------------------------|--------------|------------------------|--------------------------|--------------------|-----------------|----------------|----------------|----------------|----------------|
| | | | | | <u>Start</u> | <u>Complete</u> | | | | |
| | 0 | \$0 | \$0 | \$0 | \$0 | | 0 | 0 | 0 | 0 |
| | 0 | \$0 | \$0 | \$0 | \$0 | | 0 | 0 | 0 | 0 |
| | 0 | \$0 | \$0 | \$0 | \$0 | | 0 | 0 | 0 | 0 |
| | 0 | \$0 | \$0 | \$0 | \$0 | | 0 | 0 | 0 | 0 |
| Transferred Parcels after 1/1/2016 | 32 | Lump Sum | <u>\$11,066,500</u> | <u>(\$9,108,329)</u> | <u>\$1,958</u> | | 0 | 1,958 | 0 | 0 |
| Total Real Property | | | 11,066,500 | (9,108,329) | 1,958 | | 0 | 1,958 | 0 | 0 |

\Bond Services\Tax Allocation Bonds\Eureka 2016 Refunding Bonds\Eureka SA 2016 Refunding Bonds v2 - Final

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APPENDIX I

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY
National Public Finance Guarantee Corporation
Purchase, New York 10577

Policy No. [POLICY #]

National Public Finance Guarantee Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT], [PAYING AGENT CITY & STATE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR AMOUNT]
[FIRST LINE OF LEGAL TITLE]
[SECOND LINE OF LEGAL TITLE]
[THIRD LINE OF LEGAL TITLE]
[FOURTH LINE OF LEGAL TITLE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 1 Manhattanville Road, Suite 301, Purchase, New York 10577 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH], [YEAR].

**National Public Finance
Guarantee Corporation**

President

Attest: _____
Secretary

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FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272