

## PRELIMINARY OFFICIAL STATEMENT DATED APRIL 16, 2015

### NEW ISSUE—FULL BOOK ENTRY

**RATINGS:**  
Moody's: "Aa3"  
S&P: "AA-"  
(See "RATINGS" herein)

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 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, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.



### \$18,955,000\*

## City of Redwood City Public Financing Authority (San Mateo County, California) Water Revenue Refunding Bonds, Series 2015

**Dated: Date of Delivery**

**Due: February 1, as shown on the inside front cover**

The \$18,955,000\* City of Redwood City Public Financing Authority Water Revenue Refunding Bonds, Series 2015 (the "Bonds"), will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased but will receive a credit balance in the records of DTC. Principal of and interest on the Bonds are payable directly to DTC by U.S. Bank National Association, San Francisco, California, as trustee (the "Trustee"). Principal is payable on the dates set forth below. Interest is payable semiannually on each February 1 and August 1, commencing August 1, 2015. Upon receipt of payments of principal of, premium, if any, and interest on the Bonds, DTC is obligated in turn to remit such principal, premium, if any, and interest to the DTC Participants (as defined herein) for subsequent disbursement to purchasers of the Bonds, as described herein.

The Bonds are being issued to (a) refund, on a current basis, the Authority's outstanding City of Redwood City Public Financing Authority Water Revenue Bonds, Series 2006A, (b) fund a reserve fund for the Bonds, and (c) pay the costs of issuance of the Bonds. See "FINANCING PLAN" herein. See also "SECURITY FOR THE BONDS—Reserve Fund" herein for a description of certain circumstances under which the Reserve Fund for the Bonds may be terminated.

The Bonds are special obligations of the City of Redwood City Public Financing Authority (the "Authority") payable from the revenues pledged under the Indenture of Trust, dated as of May 1, 2015, by and between the Authority and the Trustee, consisting primarily of installment payments (the "2015 Installment Payments") to be made by the City of Redwood City (the "City") under an installment purchase contract, dated as of May 1, 2015, by and between the Authority and the City (the "2015 Installment Purchase Contract"). The 2015 Installment Payments are secured by a pledge of and lien on the net revenues (the "Net Revenues") of the City's municipal water enterprise (the "Enterprise"). The City's pledge of Net Revenues under the 2015 Installment Purchase Contract is on a parity basis with a similar pledge under an installment purchase contract by and between the Authority and the City (the "2007 Installment Purchase Contract"), under which the City makes installment payments that secure the Authority's Water Revenue Bonds, Series 2007A, and under an installment purchase contract by and between the Authority and the City (the "2013 Installment Purchase Contract"), under which the City makes installment payments that secure the Authority's Water Refunding Revenue Bonds, Series 2013 (the "2013 Bonds"). Net Revenues may also be pledged to additional parity obligations hereafter issued or incurred by the City (the "Parity Obligations").

The City has covenanted under the 2015 Installment Purchase Contract to fix, prescribe and collect such charges in connection with the services and facilities of the Enterprise which will produce gross revenues sufficient in each Fiscal Year to provide Net Revenues equal to at least 1.20 times the aggregate of obligations of the City in such fiscal year with respect to the 2015 Installment Purchase Contract, the 2007 Installment Purchase Contract, the 2013 Installment Sale Agreement and any Parity Obligations hereafter issued or incurred by the City.

**The Bonds are subject to redemption prior to maturity.** See "THE BONDS—Redemption" herein.

**Neither the Bonds nor the obligation of the City to make 2015 Installment Payments constitutes an obligation of the City or the Authority for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The Authority has no taxing power. Neither the Bonds nor the obligation of the City to make 2015 Installment Payments under the 2015 Installment Purchase Contract constitutes a debt of the City, the County of San Mateo, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.**

### MATURITY SCHEDULE

SEE THE INSIDE FRONT COVER

Bids for the purchase of the Bonds will be received by the Authority on Thursday, April 30, 2015, electronically only, through the I-Deal LLC BiDCOMP/PARITY® system, until 8:30 A.M., Pacific Daylight time. The Bonds will be sold pursuant to the terms of sale set forth in the Official Notice of Sale, dated April 16, 2015.

This cover page contains information for general reference only. It is not a summary of this issue. Potential purchasers of the Bonds are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued and received by the Underwriter subject to the approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority and the City by Quint & Thimmig LLP, Larkspur, California, Disclosure Counsel, and by Pamela Thompson, Esq., the City Attorney. It is expected that the Bonds, in book-entry form, will be available for delivery through the facilities of DTC on or about May 19, 2015.

Dated: April \_\_, 2015

\*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

**\$18,955,000\***  
**City of Redwood City**  
**Public Financing Authority**  
**(San Mateo County, California)**  
**Water Revenue Refunding Bonds, Series 2015**

**MATURITY SCHEDULE\***

CUSIP+ Prefix: 75788R

Maturity Date (February 1)	Principal Amount	Interest Rate	Yield	CUSIP+ Suffix
2016	\$ 650,000			
2017	665,000			
2018	690,000			
2019	710,000			
2020	730,000			
2021	760,000			
2022	790,000			
2023	820,000			
2024	860,000			
2025	905,000			
2026	950,000			
2027	980,000			
2028	1,025,000			
2029	1,080,000			
2030	1,110,000			
2031	1,145,000			
2032	1,180,000			
2033	1,240,000			
2034	1,300,000			
2035	1,365,000			

\*Preliminary, subject to change.

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*For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the Authority and the City with respect to the Bonds that has been deemed "final" by the Authority and the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.*

No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been furnished by the Authority and the City and from other sources which are believed to be reliable. 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 responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City or any other parties described herein since the date hereof.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the City's forecasts in any way, regardless of the level of optimism communicated in the information. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See "CONTINUING DISCLOSURE" herein.

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

The execution, sale and delivery of the Bonds has not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

The City maintains a website. Unless specifically indicated otherwise, the information presented on such website is not incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

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# CITY OF REDWOOD CITY LOCATION MAP



**CITY OF REDWOOD CITY PUBLIC FINANCING AUTHORITY  
CITY OF REDWOOD CITY**

1017 Middlefield Road  
Redwood City, CA 94063  
650-780-7000  
<http://www.redwoodcity.org>

**GOVERNING BODY OF THE AUTHORITY/MAYOR AND CITY COUNCIL/**

Jeffrey Gee, *Mayor*  
Rosanne Foust, *Vice Mayor*  
Alicia C. Aguirre, *Councilmember*  
Ian Bain, *Councilmember*  
Diane Howard, *Councilmember*  
Barbara Pierce, *Councilmember*  
John D. Seybert, *Councilmember*

**CITY STAFF**

Robert Bell, *City Manager*  
Audrey Seymour Ramberg, *Interim Director of Finance*  
Ramana Chinnakotla, *Public Works Services Director*  
Pamela Thompson, Esq., *City Attorney*  
Silvia Vonderlinden, *City Clerk*

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San Francisco, California

**DISCLOSURE COUNSEL**

Quint & Thimmig LLP  
Larkspur, California

**TRUSTEE**

U.S. Bank National Association  
San Francisco, California

**\$18,955,000\***  
**CITY OF REDWOOD CITY PUBLIC FINANCING AUTHORITY**  
**(San Mateo County, California)**  
**Water Revenue Refunding Bonds, Series 2015**

**INTRODUCTION**

**General**

The purpose of this Official Statement is to provide certain information concerning the issuance, sale and delivery by the City of Redwood City Public Financing Authority, a joint exercise of powers authority organized and existing under the laws of the State of California (the "Authority"), of its City of Redwood City Public Financing Authority (San Mateo County, California) Water Revenue Refunding Bonds, Series 2015 (the "Bonds"), in the aggregate principal amount of \$18,955,000.\*

The Bonds are special obligations of the Authority payable from the revenues (the "Revenues") pledged under an indenture of trust, dated as of May 1, 2015 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), consisting primarily of installment payments (the "2015 Installment Payments") to be made by the City of Redwood City (the "City") under an Installment Purchase Contract, dated as of May 1, 2015 (the "2015 Installment Purchase Contract"), by and between the Authority and the City, as the purchase price for certain improvements to the City's municipal water enterprise (the "Enterprise"). The 2015 Installment Payments are secured by a pledge of and lien on the net revenues of the Enterprise.

Capitalized terms used, but not otherwise defined herein, shall have the meanings assigned thereto as set forth in APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Certain Definitions.

**The Authority**

The Authority is a joint powers authority, formed under California law for the purpose of implementing the construction, acquisition, maintenance and improvement of public facilities and infrastructure within the City. See "THE AUTHORITY."

**The City and the Enterprise**

The City is located in southern San Mateo County (the "County") and, through the Enterprise, supplies water to the City, unincorporated areas of the County, and portions of the City of San Carlos and the Town of Woodside. Operation and maintenance of the Enterprise is financed through the Water Enterprise Fund. The City is one of 28 wholesale customers (the "Wholesale Customers") in San Mateo, Santa Clara, and Alameda Counties that are members of the Bay Area Water Supply and Conservation Agency ("BAWSCA") which purchase water from the City and County of San Francisco Public Utilities Commission (the "SFPUC") which owns and operates a municipal water supply, storage and distribution system. The SFPUC water enterprise consists of over 280 miles of pipeline, over sixty miles of tunnels, eleven reservoirs, five pump stations, and two water treatment plants located outside of the City (the "Regional Water System") and over 1,250 miles of pipeline, twelve reservoirs, nine storage tanks, twelve pump stations, eight hydropneumatic stations and seventeen chlorination stations located inside the City and County of San Francisco. In 2009, the SFPUC and the Wholesale

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\* Preliminary, subject to change.

Customers entered into a Water Supply Agreement (the “WSA”) that replaced a prior agreement entered into in 1984. The WSA has a 25-year term (with provisions for two conditional five-year extensions). The City currently receives all of its potable water from the Regional Water System. See “THE ENTERPRISE” and APPENDIX A—GENERAL INFORMATION ABOUT THE CITY OF REDWOOD CITY AND SAN MATEO COUNTY.

### **Authority for Issuance of the Bonds**

The Bonds are being issued pursuant to (i) the laws of the State of California (the “State”), including the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code, as amended (the “Bond Law”), (ii) the Indenture, (iii) a resolution adopted by the Governing Board of the Authority on April 13, 2015, and (iv) a resolution adopted by the City Council of the City on April 13, 2015.

### **Purpose of the Bonds**

The Bonds are being issued to (a) refund, on a current basis, the Authority’s outstanding City of Redwood City Public Financing Authority Water Revenue Bonds, Series 2006A (the “2006 Bonds”), (b) fund a reserve fund for the Bonds, and (c) pay the costs of issuance of the Bonds. See “THE FINANCING PLAN.”

### **Security and Source of Repayment**

The City will secure its obligation to pay 2015 Installment Payments with its pledge of all of the “Net Revenues” of the Enterprise, defined generally as all gross income and receipts derived by the City from the ownership and operation of the Enterprise, less operation and maintenance costs. The Bonds are also secured by amounts held in any fund or account established under the Indenture (other than the Project Fund and the Rebate Fund). See “SECURITY FOR THE BONDS.” A reserve fund will be established for the Bonds. See “SECURITY FOR THE BONDS—Reserve Fund” below, including a description of certain circumstances under which the Reserve Fund for the Bonds may be terminated.

The City’s pledge of Net Revenues as security for its obligation to make the 2015 Installment Payments is on a parity with its pledge of Net Revenues as security for certain other obligations of the City. See “Outstanding Enterprise Debt” below.

### **Outstanding Enterprise Debt**

The City’s pledge of Net Revenues as security for its obligation to make the 2015 Installment Payments under the 2015 Installment Purchase Contract is on a parity with its pledge of Net Revenues as security for (i) its obligation to make installment payments (the “2007 Installment Payments”) under an Installment Purchase Contract (the “2007 Installment Purchase Contract”) entered into in connection with the issuance of the Authority’s \$15,150,000 Water Revenue Bonds, Series 2007 (the “2007 Bonds”), and (ii) its obligation to make installment payments (the “2013 Installment Payments”) under an Installment Purchase Contract (the “2013 Installment Purchase Contract”) entered into in connection with the issuance of the Authority’s \$26,870,000 Water Revenue Bonds, Series 2013 (the “2013 Bonds”).

### **Future Parity Obligations**

The 2015 Installment Purchase Contract, the 2013 Installment Purchase Contract and the 2007 Installment Purchase Contract permit the City to issue bonds or incur other obligations payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity



with the 2015 Installment Payments, the 2013 Installment Payments and the 2007 Installment Payments if certain conditions are satisfied. See “SECURITY FOR THE BONDS—Additional Debt.”

The 2007 Installment Purchase Contract, the 2013 Installment Purchase Contract and all bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the City payable from and secured by a pledge of Net Revenues on a parity with the payment of the 2015 Installment Payments are defined in the Indenture as “Parity Obligations.”

### **Rate Covenant**

The City is obligated under the 2015 Installment Purchase Contract (and the 2013 Installment Purchase Contract and the 2007 Installment Purchase Contract) to fix, prescribe and collect rates, fees and charges in connection with the Enterprise so as to yield Gross Revenues at least sufficient to pay operation and maintenance costs of the Enterprise, the 2015 Installment Payments and all payments of principal of and interest with respect to any Parity Obligations as they become due and payable, all amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement and to replenish reserve funds established for Parity Obligations, and all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues.

In addition, the City is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield estimated Net Revenues which are at least equal to 120% of the aggregate amount of the 2015 Installment Payments, and principal of and interest on any Parity Obligations coming due and payable during such Fiscal Year.

See “SECURITY FOR THE BONDS - Rate Covenants; Collection of Rates and Charges.”

### **Redemption**

The Bonds are subject to optional and extraordinary casualty redemption as described herein. See “THE BONDS—Redemption.”

### **Book-Entry Form**

The Bonds will be delivered in fully registered form only and, when issued and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in denominations of \$5,000 or any integral multiple thereof, in book-entry form only. Principal, premium, if any, and interest are payable directly to DTC by the Trustee. Upon receipt of payments of principal of, premium, if any, and interest on the Bonds, DTC is obligated to remit such principal, premium, if any, and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Bonds. See “THE BONDS—Book-Entry Only System” below and APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

### **Continuing Disclosure**

The City will covenant, pursuant to a continuing disclosure certificate (the “Continuing Disclosure Certificate”) to be executed on the date of delivery of the Bonds, for the benefit of owners and beneficial owners of the Bonds, to provide certain financial information and operating data related to the Enterprise by not later than nine months following the end of the

City's Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of enumerated events will be filed by the City with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report and any notices of enumerated events is summarized below under the caption "CONTINUING DISCLOSURE." The form of the Continuing Disclosure Certificate is set forth in APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. The covenants of the City in the Continuing Disclosure Certificate have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

### **Tax Matters**

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes, and is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in certain income and earnings in calculating corporate alternative minimum taxable income. In the further opinion of Bond Counsel, interest on the Bonds is, under existing law, exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

### **Professionals Involved in the Offering**

The proceedings of the Authority and the City in connection with the issuance of the Bonds are subject to the approval as to their legality of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority and the City by Quint & Thimmig LLP, Larkspur, California, as Disclosure Counsel, and by Pamela Thompson, Esq., the City Attorney. U.S. Bank National Association, San Francisco, California, will act as the Trustee under the Indenture. William Euphrat Municipal Finance, Inc. will act as municipal advisor to the Authority and the City. The fees of Bond Counsel and Disclosure Counsel and the Trustee are contingent upon the sale and delivery of the Bonds.

### **Forward-Looking Statements**

This Official Statement, and particularly the information contained under the headings entitled "PROJECT," "THE ENTERPRISE," "RISK FACTORS RELATING TO THE BONDS" and APPENDIX A—GENERAL INFORMATION ABOUT THE CITY OF REDWOOD CITY AND SAN MATEO COUNTY, contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 2000. When used in this Official Statement, the words "estimate," "forecast," "intend," "expect" and similar expressions identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The City is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur. See "RISK FACTORS RELATING TO THE BONDS" and "LIMITATIONS ON TAX REVENUES."

## **Other Matters**

There follows in this Official Statement brief descriptions of the Bonds, the security for the Bonds, the Indenture, the 2015 Installment Purchase Contract, the Parity Obligations, the Authority, the City, the Enterprise, and certain other information relevant to the issuance of the Bonds. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all its respective terms and conditions. All statements herein with respect to such documents are qualified in their entirety by reference to each such document for the complete details of all of their respective terms and conditions. All statements herein with respect to certain rights and remedies are qualified by reference to laws and principles of equity relating to or affecting creditors' rights generally. Copies of the Indenture and the 2015 Installment Purchase Contract are available for inspection during business hours at the corporate trust office of the Trustee.

The information and expressions of opinion herein speak only as of the date of this Official Statement and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

All financial and other information presented in this Official Statement has been provided by the Authority and the City from their records, except for information expressly attributed to other sources. The presentation of information, including the table of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the Authority or the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

## **Other Information**

This Official Statement speaks only as of its date and the information contained herein is subject to change without notice. Copies of the Indenture are available from the City upon written request to the City, 1017 Middlefield Road, Redwood City, CA 94063, Attention: Ms. Audrey Seymour Ramberg, Interim Director of Finance. The City may impose a charge for copying, mailing and handling expenses related to any request for documents.

## **FINANCING PLAN**

The Bonds are being issued to (a) refund the 2006 Bonds, (b) fund a reserve fund for the Bonds, and (c) pay the costs of issuance of the Bonds.

The 2006 Bonds were issued on March 1, 2006 to finance a portion of the costs of a water recycling project for the Enterprise (the "Recycling Project") in the principal amount of \$26,000,000, of which \$20,705,000 is presently outstanding. A portion of the net proceeds of the Bonds will be used, on the delivery date of the Bonds, to redeem the 2006 Bonds in full at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to such date.

## ESTIMATED SOURCES AND USES OF PROCEEDS

### SOURCES

Par Amount of Bonds	
Plus: Original Issue Premium	
Plus: Released 2006 Moneys	
Total Sources	

### USES

Redemption of the 2006 Bonds	
Deposit to Reserve Fund (1)	
Deposit to Delivery Costs Fund <sup>(2)</sup>	
Total Uses	

- (1) Represents the Reserve Requirement. See "SECURITY FOR THE BONDS—Reserve Fund" below, including a description of certain circumstances under which the Reserve Fund for the Bonds may be terminated.
- (2) Includes legal and financing costs, printing costs, rating agency fees, initial fees of the Trustee and other costs related to the issuance of the Bonds.

## DEBT SERVICE REQUIREMENTS

The following table sets forth the annual installment payment requirements under the 2015 Installment Purchase Contract, the 2013 Installment Purchase Contract and the 2007 Installment Purchase Contract, which provide revenues to support the Authority's debt service requirements on the Bonds, the 2013 Bonds and the 2007 Bonds (assuming no optional redemption or mandatory redemption from proceeds of insurance, sale or condemnation). The obligation of the City to make 2015 Installment Payments under the 2015 Installment Purchase Contract is secured by a pledge of Net Revenues on a parity with its pledge of Net Revenues as security for its obligation to make payments under the 2013 Installment Purchase Contract and the 2007 Installment Purchase Contract.

February 1	2007	2013	2015 Bonds			Total
	Total	Total	Principal	Interest	Total	
2016	\$ 946,025.00	\$ 2,058,112.50	\$ 650,000			
2017	947,800.00	2,062,912.50	665,000			
2018	948,675.00	2,061,112.50	690,000			
2019	945,875.00	2,059,850.00	710,000			
2020	947,475.00	2,060,650.00	730,000			
2021	947,675.00	2,059,850.00	760,000			
2022	947,050.00	2,062,450.00	790,000			
2023	949,950.00	2,058,250.00	820,000			
2024	946,787.50	2,061,000.00	860,000			
2025	947,775.00	2,060,750.00	905,000			
2026	947,700.00	2,062,500.00	950,000			
2027	950,793.75	2,061,000.00	980,000			
2028	947,575.00	2,061,250.00	1,025,000			
2029	948,262.50	2,063,000.00	1,080,000			
2030	947,637.50	2,061,000.00	1,110,000			
2031	950,700.00	2,060,250.00	1,145,000			
2032	947,231.25	2,060,500.00	1,180,000			
2033	947,450.00	2,061,500.00	1,240,000			
2034	950,100.00	2,058,000.00	1,300,000			
2035	950,950.00	—	1,365,000			
TOTALS	\$18,963,487.50	\$39,153,937.50	\$18,955,000			

(1) Preliminary, subject to change..

## THE BONDS

### General Provisions

The Bonds will be dated their date of delivery, will bear interest from such date at the rates per annum set forth on the inside cover page hereof, payable semiannually on each February 1 and August 1, commencing August 1, 2015, and will mature on February 1 in each of the designated years in the principal amounts set forth on the inside cover page hereof. Interest on the Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof, unless (a) a Bond is authenticated after the fifteenth (15th) calendar day of the month preceding such Interest Payment Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (b) unless a Bond is authenticated on or before July 15, 2015, in which event it will bear interest from its date of delivery; *provided, however*, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

### Book-Entry Only System

The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds so purchased. Individual purchases will be made in book-entry-only form. Purchasers will not receive a certificate representing their beneficial ownership interest in the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders, holders or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the “Beneficial Owners” of the Bonds. In this Official Statement, the term “Beneficial Owner” shall mean the person for whom a Participant (as defined herein) acquires an interest in the Bonds. See APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

In the event the use of the book-entry-only system is discontinued, principal of the Bonds will be payable upon surrender thereof at the principal corporate trust office of the Trustee in St. Paul, Minnesota. Interest payable on the Bonds will be paid by check mailed on the Interest Payment Date to the person in whose name each Bond is registered in the registration books maintained by the Trustee as of the applicable Record Date for such Interest Payment Date; provided that registered owners of \$1,000,000 or more in aggregate principal amount of Bonds may request payment by wire transfer, such request to be submitted in writing to the Trustee on or before the applicable Record Date for such Interest Payment Date in accordance with the provisions set forth in the Indenture.

### Transfer and Exchange

*Transfer of Bonds.* Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. Transfer of any Bond shall not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption. Whenever any Bonds or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee may require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

*Exchange of Bonds.* Any Bond may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity. Exchange of any Bond shall not be permitted during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption. The Trustee shall require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

## **Terms of Redemption**

*Optional Redemption.* The Bonds maturing on or before February 1, 2025, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after February 1, 2026, are subject to optional redemption on any date on or after February 1, 2025, in whole or in part, from prepayments of the 2015 Installment Payments made at the option of the City pursuant to the 2015 Installment Purchase Contract, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest to the redemption date, without premium.

*Extraordinary Casualty Redemption.* The Bonds are subject to redemption, in whole or in part on any date, from the Net Proceeds of insurance or condemnation with respect to the Enterprise, which Net Proceeds are deposited in the Payment Fund (as established under the Indenture) and credited towards the prepayment of the 2015 Installment Payments made by the City pursuant to the 2015 Installment Purchase Contract, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

*Purchase of Bonds In Lieu of Redemption.* In lieu, or partially in lieu, of such call and redemption, moneys of the Authority may be used to purchase Outstanding Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds may be made by the Authority prior to the selection of Bonds for redemption by the Trustee, at public or private sale as and when and at such prices as the Authority may in its discretion determine but only at prices (including brokerage or other expenses) of not more than par plus applicable accrued interest and redemption premiums, and any accrued interest payable upon the purchase of Bonds may be paid from the amount in the Payment Fund for payment of interest on the following Interest Payment Date..

*Selection of Bonds for Redemption.* In the event that part, but not all, of the Bonds are to be redeemed (except for mandatory sinking fund redemption), the Bonds to be redeemed will be selected by the Trustee among maturities as designated in writing by the Authority and by lot within a maturity; provided, however, that the Bonds may be redeemed by any maturity or maturities selected by the City to correspond with 2015 Installment Payments prepaid by the City, and by lot within a maturity.

In the event of a redemption for which the Trustee does not have monies available to redeem the entire amount scheduled for redemption, the Trustee shall redeem Bonds of the applicable maturity or maturities by lot up to a principal amount equal to the available monies.

*Notice of Redemption.* The Trustee is required to give notice of the redemption of the Bonds, at the expense of the Authority, (i) at least 30 but not more than 45 days prior to the redemption date or (ii) upon receipt of Net Proceeds from insurance or condemnation awards which are to be used to redeem Bonds. Notice must be given to the respective Owners of Bonds designated for redemption by first class mail, postage redeemed, at their addresses appearing on the Bond Register maintained by the Trustee.

Such notice must specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of any paying agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) if less than all the Bonds of a maturity are to be redeemed, the certificate numbers of the Bonds to be redeemed and, in the case of any Bond to be redeemed in part only, the amount of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such notice shall further state that on the specified date there will become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with interest accrued to the redemption date, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Such notice in respect of optional or extraordinary casualty redemption shall not be provided unless there has been deposited with the Trustee funds sufficient to pay such redemption price (except in the case of redemption resulting from the issuance of refunding obligations).

*Rescission of Redemption Notice.* The Authority may rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of optional redemption will be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The Trustee will mail notice of rescission of redemption in the same manner notice of redemption was originally sent.

*Effect of Redemption.* Once notice of redemption is duly given as provided in the Indenture, and the moneys for the redemption, including interest to the applicable redemption date of the Bonds to be redeemed, has been set aside in the Redemption Account or Payment Account, the portion of Bonds to be redeemed shall become due and payable on said redemption date, and, upon presentation and surrender thereof at the office or offices specified in said notice, said Bonds shall be paid at the unpaid principal amount and premium, if any, with respect thereto, plus any unpaid and accrued interest to the redemption date.

## SECURITY FOR THE BONDS

This section provides summaries of the provisions of the Indenture and the 2015 Installment Purchase Contract. See APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS for a more complete summary of the Indenture and the 2015 Installment Purchase Contract.

### **Revenues; Pledge of Revenues**

*Pledge of Revenues and Other Amounts.* The Bonds are special limited obligations of the Authority, payable solely from and secured by Revenues (as defined below) of the Authority consisting primarily of 2015 Installment Payments received by the Authority from the City (which 2015 Installment Payments are payable by the City on a parity with the 2013 Installment Payments and the 2007 Installment Payments). The Bonds are also secured by amounts on deposit in the funds and accounts established under the Indenture, other than the Project Fund and the Rebate Fund.

*Definition of Revenues.* “Revenues” are defined in the Indenture as (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Installment Purchase Contract, including, without limiting the generality of the foregoing, all of the 2015 Installment

Payments (including both timely and delinquent payments and any late charges), prepayments of 2015 Installment Payments, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund, (b) amounts deposited in the Reserve Fund and Payment Fund, and (c) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to this Indenture (except the Project Fund and the Rebate Fund).

*Assignment to Trustee.* The Authority, in the Indenture, transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the 2015 Installment Purchase Contract (except for certain rights to indemnification set forth therein).

The Trustee is entitled to all of the protections, limitations from liability and indemnities provided it under the Indenture. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the provisions of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the 2015 Installment Purchase Contract.

#### **2015 Installment Payments; Application of Systems Revenues**

*2015 Installment Payments.* Under the 2015 Installment Purchase Contract, the City will irrevocably pledge all of the Net Revenues to the punctual payment of the 2015 Installment Payments, and the interest thereon. This pledge constitutes a first lien on the Net Revenues and such other moneys for the payment of the 2015 Installment Payments in accordance with the 2015 Installment Purchase Contract, on a parity with the pledge and lien which secures any Parity Obligations, including the 2013 Installment Payments and the 2007 Installment Payments. The City is obligated to make 2015 Installment Payments to the Trustee, on behalf of and as assignee of the Authority.

“Net Revenues” means, for any period, all of the Gross Revenues during such period less all of the Maintenance and Operation Costs during such period.

“Gross Revenues” means all gross income and revenue received or receivable by the City from the ownership and operation of the Enterprise, calculated in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including connection fees) received by the City for Water Service and all other income and revenue howsoever derived by the City from the Enterprise or arising from the Enterprise (including transfers from the Rate Stabilization Fund to the Revenue Fund); provided, however, that (i) any specific charges levied for the express purpose of reimbursing others for all or a portion of the cost of the acquisition or construction of specific facilities, or (ii) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City, are not Gross Revenues and are not subject to the lien of the 2015 Installment Purchase Contract. Gross Revenues shall also include interest with respect to any Parity Obligations reimbursed to or on behalf of the City by the United States of America.

“Maintenance and Operation Costs” means the reasonable and necessary costs and expenses paid by the City (excluding 2015 Installment Payments or other payments in the nature of debt service on obligations secured by Enterprise Revenues) for maintaining and operating the Enterprise, as determined in accordance with Generally Accepted Accounting Principles, including but not limited to (a) the reasonable expenses of management and repair



and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, (b) the cost of wholesale water purchases from the San Francisco Public Utilities Commission and any surcharges related thereto, and (c) administrative costs of the City attributable to the Enterprise and the financing thereof.

Maintenance and Operation Costs does not include (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) in any Fiscal Year, prior to setting aside an amount equal to the 2015 Installment Payments for such Fiscal Year, capital expenditures other than as set forth in clause (a) above, or (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

*Application of Revenues.* The City is required to deposit all of the Gross Revenues of the Enterprise immediately upon receipt in the Revenue Fund, which has been established and is held and maintained by the City with respect to the Enterprise.

Amounts on deposit in the Revenue Fund will be applied by the City to pay when due the following amounts in the following order of priority:

- (i) all Maintenance and Operation Costs of the Enterprise;
- (ii) the 2015 Installment Payments, and payment of all other Parity Obligations, including the 2013 Installment Payments and the 2007 Installment Payments; and
- (iii) the amount of any deficiency in the Reserve Fund established for the Bonds and in any reserve fund established for Parity Obligations.

All Net Revenues remaining after paying all of the sums listed above, or in connection with any Parity Obligation, may be withdrawn by the Finance Officer for expenditure for any lawful purpose of the City. From time to time the City may deposit in the Rate Stabilization Fund from remaining Net Revenues or other available funds of the City such amounts as the City shall determine.

*Rate Stabilization Fund.* The City may withdraw amounts from the Rate Stabilization Fund (i) for transfer to the Revenue Fund for inclusion in Gross Revenues for any Fiscal Year, or (ii) for any other lawful use of the City. All interest or other earnings upon deposits in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Gross Revenues.

*Deposits to Payment Fund.* On the third Business Day next preceding each Interest Payment Date (each an "Installment Payment Date"), the City shall deposit with the Trustee, for deposit in the Payment Fund, from amounts legally available therefor on deposit in the Revenue Fund, a sum equal to the amount of interest and principal becoming due under the 2015 Installment Purchase Contract on the next Interest Payment Date.

The City is entitled to receive as a credit against 2015 Installment Payments an amount equal to the amount of any balance contained in the Payment Fund prior to the Installment Payment Date for such 2015 Installment Payments (excluding money designated for the prepayment of Bonds).

All money in the Payment Fund will be used and withdrawn by the Trustee in accordance with the Indenture.

## **Covenant to Maintain and Budget**

The City covenants in the 2015 Installment Purchase Contract that during the Term of the 2015 Installment Purchase Contract, the City will maintain and preserve the Enterprise in good repair and working order at all times and will operate the Enterprise in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Enterprise as they become due and payable. On or before the first day of each Fiscal Year, the City will file with the Trustee a budget setting forth the estimated Maintenance and Operation Costs of the Enterprise for such Fiscal Year.

## **Reserve Fund**

*General.* Under the Indenture, a Reserve Fund is established for the Bonds (the "Reserve Fund"), and will be held in trust by the Trustee. The Reserve Fund shall initially be funded, and will continue to be funded (unless terminated, as hereinafter described), in an amount equal to the Reserve Requirement.

The Indenture defines the term "Reserve Requirement" to mean, as of any date of calculation, the lesser of (i) 10% of the original principal amount of the Bonds, (ii) an amount equal to maximum annual Debt Service payable by the Authority between the date of such calculation and the final maturity of the Bonds, or (iii) 125% of average annual Debt Service payable under the Indenture.

In the event the 2007 Bonds are no longer outstanding under the terms of the 2007 Indenture, or the 2007 Indenture and the 2007 Installment Purchase Contract are amended to delete the requirement of a reserve fund for the 2007 Bonds, the Reserve Fund may be terminated in the sole discretion of the Authority, such determination evidenced in Certificate of the Authority filed with the City and the Trustee. In such event, amounts on deposit in the Reserve Fund may be transferred to the Redemption Account to redeem Bonds, or may be used for any other lawful purpose which, in the opinion of Bond Counsel delivered to the Authority and the Trustee, would not cause interest on the Bonds to become includable in gross income for federal income tax purposes, all as set forth in a Certificate of the Authority.

*Application of Reserve Fund.* If, two Business Days prior to any Interest Payment Date, the money in the Payment Fund does not equal the amount required to be paid to the Bond Owners on such Interest Payment Date, the Trustee shall transfer from the Reserve Fund to the Payment Fund the amount of such insufficiency to make delinquent 2015 Installment Payments on behalf of the City. If the Reserve Fund is funded with a letter of credit, surety bond, insurance policy or other comparable credit facility as described below, the Trustee shall take such action as is necessary to either (i) make a drawing under the letter of credit or (ii) make a claim under the surety bond or insurance policy, respectively, so that the amount of such insufficiency is paid or available to the Trustee on such Interest Payment Date under the terms of such instrument. Upon receipt of any delinquent 2015 Installment Payment or portion thereof with respect to which moneys have been advanced from the Reserve Fund, such 2015 Installment Payment or portion thereof shall be deposited in the Reserve Fund to the extent of such advance.

*Transfer of Excess Amounts.* If, following valuation or calculation thereof, the amount available and contained in the Reserve Fund (valued as provided in the Indenture) exceeds the Reserve Requirement and if the Trustee does not have actual knowledge of an Event of Default under the Indenture, the Trustee shall withdraw the amount of such excess from the Reserve Fund. The Trustee shall deposit such amount in the Payment Fund.

*Substitution of Reserve Fund Credit Instrument.* If at any time the Reserve Fund is funded with cash, the Authority may deliver to the Trustee an irrevocable letter of credit issued by a

financial institution having unsecured debt obligations rated in the highest rating categories of Moody's and S&P, in an amount, together with moneys, or surety bonds or insurance policies (as described below) on deposit in the Reserve Fund, equal to the Reserve Requirement.

Such letter of credit shall have an original term of no less than three (3) years or, if less, the final maturity of the Bonds and such letter of credit shall provide by its terms that it may be drawn upon as provided herein. At least one year prior to the stated expiration of such letter of credit, the Authority shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the final maturity of the Bonds, or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements set forth below. Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee shall deliver the then-effective letter of credit to or upon the written order of the Authority.

If the Authority shall fail to deposit a replacement letter of credit, extended letter of credit or surety bond or insurance policy with the Trustee, the Authority shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Requirement will be on deposit in the Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Reserve Requirement as of the date following the expiration of the letter of credit is not on deposit in the Reserve Fund one week prior to the stated expiration date of the letter of credit, the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in the Reserve Fund.

Additionally, the Authority may, with an opinion of nationally recognized bond counsel that such delivery complies with the provisions of the Indenture, deliver to the Trustee a surety bond or an insurance policy securing an amount, together with moneys or letters of credit on deposit in the Reserve Fund, equal to the Reserve Requirement. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) at the time of delivery of such surety bond or insurance policy are rated in the highest rating category of Moody's and S&P. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Bonds. In the event that such surety bond or insurance policy for any reason lapses or expires, the Authority shall immediately deliver a replacement surety bond, insurance policy or letter of credit meeting the requirements of the Indenture for deposit in the Reserve Fund.

### **Special Obligation; Obligations Absolute**

*Special, Limited Obligation.* **The City's obligation to pay the 2015 Installment Payments (on a parity with the 2013 Installment Payments, the 2007 Installment Payments and any other Parity Obligations) is a special obligation of the City limited solely to the Net Revenues.** Under no circumstances is the City required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the 2015 Installment Purchase Contract for the payment of the 2015 Installment Payments and such other amounts. No other funds or property of the City are liable for the payment of the 2015 Installment Payments and any other amounts coming due and payable under the 2015 Installment Purchase Contract.

*Absolute and Unconditional Obligations.* The obligation of the City to make the 2015 Installment Payments and to pay the interest thereon is absolute and unconditional, and until such time as all 2015 Installment Payments and the interest thereon shall have been fully paid and the Bonds are no longer Outstanding, the City will not, under any circumstances, discontinue, abate or suspend any 2015 Installment Payments or any interest thereon required to be made by it under the 2015 Installment Purchase Contract when due, whether or not the Enterprise or any part thereof is operating or operable or has been completed, or whether or not

the Enterprise is condemned, damaged, destroyed or seized or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset, counterclaim, defense, recoupment, abatement, suspension, deferment or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or covenant contained herein for any cause whatsoever.

### **Rate Covenants; Collection of Rates and Charges**

*Sum Sufficient.* The City will fix, prescribe and collect rates, fees and charges in connection with the Enterprise so as to yield Gross Revenues sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts in the following order of priority:

- (a) All Maintenance and Operation Costs of the Enterprise;
- (b) The 2015 Installment Payments and interest thereon and all payments (including payments of interest and under reimbursement agreements) with respect to related Parity Obligations (including the 2013 Installment Payments and the 2007 Installment Payments) as they become due and payable;
- (c) Amounts necessary to bring the amount of funds in the Reserve Fund or in reserve funds established for Parity Obligations up to the respective reserve requirement within one year of a draw thereon; and
- (d) All payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable from the Gross Revenues during such Fiscal Year.

*120% Debt Service Coverage.* The City is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield estimated Net Revenues which are at least equal to one hundred twenty percent (120%) of the aggregate amount of the 2015 Installment Payments, and principal of and interest on any Parity Obligations (including the 2013 Installment Payments and the 2007 Installment Payments) issued or incurred payable from Net Revenues coming due and payable during such Fiscal Year. The City may make adjustments, from time to time, in its rates, fees and charges as it deems necessary, but shall not reduce its rates, fees and charges below those in effect unless the Net Revenues resulting from such reduced rates, fees and charges shall at all times be sufficient to meet the requirements described in this paragraph.

If the City violates the rate covenant described in the two preceding paragraphs, such violation shall not, in and of itself, be a default under the 2015 Installment Purchase Contract and shall not give rise to a declaration of an Event of Default if the coverage calculated in accordance with the 2015 Installment Purchase Contract does not decrease below 1.00 times annual Debt Service on the Bonds and Parity Obligations, amounts sufficient to maintain the Reserve Fund at the Reserve Requirement, and Maintenance and Operation Costs of the Enterprise and, within 120 days after the date such violation is discovered, the City hires an Independent Municipal Finance Consultant to review the revenues and expenses of the Enterprise and abides by such consultant's recommendations to revise the schedule of rates, fees and charges and to revise any Maintenance and Operation Costs of the Enterprise insofar as practicable and to take such other actions as are necessary so as to produce Net Revenues to cure such violation for future compliance; provided, however, that if the City does not cure such violation within twelve (12) months succeeding the date such violation is discovered, an

Event of Default shall be deemed to have occurred under the 2015 Installment Purchase Contract.

### **Additional Debt**

*No Senior Obligations Payable from Net Revenues.* So long as any Bonds are Outstanding, the City may not issue or incur any obligations payable from Net Revenues or the Revenue Fund senior or superior to the 2015 Installment Payments and interest thereon.

*Additional Bonds.* In addition to the Bonds, the Authority may, by Supplemental Indenture, issue one or more series of Additional Bonds secured by Revenues on a parity with the Bonds, and may issue and deliver such Additional Bonds in such principal amount as shall be determined by the Authority, but only upon compliance by the Authority with the following specific conditions, among others:

(a) **Supplemental Indenture.** The Authority and the Trustee shall have executed a Supplemental Indenture which (i) sets forth the terms and provisions of such Additional Bonds, including the establishment of such funds and accounts, which may be separate and apart from the funds and accounts established under the Indenture for the Bonds, as shall be necessary or appropriate, and (ii) requires that prior to the delivery of such Additional Bonds the Reserve Requirement with respect to such Additional Bonds shall be on deposit in the Reserve Fund established under the Indenture or in a reserve fund established under such Supplemental Indenture, unless the requirement for a Reserve Fund for the Series 2015 Bonds has been terminated as provided in the Indenture.

(b) **Payment Dates.** The scheduled principal and interest payable with respect to such Additional Bonds shall be payable only on Interest Payment Dates applicable to the Bonds.

(c) **Amendment of Installment Purchase Contract.** The 2015 Installment Purchase Contract shall have been amended, if necessary, to (i) increase or adjust the 2015 Installment Payments due and payable on each Installment Payment Date to an amount sufficient to pay the principal, premium (if any) and interest payable with respect to all Outstanding Bonds, including all Additional Bonds as and when, if any, the same mature or become due and payable (except to the extent such principal, premium and interest may be payable out of moneys then in the Reserve Fund or otherwise on deposit with the Trustee in accordance with this Indenture), and (ii) make such other revisions to the 2015 Installment Purchase Contract as are necessitated by the issuance of such Additional Bonds (provided, however, that such other revisions shall not prejudice the rights of the Owners of Outstanding Bonds as granted them under the terms of this Indenture).

(d) **No Default of Authority.** The Trustee shall have received a Certificate of the Authority that no Event of Default under the Indenture relating to the Authority exists (or any event which, once all notice or grace periods have passed, would constitute an Event of Default).

(e) **No Default of City.** The Trustee shall have received a certificate of the City that no Event of Default under the Indenture relating to the City, which includes an Event of Default under the 2015 Installment Purchase Contract, exists (or any event which, once all notice or grace periods have passed, would constitute an Event of Default).

(f) **Opinion Regarding Supplemental Indenture.** The Trustee shall have received an opinion of Bond Counsel substantially to the effect that (i) the Supplemental Indenture and the amendments to the 2015 Installment Purchase Contract comply in all respects with the requirements of the Indenture, (ii) the Supplemental Indenture and said amendments to the 2015 Installment Purchase Contract have been duly authorized, executed and delivered by each of the respective parties thereto (provided that said opinion of Bond Counsel, in rendering the opinions set forth in this clause (ii), shall be entitled to rely upon one or more other opinions of counsel, including counsel to any of the respective parties to said Supplemental Indenture or said amendments to the 2015 Installment Purchase Contract), (iii) assuming that no Event of Default has occurred and is continuing, the Indenture, as amended by the Supplemental Indenture, and the 2015 Installment Purchase Contract, as amended by the respective amendments thereto, constitute the legal, valid and binding obligations of the respective parties thereto, enforceable against said parties in accordance with their respective terms (except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, debt adjustment or other laws affecting creditors' rights generally, and except to the extent that enforcement thereof may be limited by general principles of equity, regardless of whether enforcement is sought in a legal or equitable proceeding) and (iv) the execution of the Supplemental Indenture and the amendments to the 2015 Installment Purchase Contract, and performance by the parties thereunder, will not result in the inclusion of the interest on any Bonds in the gross income of the Owners of the Bonds for purposes of federal income taxation.

(g) **Reserve Requirement.** Upon the execution and delivery of such Additional Bonds, the amount on deposit in the Reserve Fund, or in a reserve fund established under such Supplemental Indenture taking into account the execution of the Additional Bonds, shall be at least equal to the Reserve Requirement.

*Parity Obligations.* In addition to the 2013 Installment Purchase Contract and the 2007 Installment Purchase Contract, the City may also issue or incur Parity Obligations payable from Net Revenues on a parity with the 2015 Installment Payments to provide financing for the Enterprise, subject to the following specific conditions:

(a) **No Default.** No Event of Default may occur and be continuing under the 2015 Installment Purchase Contract.

(b) **Debt Service Coverage.** The Net Revenues, calculated in accordance with Generally Accepted Accounting Principles, either (i) as shown by the books of the City for the latest Fiscal Year, as verified by a certificate of a Finance Officer, or (ii) as shown by the books of the City for any more recent twelve (12) month period selected by the City and verified by a certificate or opinion of an Independent Certified Public Accountant employed by the City, plus, in either case, (at the option of the City) the Additional Revenues, shall be at least equal to one hundred twenty percent (120%) of the amount of Maximum Annual Debt Service.

(c) **Reserve Fund.** Except with respect to Governmental Loans, there shall be deposited in the Reserve Fund, or there shall be established from the proceeds of such Parity Obligations a reserve fund separate from the Reserve Fund for the security of such Parity Obligations, in an amount equal to the lesser of (i) the maximum amount of debt service required to be paid by the City with respect to such Parity Obligations during any Fiscal Year, or (ii) the maximum amount then permitted under the Code, in either event as certified in writing by the City; provided, that in the event the requirement of the Reserve Fund for the Bonds has been terminated as provided in Section 3.06 of the Indenture, no such reserve fund shall be required for Parity

Obligations. With respect to Governmental Loans, the City may, in its sole discretion, establish a reserve fund in an amount not to exceed the limits for other Parity Obligations.

The term “Additional Revenues” means, with respect to the issuance of any Parity Obligations, an allowance for Net Revenues (i) arising from any increase in the charges made for service from the Enterprise adopted prior to the incurring of such Parity Obligations and effective within eighteen (18) months following the date of incurring such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, and (ii) arising from any increase in service connections to the Enterprise prior to the incurring of such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such connections had been in existence during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, all as shown by the certificate or opinion of an Independent Municipal Finance Consultant.

The term “Governmental Loan” means a loan from the State or the United States of America, acting through any of its agencies, to finance improvements to the Enterprise, and the obligation of the City to make payments to the State or the United States of America under the loan agreement memorializing said loan is on a parity basis with the payment of 2015 Installment Payments.

#### **Insurance; Net Proceeds; Condemnation Awards**

*Insurance.* Under the 2015 Installment Purchase Contract the City is required to procure and maintain insurance on the Enterprise with commercial insurers or through participation in a joint powers insurance authority, in such amounts, with such deductibles and against such risks (including accident to or destruction of the Enterprise) as are usually insurable in connection with similar enterprises.

In the event of any damage to or destruction of the Enterprise caused by the perils covered by such insurance, the proceeds of such insurance shall be applied to the repair, reconstruction or replacement of the damaged or destroyed portion of the Enterprise. The City shall cause such repair, reconstruction or replacement to begin promptly after such damage or destruction shall occur and to continue and to be properly completed as expeditiously as possible, and shall pay out of the proceeds of such insurance all costs and expenses in connection with such repair, reconstruction or replacement so that the same shall be completed and the Enterprise shall be free and clear of all liens and claims. If the proceeds received by reason of any such loss shall exceed the costs of such repair, reconstruction or replacement, the excess shall be applied to the prepayment of 2015 Installment Payments and payments on any Parity Obligations.

Alternatively, if the proceeds of such insurance are sufficient to enable the City to retire all outstanding Parity Obligations and the 2015 Installment Payments and all other amounts due under the 2015 Installment Purchase Contract and under the Indenture, the City may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Enterprise, and thereupon such proceeds shall be applied to the prepayment of the 2015 Installment Payments as provided in the 2015 Installment Payment Contract and to the payment of all other amounts due under the 2015 Installment Purchase Contract and under the Indenture, and as otherwise required by the documents pursuant to which such Parity Obligations were issued.

The City also agrees in the 2015 Installment Purchase Contract to procure and maintain commercial general liability insurance covering claims against the City for bodily injury or

death, or damage to property and worker's compensation insurance to cover all persons employed in connection with the Enterprise.

Any policy of insurance required under the 2015 Installment Purchase Contract may be maintained by the City in the form of self-insurance, subject to the conditions set forth in the 2015 Installment Purchase Contract.

*Condemnation Awards.* If all or any part of the Enterprise shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If (1) the City prepares a report showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the City by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Enterprise proposed to be acquired by the City from any Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) on the basis of such certificate, the City determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the City to meet its obligations under the 2015 Installment Purchase Contract will not be substantially impaired (which determination shall be final and conclusive); then the City shall promptly proceed with the acquisition of such additions, betterments, extensions or improvements substantially in accordance with such report and such Net Proceeds shall be applied for the payment of the costs of such acquisition, and any balance of such Net Proceeds not required by the City for such purpose will be applied to prepay the 2015 Installment Payments and any Parity Obligations, on a pro rata basis in the manner provided in the 2015 Installment Purchase Contract and in the instruments authorizing such Parity Obligations.

(b) If the conditions described above are not met, then such Net Proceeds shall be applied to the prepayment of 2015 Installment Payments.

## THE AUTHORITY

The Authority was established pursuant to a Joint Exercise of Powers Agreement, dated June 18, 1991 (the "JPA Agreement"), between the City and the former Redevelopment Agency of the City of Redwood City (the "Agency"). The Agency has been succeeded by the Successor Agency to the Redwood City Redevelopment Agency (the "Successor Agency"). The JPA Agreement was entered into pursuant to the provisions of Articles 1 through 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code. The members of the governing board of the Authority consist of the members of the City Council of the City. The Authority was formed for the purpose of implementing the construction, acquisition, maintenance and improvement of public facilities and infrastructure within the City. Among the powers expressly granted to the Authority is the power to acquire property and to borrow money to provide funds for the construction, acquisition, maintenance or improvement of public facilities and infrastructure and to issue in its name revenue bonds to evidence the indebtedness created by such borrowing.

Although the Agency has been dissolved pursuant to State law and the Successor Agency has succeeded to the Agency as a party to the JPA Agreement, the Authority expects to remain in existence through the final maturity of the Bonds and each of the Authority and the City has covenanted to take all actions that are reasonably necessary to continue the Authority's existence until the Bonds have been paid in full.



## THE ENTERPRISE

### General Background

The City is located in the southern portion of the County and, through the Enterprise, supplies water to the City, unincorporated areas of the County and portions of the City of San Carlos and the Town of Woodside. Operation and maintenance of the Enterprise is financed through the City's Water Enterprise Fund. The City is one of 28 Wholesale Customers in San Mateo, Santa Clara, and Alameda Counties which purchase water from the SFPUC. In 2009, the SFPUC and the Wholesale Customers entered into the WSA which replaced a prior agreement entered into in 1984. The WSA has a 25-year term (with provisions for two conditional five-year extensions). The City currently receives all of its potable water from the Regional Water System.

### Management

The maintenance and operation of the Enterprise is the responsibility of the City's Public Works Services Department ("Public Works"). The Public Works Director has responsibility for the Department and one of the three superintendents reporting to him has the responsibility of maintaining and operating the Enterprise. The Water Utilities Section is staffed by a Public Works Utility Superintendent along with two field supervisors, who manage the operations and maintenance of the water system including transmission, storage, distribution, meter reading, regulatory compliance sampling and analyses, cross-connection control, long-range planning and asset management/mapping. The Section has 30.97 full time equivalent (FTE) employees involved in the Enterprise. The Engineering and Construction Division of the Community Development Department is responsible for the design and construction of water system projects, primarily system replacement, and regulatory compliance improvements. The Revenue Services Division of the Finance Department is responsible for all City utility billing and collections, as well as processing connection and facilities fees.

### Service Area

The Enterprise serves most of the corporate area of the City and portions outside the corporate limits, including Cañada College, portions of the City of San Carlos and the Town of Woodside, and the unincorporated Emerald Hills area of the County. The Enterprise's service area presently covers approximately 14 square miles. Service is provided to areas between Highways 280 and 101, and between Whipple Avenue and Marsh Road in the area east of Highway 101, and in the Redwood Shores development.

As of June 30, 2014, the Enterprise served domestic water to approximately 84,557 people through 23,612 active service connections. Residential connections account for 88 percent of the total service connections. Commercial connections account for nine percent. The remaining three percent are mostly fire connections, and some municipal and institutional connections. The Enterprise's service area is substantially built out, with a relatively stable customer base. See "Customer Base" below.

### Water Supply and Demand

*Background.* The water supply delivered to the 28 Wholesale Customers (including the City) by the SFPUC originates from two primary sources (i) the Tuolumne River through the Hetch Hetchy Reservoir and (ii) local runoff into Bay Area reservoirs in the Alameda and Peninsula watersheds. Water originating in the Hetch Hetchy watershed represents the majority of the water supply available to the Regional Water System. On average, the Hetch Hetchy

Reservoir provides approximately 85% of the water delivered and runoff into Bay Area reservoirs provides approximately 15% of the water delivered through the Regional Water System. Water produced is dependent on precipitation and the ability of the SFPUC to regulate watershed runoff. Water collected in the Hetch Hetchy is delivered by gravity to Bay Area reservoirs and users. The remaining water supply is drawn from local surface waters in the Alameda and Peninsula watersheds. The Regional Water System was constructed and is owned by San Francisco and is operated by the SFPUC. The Regional Water System delivers approximately 66% of its water to Wholesale Customers in Alameda County, Santa Clara County and San Mateo County. The Wholesale Customers pay for the Regional Water System in proportion to their purchases of water.

*Water Supply Agreements.* The City entered into two contractual arrangements with the City and County of San Francisco, on behalf of the SFPUC, on July 1, 2009, both of which expire in 25 years (with provisions for two conditional five-year extensions): (i) a "Water Supply Agreement," which the City co-signed on July 1, 2009 with 27 other suburban water purchasers, and (ii) a "Water Sales Contract." Under the Water Supply Agreement, the SFPUC is responsible for maintaining the Regional Water System and delivering water that meets all applicable drinking water standards (including all treatment necessary to meet those standards). The Water Supply Agreement also requires the SFPUC to complete the Regional Water System Water System Improvement Plan ("WSIP"). Under the Water Sales Contract, the City's Individual Supply Guarantee ("ISG") is 10.93 million gallons per day ("MGD") on an annual average basis (or approximately 12,243 acre feet per year ("AFY")).

*Water Supply Assurance.* The Water Supply Agreement assures a maximum supply of 184 MGD collectively to all of the suburban purchasers. The City's water supply assurance is 10.93 MGD, or approximately 12,243 AFY. If additional water is available to the wholesale water purchasers within the 184 million gallon per day limit, the City's average annual water usage may increase, but in case of rationing due to drought, the City's usage may be limited pursuant to the Water Shortage Allocation Plan ("WSAP"), approved as part of the Water Supply Agreement in July 2009.

In Fiscal Year 2013-14, the Regional Water System delivered an average of 9.16 MGD to the City, or approximately 10,118 acre feet for the Fiscal Year. The six-year average (2008-09 to 2013-14) delivery was 9.51 MGD, or 10,627 AFY.

*SFPUC Water System Improvement Program.* The WSIP is an approximately \$4.6 billion dollar, multi-year capital improvement program undertaken by the SFPUC to upgrade the Regional Water System and San Francisco's in-city water distribution system to meet water quality requirements, improve seismic and delivery reliability, and meet water supply goals. At the end of fiscal year 2013-14, construction of 30 regional projects were completed and an additional 14 regional projects valued at \$2.7 billion were in progress. The Regional Program includes 46 projects that benefit both retail customers and wholesale customers, and includes a wide variety of improvements such as upgrades to and the addition of new treatment, transmission (pipelines, tunnels, pump stations), and storage (dams and reservoirs) facilities spread over seven counties. The Wholesale Customers pay a proportionate share of the costs of these projects pursuant to the terms of the Water Supply Agreement. The adopted WSIP completion date is August 2018.

Further information regarding WSIP, including periodic updates and status reports, is available at [www.sfwater.org](http://www.sfwater.org).

*Recycled Water.* The Enterprise currently receives recycled water from Silicon Valley Clean Water (the "SVCW"), formerly the South Bayside System Authority. In Fiscal Year

2013-14, deliveries of recycled water from the SVCW totaled 784 acre feet, or approximately 6.0% of the Enterprise's total water supply. Phase 1 of the Recycled Water Project was completed in 2010. The City expects recycled water demand from SVCW of approximately 987 AFY in Fiscal Year 2014-15 which would constitute approximately 7.7% of the Enterprise's total water deliveries.

Tables 1 and 2 below shows water supplies and water demand for the Enterprise for Fiscal Years 2009-10 through 2013-14. Table 1 shows the City's ISG of 12,243 AFY under the Water Sales Contract and the City's water surplus or deficit based solely on the assured water supply.

**Table 1**  
**Historical Water Supply and Demand, Excluding Recycled Water**  
**Annual Production (Acre-Feet)**

Source of Water	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Assured supply (1)	12,243	12,243	12,243	12,243	12,243
Regional Water System Demand	10,764	10,245	10,148	10,897	10,118
Surplus/(deficit) (2)	1,479	1,998	2,095	1,346	2,215

Source: City of Redwood City - Public Works Services Department; 2010 Urban Water Management Plan.

(1) Assured Supply data derived from the City ISG with SFPUC.

(2) Assured Supply less Demand.

**Table 2**  
**Historical Recycled Water Supply and Demand**  
**Annual Production (Acre-Feet)**

Source of Water	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Recycled Water Production Capacity	2,000	2,000	3,238	3,238	3,238
Recycled Water Demand	380	528	586	797	784
Surplus/(deficit) (1)	1,620	1,472	2,652	2,441	2,454

Source: City of Redwood City - Public Works Services Department.

(1) Recycled Water Supply less Recycled Water Demand.

Although the Enterprise has experienced a relatively stable customer base and demand pattern, the 2010 Urban Water Management Plan for the Enterprise predicts that use of water from the Regional Water System will increase from its Fiscal Year 2013-14 level of 10,118 AFY to 11,648 AFY in 2020. Tables 3 and 4 below show projected water supply and demand in five year increments from Fiscal Year 2014-15 through Fiscal Year 2029-30, the City's assured supply under the Water Sales Contract (effective July 1, 2009). Table 3 shows the City's water surplus or deficit based solely on the assured water supply.

**Table 3**  
**Projected Water Supply and Demand, Excluding Recycled Water**  
**Annual Production (Acre-Feet)**

Source of Water	FY 2014-15	FY 2019-20	FY 2024-25	FY 2029-30
Assured supply (1)	12,243	12,243	12,243	12,243
Regional Water System Demand	11,443	11,648	11,604	12,089
Surplus/(deficit) (2)	800	595	639	154

Source: City of Redwood City - Public Works Services Department; 2010 Urban Water Management Plan.

(1) Assured Supply data derived from the City ISG with SFPUC.

(2) Assured Supply less Demand.

**Table 4  
Projected Recycled Water Supply and Demand  
Annual Production (Acre-Feet)**

Source of Water	FY 2014-15	FY 2019-20	FY 2024-25	FY 2029-30
Recycled Water Production Capacity	3,238	3,238	3,238	3,238
Recycled Water Demand	987	1,280	1,453	1,611
Surplus/(deficit) (1)	2,251	1,958	1,785	1,627

Source: City of Redwood City - Public Works Services Department; 2010 Urban Water Management Plan.  
(1) Recycled Water Supply less Recycled Water Demand.

**Historical Wholesale Water Cost**

The table below sets forth the history of wholesale water cost increases under the Water Supply Agreement since Fiscal Year 2009-10 and projected wholesale water cost increases through Fiscal Year 2018-19. See Table 11 for historical water rate increases for the Enterprise.

**Table 5  
Historical and Projected Wholesale Water Cost Change**

Fiscal Year	Wholesale Water Rate Changes	Cost Per CCF
2009-10	15.4%	\$1.65
2010-11	15.2%	\$1.90
2011-12	38.4%	\$2.63
2012-13	11.4%	\$2.93
2013-14	7.2%	\$3.14
2014-15	16.6%	\$3.66
2015-16	10.7%	\$4.05
2016-17	0.0%	\$4.05
2017-18	11.9%	\$4.53
2018-19	9.7%	\$4.97

Source: Bay Area Water Supply and Conservation Agency.

The Water Supply Agreement contains a rate setting formula that allocates the cost of operating the Regional Water System among San Francisco and the suburban water purchasers based on their respective water deliveries. This formula, together with the actual amount of water deliveries to the City, determines the amount that the City pays under the Water Supply Agreement. The City anticipates that its cost of acquiring water from San Francisco will increase in the future as the SFPUC continues to implement the WISP. See "RISK FACTORS – Wholesale Water Costs."

**Water Conservation Program**

In order to address the Enterprise’s water supply concerns, the City has developed an extensive water conservation program. This conservation program includes several of the best management practices developed by the California Urban Water Conservation Council ([www.cuwcc.org](http://www.cuwcc.org)). The City projects that this conservation program will reduce water use by customers of the Enterprise by 239 AFY by 2020.

## Water Storage and Distribution System

*General.* The Enterprise's distribution system consists of distribution mains, 12 storage facilities, 10 pump stations, and 26 pressure reducing valves ranging from 2 to 6 inches in diameter.

*Water Storage Facilities.* The Enterprise's 12 storage facilities range in size from 0.09 million gallons to 4.00 million gallons with a total storage capacity of 21.24 million gallons. Typically, the storage tanks are filled to 50% of capacity, which would provide two days' supply to the customers of the Enterprise in an emergency situation.

**Table 6**  
**Existing Potable Water Storage Facilities**

Pressure Zone	Storage Facility	Capacity (million gallons)
Easter Cross	Easter Cross – 1 Tank	0.10
Easter Bowl	Easter Bowl – 1 Tank	1.20
Glenloch	Glenloch – 1 Tank	0.09
Wilmington South	Wilmington – 1 Tank	0.25
Cambridge	Cambridge – 2 Tanks	0.65
Lakeview	Lakeview – 1 Reservoir	1.00
Main City Zone	Sequoia – 2 Tanks	8.00
Main City Zone Reservoir	Carson – 1	3.75
Redwood Shores	Peninsula 1 – 1 Tank	3.20
Redwood Shores	Peninsula 2 – 1 Tank	3.00
Total Domestic		21.24

Source: City of Redwood City - Public Works Services Department ("A Technical Report on the City Water Storage Capability" and Redwood City Pressure Zone Map).

In addition, the Enterprise has storage for 5.2 million gallons of recycled water at the SVCW site.

*Distribution System.* The Enterprise currently contains approximately 260.45 miles of pipeline, in the following sizes:

**Table 7  
Pipeline Sizes**

Size (inches)	Miles
¾	0.12
1	0.07
1 ½	0.06
2	8.91
3	0.02
4	14.00
6	76.29
8	102.15
10	7.69
12	32.94
14	0.21
16	12.18
18	1.46
24	4.34
Total	<u>260.44</u>

Source: City of Redwood City - Public Works Services Department.

### **Water Quality and Environmental Issues and Regulatory Requirements**

Monitoring of the imported Hetch Hetchy supply is conducted by the SFPUC. The SFPUC treats the Hetch Hetchy supply by lime addition at Rock River for corrosion control and ultraviolet light at Tesla Portal and chloramination at Sunol Valley for disinfection, as well as, fluoridation at Sunol Valley. Water that is delivered to Bay Area reservoirs receives filtration and disinfection treatment at either the Sunol or the Harry Tracy filtration plants. Filtered water from these treatment plants may be co-mingled with unfiltered Hetch Hetchy water in Bay Area transmission pipelines. Water is continuously monitored and tested by the SFPUC to ensure that water delivered to customers meets or exceeds federal and state drinking water and public health requirements. The SFPUC and its wholesale customer agencies were granted filtration avoidance for the Hetch Hetchy supply under Federal and State regulations. Under revisions to the Surface Water Treatment regulations (California Code of Regulations), which became effective in July 1998, public water systems serving water from the Hetch Hetchy supply must demonstrate to the California Department of Public Health (CDPH) that the supply meets the State criteria for filtration avoidance. The City confirms, in its certification to the CDPH, that the Hetch Hetchy water supply it distributes will be in compliance with the State criteria for filtration avoidance.

Monitoring of the water quality within the City distribution system is the responsibility of the City. The City routinely monitors its system for bacteriological quality, chlorine residual, general physical parameters and disinfection byproducts. The City also conducts lead and copper tap sampling, water quality parameter monitoring, and public education as required by the EPA's Lead and Copper Rule. The City's potable water quality consistently meets primary and secondary drinking water standards. The City also has a proactive program to flush the distribution pipelines to remove deposits, encrustations, sediments, and other materials. This flushing prevents water quality problems related to taste, odor, and turbidity, among others. The City maintains a database recording the schedule and length of time for each flushing. During times of water shortage, the City may suspend flushing activities to conserve water

resources. The City also has a Cross Connection Control Program and has certified staff to ensure that all backflow prevention devices are tested and maintained annually.

### Capital Improvement Program

The City’s projected capital improvement plan for the Enterprise for Fiscal Year 2014-15 through Fiscal Year 2018-19 is set forth below. The City intends to fund its capital improvement plan through fund equity and current revenues.

For the past 16 years, the City has spent approximately \$2,000,000 per year from fund balances and current revenue in order to replace aging facilities and equipment of the Enterprise. Starting from Fiscal Year 2012-13, the City developed plans to substantially increase its investment in the City’s potable water capital improvement program. This additional investment will include improvements to two existing water tanks and the construction of a new water tank and pump station to better serve both existing customers and future development during emergency responses. The project’s environmental impact report is due to go before the City Council in August 2015. The City plans to complete project design and begin construction in the first quarter of 2016.

The City Council appropriated \$2,000,000 for capital improvements in Fiscal Year 2014-15. Additionally, the City expensed or committed \$250,000 for its water conservation program in Fiscal Year 2014-15 and expects to continue this level of funding for water conservation measures in future fiscal years.

**Table 8  
Capital Improvement Program Summary**

	Amount*
FY 2014-15	\$ 2,000,000
FY 2015-16	3,950,000
FY 2016-17	4,752,000
FY 2017-18	5,252,000
FY 2018-19	3,752,000
Total	\$19,706,000

Source: City of Redwood City – Finance Department.

\* Amounts capitalized in the City’s Comprehensive Annual Financial Reports may vary depending on whether expenditures meet the City’s capitalization policy.

### Billing and Collection Procedures

The City issues a combined utility bill to each of its customers for water, sewer, and solid waste collection services (the City acts as the billing and collection agent for the private company, Recology San Mateo County, which performs solid waste collection services under a franchise agreement with the City) on a bi-monthly basis for residential customers and monthly basis for commercial customers. The utility bills are due and payable within 30 days of the bill date. If not paid within 30 days, the utility bill is delinquent, a 10 day reminder notice is mailed to the customer and assessed a 1.5% interest charge, and if still unpaid 40 days after the initial bill has been issued, a 7 day notice is mailed indicating that water will be shut off if the bill remains unpaid and another 5% interest charge is assessed. If the utility bill continues to be unpaid after the 5% interest charge, water service will be disconnected until payment is made. Prior to disconnecting water service, the City provides the affected customer with forty eight hour notice of possible disconnection. The reconnection fee ranges from \$20 to \$100 if paid during business hours and \$320 if paid after business hours.

## Current Water Rates, Fees and Charges

Water rates are based on the City's costs for operating and maintaining the Enterprise, and on projected amounts required for the Enterprise capital improvement program.

*Current Water Rate Structure.* There are three components of the water utility bill for all customers, which work independently of each other:

- A fixed, monthly basic service charge.
- A variable usage rate.
- A water capacity charge (established in 2007). This component was established to provide for capital facilities that improve the City's ability to provide water within the service area. This one time charge is \$11.58 per gallon per day of projected net consumption of water on the property to be connected to the Enterprise.

The following tables set forth the fixed and variable components of the Enterprise current rate structure, as of July 1, 2014.

**Table 9**  
**Current Water Rate Structure**

**RESIDENTIAL**  
**(Billed Bi-Monthly)**

Residential Basic Service Charge	\$52.26 (\$26.13 monthly)
Quantity Charge(1) <u>(Unit = 100 cubic feet)</u>	
0-10 Units (Lifeline)	\$3.49
11-25 Units	\$4.42
26-50 Units	\$7.23
50+ Units	\$10.19

Source: City of Redwood City Public Works Services Department.  
(1) Per Billing Period.



**COMMERCIAL  
(Billed Monthly)**

Meter Size (inch)	Charge
5/8	\$26.14
3/4	\$39.21
1	\$65.33
1 ½	\$130.69
2	\$209.07
3	\$392.04
4	\$653.40
6	\$1,306.80
8	\$1,306.80
10	\$1,306.80

**Quantity Charge<sup>o</sup>  
(Unit = 100 cubic feet)**

0-15 Units	\$4.42
16+ Units	\$7.22

Source: City of Redwood City - Public Works Services Department.

*Connection and Facilities Fees.* The following table sets forth the current Enterprise schedule of connection and facilities fees for the Enterprise, which was approved in 1994.

The property owner is responsible for the cost of connection to the City's water main. Every application requesting such a connection to the City is required to be accompanied by a water connection fee. A facilities fee is established to provide for the use and construction of existing and future water system capital facilities in accordance with a capital improvement program approved by the City Council. Such fee is collected concurrently with the connection fees. The facilities fee is charged per dwelling unit equivalent (DUE).

**Table 10  
Current Connection and Facilities Fees**

Meter Size (inch)	Meter Installation Fee	Service Line Installation Fee	Water Facilities Fee
5/8	\$150.00		\$1,787.00
¾	\$175.00		\$2,680.50
1	\$200.00		\$4,467.50
1 ½"	\$350.00	determined at time of application	\$8,935.00
2	\$450.00		\$14,296.00
3	\$725.00		\$26,805.00
4	\$1,400.00		\$44,675.00
6	determined at time of application		\$89,350.00

Source: City of Redwood City - Public Works Services Department.

## Water Rate Increases

*Historical Rates Increases.* The City's most recent rate increase took effect in July 2014. The City's practice since 1993 has been to adjust rates and service charges annually, at the beginning of the City's fiscal year, based on changes in the wholesale rates paid under the Water Supply Agreement and approved Enterprise budgets. Table 11 below sets forth historical water rate increases since Fiscal Year 2008-09.

**Table 11**  
**Historic Water Rate Increases**

Fiscal Year	Rate Increase
2008-09	2.9%
2009-10	3.0%
2010-11	9.0%
2011-12	9.0%
2012-13	12.0%
2013-14	9.0%
2014-15	9.0%

Source: City of Redwood City - Public Works Services Department.

*Future Rate Increases.* A 9% water rate increase for Fiscal Year 2015-16 was approved and adopted by the City Council on June 10, 2013. While additional increases have not been considered by the City Council, increases of 5.5%, 5.5% and 3% in Fiscal Years 2016-17, 2017-18 and 2018-19, respectively, have been assumed for planning purposes and have been used in the projection of revenues, expenses and debt service coverage shown in Table 18. Such increases, if approved, could be higher or lower. Rate increases are made, when necessary, to reflect wholesale water rate increases (see Table 5), the cost of City capital improvement projects for the potable water system, debt service obligations and operating costs to manage the Enterprise.

## Comparative Monthly Water Bills

The table following shows comparative residential monthly water bills for neighboring communities for Fiscal Year 2013-14, based on customers with 5/8-inch meters consuming water at a rate of 12 units per billing period.

**Table 12**  
**Average Monthly Residential Bills**  
**Fiscal Year 2013-14**

Agency	Fixed Monthly Charge	Variable Consumption Charge	Calculated Monthly Bill
Santa Clara	\$10.80	\$30.51	\$41.31
Sunnyvale	\$7.46	\$39.72	\$47.18
Daly City	\$14.60	\$33.30	\$47.90
Foster City	\$15.80	\$36.80	\$52.60
East Palo Alto	\$13.73	\$45.84	\$59.57
Mountain View	\$10.80	\$53.10	\$63.90
Redwood City	\$23.98	\$44.35	\$68.33
Cal Water (South San Francisco)	\$10.50	\$58.97	\$69.47
Cal Water (San Carlos)	\$10.50	\$59.65	\$70.15
Cal Water (San Mateo)	\$10.50	\$59.85	\$70.35
San Francisco PUC	\$8.40	\$62.10	\$70.50
Millbrae	\$15.00	\$65.40	\$80.40
San Bruno	\$16.60	\$68.94	\$85.54
Mid-Peninsula WD (Belmont)	\$16.91	\$69.36	\$86.27
Burlingame	\$38.78	\$48.34	\$87.12
Pacifica (NCCWD)	\$13.38	\$74.49	\$87.87
Palo Alto	\$14.67	\$75.42	\$90.09
Brisbane	\$11.34	\$100.36	\$111.70
Hillsborough	\$45.00	\$78.14	\$123.14
Montara (MWSD)	\$21.67	\$114.52	\$136.19

Source: City of Redwood City - Public Works Services Department (Annual Water Bill Benchmarking Study).

\* Includes miscellaneous surcharges where applicable.

## Customer Base

*Number of Accounts.* The Enterprise has a relatively stable customer base with some growth expected in the number of residential and commercial accounts within the next few years. There are currently 13 large multi-family residential and 14 large commercial developments in review or under construction. If approved, the developments could add 2,400 new housing units, 83,000 square feet of retail space, and up to 2 million square feet of office space. The Enterprise expects increased water supply demand and revenues as a result of the new developments. The Enterprise is in good shape to respond to increased water demands as the planned increases were accounted for in the City's 2010 Urban Water Management Plan.

The following table sets forth a five-year history of the number of accounts for the Enterprise.

**Table 13**  
**Number of Accounts**  
**(As of June 30)**

	2010	2011	2012	2013	2014
<u>Residential</u>					
Single-family	18,647	18,756	18,846	18,991	19,047
Multi-family	1,684	1,685	1,684	1,671	1,666
Sub-total	20,331	20,441	20,530	20,662	20,713
<u>Non-Residential</u>					
Commercial	1,562	1,554	1,538	1,538	1,527
Industrial/Other	94	97	113	113	114
Irrigation	417	418	411	409	413
Fire	628	645	657	669	681
Sub-total	2,701	2,714	2,719	2,729	2,735
Recycled	134	137	162	164	164
Total	23,166	23,292	23,411	23,555	23,612

Source: City of Redwood City - Public Works Services Department.

*Largest Water Customers.* The following are the ten largest customers of the Enterprise for the Fiscal Year 2013-14. Some users have multiple water accounts under different names. The data in the following table was collected by aggregating multiple accounts believed to be of the same entity from a listing of the 500 largest user accounts. The data in the table may omit consumption data of certain small accounts owned by large water users, but the City believes that any such omissions would not constitute a material amount of consumption and that the information presented in the table is a fair representation of water use by the largest customers of the Enterprise.

**Table 14**  
**Ten Largest Customers**  
**Fiscal Year 2013-14**

	Customer	Primary Business Activity	Revenue	% of Total Revenues	% of Total Use
1	County of San Mateo	Government	\$ 561,650.71	1.67	1.63
2	Oracle USA Inc.	Commercial	505,178.88	1.50	1.71
3	Sequoia Hospital District	Health Care	239,821.32	0.71	0.64
4	Gossamer Ponderosa Homes	Residential	225,107.17	0.67	1.05
5	Electronic Arts	Commercial	203,267.68	0.60	0.67
6	Equity Office Properties	Commercial	203,066.76	0.60	0.84
7	Kaiser Permanente	Health Care	196,619.43	0.58	0.35
8	Western Athletic Clubs	Commercial	185,912.68	0.55	0.53
9	Westport Office Park	Commercial	184,534.61	0.55	0.82
10	SIMS Metal America	Commercial	177,522.58	0.53	0.60
	Total		\$2,682,681.82	7.96%	8.84%

Source: City of Redwood City - Public Works Services Department.

*Water Customers and Revenues.* The following table sets forth a breakdown of revenues of the Enterprise by customer type for Fiscal Year 2013-14 (excluding revenues derived from connection fees, late payment penalties and shut-off fees).

**Table 15**  
**Revenues by Customer Type**  
**Fiscal Year 2013-14**

	Number of Accounts	Consumption (CCF)	Percent of Total Consumption	Total Revenues	Percent of Total Revenue
Single-family	19,047	2,286,478	49%	\$15,335,624.23	46%
Multifamily	1,666	805,641	17	5,808,257.74	17
Commercial	1,527	814,853	17	6,720,899.65	20
Industrial/Other	114	86,173	2	721,065.40	2
Irrigation	413	366,115	8	2,880,168.76	9
Fire	681	1,483	0	712,752.74	2
Recycled	164	323,816	7	1,462,720.73	4
<b>Total</b>	<b>23,612</b>	<b>4,684,559</b>	<b>100%</b>	<b>\$33,641,489.25</b>	<b>100%</b>

Source: City of Redwood City - Finance Department.

The following table sets forth the revenues of the Enterprise derived from water connection and facilities fees, and water capacity charges since Fiscal Year 2009-10.

**Table 16**  
**Revenues from Connection and Facilities Fees and Capacity Charges**

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
Connection Fees	\$ 77,216	\$ 80,303	\$ 98,436	\$ 110,233	\$ 180,209
Facilities Fees	180,494	324,341	264,526	588,273	559,925
Capacity Charge (1)	35,954	656,217	328,286	1,592,702	1,422,513
<b>Total</b>	<b>\$293,664</b>	<b>\$1,060,861</b>	<b>\$691,248</b>	<b>\$2,291,208</b>	<b>\$2,162,647</b>

Source: City of Redwood City - Finance Department.

(1) The increase in revenues for Fiscal Year 12-13 and Fiscal Year 13-14 is the result of new residential and commercial developments in the City.

## ENTERPRISE FINANCIAL INFORMATION

### Budgetary Process

The fiscal year of the City begins on the first day of July of each year and ends on the thirtieth day of June the following year. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds, capital project funds, and proprietary funds (including the water enterprise fund).

Budgets for the general, special revenue, debt service and capital projects funds (except the General Improvement District 1-64 construction fund) are adopted on a basis consistent with generally accepted accounting principles, except for capital outlay in special revenue and capital projects funds which is budgeted on a project length basis. Budget requests are submitted by departmental managers to the City Manager for review. The City Manager and the Finance Director meet with department heads to review the requests and establish program objectives for the coming year. The City Manager then prepares his recommendations to the City Council and the Finance Director submits the financing plan to fund the recommended budget.

Each year the City adopts a resolution specifying the dates by which it must receive a proposed budget and adopt a final budget. The City Council usually receives the proposed budget by the end of May and thereafter schedules one or two public study sessions to review the recommendations and obtain public comments. The Finance Director usually submits the City Council approved budget for final public hearing and adoption by the end of June. From the effective date of the budget, the several amounts adopted as expenditures become appropriated to the several departments offices and agencies for the objects and purposes named. All appropriations lapse for operating expenses at the end of the fiscal year to the extent that they have not been expended or lawfully encumbered. At any public meeting after the adoption of the budget, the City Council may amend or supplement the budget pursuant to a resolution (rather than an ordinance) adopted by a majority vote of the members of the Council.

Each fiscal year the City Council employs an independent certified public accounting firm which examines the accounting records, internal controls and the financial statements. As soon as practicable after the end of each fiscal year, these financial statements and the independent accountant's report are submitted to the City Council. At the request of the department head through the City Manager, the City Council may, by resolution, transfer appropriations between subprograms and funds, but shall not change total appropriations. Any increase or decrease to the total appropriations provided for in the budget must be carried through by resolution passed by the City Council. The City Manager may authorize the transfer of funds between object categories within a subprogram of a department.

### **Financial Statements**

APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2014, includes the audited financial statements of the City (the "Financial Statements") for Fiscal Year 2013-14, which include financial statements for the Enterprise, prepared by the City Department of Finance and audited by Badawi & Associates, Oakland, California (the "Auditor").

The Auditor's letter concludes that the Financial Statements present fairly, in all material respects, the financial position of the City as of June 30, 2014, and the results of its operations and the cash flows of its proprietary fund type for the Fiscal Year then ended in conformity with accounting principles generally accepted in the United States of America. The Financial Statements should be read in their entirety. The City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City. In addition, the Auditor has not reviewed this Official Statement.

### **Enterprise Accounting**

The Enterprise is accounted for as an enterprise fund with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Revenues are fully accrued to include unbilled services at year end.

The City uses the accrual basis of accounting for its “proprietary funds,” including the City’s water enterprise fund. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred. All assets and liabilities for these funds are included on the balance sheet with this measurement focus. Fund equity (i.e., net total assets) is segregated into restricted, unrestricted and net investment in capital assets.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2014 for a more complete summary of the City’s accounting policies.

### **Outstanding Enterprise Obligations**

Following issuance of the Bonds and the redemption of the 2006 Bonds, the obligations of the City secured by Net Revenues will be the 2015 Installment Purchase Contract, the 2013 Installment Purchase Contract and the 2007 Installment Purchase Contract.

### **Capitalization Policy**

Generally, capital assets are major assets that have initial useful lives extending beyond a single reporting fiscal period. The cost criterion used to determine whether a given asset should be capitalized and included in the balance sheet is known as the “capitalization threshold.” If the cost of the asset equals or exceeds this threshold, then that amount is included in the balance sheet, or capitalized. The City’s current threshold for each individual general capital asset is \$5,000 for equipment with an initial useful life of 2 years or greater and \$100,000 for all other general capital assets with an initial useful life of 20 years or greater. The threshold for infrastructure is \$100,000 for assets with a useful life of 20 years or greater.

Costs are capitalized only if they are directly identifiable with a specific asset. Thus, the cost of a study undertaken to determine water system improvements for a specific area would not be capitalized. Neither would the cost of training employees on new capital assets. Improvements to capital assets that provide additional value, such as lengthening a capital asset’s estimated useful life, or increasing a capital asset’s ability to provide service, such as greater effectiveness or efficiency or increasing water pumping capacity, would be capitalized, but only if the cost of the improvement met or exceeded the capitalization threshold. Repairs and maintenance costs, which are costs incurred to retain the value of a capital asset, rather than provide additional value, are not capitalized. Repairs and maintenance costs are generally recognized as those expenses necessary to keep an asset in its intended operational condition and which do not materially provide additional value to the asset.

The City accounts for annual water enterprise expenses in the separate funds into which expenses were appropriated, which include a bond-funded projects fund, a capital project fund (funded from operations) and an operating fund. Capital additions and replacements are appropriated to the capital project fund, as are certain other expenses not strictly necessary for the operation of the enterprise. Capital expenses in each fund that do not meet the capitalization threshold, as well as all water conservation program expenses, capital planning expenses and meter replacement expenses, are treated as operating expenses and are shown as maintenance and operating expenses in the City’s Comprehensive Annual Financial Report (“CAFR”).

It had been the City’s policy to subtract discretionary non-capitalized capital fund expenses, along with depreciation and amortization, from its CAFR-reported maintenance and operating expenses when calculating the debt service coverage ratio of the water enterprise operating fund. Non-capitalized capital fund expenses were not reported separately in the City’s CAFRs prior to 2013. Beginning in 2013, these amounts are now reported in the City’s CAFR.

Beginning with the fiscal year ended June 30, 2013, it is the City's policy not to subtract discretionary non-capitalized capital fund expenses from the total operating maintenance and operating expenses when calculating the debt service coverage ratio of the water enterprise operating fund. Additionally, for fiscal year ending June 30, 2015, and going forward the City will transfer the appropriations related to water conservation and its smart meter replacement program from the capital project fund into the operating fund. The expenses related to these programs will be reflected as maintenance and operation costs for budget and financial reporting purposes.

### Historical Revenues, Expenses and Debt Service Coverage

The following table presents Enterprise revenues and expenses for each of the five fiscal years ended June 30, 2010, through 2014, including debt service coverage. The table shows, as a separate line item, the aggregate amount of expensed capital fund expenses that have been deducted from maintenance and operating costs for the purpose of reporting debt service coverage in the years ended June 30, 2010 through June 30, 2012. Expensed capital fund expenses are no longer deducted from maintenance and operating costs for the purpose of reporting debt service coverage.

**Table 17**  
**Historical Revenues and Expenses**  
**Fiscal Year ended June 30,**

	Fiscal Year Ended				
	2010	2011	2012	2013	2014
<b>GROSS REVENUES</b>					
Charges for Services	\$23,063,981	\$26,004,878	\$28,110,649 (3)	\$33,167,498	\$35,655,559
Non-operating Income	271,165	237,665	215,531	105,202	255,820
<b>TOTAL GROSS REVENUES</b>	<b>23,335,146</b>	<b>26,242,543</b>	<b>28,326,180</b>	<b>33,272,700</b>	<b>35,911,379</b>
<b>MAINTENANCE AND OPERATION COSTS (1)</b>	<b>18,396,764</b>	<b>19,440,666</b>	<b>23,189,096</b>	<b>25,992,025</b>	<b>25,032,582</b>
Expensed Capital Projects	(975,340)	(842,887)	(1,085,647)	—	—
<b>REVISED MAINTENANCE AND OPERATION COSTS (2)</b>	<b>17,421,424</b>	<b>18,597,779</b>	<b>22,103,449</b>	<b>25,992,025</b>	<b>25,032,582</b>
<b>NET REVENUES AVAILABLE FOR DEBT SERVICE</b>	<b>5,913,722</b>	<b>7,644,764</b>	<b>6,222,731</b>	<b>7,280,675</b>	<b>10,878,797</b>
2005 Installment Payments	2,145,874	2,144,712	2,146,699	2,147,673	464,377 (4)
2006 Installment Payments	1,569,129	1,569,703	1,569,579	1,573,754	1,572,054
2007 Installment Payments	950,525	946,350	946,725	946,425	950,450
2013 Installment Payments	—	—	—	—	1,584,262
<b>TOTAL DEBT SERVICE</b>	<b>4,665,528</b>	<b>4,660,766</b>	<b>4,663,003</b>	<b>4,667,853</b>	<b>4,571,143</b>
<b>DEBT SERVICE COVERAGE</b>	<b>1.27x</b>	<b>1.64x</b>	<b>1.33x</b>	<b>1.56x</b>	<b>2.38x</b>

Source: City of Redwood City.

(1) As reported in the CAFR. Excludes depreciation and amortization.

(2) Adjusted to exclude discretionary capital expenses that were not capitalized in the City's CAFR.

(3) Varies from the total amounts on Tables 15 and 16 due to miscellaneous adjustments and credits made to customers' accounts.

(4) Accrued interest from February 1, 2013 to June 20, 2013. This amount was scheduled to be paid in Fiscal Year 2014 but was paid in Fiscal Year 2013 as part of the refunding of the 2005 Bonds. It is shown as originally scheduled in Fiscal Year 2014 in order to avoid inflating debt service coverage for that year.



## Projection of Revenues, Expenses and Debt Service Coverage

Estimated projected operating results and debt service coverage for the City for the current and next four Fiscal Years are set forth below. Certain assumptions have been made by the City in the development of the projections, such as expected increases in revenues from new planned developments and steady water rate increases. Many of these assumptions are reflected in the projections. While the City believes its assumptions are reasonable, there can be no assurance that the assumed conditions will in fact occur. The City's projections may be affected (favorably or unfavorably) by unforeseen future events. Therefore, the results projected below cannot be assured.

**Table 18**  
**Projection of Revenues, Expenses and Debt Service Coverage**  
**Fiscal Years Ended June 30,**

	FISCAL YEAR				
	2015	2016	2017	2018	2019
GROSS REVENUES					
Charges for services (1)	\$35,773,000	\$37,488,000	\$38,556,000	\$40,467,000	\$41,581,000
Non-operating Income	200,000	170,000	205,000	239,000	312,000
<b>TOTAL GROSS REVENUES</b>	<b>35,973,000</b>	<b>37,658,000</b>	<b>38,761,000</b>	<b>40,706,000</b>	<b>41,893,000</b>
MAINTENANCE AND OPERATION COSTS (2)	25,773,000	29,482,000	29,497,000	30,627,000	33,354,000
NET REVENUES AVAILABLE FOR DEBT SERVICE	10,200,000	8,176,000	9,264,000	10,079,000	8,539,000
2006 Installment Payments	1,569,000	265,378 (3)	—	—	—
2007 Installment Payments	949,000	946,000	948,000	949,000	946,000
2013 Installment Payments	2,059,000	2,058,000	2,063,000	2,061,000	2,060,000
2015 Installment Payments (4)	—	1,209,110	1,469,450	1,470,050	1,469,650
<b>TOTAL DEBT SERVICE (4)</b>	<b>4,577,000</b>	<b>4,478,488</b>	<b>4,480,450</b>	<b>4,480,050</b>	<b>4,475,650</b>
DEBT SERVICE COVERAGE	2.23x	1.83x	2.07x	2.25x	1.91x

Source: City of Redwood City, Administration.

- (1) Charges for Service include those charges shown in Table 9 and 10 and other miscellaneous charges for Service. Charges for Services includes a 9% water rate increase for Fiscal Year 2015-16 which was approved and adopted by the City Council on June 10, 2013. Charges for Services for Fiscal Years 2016-17, 2017-18 and 2018-19 include assumed rate increases of 5.5%, 5.5% and 3%, respectively, but these increases have not been reviewed or approved by the City Council. Such increases, if approved, could be higher or lower.
- (2) Excludes depreciation and amortization. Maintenance and Operation costs are assumed to increase 4% annually.
- (3) This amount represents accrued interest on the August 1, 2015, payment that will be contributed by the City to the refunding escrow for the 2006 Bonds.
- (4) Preliminary, subject to change.

## INVESTMENT OF CITY FUNDS

Revenues collected by the City will be held and invested by the City in accordance with the provisions of the Indenture.

Funds held by the City, including Enterprise moneys, are invested in accordance with the City's Statement of Investment Policy (the "Investment Policy") prepared by the City Treasurer as authorized by section 53601 of the Government Code of California. The Investment Policy is submitted to the City Council annually. The Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old

investments mature, or are sold, and as new investments are made. Invested funds are managed to insure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, operating funds may not be invested in any investment with a maturity greater than five years. The City does not invest in derivatives or reverse repurchase agreements and such investments and instruments are not allowed by City policy.

For more information about the City's investment policy, see APPENDIX C—CITY INVESTMENT POLICY.

### **CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES**

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. In the past, the voters have exercised this power from time to time, including through the adoption of Propositions 13 and 218.

From time to time other State and local initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

#### **Article XIII A**

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A limits the maximum ad valorem tax on real property to 1% of full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. 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." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the full cash value based in the event of declining property values caused by 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 minor or technical ways.

#### **Article XIII B**

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. 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 and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial sources for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

### **Proposition 218**

*General.* On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

Specifically, under Article XIII D, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIII D, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

In addition, Article XIII C provides that "the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives."

*Judicial Interpretation of Proposition 218.* After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIII D regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three

recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

In *Richmond v. Shasta Community Services District* (9 Cal. Rptr. 3rd 121), the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIII D to certain charges related to water service. In *Richmond*, the Court held that connection charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIII D.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (March 23, 2005), the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIII D before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (39 Cal. 4th 205), addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIII D, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIII C's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIII C authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIII C and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was not determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

*Current Practice Regarding Rates and Charges.* The City's practice has been to provide public notice of proposed water rate increases through means that include, among others, holding informational presentations at community group meetings, mailings to residential and commercial customers of public hearings on rate increases, and press releases and media campaigns regarding rate increases, followed by public hearings conducted by the City Council. The most recent rate increase was enacted by the City in strict compliance with the procedures mandated by Proposition 218 and *Bighorn*.

*Conclusion.* It is not possible to predict how courts will further interpret Article XIII C and Article XIII D in future judicial decisions, and what, if any, further implementing legislation will be enacted. Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, though it is not clear whether (and California courts

have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness. There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for water, or to call into question previously adopted water rate increases.

### **Effect of Proposition 218 on the City; Possible Limitations on Enforcement Remedies.**

The general financial condition of the City may be affected by provisions of Article XIII C and Article XIII D. In particular, provisions of Article XIII C (i) require taxes for general governmental purposes to be approved by a majority vote and taxes for specific purposes, even if deposited into the General Fund, to be approved by two-thirds vote, (ii) require any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994, to be approved by majority vote on November 5, 1998 and (iii) provide that all taxes, assessments, fees and charges are subject to reduction or repeal at any time through the initiative process, subject to overriding constitutional principles relating to the impairment of contracts. Provisions of Article XIII D that affect the ability of the City to fund certain services or programs that it may be required or choose to fund include (i) adding notice, hearing, protest and, in some cases, voter approval requirements to impose, increase or extend certain assessments, fees and charges and (ii) adding stricter requirements for finding individualized benefits associated with such levies.

The ability of the City to comply with its covenants under the 2015 Installment Purchase Contract and to generate Net Revenues sufficient to pay the 2015 Installment Payments and, therefore, the principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) under Article XIII C or Article XIII D by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the 2015 Installment Purchase Contract are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the possible limitations on the ability of the City to comply with its covenants under the 2015 Installment Purchase Contract, the rights and obligations under the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California.

Based on the foregoing, in the event the City fails to comply with its covenants under the 2015 Installment Purchase Contract, including its covenants to generate sufficient Net Revenues, as a consequence of the application of Article XIII C and Article XIII D, or to pay principal of or interest on the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

### **Proposition 26**

On November 2, 2010, State voters approved Proposition 26 which amended certain sections of Article XIII C. The proposition attempts to define "tax" as used within Article XIII C as "any levy, charge, or exaction of any kind imposed by a local government, *except* the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not

provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.” The local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

The foregoing discussion of Proposition 218 and Proposition 26 should not be considered an exhaustive or authoritative treatment of the provisions of such propositions or the possible effects of Proposition 218 and Proposition 26. Interim rulings, final decisions, legislative proposals and legislative enactments affecting Proposition 218 and Proposition 26 may impact the City’s ability to make debt service payments on the Bonds. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity related to these issues.

### **Future Initiatives**

Articles XIIC, XIID and Proposition 26 were adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives could be proposed and adopted affecting Net Revenues or the City’s ability to increase its rates for water service. See “Proposition 218” above. The California constitution, Article XIID, Section 5(c), specifically recognizes that any assessment existing on the effective date (of Article XIID) shall be exempt from the procedures and approval process set forth in Article 4, to wit: “....(c) Any assessment the proceeds of which are exclusively used to repay bonded indebtedness of which the failure to pay would violate the Contract Impairment Clause of the Constitution of the United States.”

## **RISK FACTORS RELATING TO THE BONDS**

*The following section describes certain special considerations and risk factors affecting the risk of nonpayment or the security for the Bonds. The following discussion is not meant to be an exhaustive or definitive description of the risks associated with a purchase of the Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following special factors regarding the Bonds, together with all other information in this Official Statement, in order to make an informed investment decision with respect to the Bonds. There can be no assurance that other risk factors are not or will not become material in the future.*

### **General**

The payment of principal of and interest on the Bonds is secured solely by a pledge of Revenues, which is secured by a pledge by the City of the Net Revenues and certain funds under the 2015 Installment Purchase Contract. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water services to its users, and the ability of the City to establish and maintain water fees and

charges sufficient to provide the required debt service coverage as well as pay for Operation and Maintenance Costs.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net Revenues realized by the City.

### **Limited Obligations**

The 2015 Installment Payments are limited obligations of the City and are not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues. The obligation of the City to pay debt service on the Bonds from Net Revenues does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The City is obligated under the 2015 Installment Purchase Contract to make 2015 Installment Payments solely from Net Revenues. There is no assurance that the City can succeed in operating the Enterprise such that the Net Revenues in the future will be sufficient for that purpose.

### **Risks Relating to Water Supplies**

As described above under “THE ENTERPRISE—Water Supply and Water Demand,” the Enterprise currently receives virtually all of its water, and all of its potable water, from the Regional Water System pursuant to the WSA and its Water Sales Contract that provides Redwood City an ISG of 11.08 MGD or 12,243 AFY. Accordingly, an interruption in the delivery of water from San Francisco for any reason would severely impact the ability of the Enterprise to deliver water to its customers, thereby reducing the amount of Gross Revenues available to the Enterprise to pay its Maintenance and Operation Costs and its obligations under the Water Supply Agreement. The City estimates, for example, that a 20% water shortage of the Regional Enterprise would reduce water deliveries to the Enterprise by 28% (from 12,243 AFY to 8,861 AFY). Additionally, as the demands on the Regional Enterprise grow, the possibility of water shortages will increase.

California is also facing a record drought, which may adversely impact Enterprise water revenues and the ability of the Enterprise to repay outstanding debts. On January 17, 2014 California Governor Edmund G. Brown Jr. declared a State of Emergency in California due to severe drought conditions. The State of California requested a voluntary 20% water usage reduction statewide, and SFPUC requested a voluntary 10% water usage reduction from its customers. In response to these requests, the City called for a 10% voluntary reduction in water use from the community. On August 25, 2014 the City Council passed an Emergency Drought Regulations resolution restricting outdoor water use.

If the drought continues, SFPUC may implement mandatory rationing of the water supply and charge a drought surcharge. In this scenario, the City would receive a portion of the current ISG and be responsible for recuperating costs of the drought surcharge. BAWSCA and all wholesale water customers are currently preparing to address the possibility of mandatory drought rationing and associated surcharges.

### **Wholesale Water Costs**

San Francisco is expected to substantially raise wholesale water rates for the Suburban Customers, including the Enterprise, due to the costs of San Francisco’s capital improvement program, which is described above under “THE ENTERPRISE – Water Supply – San Francisco

Capital Improvement Plan and Long-Range Financial Plan” above. The City projects that these rates may increase by up to 38% through Fiscal Year 2022-2023, from \$1,415 per acre foot in Fiscal Year 2014-15 to \$1,960 per acre foot in Fiscal Year 2022-2023 (exclusive of the BAWSCA Surcharge). Including the BAWSCA Surcharge, rates may increase up to 54% through Fiscal Year 2022-2023, from \$1,415 per acre foot in Fiscal Year 2014-15 to \$2,178 per acre foot in Fiscal Year 2022-2023.

The City has covenanted in the 2015 Installment Purchase Contract to prescribe and collect rates, fees and charges in connection with the Enterprise in an amount sufficient to allow the Enterprise to pay Operation and Maintenance Costs and amounts due under the 2015 Installment Purchase Contract and any Parity Obligations, and to replenish, if necessary, the Reserve Fund to the Reserve Requirement. Further, the Enterprise has agreed, in the 2015 Installment Purchase Contract, to prescribe and collect rates, fees and charges in connection with the Enterprise during each Fiscal Year which are sufficient to yield estimated Net Revenues which are at least equal to one hundred twenty percent (120%) of the aggregate amount of the 2015 Installment Payments, and principal of and interest on any Parity Obligations (including the 2013 Installment Purchase Contract and the 2007 Installment Purchase Contract) payable from Net Revenues coming due and payable during such Fiscal Year.

In order to issue Parity Obligations in the amounts currently anticipated based on future expected operating and non-operating expenses (see Table 18), the City will be required to raise its rates and charges by the percentages set forth above under the caption “THE ENTERPRISE - Water Rate Increases – Future Rate Increases.”

### **Seismic Considerations**

The City, like much of California, is subject to seismic activity that could result in interference with the delivery of water from the Regional Water System or the City’s operation of the Enterprise. San Francisco’s Water System Improvement Plan for the SFPUC (see “THE ENTERPRISE – Water Supply – SFPUC Water System Improvement Plan”) is intended, in part, to make seismic upgrades to the Regional Water System. However, a major seismic event could result in water deliveries from the Regional Water System to the Enterprise being interrupted for a significant period of time. As a result, no assurance can be given that a future seismic event will not materially adversely affect the operation of the Enterprise. Additional details about how water is allocated during an emergency can be found in the Water Supply Agreement. The City does not, and does not expect to, maintain earthquake insurance on the Enterprise.

### **Environmental Regulation**

The kind and degree of water treatment effected through the Enterprise is regulated, to a large extent, by the federal government and the State of California. Treatment standards set forth in federal and state law control the operations of the Enterprise and mandate the use of water treatment technology. In the event that the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state agencies, should impose stricter water quality standards upon the Enterprise, the City’s expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to water quality standards, although it is likely that, over time, both will impose more stringent standards with attendant higher costs.



## **Maintenance and Operation Costs**

There can be no assurance that the City's expenses for the Enterprise will be consistent with the descriptions in this Official Statement. Changes in technology, changes in quality standards, loss of large customers, increased or decreased development, increases in the cost of operation, or other expenses could require increases in rates or charges in order to comply with the City's rate covenant in the 2015 Installment Purchase Contract.

## **Limited Recourse on Default**

Failure by the City to make 2015 Installment Payments constitutes an event of default under the 2015 Installment Purchase Contract and the Trustee is permitted to pursue remedies at law or in equity to enforce the City's obligation to make such payments. Although the Trustee has the right to accelerate the total unpaid principal amount of the 2015 Installment Payments, there is no assurance that the City would have sufficient funds to pay the accelerated amounts.

## **Limitations on Remedies**

The ability of the City to comply with its covenants under the 2015 Installment Purchase Contract and to generate Net Revenues sufficient to pay the 2015 Installment Payments and, therefore, of principal of and interest on the Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. Furthermore, the remedies available to the owners of the Bonds upon the occurrence of an event of default under the 2015 Installment Purchase Contract are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

## **Initiatives**

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. There is no assurance that the electorate or the State legislature will not at some future time approve additional limitations which could affect the ability of the City to implement rate increases which could reduce Net Revenues and adversely affect the security for the Bonds. See CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218."

## **Bankruptcy**

The rights and remedies provided in the 2015 Installment Purchase Contract and the Indenture may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to the Bonds, the 2015 Installment Purchase Contract and the Indenture, including the opinion of Bond Counsel, will be similarly qualified. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the Bonds and the City could be prohibited from taking any steps to enforce their rights under the Indenture.

## **Rate Process**

The passage of Proposition 218 by the California electorate potentially affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases

will not encounter majority protest opposition under Proposition 218. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218” and “—Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies.”

### **Termination of Reserve Fund**

Certain proceeds of the Bonds have been used to establish a Reserve Fund for the Bonds (see “ESTIMATED SOURCES AND USES OF FUNDS” and “SECURITY FOR THE BONDS—Reserve Fund” herein), and a reserve fund was also established in connection with the execution and delivery of the 2013 Bonds and the 2007 Bonds. In the event the 2007 Bonds are no longer outstanding or the documents relating to the 2007 Bonds are amended to delete the requirement of a reserve fund for the 2007 Bonds, the Reserve Fund for the Bonds may be terminated in the sole discretion of the Authority. Under such circumstances, in the event of a failure by the City to pay 2015 Installment Payments when due, no other source of funds will be available to make such payments while the Trustee pursues available remedies under the 2015 Installment Purchase Contract and the Indenture.

### **Insurance**

The 2015 Installment Purchase Contract obligates the City to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the Enterprise in the event of damage or destruction to such portion of the Enterprise. The City expects to self-insure a portion of the risk of loss as permitted by the 2015 Installment Purchase Contract. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the Enterprise. Significant damage to the Enterprise could result in a lack of the ability to generate sufficient Net Revenues to repay the Bonds. The City does not, and does not expect to, maintain earthquake insurance on the Enterprise.

### **Tax Exemption**

The Authority and the City have covenanted that they will take all actions necessary to assure the exclusion of interest with respect to the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Internal Revenue in the gross income of the Owners thereof for federal tax purposes. See “TAX MATTERS.” See also “TAX MATTERS—Changes in Federal and State Tax Law.”

### **Parity Obligations**

As described in “SECURITY FOR THE BONDS—Parity Obligations” above, the 2015 Installment Purchase Contract permits the City to issue or incur Parity Obligations which would be payable from Net Revenues on a parity with the payment of the 2015 Installment Payments. In the event of a decline in Net Revenues available to pay the 2015 Installment Payments, the existence of Parity Obligations could adversely affect the City’s ability to pay the 2015 Installment Payments.

### **Secondary Market**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any 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 then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **APPROVAL OF LEGAL PROCEEDINGS**

The legality and enforceability of the Bonds is subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, acting as Bond Counsel. Certain disclosure matters will be passed upon for the City and the Authority by Quint & Thimmig LLP, Larkspur, California, acting as Disclosure Counsel. Certain legal matters will be passed upon for the City and the Authority by Pamela Thompson, Esq., the City Attorney.

### **LITIGATION**

At the time of delivery of and payment for the Bonds, the City and the Authority will certify that there is no action, suit, proceedings, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City and the Authority, threatened against the City or the Authority affecting the existence of the City or the Authority or the titles of its officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture or the 2015 Installment Purchase Contract or any action of the City or the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the City or the Authority with respect to the Bonds or any action of the City or the Authority contemplated by any of said documents, nor to the knowledge of the City or the Authority, is there any basis therefor.

### **RATINGS**

Moody's Investor's Service ("Moody's") and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), have assigned the ratings of "Aa3" and "AA-" respectively, to the Bonds. Such ratings reflect only the views of Moody's and S&P and any desired explanation of the significance of such rating should be obtained from Moody's at 7 World Trade Center, 250 Greenwich Street, New York, NY 10007, and from S&P at 55 Water Street, New York, NY 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by Moody's and/or S&P, if in the judgment of Moody's and/or S&P, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price for the Bonds.

### **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of Bond Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Enterprise by not later than nine months following the end of the City's fiscal year (currently ending June 30) (the "Annual Report"), commencing with the report for the fiscal year ended June 30, 2015, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of material events will be filed by the City with the Municipal Securities Rulemaking Board (the "MSRB") through the Electronic Municipal Access (EMMA) System. The specific

nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE. These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The City has not failed to comply in all material respects with any undertaking under the Rule in the past five years, except as follows: (i) with respect to three issues of water revenue bonds, the City sent its annual reports and financial information for its 2010 filing to its dissemination agent, but the dissemination agent failed to file the report and financial information with EMMA; (ii) with respect to water revenue bonds issued in 2006 and 2007, the City's dissemination agent omitted from its fiscal year 2014 filing the City's operating data reports; (iii) the City's required financial information was filed late for the Redwood Shore Community Facilities District No. 99-1 Special Tax Refunding Bonds, Series 2012B (although it was filed timely for all other City bond issues); and (iv) various notices of rating changes for several City bond issues, constituting material events, were not timely filed. All required filings have now been made and the City is presently current with all of its continuing disclosure undertakings due during the past five years.

## TAX MATTERS

### General

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 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 Authority and the City 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 Bonds. The Authority and the City have 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 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a 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 a 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 Bond 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 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case

of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 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 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 Bond (said term being the shorter of the 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 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the 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 Bond premium is not deductible for federal income tax purposes. Owners of premium 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 Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 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 Bonds other than as expressly described above.

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 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 Bonds. Prospective purchasers of the 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 Opinion**

The form of Bond Counsel's anticipated opinion is included as APPENDIX E—FORM OF FINAL OPINION OF BOND COUNSEL. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

### **UNDERWRITING**

The Bonds were purchased by \_\_\_\_\_, as underwriter (the "Underwriter"), following a competitive sale, at a purchase price of \$ \_\_\_\_\_ (consisting of the \$ \_\_\_\_\_ aggregate principal amount of the Bonds, plus \$ \_\_\_\_\_ of original issue premium, less \$ \_\_\_\_\_ of Underwriter's discount).

The initial public offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the

Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agent and others at prices lower than said public offering prices.

### **MUNICIPAL ADVISOR**

The City has entered into an agreement with William Euphrat Municipal Finance, Inc. (the "Municipal Advisor"), whereunder the Municipal Advisor is providing municipal advisory services to the City with respect to preparation and sale of the Bonds. The Municipal Advisor has read and participated in the drafting of certain portions of this Official Statement. The Municipal Advisor has not audited, authenticated or otherwise verified the information set forth in the Official Statement, or any other related information available to the City with respect to accuracy and completeness of disclosure of such information, and the Municipal Advisor makes no guaranty, warranty or other representation respecting accuracy and completeness of the Official Statement or any other matter related to the Official Statement. The compensation of the Municipal Advisor is contingent upon the sale of the Bonds.

### **OTHER INFORMATION**

All summaries and explanations of the Act, the Indenture, the 2015 Installment Purchase Contract and the other documents referred to herein are qualified in their entirety by reference to the Act and such documents, and references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture.

Any statements in this Official Statement involving matters of opinion are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or owners of the Bonds.

Copies of the Indenture and the 2015 Installment Purchase Contract are available for inspection at the Principal Corporate Trust Office of the Trustee.

### **MISCELLANEOUS**

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the owners of the Bonds.

The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and reference is made to each of them for a complete statement of their provisions. Copies are available for review by making requests to the City.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City, including a summary of significant accounting policies, for the fiscal year ended June 30, 2014, are contained in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2014.

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

CITY OF REDWOOD CITY PUBLIC  
FINANCING AUTHORITY

By \_\_\_\_\_  
Authorized Officer

CITY OF REDWOOD CITY

By \_\_\_\_\_  
Authorized Officer

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## APPENDIX A

### GENERAL INFORMATION ABOUT THE CITY OF REDWOOD CITY AND SAN MATEO COUNTY

*The information in this section of the Official Statement is presented as general background data. The Bonds are payable solely from the revenues of the Enterprise and other sources as described in the Official Statement. The taxing power of the City the County, the State of California, or any political subdivision thereof is not pledged to the payment of the Bonds.*

#### **General**

The City of Redwood City (the "City") is located in the San Francisco Bay Area 25 miles south of San Francisco. It is the oldest bayside city in San Mateo County (the "County"), incorporated in 1867, and has been the County Seat since 1856. The City combines residential, industrial, and commercial elements in a largely urban environment. Its waterfront provides a yacht harbor and the only deep-water port in the South Bay. A wide variety of housing types are available.

#### **Municipal Government**

The City Council consists of seven members, elected by the voters of the City to staggered terms of four years each. The City Council is the only body elected directly by the residents of the City. As the legislative branch of the government, it makes final decisions on all major city matters. The Council adopts ordinances and resolutions necessary for efficient governmental operations, approves the budget, and acts as a board of appeals. It appoints the City Manager, City Attorney, and City Clerk and also most members of the City's boards, committees and commissions.

The current members of the City Council are as follows:

<u>Name and Office</u>	<u>Current Term Expires</u>
Jeffrey Gee, <i>Mayor</i>	November 2017
Rosanne Foust, <i>Vice Mayor</i>	November 2015
Ian Bain, <i>Councilmember</i>	November 2015
Alicia C. Aguirre, <i>Councilmember</i>	November 2015
Diane Howard, <i>Councilmember</i>	November 2017
Barbara Pierce, <i>Councilmember</i>	November 2015
John D. Seybert, <i>Councilmember</i>	November 2017

The City Manager is appointed by the City Council.

#### **Employee Benefits**

*PERS Safety and Miscellaneous Employees' Plans.* Substantially all City employees are eligible to participate in pension plans offered by California Public Employees' Retirement System (PERS), an agent multiple-employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. The City's employees participate in the separate safety (police and fire) and miscellaneous (all other) employee plans. Benefit provisions under both plans are established by state statute and City resolution.

Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both plans are determined annually on an actuarial basis as of June 30 by PERS; the City must contribute these amounts.

The plans' provisions and benefits in effect at June 30, 2014 are summarized as follows:

	Public Safety Tier 1	Public Safety Tier 2	Public Safety Tier 3
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	50	50
Benefit factor for each year of service, as a % of annual salary	3%	2.4%-3%	2%-2.7%
Required employee contribution rates	9%	9%	12%

	Miscellaneous Tier 1	Miscellaneous Tier 2	Miscellaneous Tier 3
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	50	52
Benefit factor for each year of service, as a % of annual salary	2%-2.7%	1.092%-2.418%	1%-2.5%
Required employee contribution rates	8%	7%	6.25%

The City's Tier 2 plans for public safety and miscellaneous cover new employees hired on or after October 13, 2011.

The City's Tier 3 plans for public safety and miscellaneous cover new employees hired on or after January 1, 2013 pursuant to the Public Employees' Pension Reform Act of 2013.

Employer contributions are determined by PERS as a percentage of covered payroll and represent the actuarially required contribution. The employer contributions for the past three years are:

	Public Safety	Miscellaneous
2012	35.315%	18.328%
2013	35.645	19.462
2014	36.316	20.856
2015	40.680	22.583

Since the City consistently applied the employer contribution rates, as determined by PERS, the City's annual pension cost equaled the City's actuarially required contribution for the fiscal year ended June 30, 2014. Employees pay a portion of the City's costs ranging from 5% to 12% by 2016.

All qualified permanent and probationary employees are eligible to participate in PERS. A credited service year is one year of full time employment. In accordance with the memorandums of understanding with the various employee groups, the City may contribute a portion of the employee contribution. This contribution varies from group to group. These benefit provisions and all other requirements are established by state statute and City ordinance. Contributions necessary to fund PERS on an actuarial basis are determined by PERS and its Board of Administration.

Police and fire safety employees hired before October 13, 2011 (Tier 1) are covered under the "3% at 50" formula. Under this retirement plan, an employee's retirement earnings at age 50 are calculated by multiplying 3% by the employee's years of service. This percentage factor increases with the employee's age upon retirement.

Police and fire safety employees hired on or after October 13, 2011 (Tier 2) are covered under the "3% at 55" formula. Under this retirement plan, an employee's retirement earnings at age 55 are calculated by multiplying 3% by the employee's years of service. An employee with five years of service

is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service, with the maximum percentage factor equal to 3%.

Police and fire safety employees hired on or after January 1, 2013 (Tier 3) are covered under the "2.7% at 57" formula. Under this retirement plan, an employee's retirement earnings at age 57 are calculated by multiplying 2.7% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service, with a maximum percentage factor equal to 2.7% at age 57.

Miscellaneous employees hired before October 13, 2011 (Tier 1) are covered under the "2.7% at 55" formula. Under this retirement plan, an employee's retirement earnings, at age 55, are calculated by multiplying 2.7% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

Miscellaneous employees hired on or after October 13, 2011 (Tier 2) are covered under the "2% at 60" formula. Under this retirement plan, an employee's retirement earnings at age 60 are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

Miscellaneous employees hired on or after January 1, 2013 (Tier 3) are covered under the "2% at 62" formula. Under this retirement plan, an employee's retirement earnings at age 62 are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 52 at a reduced pension amount. The pension amount increases with age and length of service, with a maximum percentage factor equal to 2.5% at age 67.

PERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities.

PERS uses the market-related value method of valuing the plan's assets. An investment rate of return of 7.5% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary depending on duration of service, age, and type of employment. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of payroll over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year period with Direct Rate Smoothing with a 5-year ramp up/ramp down. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Audited annual financial statements and ten-year trend information for the fiscal year ended June 30, 2014, the most recent available, are available from PERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Total current payroll for all covered employees for the fiscal year ended June 30, 2014 was \$51,693,811. The payroll subject to retirement amounted to \$24,473,497 for public safety and \$27,220,314 for the miscellaneous group.

PERS has reported that the value of the net assets in the plan held for pension benefits changed as follows during the year ended June 30, 2013, the most recent available:

	Public Safety	Miscellaneous
Beginning Balance 6/30/12	\$ 166,637,935	\$ 150,822,644
Contributions Received	11,406,260	9,217,945
Benefits and Refunds Paid	(13,180,525)	(10,664,339)
Expected Investment Earnings Credited	21,353,383	19,258,218
Market Value of Assets 6/30/13	<u>186,217,053</u>	<u>168,634,468</u>
Market Value of Assets 6/30/13 including Receivables	187,110,004	169,943,544

Additional disclosures will be included when made available by PERS.

Three years of trend information regarding annual pension costs for both plans is summarized as follows:

Fiscal Year	Public Safety			Miscellaneous		
	Annual Pension Cost APC	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost APC	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 7,384,820	100%	—	\$ 4,964,308	100%	—
2013	7,814,972	100%	—	5,362,636	100%	—
2014	8,887,795	100%	—	5,677,538	100%	—

As of June 30, 2013, the most recent actuarial valuation date, the public safety plan was 66.2% funded, the actuarial liability (AAL) for benefits was \$282,699,515, and the market value of plan assets was \$187,110,004, resulting in an unfunded actuarial accrued liability (UAAL) of \$95,589,511. The covered payroll (annual payroll of active employees covered by the plan) was \$21,048,349 and the ratio of UAAL to the covered payroll was 454.1%.

For the miscellaneous plan, the plan was 70.2% funded, the AAL for benefits was \$242,120,498, and the market value of plan assets was \$169,943,544, resulting in a UAAL of \$72,176,954. The covered payroll was \$27,759,758 and the ratio of UAAL to the covered payroll was 260%.

The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The information described above was derived from the City's 2014 Comprehensive Annual Financial Report. Subsequent changes made by the PERS will affect this information but the new data is not yet available.

The tables below show projected employer contribution rates (before employee cost sharing which, by 2016, will range from 5% to 12% depending on bargaining group) for the next five fiscal years assuming PERS earns 18 percent for Fiscal Year 2013-14 and 7.50 percent every fiscal year thereafter and assuming that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits or funding will occur between now and the beginning of Fiscal Year 2016-17.

		Miscellaneous Plan					
		New Rate	Projected Future Employer Contribution Rates				
		2015-16	2016-17	2017-18	2018-19	2019-2020	2020-21
Contribution Rates:		24.134%	26.2%	27.8%	29.3%	30.9%	31.0%

		Safety Plan					
		New Rate	Projected Future Employer Contribution Rates				
		2015-16	2016-17	2017-18	2018-19	2019-2020	2020-21
Contribution Rates:		42.457%	45.4%	47.4%	49.3%	51.3%	51.3%

During fiscal year 2014-15, governmental agencies are required to implement a new accounting standard, Governmental Accounting Standards Board Statement 68 (GASB 68). GASB 68 requires all governmental agencies to record the unfunded pension liability on their balance sheet (i.e. Statement of Net Position). Previously, the unfunded pension liability was required to be reported only in the notes to the financial statements. This unfunded pension liability will now be reflected on the entity-wide balance sheet, and the balance sheet of the proprietary funds, which includes the City's Water Utility Fund.

The new balance sheet presentation of this existing obligation will create a deficit in the unrestricted portion of the City's total unrestricted equity (i.e. Unrestricted Net Position), and will negatively impact the equity of the Water Utility Fund. GASB 68 will also change the pension expense calculation from actual contributions made to a pension plan, to an expense based on actuarial calculations. The GASB 68 derived change in pension expense does not have an impact on operations or debt service coverage and will therefore be excluded from the debt service coverage ratio calculation.

*Post Employment Benefits.* The City administers a defined benefit post-employment healthcare plan. Permanent employees who retire under the City's retirement plan (CalPERS) are, pursuant to the vesting schedule in their respected collective bargaining agreements, eligible to have their medical insurance premiums reimbursed by the City up to the Kaiser single-employee premium rate. Generally, medical insurance premiums for spouses and other dependents are not paid by the City, but dependents may be added at the retiree's expense. In the case of public safety industrial disability retirement, the City reimburses up to the Kaiser family rate for the retiree and dependents. There are currently 319 retirees receiving the retiree-only health benefit, and 48 retirees receiving the family health benefit.

The City is not required by law or contractual agreement to provide funding for retiree health costs other than the pay-as-you-go amount necessary to provide current benefits to retirees. The City's retiree health plan is being managed through the California Employer's Retiree Benefits Trust (CERBT), an irrevocable trust fund that allows public employers to prefund the future cost of their retiree health insurance benefits and other post employment benefits for their covered employees or retirees.

The CERBT's administrator, CalPERS, issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811. During FY 2013-14, the City contributed \$4,890,000, or 100%, of the actuarially required contributions to the retiree health plan.

Total current payroll for all covered employees for the fiscal year ended June 30, 2014 was \$48,399,901.

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an

ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Annual Required Contribution	\$ 4,802,000
Interest on net OPEB obligation	530,000
Adjustment to annual required contribution	<u>(442,000)</u>
Annual OPEB Cost	4,890,000
Contributions made to irrevocable trust	(2,419,901)
Benefit payments made outside of trust	<u>(2,470,099)</u>
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of the year	<u>6,962,477</u>
Net OPEB obligation - end of the year	<u>6,962,477</u>

The General fund, the Capital Outlay fund, and other non-major funds have been used to finance the net OPEB obligation.

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2014 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation (Asset)
6/30/2012	\$ 5,018,000	98%	\$ 6,868,477
6/30/2013	5,172,000	98	6,962,477
6/30/2014	4,890,000	100	6,962,477

As of June 30, 2013, the most recent actuarial valuation date, the plan was 19.6% funded. The actuarial accrued liability (AAL) for benefits was \$56,177,000, and the actuarial value of plan assets was \$11,001,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$45,176,000. The covered payroll (annual payroll of active employees covered by the plan) was \$48,399,901 and the ratio of UAAL to the covered payroll was 93.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the actuarial cost method used is Entry Age Normal (EAN) cost method. Under the EAN cost method, the plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime. Entry age is based on current age minus years of service. The Actuarial Accrued Liability (AAL) is the cumulative value on the valuation date of prior Normal Cost.

For the retirees, the AAL is the present value of all projected benefits. The Unfunded AAL is being amortized as a level dollar closed 30 year basis, as a level percent of payroll with a remaining amortization period at June 30, 2014 of 27 years.

GASB 45 requires the interest rate to represent the underlying expected return for the source of funds used to pay benefits. The actuarial methods and assumptions included a 7.61% interest rate, annual inflation at 3% per annum, aggregate payroll assumed to increase at 3.25% per annum, and an annual healthcare trend rate of 8.5% - 8.9% for 2014, reduced gradually each year with an ultimate rate of 5% for 2021 and thereafter. The study also used assumptions for the salary merit and longevity increases, and demographic assumptions such as mortality, withdrawal, and disability based on CalPERS 1997- 2007 Experience Study. Retirement assumption was also based on CalPERS 1997-2007 Experience Study. For employees hired before October 24, 2011 it was assumed Miscellaneous Plan 2.7% at 55 years, with expected retirement age of approximately 57.8, and Public Safety 3% at 50 years, with expected retirement age of approximately 54 for Police and 54.9 for Fire.

For employees hired on or after October 24, 2011 it was assumed Miscellaneous Plan 2% at 60 years, with expected retirement age of approximately 60.3 years, and Public Safety 3% at 55 years, with expected retirement age of approximately 59.1 for Police and 56.9 for Fire.

**Location**

The County is one of nine counties comprising the economic geographic unit known as the San Francisco Bay Area. The County is a major employment base, and is also accessible to the San Jose and Silicon Valley areas approximately 30 miles south via Interstate 280 or U.S. Highway 101. San Francisco International Airport is located in the County.

The City is located in the San Francisco Bay Area 25 miles south of San Francisco. It is the oldest bayside city in the County. The City was incorporated in 1867, and has been the County Seat since 1856. City limits cover approximately 34 square miles of generally level terrain. The City combines residential, industrial, and commercial elements in a largely suburban environment. Its waterfront provides a yacht harbor and the only deep-water port in the South Bay. A wide variety of housing types are available. Services and trade, the County's two largest industry divisions, are expected to provide close to two-thirds of anticipated growth in the next two years.

**Population**

The following table lists population estimates for the City, County and the State for the last five calendar years, as of January 1.

REDWOOD CITY, SAN MATEO COUNTY and CALIFORNIA  
Population Estimates  
Calendar Years 2009 through 2013 as of January 1

	2010	2011	2012	2013	2014
City of Redwood City	76,815	77,299	78,049	79,159	80,768
San Mateo County	718,451	722,372	727,793	736,647	745,193
State of California	37,253,956	37,427,946	37,668,804	37,984,138	38,340,074

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2010-2014.

## Employment and Industry

### SAN MATEO COUNTY Civilian Labor Force, Employment and Unemployment; Employment by Industry (Annual Averages)

	2009	2010	2011	2012	2013 <sup>a</sup>
Civilian Labor Force <sup>b</sup>	374,300	377,800	385,300	397,500	403,600
Employment	342,900	344,900	355,000	371,000	381,800
Unemployment	31,400	32,900	30,300	26,500	21,800
Unemployment Rate	8.4%	8.7%	7.9%	6.7%	5.4%
<b>Wage and Salary Employment:<sup>c</sup></b>					
Total, All Industries <sup>d</sup>	323,000	317,000	325,500	339,100	354,100
Total Farm	1,700	1,700	1,600	1,600	1,600
Total Nonfarm	321,300	315,300	323,900	337,500	352,500
Goods Producing	40,500	39,200	39,700	39,600	42,400
Mining, Logging and Construction	13,800	12,900	14,200	15,200	16,700
Manufacturing	26,700	26,300	25,500	24,400	25,700
Service Providing	280,900	276,100	284,200	297,900	310,100
Trade, Transportation & Utilities	69,900	68,400	68,500	70,200	72,400
Information	18,100	17,500	17,900	20,900	23,600
Financial Activities	19,100	18,600	19,400	20,000	20,200
Professional & Business Services	60,900	60,000	64,000	69,500	71,000
Educational & Health Services	36,700	35,300	36,400	37,400	39,700
Leisure & Hospitality	33,500	33,800	35,400	36,800	39,500
Other Services	11,500	11,200	12,200	12,900	13,300
Government	31,300	31,300	30,600	30,300	30,400

Source: State of California Employment Development Department, March 2013 Benchmark and Bureau of Labor Statistics U.S. Department of Labor.

- (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.
- (4) Latest available full year data.



The following table shows the major employers in the County as of February 2014, listed in alphabetical order.

SAN MATEO COUNTY  
Major Employers (Listed alphabetically)  
February 2014

Employer Name	Location	Industry
Ab Sciex LLC	Redwood City	Scientific Apparatus & Instruments-Mfrs
Caltrain	San Carlos	Transit Lines
Electronic Arts Inc	Redwood City	Game Designers (Mfrs)
Facebook Inc	Menlo Park	Internet Service
Forced Dump Debris Box Svc	Burlingame	Garbage Collection
Franklin Templeton Investments	San Mateo	Investments
Gate Gourmet	San Francisco	Caterers
Gilead Sciences Inc	Foster City	Biological Products (Mfrs)
Guckenheimer Inc	Redwood City	Marketing Programs & Services
Hyatt Regency-San Francisco	Burlingame	Hotels & Motels
Kaiser Permanente Medical Ctr	South San Francisco	Hospitals
Kaiser Permanente Medical Ctr	Redwood City	Hospitals
Oracle Corp	Redwood City	Computer Software-Manufacturers
Peninsula Medial Ctr	Burlingame	Hospitals
San Francisco Intl Airport	San Francisco	Airline Companies
San Mateo County Behavior	San Mateo	Government Offices-County
San Mateo County Human Svc	Belmont	County Government-Social/Human Resources
San Mateo Medical Ctr	San Mateo	Hospitals
Seton Medical Ctr	Daly City	Hospitals
Sri International Inc	Menlo Park	Research Service
Stanford Linear Accelerator	Menlo Park	Research Service
US Interior Dept	Menlo Park	Federal Government-Conservation Depts
Visa Inc	Foster City	Credit Card & Other Credit Plans
Visa International Svc Assn	Foster City	Credit Card-Merchant Services
Visa USA Inc	Foster City	Credit Card & Other Credit Plans

Source: California Employment Development Department, Major Employers in San Mateo County.

The following table shows the principal private sector employers in the City as of June 30, 2014.

PRINCIPAL PRIVATE SECTOR EMPLOYERS  
City of Redwood City

Employer	Number of Employees	Rank	% of Total City Employment
Oracle Corporation	6,750	1	15.70%
Electronic Arts	2,367	2	5.50
Kaiser Permanente Medical Group	911	3	2.12
Kaiser Foundation Hospitals	773	4	1.80
Stanford Hospital & Clinics	750	5	1.74
Silver Springs Networks	602	6	1.40
Equinix	532	7	1.24
Genomic Health	479	8	1.11
Pacific Data Images (Dreamworks)	449	9	1.04
Abbott Vascular	347	10	.81

Source: City of Redwood City, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2014.

## Construction Activity

Provided below are the building permits and valuations for the City and the County for calendar years 2009 through 2013.

### CITY OF REDWOOD CITY Total Building Permit Valuations (Valuations in Thousands)

	2009	2010	2011	2012	2013
<u>Permit Valuation</u>					
New Single-family	\$ 9,249.1	\$ 10,002.2	\$ 9,184.6	\$ 35,516.6	\$ 3,399.2
New Multi-family	14,135.0	3,359.4	13,095.0	103,125.5	57,869.1
Res. Alterations/ Additions	17,739.0	19,047.3	22,504.6	10,362.7	28,261.3
Total Residential	41,123.2	32,408.9	44,784.2	149,004.9	89,529.8
New Commercial	-	-	135.0	2,650.5	5,531.0
New Industrial	5,000.0	-	-	382.0	619.2
New Other	2,081.0	1,015.1	-	16,037.5	111,295.1
Com. Alterations/ Additions	26,760.1	30,631.3	49,043.7	437.7	47,256.6
Total Nonresidential	33,841.1	31,646.3	49,178.7	19,507.8	164,701.9
<u>New Dwelling Units</u>					
Single Family	40	46	41	60	8
Multiple Family	105	16	70	297	395
TOTAL	145	62	111	357	403

Source: Construction Industry Research Board, Building Permit Summary.

### SAN MATEO COUNTY Total Building Permit Valuations (Valuations in Thousands)

	2009	2010	2011	2012	2013
<u>Permit Valuation</u>					
New Single-family	\$ 147,515.5	\$ 189,296.6	\$ 194,950.1	\$ 245,163.9	292,893.3
New Multi-family	74,329.6	21,309.0	107,040.0	171,390.4	151,019.5
Res. Alterations/ Additions	204,482.0	262,592.1	289,619.5	201,543.0	299,830.5
Total Residential	426,327.0	473,197.6	591,609.6	618,097.4	743,743.4
New Commercial	17,942.0	62,510.5	28,247.6	30,592.1	71,918.6
New Industrial	5,000.0	-	3,359.4	2,021.5	15,724.2
New Other	70,410.1	66,274.8	26,029.4	167,438.8	887,298.0
Com. Alterations/ Additions	235,373.3	283,752.5	244,089.0	44,002.0	263,460.7
Total Nonresidential	328,725.5	412,537.8	301,725.4	244,054.5	1,238,401.5
<u>New Dwelling Units</u>					
Single Family	236	216	213	264	350
Multiple Family	393	111	545	671	840
TOTAL	629	327	758	935	1,190

Source: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

## 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 of San Mateo, the State and the United States for the period 2010 through 2014.

CITY OF REDWOOD CITY; COUNTY OF SAN MATEO  
Effective Buying Income  
As of January 1, 2010 through 2014

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2010	City of Redwood City	\$ 2,335,918	\$62,617
	San Mateo County	23,489,013	66,508
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Redwood City	\$ 2,351,140	\$61,892
	San Mateo County	23,717,577	66,434
	California	814,578,457	47,062
	United States	6,438,704,663	41,253
2012	City of Redwood City	\$ 2,693,877	\$62,528
	San Mateo County	26,570,647	68,429
	California	864,088,827	47,307
	United States	6,737,867,730	41,358
2013	City of Redwood City	\$ 2,802,145	\$ 65,351
	San Mateo County	26,846,688	70,427
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Redwood City	\$ 2,893,518	\$ 66,809
	San Mateo County	28,257,708	72,165
	California	901,189,699	50,072
	United States	7,357,153,421	45,448

Source: Neilson, Inc.

## Commercial Activity

In 2010, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, data for 2010 is not comparable to that of prior years. A summary of historical taxable sales within the City during the past five years in which data is available is shown in the following table. Figures for 2012 are the most recently available data.

CITY OF REDWOOD CITY  
Taxable Transactions  
Number of Permits and Valuation of Taxable Transactions  
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	1,005	1,126,550	2,138	1,600,517
2009	1,193	961,033	1,987	1,387,335
2010	1,230	1,053,741	2,023	1,451,454
2011	1,236	1,170,101	2,023	1,551,074
2012	1,287	1,278,605	2,084	1,696,509

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

In 2010 the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, data for 2010 is not comparable to that of prior years. A summary of historical taxable sales within the County during the past five years in which data is available is shown in the following table. Figures for 2012 are the most recently available data.

COUNTY OF SAN MATEO  
Taxable Transactions  
Number of Permits and Valuation of Taxable Transactions  
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits on July 1	Taxable Transactions	Number of Permits on July 1	Taxable Transactions
2008	9,098	8,421,727	19,853	13,137,913
2009	11,143	7,455,767	18,840	11,327,022
2010	11,340	7,846,274	18,979	11,966,338
2011	11,470	8,536,043	18,995	13,020,643
2012	11,748	9,277,144	19,189	13,906,978

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

**APPENDIX B**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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**City of Redwood City**  
*Redwood City, California*


**Comprehensive  
Annual  
Financial  
Report**

**Fiscal Year Ended  
June 30, 2014**



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2014*





City of Redwood City  
Redwood City, California

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**Fiscal Year Ended June 30, 2014**

**City California**  
**Founded 1887**

Prepared by  
City of Redwood City Finance Department

**City of Redwood City  
Redwood City, California  
Comprehensive Annual Financial Report  
Fiscal Year Ended June 30, 2014**

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December 22, 2014

Honorable Mayor Jeff Gee  
Members of the City Council,  
City Manager, and Citizens of the  
City of Redwood City  
Redwood City, California

Submitted for your information and consideration is the Comprehensive Annual Financial Report of the City of Redwood City for the fiscal year ended June 30, 2014.

This report has been prepared by the City's Finance Department. The responsibility for both the accuracy of the printed data and the completeness and fairness of the presentation including all disclosures rests with the City. It is our opinion that the data presented is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial positions and results of operations of the City and its related entities as measured by the financial activities of their various funds, and that all disclosures necessary for the reader to gain a full understanding of their financial activities have been included. The financial statements have been prepared following the guidelines recommended by the Government Finance Officers Association and the standards adopted by the Governmental Accounting Standards Board.

Badawi and Associates, Certified Public Accountants, has issued an unmodified opinion of the City's financial statements for the fiscal year ended June 30, 2014. The independent auditor's report is located at the front of the financial section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Redwood City's MD&A can be found immediately following the report of the independent auditors.

#### **REPORTING ENTITY AND ITS SERVICES**

Redwood City is a full service City, which was incorporated in 1867 and became a Charter City in 1929. The City operates under a council-manager form of government and provides a range of services that include police and fire protection, recreation and parks, libraries, street maintenance and construction, infrastructure improvements, planning and zoning, water delivery, port facilities, and storm drains. Although the City maintains sewer lines and pump stations, the sewer plant and treatment services are provided by Silicon Valley Clean Water (formerly the South Bayside System Authority), a joint powers authority of which Redwood City is an equity holder.

This report includes all funds of Redwood City. The City Council serves in separate session as the governing bodies of the Successor Agency to the Redevelopment Agency of Redwood City, the Redwood City Facilities and Infrastructure Authority, and the Public Financing Authority although these agencies are legal entities apart from the City. Under the City Charter, the City Council appoints the Board of Port Commissioners who oversees the operations of the Port of Redwood City, which is considered a department of the City of Redwood City. Debt

service paid during the year is shown under debt service funds. The Port of Redwood City is an enterprise activity and is presented as an enterprise fund.

Financial information for separate legal entities related to the City including the Redwood City Facilities and Infrastructure Authority, Redwood City Public Financing Authority, and Successor Agency to the Redevelopment Agency of Redwood City is blended in the City's financial statements in accordance with Governmental Accounting Standards Board Statement No. 14.

## **FINANCIAL INFORMATION**

### **Accounting System and Budgetary Control**

The City's accounting records for governmental operations are maintained on a modified accrual basis, with the revenues being recorded when both measurable and available, and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprises are maintained on the accrual basis.

In developing and modifying the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding:

- The safeguarding of assets against loss from unauthorized use or disposition, and
- The reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that:

- The cost of a control should not exceed the benefits likely to be derived, and
- The evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that all of the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary control is maintained at the program level by encumbering estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders that result in an overrun of budget balances are not released until additional appropriations are made available.

As demonstrated by the statements and schedules included in the financial section of this report, the City of Redwood City continues to meet its responsibility for sound financial management.

## **FACTORS AFFECTING FINANCIAL CONDITION**

### **Local Economy**

The local economy is recovering from the "Great Recession" more robustly than the national economy with the unemployment rate in San Mateo County decreasing to 4.2% as of June 2014 from 5.4% as of June 2013, which is consistently lower than the State's unemployment rate of 7.3% and the national rate of 6.3%. The number of employed residents in the County increased from 378,400 in June 2013 to 388,300 in June 2014.

Relatedly, the Redwood City commercial real estate market continues to exhibit signs of high demand with the citywide vacancy rate decreasing to 9.24% as of the second quarter 2014 compared to 9.95% as of the second quarter 2013. Vacancy rates in Redwood City's downtown area are notably lower, with retail vacancy at 7% and the office space vacancy rate at 5.24% as of June 2014.

The median price paid for a home in the Bay Area in July 2014 was \$617,000, up 9.8% from \$562,000 in July 2013. Within San Mateo County, the median price for a home in July 2014 increased to \$788,000, a 5.8% increase from July 2013 when the median price was \$745,000. A steady improvement in the County's real estate market is anticipated to result in higher assessed property values and property tax revenues in the future.

We believe these indicators paint a very positive picture of the local economy and provide a solid underpinning for future growth.

### **Sales Tax**

Sales tax is an important source of general fund revenue as it accounts for about 20% of total general fund revenues. Sales tax revenue has increased 13% and 8% on a year over year basis in FY 2012-13 and FY 2013-14 respectively. Most of this increase was attributable to increased sales from new and used vehicle dealers.

The City continues to rely on sales tax generated by businesses engaged in selling software. A threat to this revenue stream is the progressive migration of businesses delivering software to their customers electronically (via internet download or over dedicated phone lines) which then, under regulations adopted by the State of California Board of Equalization, provides that such products are no longer subject to sales tax. Mitigating this downward trend are significant increases in sales tax revenues generated by the chemical products and the general retail economic categories.

### **Property Taxes**

Property tax accounts for almost 40% of City revenue and is a key indicator of the City's economic outlook. Projections for secured taxes in Redwood City in FY 2014-15 call for a 5.5% increase over FY 2013-14 with indications that growth will continue in FY 2015-16. The housing market is strengthening and it is anticipated that assessed values will be increasing over the next several years. In addition, recent commercial real estate transactions, including the sale of several office buildings in Pacific Shores, are expected to result in an increase in the assessed value of those properties and an associated increase in property tax revenue in FY 2014-15.

### **Utilities User's Taxes**

The Governor approved Assembly Bill 1717 on September 30, 2014. This legislation allows for cities with Utilities Users Tax to apply the voter-approved tax on prepaid wireless services starting in January 2016 and sun-setting in 2020. It is anticipated that the City could potentially receive an increase of 15 - 20% in UUT revenue once the bill is in effect in 2016.

### **Educational Revenue Augmentation Fund Refunds**

In FY 1992-93 and FY 1993-94, the State shifted property taxes from cities, counties, and special districts to school districts to supplant funding that the State was providing to school districts. The funds shifted from these local governments are placed into the Educational Revenue Augmentation Fund (ERAF) by the county controller. The controller then disburses these funds to school districts based upon the formula prescribed by State law. Any funds remaining in ERAF (after the distribution to the school districts) are returned to the cities, county, and special districts in proportion to the amount they contributed to ERAF. The City's continued receipt of these funds, which amounted to \$4.2 million and \$4.7 million annually in FY 2012-13 and in FY 2013-14 respectively, depends upon the State's complicated school financing formula and the State legislature not redirecting these revenues elsewhere. Recent changes in school financing could result in this revenue decreasing significantly in FY 2014-15 and future years.

### **In Lieu Sales Tax Triple Flip**

The "Triple Flip" was part of the State's 2004 budget in which sales and use taxes that previously went to cities and counties were diverted to the State to be used to repay the State's Economic Recovery Bonds. In turn, funds from the Educational Revenue Augmentation Fund (ERAF) were used to repay the cities and counties their lost sales and use taxes. There is no current statutory mechanism to fully reimburse cities and counties for these lost

revenues. For FY 2012-13, due to insufficient funds in the ERAF, Redwood City did not receive \$1.3 million of Triple Flip revenues owed. The State ultimately made the City “whole” through an appropriation in the State’s FY 2014-15 budget. Once again for FY 2013-14, there are insufficient funds in ERAF leading to a shortfall in Triple Flip revenue that is estimated to amount to \$478,000 for Redwood City. The County is requesting that the State once again include an appropriation in the FY 2015-16 budget to make the cities and counties whole.

### **Successor Agency to the Redevelopment Agency**

As Successor Agency, the City is focused on the disposition of the \$10 million in funds that had been in the possession of the former Redevelopment Agency which were earmarked for below-market housing. The control of these funds has been in dispute with the State of California Department of Finance since the Redevelopment Agency was dissolved in FY 2011-12.

The City filed suit against the State challenging the State’s position that these funds are unencumbered and must be remitted to the County Controller. Although the State prevailed in the Superior Court trial the City’s legal team does not agree with the Court’s decision and has filed an appeal. We expect that the appellate court will render a decision in the next six to 12 months.

### **Long-Term Financial Planning**

Economic development remains a priority of the City Council. With the State mandated demise of its Redevelopment Agency, the City continues to move private development forward through thoughtful and innovative planning, efficient use of its capital improvement program, and by enabling development of City-owned property.

Zoning changes to encourage mixed use residential/commercial and high density housing in certain areas reduce the time-to-market for these desirable projects. Additionally, through these zoning designations the City creates Priority Development Areas (PDAs), which focus on improving the linkage between jobs, housing, and transit. Most significantly, grant funding from the Metropolitan Transportation Commission is overwhelmingly provided to cities with PDAs. Redwood City has three such areas, providing the City access to valuable transportation funds for pedestrian and vehicular improvements in and around the Downtown.

Essential to the development community is surety of process and predictability of time to market. Since the adoption of the Downtown Precise Plan in 2010, the City has improved its project review efforts by better integrating Engineering, Planning, Building, and Public Works Services. Efficiencies in plan review and permitting enable the City to process development permits for large projects in the Downtown in just over three months from submittal to approval.

In August 2013 the City Council approved a Disposition and Development Agreement for the development of the City’s Block 2 property, located along Middlefield Road. The City’s sale of this property closed in October 2013 and construction of the Crossing 900 office building started shortly thereafter. The project, on schedule to be completed in June 2015 and already fully leased, will bring 900 to 1,200 new employees to support downtown retail businesses. In addition, 900 new public parking spaces will be available nights and weekends to support the evening and weekend live and movie theatre scenes.

In October 2014, the City approved a Property Disposition Agreement with Greystar for the sale of City property for inclusion in a housing project. The property was acquired in 1997 to assist in the construction of the Jefferson Street undercrossing project. The remnant parcels were jointly owned with Samtrans, whose approval for the sale was required. The City’s sale of this property was consistent with its goals of providing housing proximate to transit and other amenities (it is adjacent to the Redwood City Caltrain station, bus routes along El Camino Real, and the Sequoia Station shopping center) as envisioned in the General Plan and the Downtown Precise Plan. Additionally, the City’s share of the proceeds provide additional funds for reinvestment into other housing projects.



The first phase of development under the Downtown Precise Plan has included a number of housing developments. In 2013 permits were issued for projects at: 145 Monroe Street (305 units), 601 Main Street (196 units), 525 Middlefield Road (471 units), 735 Brewster Street (18 units), and 439 Fuller Street (133 units). The projects are currently under construction and scheduled to be completed in 2015 or early 2016. An additional 175 unit development (103 Wilson Street) was approved by the Planning Commission in October 2014 and is expected to be under construction in 2015. Recently, applications for five (5) downtown office developments have been submitted totaling approximately 500,000 square feet. City staff is currently analyzing these applications to determine what can be accommodated under the parameters for the Downtown Precise Plan and associated Environmental Impact Report.

The Inner Harbor Specific Plan Task Force completed its work in May 2014. The City Council accepted the report and directed staff to proceed with preparation of a Specific Plan and Environmental Impact Report (EIR). The Plan and EIR are anticipated to be complete for City Council review in mid 2015. Consistent with the vision of the Inner Harbor Task Force for development in the Plan Area, plans have been submitted for City review for two projects, one an office development of approximately 1.1 million square feet and the other a residential project with approximately 160 units.

The City Council approved the Stanford in Redwood City Precise Plan and Development Agreement in September 2013. These approvals set the stage for the transformation of the 1960s era Ampex corporate campus into a modern office development focused on Stanford's non-academic office needs. The development at build-out will move the 35-acre property from one containing 500,000 square feet of buildings to one with 1.5 million square feet of Class A office space. On November 17, 2014, Stanford provided \$300,000 as the first of its contributions to the community in support of the City's educational and multi-generational programs. Stanford has also provided two public speaker programs for the community and its first entrepreneur bootcamp program was started in the fall of 2014. Stanford's overall commitment to the City is \$15 million in community benefits.

### **Relevant Financial Policies**

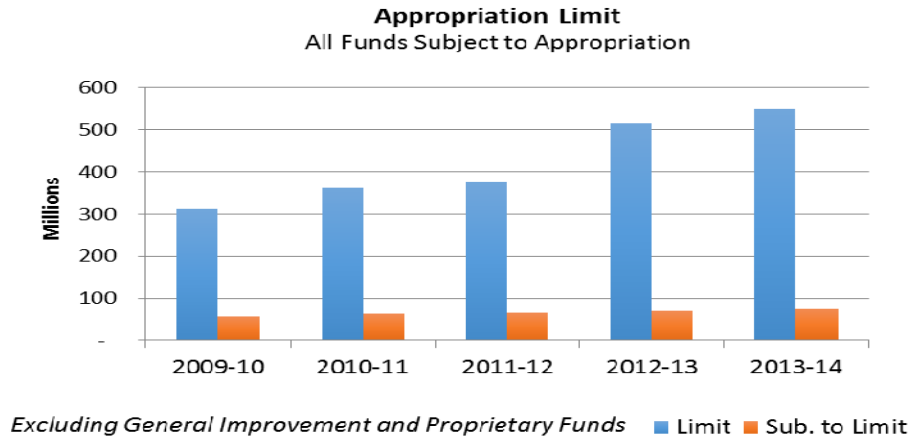
In April 1999 the City Council adopted a policy targeting the unreserved portion of the general fund's fund balance designated for subsequent year's expenditures to fall within a range from 15% to 20% of anticipated general fund revenues. As a result of implementing GASB 54 these amounts are now reported under the category "Unassigned Fund Balances" under the subcategory "City Council directed minimum balance."

### **Appropriation Limit**

Article XIII B of the California State Constitution, which became effective in FY 1979-80, and which was modified (by Proposition 111) in November 1989, establishes, by formula, an appropriation limit for governmental agencies. Using the appropriations of FY 1978-79 as the base year, the limit is modified by the change in the composite consumer price index, population, and the value of commercial property development within the City limits during each fiscal year. Article XIII B also sets the guidelines as to what is to be included in the appropriation limits.

The appropriation limit for Redwood City for FY 2013-14 was at \$548,582,152 while the actual appropriations subject to the limit amounted to \$72,200,000. The increase from FY 2012-13 is primarily due to the increase (5.12%) in per capita income, one of the factors used in calculating the change in the appropriation limit.

The following graph indicates the trend in appropriations subject to limitation:



## OTHER INFORMATION

### Annual Independent Audit

The annual audit of the books and financial records of Redwood City was completed by Badawi and Associates, certified public accountants appointed by the City Council. The independent auditor's report has been made a part of this report.

### Awards

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City of Redwood City for its Comprehensive Annual Financial Report (CAFR) for the FY ended June 30, 2013. This is the 27<sup>th</sup> consecutive year that Redwood City has received this prestigious award. In order to be awarded a certificate of achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the certificate of achievement program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

### Acknowledgements

The preparation of this report could not have been achieved without the efficient and dedicated services of the entire staff of the Finance Department. Special thanks are extended to Alison Freeman for her leadership in overseeing this process, Toni Saldou, Gita Mehirdel, Jennifer Chang, Carlyne Kerans, and Sylvia Peters for their important contributions, and to Nancy Murguia for her relentless dedication to assembling this document.

I would also like to thank and commend Mayor Jeffery Gee and the Redwood City Council, and City Manager Robert Bell for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner in the best interests of the residents of Redwood City.

Respectfully submitted,

Audrey Seymour Ramberg  
Interim Director of Finance  
City of Redwood City  
Redwood City, California



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2014*



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Redwood City  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

**CITY OF REDWOOD CITY - REDWOOD CITY, CALIFORNIA**

**PRINCIPAL OFFICIALS**

**CITY COUNCIL**

Jeffrey Gee, Mayor.....	November 2017
Rosanne Foust, Vice Mayor .....	November 2015
Alicia C. Aguirre.....	November 2015
Ian Bain .....	November 2015
Diane Howard .....	November 2017
Barbara Pierce.....	November 2015
John D. Seybert.....	November 2017

**CITY MANAGER**

Robert B. Bell

**DEPARTMENT DIRECTORS**

Assistant City Manager of Operations.....	Audrey Seymour Ramberg
Assistant City Manager of Development.....	Bill Ekern
City Clerk .....	Silvia Vonderlinden
Community Development .....	Aaron Aknin
Finance (interim).....	Audrey Seymour Ramberg
Fire Chief .....	James Skinner
Library .....	David Genesy
Parks, Recreation, and Community Services .....	Chris Beth
Police Chief .....	JR Gamez

**CITY ATTORNEY**

Pamela Thompson

City of Redwood City  
1017 Middlefield Road  
Redwood City, California 94063  
Telephone: (650) 780-7070  
Fax: (650) 366-2447  
E-Mail: mail@redwoodcity.org  
Web Site: www.redwoodcity.org

**CITY OF REDWOOD CITY - REDWOOD CITY, CALIFORNIA**

**FINANCE DEPARTMENT STAFF**

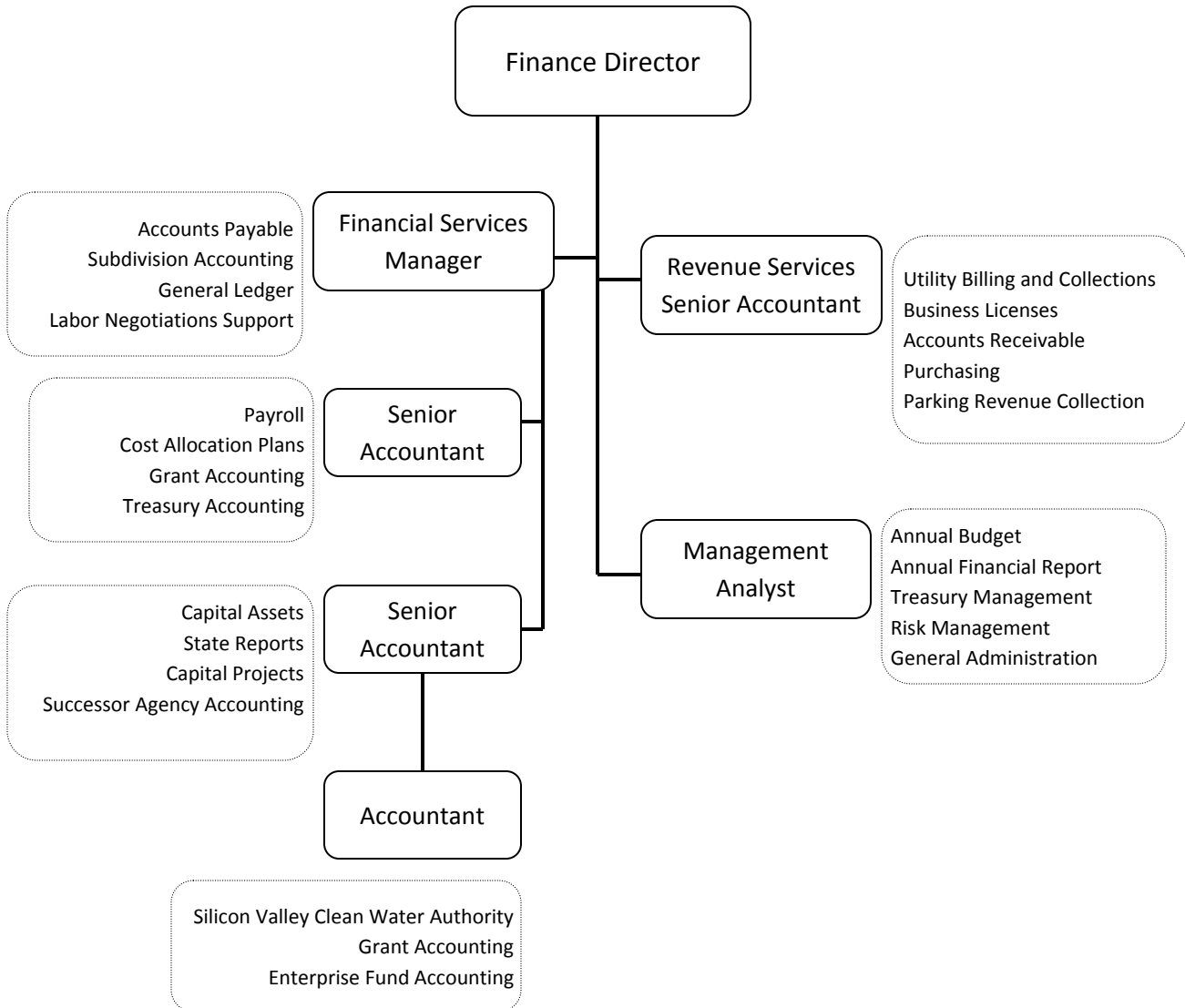
**June 30, 2014**

Audrey Seymour Ramberg.....Director of Finance (Interim)  
Alison Freeman .....Financial Services Manager  
Carolyn Kerans .....Senior Accountant  
Jennifer Chang .....Senior Accountant  
Gita Mehirdel .....Senior Accountant  
Antonia Saldou.....Accountant  
Sylvia Bravo Peters.....Management Analyst



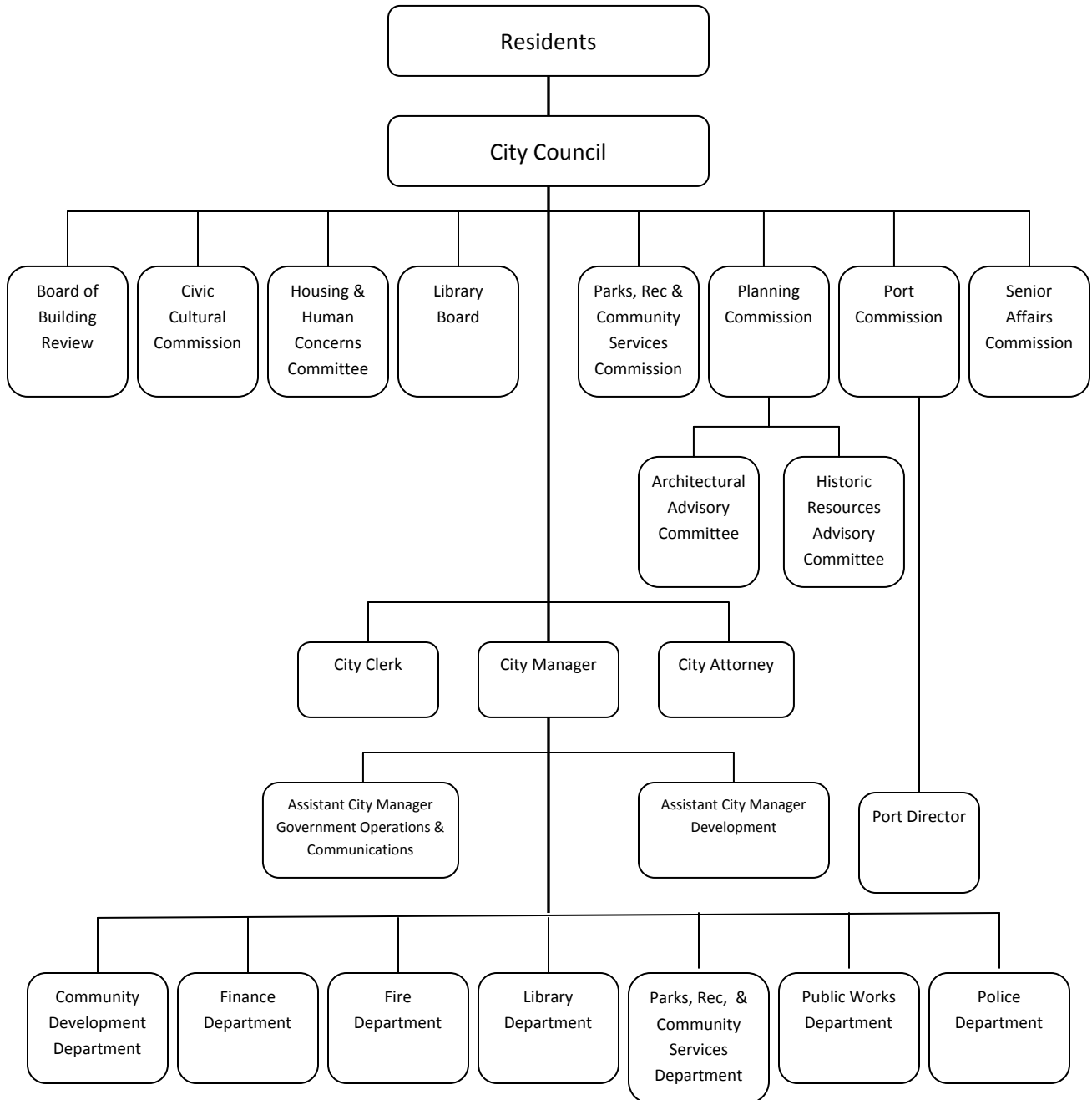
June 30, 2014

## Finance Department





June 30, 2014





## **CORE PURPOSE**

Build a Great Community Together

## **CORE VALUES**

### **Excellence:**

Passion to Do Our Best in Each Moment

### **Integrity:**

Do the Right Thing, Not the Easy Thing

### **Service:**

We Care and It Makes a Difference

### **Creativity:**

Freedom to Imagine and Courage to Act



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2014*



## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council  
of the City of Redwood City  
Redwood City, 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 Redwood City, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic 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 did not audit the City's investment in the Silicon Valley Clean Water Authority, which represents 41 percent, 42 percent and 18 percent, respectively, of the City's assets, net position, and expenses of the Sewer Utility Fund and 11 percent, 15 percent, and 7 percent, respectively, of the assets, net position, and expenses of the business-type activities. The City's investment in the Silicon Valley Clean Water Authority was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for the City's investment in the Silicon Valley Clean Water Authority, is based solely on the report of the other auditors. 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 from 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, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedules of funding progress for pension and other post-employment benefit plans be presented to supplement the basic 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 basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

*Other Information*

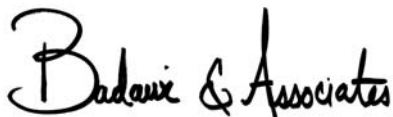
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, general fund comparative statements, general fund comparative budgetary schedules on pages 85-87, combining and individual nonmajor fund financial statements, budgetary comparison information for non-major funds, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The general fund comparative statements, comparative budgetary schedules on pages 85-87, combining and individual nonmajor fund financial statements, and budgetary comparison information for non-major funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 general fund comparative statements, combining and individual nonmajor fund financial statements, and budgetary comparison information for non-major funds are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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 them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, 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 City's internal control over financial reporting and compliance.



Badawi and Associates  
Certified Public Accountants  
Oakland, California  
December 22, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's Comprehensive Annual Financial Report presents a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and basic financial statements.

### FISCAL YEAR 2013-14 FINANCIAL HIGHLIGHTS

During fiscal year 2013-14, the City experienced growth in revenues as the local economy continued to recover from the recent recession. Financial highlights of the year include the following:

- The City's total net position increased \$35.9 million in FY 2013-14, after a \$20.7 million increase in the preceding year. At June 30, 2014, net position totaled \$510.8 million.
- Total City revenues, including program and general revenues, were \$207 million, an increase of \$24.3 million over the prior year, while total expenses were \$171 million, an increase of \$9 million from FY 2012-13.
- Net position in governmental activities increased \$11.8 million, while net position in business activities increased \$24.1 million.
- Governmental program revenues were \$38.8 million, which reflected an increase of \$5.2 million over FY 2012-13.
- Governmental program expenses increased to \$112.2 million in FY 2013-14, up \$9 million from the prior year.
- Revenues from business-type activities increased to \$85.3 million in FY 2013-14, up \$15.6 million over the prior year.
- Expenses of business-type activities increased to \$58.8 million in FY 2013-14, a \$.1 million increase from the prior year.
- General fund revenues of \$105 million increased by \$12.6 million over the prior year.
- General fund balance of \$23.8 million at the fiscal year end increased by \$2 million from the prior year.

### OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in seven parts:

1. Introductory section, which includes the transmittal letter and general information
2. Management's Discussion and Analysis (this part)
3. The Basic Financial Statements, which include the government-wide and the fund financial statements, along with the notes to these financial statements
4. Required supplementary information
5. Combining statements for non-major governmental funds and fiduciary funds
6. Statistical information
7. Internal Controls

### **The Basic Financial Statements**

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in Net Position for the year.

All of the City's activities are grouped into government activities and business-type activities, as explained below. All the amounts in the Statement of Net Position and the Statement of Activities are separated into governmental activities and business-type activities in order to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's general fund and other major funds. The Fund Financial Statements, which are prepared using the modified accrual basis of accounting, measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

Major funds account for the major financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major funds are explained below.

### **The Government-wide Financial Statements**

The Statement of Net Position and the Statement of Activities present information about the following:

**Governmental Activities** — All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, culture-recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.

**Business-type Activities** — All the City's enterprise activities are reported here, including water, sewer, parking, the Port of Redwood City, and Docketown Marina. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Government-wide financial statements are prepared on the full accrual basis, which means they measure the flow of all economic resources of the City as a whole.

*The government-wide financial statements may be found on pages 20-21 of this report.*

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Redwood City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Redwood City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

Governmental fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the governmental fund financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Redwood City maintains 21 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the Housing Legal Aid Society Fund, and the capital outlay fund, which are considered to be major funds. Data from the other 18 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Redwood City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund.

*The governmental fund financial statements may be found on pages 24-27 of this report.*



Proprietary funds are maintained in two ways. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, sewer, parking, Port, and Docketown Marina operations. Internal services funds are used to account for costs of the City's equipment services, the City's insurance program, the costs of the City's telephone/communications and information technology services, maintenance and repair of buildings, custodial services, and employee benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

*The proprietary fund financial statements may be found on pages 29-31 of this report.*

Since the City's internal service funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the fund level. Internal service funds may not be major funds because their revenues are derived from other City funds. These revenues are eliminated in the City-wide financial statements and any related profits or losses are returned to the activities which created them, along with any residual net assets of the internal service funds.

Comparisons of budget and actual financial information are presented only for the general fund and other major funds that are special revenue funds. As the Housing Legal Aid Society Fund was created after the dissolution of the Redevelopment Agency and is currently under litigation, there is no adopted budget for this fund.

### **Fiduciary Funds**

The City maintains fiduciary funds that consist of a Private Purpose Trust Fund and Agency Funds. The Private Purpose Trust Fund accounts for the activity of the former Redevelopment Agency of Redwood City, while the Agency Funds account for tax free employee and employer contributions made under the provisions of section 125 of the Internal Revenue Code (cafeteria benefits fund), and for transactions involving the Pacific Shores Community Facilities District, the Shores Transportation Improvement District, and the One Marina Community Facilities District. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, and the Agency Funds Statement of Changes in Assets and Liabilities. The accounting used for fiduciary funds is much like that used for proprietary funds. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

*The fiduciary fund financial statements may be found on pages 32-33 of this report.*

### **Notes to the Financial Statements**

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

*The Notes to the Financial Statements may be found on pages 34-75 of this report.*

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may over time serve as a useful indicator of the City's financial position. The City's assets exceeded liabilities by \$510.8 million at June 30, 2014.

**City's Net Position (in Millions)**

	Governmental Activities		Business-type Activities		Total		Variance
	2014	2013	2014	2013	2014	2013	
	\$	\$	\$	\$	\$	\$	
Cash and investments	132.376	112.195	79.290	63.422	211.666	175.617	20.527%
Other assets	37.339	35.741	37.218	41.070	74.557	76.811	-2.934%
Capital assets	187.660	193.550	191.219	183.989	378.879	377.539	0.355%
Total assets	<u>357.375</u>	<u>341.486</u>	<u>307.727</u>	<u>288.481</u>	<u>665.102</u>	<u>629.967</u>	5.577%
Total deferred outflows of resources			1.611	1.691	1.611	1.691	-4.731%
Long-term debt outstanding	13.015	12.896	81.619	85.764	94.634	98.660	-4.081%
Other liabilities	50.428	46.484	10.898	11.690	61.326	58.174	5.418%
Total liabilities	<u>63.443</u>	<u>59.380</u>	<u>92.517</u>	<u>97.454</u>	<u>155.960</u>	<u>156.834</u>	-0.557%
Net Position:							
Net investment in capital assets	184.625	190.191	117.928	110.901	302.553	301.092	0.485%
Restricted	49.269	43.957	6.553	6.638	55.822	50.595	10.331%
Unrestricted	60.038	47.958	92.340	75.179	152.378	123.137	23.747%
Total net position	<u>293.932</u>	<u>282.106</u>	<u>216.821</u>	<u>192.718</u>	<u>510.753</u>	<u>474.824</u>	7.567%

The largest portion (59%) of the City's net position reflects its capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (10.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$152.4 million) may be used to meet the government's ongoing obligations (although portions of these unrestricted net assets may by law or contract be only used for specified purposes and may not necessarily be used for any general governmental purpose) to residents and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's net position increased by \$35.9 million during the current fiscal year.

City of Redwood City  
Management's Discussion and Analysis  
For the year ended June 30, 2014

**Changes in City's Net Position (in Millions)**

	Governmental Activities		Business-type Activities		Total		Variance
	2014	2013	2014	2013	2014	2013	
	\$	\$	\$	\$	\$	\$	
<b>Revenues</b>							
Program revenues:							
Community development	10.570	6.004			10.570	6.004	76.049%
Human Services	0.508	0.511			0.508	0.511	-0.587%
Public safety	8.237	6.051			8.237	6.051	36.126%
Transportation	8.176	5.589			8.176	5.589	46.287%
Environmental support and protection	1.680	1.357			1.680	1.357	23.803%
Leisure, cultural and information services	7.683	12.282			7.683	12.282	-37.445%
Policy development and implementation	1.937	1.855			1.937	1.855	4.420%
Water			36.272	33.202	36.272	33.202	9.246%
Sewer			25.692	28.100	25.692	28.100	-8.569%
Parking			1.504	1.367	1.504	1.367	10.022%
Port of Redwood City			6.824	6.263	6.824	6.263	8.957%
Docktown Marina			0.666	0.493	0.666	0.493	35.091%
General revenues:							
Taxes/special assessments	84.102	77.956	0.105	0.104	84.207	78.060	7.875%
Investment earnings	0.992	0.301	0.499	0.151	1.491	0.452	229.867%
Gain (loss) on sale of capital assets	(3.359)		13.700		10.341		
Other	1.206	1.070	0.004	0.004	1.210	1.074	12.663%
Total revenues	<u>121.732</u>	<u>112.976</u>	<u>85.266</u>	<u>69.684</u>	<u>206.998</u>	<u>182.660</u>	13.324%
<b>Expenses</b>							
Community development	8.151	9.090			8.151	9.090	-10.330%
Human services	1.462	1.562			1.462	1.562	-6.402%
Public safety	59.435	51.355			59.435	51.355	15.734%
Transportation	11.573	11.332			11.573	11.332	2.127%
Environmental support and protection	2.746	1.996			2.746	1.996	37.575%
Leisure, cultural and information services	22.823	21.550			22.823	21.550	5.907%
Policy development and implementation	5.982	6.031			5.982	6.031	-0.812%
Interest on long term debt	0.048	0.314			0.048	0.314	-84.713%
Water			30.592	31.124	30.592	31.124	-1.709%
Sewer			19.990	19.287	19.990	19.287	3.645%
Parking			2.471	2.430	2.471	2.430	1.687%
Port of Redwood City			5.091	5.628	5.091	5.628	-9.542%
Docktown Marina			0.705	0.243	0.705	0.243	190.123%
Total expenses	<u>112.220</u>	<u>103.230</u>	<u>58.849</u>	<u>58.712</u>	<u>171.069</u>	<u>161.942</u>	5.636%
Change in net position before transfers	9.512	9.746	26.417	10.972	35.929	20.718	73.419%
Transfers	2.314	(0.473)	(2.314)	0.473			
Change in net position	11.826	9.273	24.103	11.445	35.929	20.718	73.419%
Net position - July 1, as restated	282.106	272.833	192.718	181.273	474.824	454.106	4.562%
Net position - June 30	<u>293.932</u>	<u>282.106</u>	<u>216.821</u>	<u>192.718</u>	<u>510.753</u>	<u>474.824</u>	7.567%

**GOVERNMENTAL ACTIVITIES**

Governmental activities prior to transfers and extraordinary items increased the City's net position by \$9.5 million. Including transfers, governmental activities increased \$11.8 million. Transfers in FY 2013-14 consisted primarily of the transfer out of the general fund to the parking fund to cover parking operations

in the amount of \$0.4 million, and \$2.7 million transfer from the parking fund to the capital outlay fund to reimburse expenses related to the culvert realignment for the Block 2 development project.

**Key elements of the increase/decrease in revenues for governmental activities are as follows:**

General governmental revenues increased by 8.8%, or \$6.9 million from FY 2012-13 as all broad categories of general revenues increased, net of a loss on disposal of capital assets of \$3.3 million. Within the broad categories, property taxes increased \$3.3 million, sales taxes increased \$1.5 million, transient occupancy taxes increased by \$.7 million and investment earnings increased by \$.7 million.

Community development revenues increased due to developer contributions received pursuant to development agreements and increased building permit and plan checking revenue related to increased building activity in the City. Human services revenues decreased slightly due to a decrease in grant funded programs for Fair Oaks Community Center. Public safety revenues increased due to fees collected for fire services provided to the City of San Carlos through a new agreement implemented in the current fiscal year in which the City provides full fire services to the City of San Carlos. This increase was offset by a decrease in lease payments to refund bonds issued for construction of public safety facilities in the prior fiscal year. Transportation revenues increased due to the increase in traffic mitigation fees related to the Crossing 900 project, increased Measure A transportation grant revenue and an increase in gas tax revenues resulting from a one-time payment. Environmental support and protection revenues increased due to the receipt of contributions related to the exterior levee certification in Redwood Shores and increased assessments related to storm water collection and disposal in Redwood Shores. Leisure, cultural and information services decreased primarily due to the receipt of Parks Impact Fees in the prior year from the three large apartment construction projects. Policy, development and implementation revenue increased slightly due to reimbursement received from city of San Carlos for payroll processing services.

**Key elements of the increase/decrease in expenses for governmental activities are as follows:**

Total governmental activities expenses were up \$8.9 million or 8.7% due to increases in public safety, transportation, environmental support and protection and leisure, cultural and information services offset by decrease in community development, human services, policy development and implementation and interest on long-term debt.

Public safety expenses increased \$8 million primarily due to the net added expense related to the fire services provided to the City of San Carlos in the amount of \$4.6 million, \$.9 million increase in workers' compensation costs, the reorganization in the police department in the amount of \$.5 million, and increased employee costs. Transportation expenses increased slightly (\$.2 million) due to increased street system maintenance expenses in the special gas tax fund. Environmental support and protection expenses increased \$.75 million due to increased expenses related to street cleaning and storm drains. Leisure, cultural and information services increased by \$1.2 million primarily due to a one-time payment of \$.3 million for Bair Island Public Access for a bridge, increased library program expenses related to full staffing levels and increased costs associated with new technology (\$.3 million), increased parks, recreation and community services expenses (\$.3 million) related to middle school sports and increased community services program expenses related to the Special Needs program, and Red Morton playground improvement expenses (\$.1 million).

The aforementioned increases in governmental activities expenses were offset by a \$.9 million decrease in community development expenses primarily related to a decrease in the Community Development

Block Grant program and planning cost recovery, along with a \$.1 million decrease in human services expenses. Policy development and implementation expenses decreased slightly by net \$.05 million due to a decrease in lease payments for the Public Financing Authority as the bonds were refunded in the prior year, offset by programmatic increases, employee payout upon retirement, and increased workers' compensation costs. Interest on long-term debt decreased \$.3 million due to the prior year refunding of the Public Financing Authority bonds which were replaced with a lower interest lease.

### **BUSINESS-TYPE ACTIVITIES**

Business-type activities prior to transfers increased the City's net position by \$26.4 million in FY 2013-14.

#### **Key elements accounting for increases or decreases in revenues and expenses are as follows:**

Business-type revenues increased primarily due to the gain on the sale of Block 2 to the Crossing 900 developer and an increase in utility rates. Port revenues increased \$.5 million due to the higher maritime revenue from higher tonnage and a 2% increase in the tariff rate.

The water utility's expenses were lower in FY 2013-14 primarily due to a decrease in the amount paid for water to the San Francisco Public Utilities Commission resulting from decreased water consumption, and decreased expenses related to the water meter replacement program.

Sewer utility expenses increased slightly due to an increase in payments to Silicon Valley Clean Water (formerly South Bayside System Authority) for wastewater treatment, and an increase in expenses related to closed circuit television inspection of sewer lines.

The expenses of the parking fund remained flat at \$2.4 million.

The Port of Redwood City experienced a decrease in expenses due to the prior year loss of \$0.575 million on disposal of assets associated with the Wharves 1 & 2 replacement project, net of increased interest expense associated with the 2012 revenue bonds.

During fiscal year 2013-14 the first full year of operations of the Docketown Marina by the City expenses increased from partial year of \$.24 to \$.7 million for one full year.

### **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

#### **Governmental Funds**

The general government functions are contained in the general, special revenue, debt service, and capital project funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources by using the modified accrual basis of accounting. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At June 30, 2014, the City's governmental funds reported combined fund balances of \$111 million, which reflects an increase of \$15 million from the beginning year balance.

Governmental fund revenues increased \$11.8 million this year to \$123.4 million. Significant increases occurred in the general fund, the capital outlay fund, and the traffic mitigation fees fund, offset by decreases in the Public Financing Authority bonds fund and the parks impact and in lieu fee fund. Expenditures, including capital outlay, decreased \$5.2 million this year to \$104.7 million. Most of the decrease was attributable to the \$5.8 million expenditure in the prior year for the payoff of the Public Financing authority bonds, and decreased expenditures in the capital outlay fund partially offset by increased expenditures in the general fund.

The general fund is the primary operating fund of the City. At June 30, 2014, unassigned fund balance of the general fund was \$21.5 million, while total fund balance increased to \$23.8 million from a beginning fund balance of \$21.8 million primarily due to an increase in revenues. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 24.8% of total fund expenditures, while total fund balance represents 27.6% of that same amount.

The following are the major funds that qualified under the reporting criteria for major funds selection:

**General Fund** – General fund revenues increased approximately \$12.7 million this fiscal year primarily due to increases in property taxes, sales and other taxes, and building permits, and charges for current services. Sales taxes increased \$1.5 million and transient occupancy tax increased \$0.7 million due to the continued recovery from the recession. Property taxes increased \$3.3 million. The increase in property tax resulted primarily from an increase in assessed value along with an increase in revenue received in the general fund from the county as its share of the Education Revenue Augmentation Fund (ERAF) refund in FY 2013-14. ERAF increased by \$428,790 to a total of \$4.7 million.

ERAF, which was created by state law in the early 1990's, allowed the state to shift on an ongoing basis a portion of each city, county, and special district's property taxes to school districts. This shift allowed the state to decrease the state's general fund support to schools throughout the state and concomitantly reduced state funding of schools. Within each county, ERAF revenues are allocated to schools based upon a formula that considers, among several factors, the average daily attendance and the amount of each school district's own property tax revenue. Within San Mateo County, the outcome of applying this formula was that the school districts did not require all of the funds shifted from the cities, county, and special districts. Consequently, these funds were returned to each entity in proportion to the amount that was initially collected.

Licenses and permits increased \$0.66 million due to an increase in building permits related to increased building activity.

Charges for current services increased \$5.3 million primarily due to revenue received from City of San Carlos for fire services provided.

General fund expenditures increased \$5.1 million over the prior fiscal year. The increase primarily resulted from the net added expenditure related to the fire services provided to the City of San Carlos.

Additionally, there was an increase in public safety expenditures related to the first full year of the reorganization of the police department, along with increased workers' compensation cost.

General fund expenditures increase was offset by a decrease in one-time prior year payments related to reimbursement to the employee benefits internal service fund for prior fire employee retirement costs, and lease payments related to the prior year refunding of the Public Financing Authority 2003 Refunding Bonds.

Transfers out of the general fund increased \$7.4 million in FY 2013-14 due to the \$6 million transfer to the self insurance fund to cover increased workers' compensation costs, along with an increase in the transfer out to the capital outlay fund, as greater net utility users tax was available in the current fiscal year after a greater portion was used in the prior year to refund the Public Financing Authority 2003 Bonds.

**Housing Legal Aid Society Fund** – This fund accounts for revenues previously deposited in the former redevelopment agency low and moderate income housing fund pursuant to an agreement with the Legal Aid Society to set aside general tax increment revenue for housing purposes. After the February 1, 2012 dissolution of the redevelopment agency, this fund was created to account for this accumulated balance. At June 30, 2014, a \$10.3 million liability is reflected as due to other governmental agencies as the City and Legal Aid Society have sued the State of California over the City's right to retain this money for housing purposes.

**Capital Outlay Fund** – This fund accounts for resources provided to finance general governmental capital projects. In FY 2013-14, the capital outlay fund generated \$3 million in revenue, most of which was from developer contributions. This fund was also the recipient of \$9.2 million of transfers from the general fund and \$2.7 million from the Parking fund. Total outlays were \$7.1 million of which \$2.8 million met with City's criteria for capitalization. The balance (\$4.3 million) was expended in FY 2013-14. Total outlays in the prior year (FY 2012-13) were \$10.2 million. Of the capital outlay fund's \$30.4 million fund balance, \$23.4 million was committed, and \$7 million was assigned.

**Proprietary Funds** – Enterprise fund net position totaled \$216.8 million at the end of the fiscal year, an increase of \$24.1 million over the prior year restated balance of \$192.7 million. Enterprise operating revenues were \$73.7 million this year, an increase of \$5 million over last year, while net non-operating revenues (expenses) were \$6.6 million compared to (\$4.2) million the prior year. Net non-operating revenues (expenses) experienced a \$10.8 million increase due to the gain on sale from Block 2 net of the decrease in investment in sewer authority.

Enterprise fund operating expenses were \$55.4 million this year, up \$.2 million from the prior year, most of which was due to higher operating expenses in the sewer utility fund, and the first full year of expenses for the Docktown Marina, net of a decrease in expenses of the water utility fund.

**Water Utility** – The water utility fund realized operating income of \$7.7 million in the current year, up from the operating income of \$4.3 million in the prior year. Revenues increased by \$2.5 million, while expenses decreased by \$.9 million.

**Sewer Utility** – The sewer utility fund realized operating income of \$9.1 million in the current year, up from the operating income of \$8.3 million in the prior year. Revenues increased by \$1.5 million, while expenses increased \$0.7 million from the prior year.

**Parking Fund** – Operating revenues increased by \$86 thousand this year to \$1.45 million, while operating expenses increased slightly to \$2.468 million. The general fund transferred \$426 thousand into the parking fund to cover the operating deficit. The net position of the parking fund increased by \$10.6 million due to proceeds from the sale of Block 2 net of a transfer out to the capital outlay fund for reimbursement of Block 2 culvert realignment costs.

**Port Fund** – Operating revenues were up \$.5 million while operating expenses were down \$.06 million from FY 2012-13. Overall, net position increased from restated \$31.8 million to \$33.5 million, or 5.6%.

**Docktown Marina** – This fund's activity began in March 2013. During this first full year of operations it had \$.665 million in operating revenues and \$.705 in operating expenses, resulting in net assets of \$.210 million.

#### **GENERAL FUND BUDGETARY HIGHLIGHTS**

Property taxes exceeded budget by \$4.9 million primarily due to the receipt of a \$4.7 million payment from the County of San Mateo due to the over-deduction of education revenue augmentation fund amounts from the City in prior years, which exceeded the estimated amount by \$2.7 million, the receipt of residual property tax distribution attributable to the former Redevelopment Agency in the amount of \$2.5 million which exceeded the estimated amount by \$.8 million, and the overall increase in property taxes as the housing market strengthened.

Sales and other taxes were greater than budget by \$3 million mostly due to an unanticipated increase in sales tax revenue (\$2.0 million), transient occupancy tax (\$.4 million), property transfer tax (\$.3 million), and utility users' tax (\$.1 million). Additionally, there were slight increases in business license tax and franchise fees.

Licenses and permits were greater than budget by \$0.7 million due to construction activity during the year exceeding expectations.

Use of money and property tax revenue was greater than budget by \$0.1 million due to greater investment earnings than expected as interest rates began to rise.

Intergovernmental revenue was greater than budget by \$.08 million primarily due to receipt of unbudgeted State Mandated program reimbursement and slight increases in the Port contribution and abandoned vehicle fees.

Charges for current services were less than budget by \$.06 million primarily due to fire services fees and other current service charges falling below budget, offset by plan checking fees which exceeded budget as building activity exceeded expectations.

Fire Services fees were below budget due to a delay in the invoicing of fire inspection fees and less revenue related to a fire services contract with the City of San Carlos due to an unused contingency for supplies and services that were not provided.



Other service charges related to building activity were below budget but adequately covered the fee based programs for which customers are charged. Garbage collection fees were below budget due to unbudgeted refunds paid to a commercial account.

Other revenue was less than budget by \$.2 million due to actual contributions falling below original estimates.

Expenditures, overall, were \$1.8 million less than budgeted primarily due to vacancies and an increased credit resulting from the prepayment of pension contributions to CalPERS, net of unbudgeted expenditures related to the activities of parks and recreation and information services.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of FY 2013-14, the City had \$378.9 million, net of depreciation, invested in a broad range of capital assets used in governmental and business-type activities, as shown in the table below. Additional information on the City's capital assets can be found in Note 4 and Note 16 of this report.

#### Capital Assets at Year-end (in Millions)

	Governmental Activities		Business-Type Activities		Total		Variance
	2014	2013	2014	2013	2014	2013	
	\$	\$	\$	\$	\$	\$	
Land	30.978	30.978	3.180	3.448	34.158	34.426	-0.778%
Streets	111.036	109.082			111.036	109.082	1.791%
Construction in progress	10.881	20.252	21.004	14.890	31.885	35.142	-9.268%
Buildings	83.309	83.309	61.213	61.213	144.522	144.522	0.000%
Equipment	23.445	20.964	1.661	1.645	25.106	22.609	11.044%
Improvements	6.274	4.118	167.808	161.302	174.082	165.420	5.236%
Harbor improvements			4.045	4.045	4.045	4.045	0.000%
Parks, bridges, etc.	30.619	29.184			30.619	29.184	4.917%
Traffic signals	2.607	2.607			2.607	2.607	0.000%
Storm drains	11.627	7.326			11.627	7.326	58.709%
Less accumulated depreciation	(123.116)	(114.270)	(67.692)	(62.554)	(190.808)	(176.824)	7.908%
Total capital assets	<u>187.660</u>	<u>193.550</u>	<u>191.219</u>	<u>183.989</u>	<u>378.879</u>	<u>377.539</u>	0.355%

**Governmental Activities** – Streets increased primarily due to the completion of the Rubber Chip Sealing and Brewster Overlay projects. Equipment increased due to the completion of the grant funded fire boat and the addition of numerous vehicles through the equipment replacement program. Improvements increased mainly due to the completion of the City Hall remodel project and the installation of synthetic play fields at Fair Oaks Elementary School. Parks increased primarily due to various park improvement projects, and storm drains increased due to completion of Friendly Acres storm drain along with the realignment of the storm culvert at Middlefield Road. The completion of the aforementioned projects decreased construction in progress along with the retirement of Woodside Road widening costs for which the project will not be moving forward.

**Business-Type Activities** – Land decreased due to the sale of Block 2 to the Crossing 900 developer. Construction in progress increased due to the Port construction related to wharves 1 & 2. Improvements increased due to the completion of water and sewer system replacement projects, water seismic improvements, along with sewer and pump station rehabilitation projects. Equipment increased due to equipment purchased for the sewer utility.

**Long-Term Debt**

Issues described in detail in Notes 6 and 7 to Financial Statements.

**Outstanding Debt (in Millions)**

	Governmental Activities		Business-Type Activities		Total		Variance
	2014	2013	2014	2013	2014	2013	
	\$	\$	\$	\$	\$	\$	
Revenue bonds			80.392	83.038	80.392	83.038	-3.186%
Refunding lease	3.035	3.360			3.035	3.360	-9.673%
Loans			0.425	1.758	0.425	1.758	-75.825%
Accrued sick leave and vacation	9.980	9.536	0.802	0.968	10.782	10.504	2.647%
Total long term debt	<u>13.015</u>	<u>12.896</u>	<u>81.619</u>	<u>85.764</u>	<u>94.634</u>	<u>98.660</u>	-4.081%

**SPECIAL ASSESSMENT DISTRICT DEBT**

Special assessment districts in different parts of the City have also issued debt to finance infrastructure and facilities construction in their respective districts.

At June 30, 2014, a total of \$19.675 million in special assessment district debt was outstanding, issued by three special assessment districts. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City's responsibility, although the City does act as these Districts' agent in the collection and remittance of assessments.

**PRIVATE PURPOSE TRUST FUND DEBT**

On February 1, 2012, the Redevelopment Agency of the City of Redwood City was dissolved pursuant to California State law, and as of that date, the long-term debt associated with the former Redevelopment Agency was transferred to a private purpose trust fund for the Successor Agency. At June 30, 2014, the Successor Agency had tax allocation bonds outstanding in the amount of \$42,385,210 including unamortized premium and accreted interest payable.

**ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET**

Redwood City, like many cities, relies heavily upon property taxes and sales taxes to finance general governmental activities with these two revenues accounting for 40% and 20% of general fund revenues respectively. In FY 2013-14 the City experienced significant gains in these revenues with property taxes increasing 8.7% and sales taxes increasing 8%. We see the increases in each of these revenues, both of which are sensitive to consumer confidence, reflecting the strength of the local job market. Given the

continued increase in the number of local residents employed and the low unemployment rate we are hopeful that these revenues, along with other revenues that reflect strong consumer demand, will continue to grow.

The adopted FY 2014-15 general fund budget projects a surplus of \$1.4 million, or about 1.5% of anticipated revenues. A small deficit of approximately .20% of revenues is projected in FY 2015-16, largely due to the reduction in Educational Revenue Augmentation Fund refund, a source of property tax revenue tied to K-14 education funding. This revenue may be further reduced or eliminated in future years due to the changes in the school funding formulas. In FY 2016-17, contributions to retirement system will increase \$1.6 million due to changes in the actuarial assumptions and methodologies used by the California Public Employees Retirement System. City staff is monitoring each of these factors very closely and is keeping the City Council apprised of significant developments.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Finance Department, at 1017 Middlefield Road, Redwood City, CA 94063.



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2014*

## STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis of accounting — the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Position reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Position presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net position, by subtracting total liabilities from total assets.

The Statement of Net Position summarizes the financial position of the City's governmental activities in a single column, and the financial position of all City business-type activities in a single column; these columns are followed by a total column that presents the financial position of the entire City.

The City's governmental activities include the activities of its general fund, along with all its special revenue, capital projects and debt service funds. Since the City's internal service funds service these funds, their activities are consolidated with governmental activities, after eliminating inter-fund transactions and balances. The City's business-type activities include all its enterprise fund activities.

The Statement of Activities reports increases and decreases in the City's net position. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the fund financial statements, which reflect only current assets, current liabilities, available revenues, and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues — that is, revenues which are generated directly by these programs — are then deducted from program expenses to arrive at the net expense of each governmental and business-type activity. The City's general revenues are then listed in the governmental activities or business-type activities column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

CITY OF REDWOOD CITY, CALIFORNIA  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
<b>ASSETS</b>			
Cash and investments available for operations	126,898,699	71,821,704	198,720,403
Cash and investments, restricted	5,477,181	7,467,946	12,945,127
Receivables (net of allowance for uncollectibles):			
Taxes and assessments - current	8,135,667		8,135,667
Accounts	1,709,705	4,945,180	6,654,885
Loans	9,269,332		9,269,332
Accrued interest	1,024,089	22,806	1,046,895
Due from other governmental agencies	4,290,213	1,632,575	5,922,788
Internal balances	2,700,000	(2,700,000)	
Advances to RDA successor agency	3,957,246		3,957,246
Inventory of supplies at cost	152,106		152,106
Deposits	275,000	330,843	605,843
Prepaid items and other assets	84,443	476,209	560,652
Investment in land held for redevelopment	5,741,208		5,741,208
Investment in sewer authority		32,511,141	32,511,141
Capital assets:			
Nondepreciable	41,858,589	24,184,132	66,042,721
Depreciable buildings, property, equipment and infrastructure, net	145,801,258	167,034,910	312,836,168
Total assets	<u>357,374,736</u>	<u>307,727,446</u>	<u>665,102,182</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refundings		1,610,648	1,610,648
Total deferred outflows of resources		<u>1,610,648</u>	<u>1,610,648</u>
<b>LIABILITIES</b>			
Accounts payable	4,543,428	4,884,212	9,427,640
Accrued interest payable	21,017	1,182,313	1,203,330
Accrued payroll	3,248,659		3,248,659
Deposits payable	5,321,031	1,476,361	6,797,392
Due to other governmental agencies	10,305,220		10,305,220
Unearned revenue	2,044,718	2,708,935	4,753,653
Insurance claims payable:			
Due in one year	3,922,579		3,922,579
Due in more than one year	14,532,144		14,532,144
Accrued sick leave and vacation:			
Due in one year	346,856	394,505	741,361
Due in more than one year	9,633,123	408,026	10,041,149
Net OPEB obligation due in more than one year	6,488,784	645,825	7,134,609
Long-Term Debt:			
Due in one year	656,858	2,615,341	3,272,199
Due in more than one year	2,378,400	78,202,019	80,580,419
Total liabilities	<u>63,442,817</u>	<u>92,517,537</u>	<u>155,960,354</u>
<b>NET POSITION</b>			
Net investment in capital assets	184,624,589	117,927,502	302,552,091
Restricted for:			
Capital projects	27,531,183	429,961	27,961,144
Debt service		6,123,047	6,123,047
Community development projects	16,367,817		16,367,817
Maintenance	5,258,017		5,258,017
Public safety	111,793		111,793
Total restricted	<u>49,268,810</u>	<u>6,553,008</u>	<u>55,821,818</u>
Unrestricted	60,038,520	92,340,047	152,378,567
Total net position	<u>293,931,919</u>	<u>216,820,557</u>	<u>510,752,476</u>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Overhead Charges	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
			Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Governmental Activities:</b>								
Community development	8,060,359	90,521	8,553,508	984,214	1,033,277	2,420,119		\$2,420,119
Human services	1,462,300			508,321		(953,979)		(953,979)
Public safety	59,435,400		6,922,702	1,218,280	95,702	(51,198,716)		(51,198,716)
Transportation	11,572,619		374,859	2,576,308	5,225,094	(3,396,358)		(3,396,358)
Environmental support and protection	2,728,477	18,123	1,417,353	78,351	184,748	(1,066,148)		(1,066,148)
Leisure, cultural and information services	22,799,101	24,427	3,074,537	1,652,920	2,955,958	(15,140,113)		(15,140,113)
Policy development and implementation	6,859,116	(876,770)	1,871,774	54,378	10,578	(4,045,616)		(4,045,616)
Interest on long term debt	48,341					(48,341)		(48,341)
<b>Total Governmental Activities</b>	<b>112,965,713</b>	<b>(743,699)</b>	<b>22,214,733</b>	<b>7,072,772</b>	<b>9,505,357</b>	<b>(73,429,152)</b>		<b>(73,429,152)</b>
<b>Business-Type Activities:</b>								
Water Utility Fund	30,153,640	438,254	35,655,559	58,535	557,012		5,679,212	5,679,212
Sewer Utility Fund	19,709,272	280,486	24,733,329		958,929		5,702,500	5,702,500
Parking Fund	2,446,263	24,959	1,453,519	50,000			(967,703)	(967,703)
Port of Redwood City	5,091,265		6,824,474				1,733,209	1,733,209
Docktown Marina	705,388		665,819				(39,569)	(39,569)
<b>Total Business-Type Activities</b>	<b>58,105,828</b>	<b>743,699</b>	<b>69,332,700</b>	<b>108,535</b>	<b>1,515,941</b>		<b>12,107,649</b>	<b>12,107,649</b>
<b>Total</b>	<b>171,071,541</b>		<b>91,547,433</b>	<b>7,181,307</b>	<b>11,021,298</b>	<b>(73,429,152)</b>	<b>12,107,649</b>	<b>(61,321,503)</b>
<b>General revenues:</b>								
<b>Taxes:</b>								
Property taxes						41,708,668	104,814	41,813,482
Sales taxes						20,781,613		20,781,613
Franchise taxes						4,100,511		4,100,511
Property transfer taxes						729,522		729,522
Business license taxes						1,925,660		1,925,660
Utility users taxes						9,594,403		9,594,403
Transient occupancy taxes						5,262,280		5,262,280
Investment Earnings						992,221	499,586	1,491,807
Gain (loss) on retirement of capital assets						(3,359,063)	13,700,440	10,341,377
Other						1,205,727	4,132	1,209,859
Transfers						2,314,350	(2,314,350)	
<b>Total general revenues and transfers</b>						<b>85,255,892</b>	<b>11,994,622</b>	<b>97,250,514</b>
<b>Change in Net Position</b>						<b>11,826,740</b>	<b>24,102,271</b>	<b>35,929,011</b>
<b>Net position-Beginning, as restated (Note 1N)</b>						<b>282,105,179</b>	<b>192,718,286</b>	<b>474,823,465</b>
<b>Net position-Ending</b>						<b>293,931,919</b>	<b>216,820,557</b>	<b>510,752,476</b>

See accompanying notes to financial statements



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2014*



## GOVERNMENTAL FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between fund types. The governmental funds described below were determined to be major funds by the City in fiscal year 2013-14.

### **GENERAL FUND**

The general fund is the general operating fund of the City. It is used to account for all financial resources except those to be accounted for in another fund.

### **HOUSING LEGAL AID SOCIETY FUND**

This fund accounts for revenues previously deposited in the former redevelopment agency low and moderate income housing fund pursuant to an agreement with the Legal Aid Society to set aside general tax increment revenue for housing purposes. After the February 1, 2012 dissolution of the redevelopment agency, this fund was created to account for this accumulated balance.

### **CAPITAL OUTLAY FUND**

This fund accounts for all miscellaneous capital improvement projects that are financed by the general fund.

CITY OF REDWOOD CITY, CALIFORNIA  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2014

	General Fund \$	Housing Legal Aid Society Fund \$	Capital Outlay Fund \$	Non-Major Governmental Funds \$	Total Governmental Funds \$
<b>ASSETS</b>					
Cash and investments available for operations	22,932,368	10,345,123	27,920,646	36,172,735	97,370,872
Cash and investments, restricted				5,477,181	5,477,181
Receivables (net of allowance for uncollectibles):					
Taxes and assessments - current	7,781,376			354,291	8,135,667
Accounts	1,570,988			40,014	1,611,002
Loans	1,534,452		221,429	7,513,451	9,269,332
Accrued interest	155,289			787,701	942,990
Due from other governmental agencies	2,579,041		4,079	1,439,277	4,022,397
Due from other funds			833,946	7,474	841,420
Inventory of supplies at cost	1,288				1,288
Advances to RDA successor agency			2,269,543	1,687,703	3,957,246
Prepaid items	72,993				72,993
Investment in land held for redevelopment				5,741,208	5,741,208
<b>Total Assets</b>	<b>36,627,795</b>	<b>10,345,123</b>	<b>31,249,643</b>	<b>59,221,035</b>	<b>137,443,596</b>
<b>LIABILITIES</b>					
Accounts payable	1,945,002	4,209	483,139	1,467,680	3,900,030
Accrued payroll	3,248,659				3,248,659
Deposits payable	4,749,155		299,636	272,240	5,321,031
Due to other funds	833,946			7,474	841,420
Due to other governmental agencies		10,305,220			10,305,220
Unearned revenue	2,002,191				2,002,191
Accrued sick leave and vacation			2,772		2,772
<b>Total Liabilities</b>	<b>12,778,953</b>	<b>10,309,429</b>	<b>785,547</b>	<b>1,747,394</b>	<b>25,621,323</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - interest				787,701	787,701
<b>Total Deferred Inflows of Resources</b>				<b>787,701</b>	<b>787,701</b>
<b>FUND BALANCES</b>					
Nonspendable:					
Loans	1,534,452				1,534,452
Inventory	1,288				1,288
Prepaid items	72,993				72,993
Restricted for:					
Community development		35,694		16,332,122	16,367,816
Public safety				111,793	111,793
Transportation				7,384,562	7,384,562
Environmental support and protection				2,956,068	2,956,068
Leisure, cultural and information services				9,732,155	9,732,155
Capital projects				12,409,017	12,409,017
Other purposes				307,399	307,399
Committed to:					
General plan	536,108				536,108
Capital projects			23,420,847	6,368,041	29,788,888
Assigned to:					
Community development				550,000	550,000
Transportation				41,138	41,138
Capital projects			7,043,249	493,645	7,536,894
Other purposes	223,061				223,061
Unassigned:	21,480,940				21,480,940
<b>TOTAL FUND BALANCES</b>	<b>23,848,842</b>	<b>35,694</b>	<b>30,464,096</b>	<b>56,685,940</b>	<b>111,034,572</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>36,627,795</b>	<b>10,345,123</b>	<b>31,249,643</b>	<b>59,221,035</b>	<b>137,443,596</b>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA  
RECONCILIATION OF THE  
GOVERNMENTAL FUNDS - BALANCE SHEET  
WITH THE STATEMENT OF NET POSITION  
JUNE 30, 2014

	\$
TOTAL FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS	111,034,572
<p>Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:</p>	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	178,271,670
ALLOCATION OF INTERNAL SERVICE FUND NET POSITION	
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The assets and liabilities of the Internal Service Funds are therefore included in Governmental Activities in the Statement of Net Position.	21,867,508
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
The amounts below are revenues in the statement of activities that do not provide current financial resources and therefore are not reported as revenues in the Funds:	
Interest revenue	865,854
LONG TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Unamortized bond issuance costs	
Long-term debt	(3,035,258)
Interest payable	(21,017)
Accrued sick leave and vacation	(9,053,948)
Net OPEB obligation	(5,997,462)
NET POSITION OF GOVERNMENTAL ACTIVITIES	293,931,919

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Housing Legal Aid Society Fund	Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$	\$
<b>REVENUES</b>					
Property taxes/special assessments	41,708,668			1,383,709	43,092,377
Sales and other taxes	39,970,312				39,970,312
Licenses and permits	2,559,720		1,922		2,561,642
Fines, forfeitures and penalties	629,017			258,292	887,309
Use of money and property	793,967	86,144	193,417	698,301	1,771,829
Intergovernmental	3,646,694		332,523	6,856,544	10,835,761
Charges for current services	14,668,911		30,012	646,083	15,345,006
Contributions	486,673		2,478,658	5,336,529	8,301,860
Other	618,057			5,185	623,242
<b>Total Revenues</b>	<b>105,082,019</b>	<b>86,144</b>	<b>3,036,532</b>	<b>15,184,643</b>	<b>123,389,338</b>
<b>EXPENDITURES</b>					
Current Operations:					
Community development	6,398,202	51,471	221,450	1,193,665	7,864,788
Human services	1,347,136				1,347,136
Public safety	55,728,476		231,398	155,372	56,115,246
Transportation	264,489		1,535,300	4,914,581	6,714,370
Environmental support and protection	147,394		537,863	1,916,023	2,601,280
Leisure, cultural and information services	20,060,371		647,127	82,149	20,789,647
Policy development and implementation	2,480,985		1,117,468		3,598,453
Capital outlay	99,025		2,809,518	2,401,749	5,310,292
Debt service:					
Principal retirement				324,742	324,742
Interest and fiscal charges				31,755	31,755
<b>Total Expenditures</b>	<b>86,526,078</b>	<b>51,471</b>	<b>7,100,124</b>	<b>11,020,036</b>	<b>104,697,709</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>18,555,941</b>	<b>34,673</b>	<b>(4,063,592)</b>	<b>4,164,607</b>	<b>18,691,629</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	426,479		11,884,268	1,322,039	13,632,786
Transfers (out)	(16,887,320)		(150,503)	(287,684)	(17,325,507)
<b>Total Other Financing Sources (Uses)</b>	<b>(16,460,841)</b>		<b>11,733,765</b>	<b>1,034,355</b>	<b>(3,692,721)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,095,100</b>	<b>34,673</b>	<b>7,670,173</b>	<b>5,198,962</b>	<b>14,998,908</b>
Fund balances - beginning	21,753,742	1,021	22,793,923	51,486,978	96,035,664
<b>FUND BALANCES - ENDING</b>	<b>23,848,842</b>	<b>35,694</b>	<b>30,464,096</b>	<b>56,685,940</b>	<b>111,034,572</b>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA  
RECONCILIATION OF THE  
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
WITH THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, 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 - TOTAL GOVERNMENTAL FUNDS	14,998,908
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balance.	5,310,292
Depreciation expense is deducted from the fund balance. (Depreciation expense is net of internal service fund depreciation of \$1,203,181 which has already been allocated to serviced funds.)	(7,758,552)
Loss on retirements of capital assets	(3,359,063)
Transfer of capital assets to Internal Service Funds	(1,113,481)
LONG TERM DEBT PROCEEDS AND PAYMENTS	
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond 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 is added back to fund balance.	324,742
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):	
Change in compensated absences	(506,806)
Change in interest payable	74,191
Interest receivable and intergovernmental revenue	129,295
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.	
Change in Net Position - All Internal Service Funds	3,727,214
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	11,826,740

See accompanying notes to financial statements

## PROPRIETARY FUND FINANCIAL STATEMENTS

### ENTERPRISE FUNDS

#### WATER UTILITY FUND

This fund is used to account for the provision of water services to the residents of Redwood City and some residents of areas adjacent to the City. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, capital improvements, financing, and billing/collections.

#### SEWER UTILITY FUND

This fund is used to account for the provision of sewer services to the residents of Redwood City and some residents of areas adjacent to the City. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, capital improvements, financing, and billing/collections.

#### PARKING FUND

This fund is used to account for on-street and off-street parking operations within the boundaries of the central business district of the City. All activities necessary to provide metered parking within the district are accounted for in these funds, including, but not limited to, administration, operations and maintenance, capital improvements, meter collection, and financing including related debt service. The authority for the formation of the district and the issuance of revenue bonds are contained in the State of California's Streets and Highway Code.

#### PORT OF REDWOOD CITY (PORT FUND)

This fund is used to account for Port activities within the Port Department as defined in the City Charter. These activities include, but are not limited to, administration, maintenance and operations, and Port improvements. Management of the Port of Redwood City is provided by the Port Commission, whose members are appointed for four-year terms by the City Council. The only limitation to the commissioner's authority is the power to levy taxes, which must be approved by the City Council. Also, the City Charter provides that the City Treasurer is the Port Treasurer and the City Attorney is the Port Attorney. This fund is included in this report because both the Bureau of Census and the State of California require the City to include a summary of the Port's financial transactions in the respective reports.

#### DOCKTOWN MARINA

This fund is used to account for the operation of the Docktown Marina including administration, operations, maintenance and billing/collections.

### INTERNAL SERVICE FUNDS

These funds are used to account for the financing of goods and services provided by one City department to others on a cost reimbursement basis. Internal service funds are included with enterprise funds as both use the same accounting and financial reporting.

CITY OF REDWOOD CITY, CALIFORNIA  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2014

	Business-Type Activities-Enterprise Funds					Totals	Governmental Activities- Internal Service Funds
	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Non-Major Docktown Marina		
	\$	\$	\$	\$	\$	\$	\$
<b>ASSETS</b>							
<b>Current assets:</b>							
Cash and investments available for operations	22,523,644	21,643,469	10,811,231	16,796,818	46,542	71,821,704	29,527,827
Receivables (net of allowance for uncollectibles):							
Accounts	2,977,431	1,538,023	18,432	382,709	28,585	4,945,180	98,703
Accrued interest	22,806					22,806	2,946
Due from other governmental agencies	415,612	843,156		373,807		1,632,575	267,816
Due from other funds							300,000
Inventory of supplies at cost							150,818
Deposits	10,360		320,483			330,843	275,000
Prepaid items and other assets	104,945		30,870	332,894	7,500	476,209	11,450
Total current assets	<u>26,054,798</u>	<u>24,024,648</u>	<u>11,181,016</u>	<u>17,886,228</u>	<u>82,627</u>	<u>79,229,317</u>	<u>30,634,560</u>
<b>Noncurrent assets:</b>							
Cash and investments, restricted	5,752,450			1,715,496		7,467,946	
Advances to other funds							2,400,000
Investment in sewer authority		32,111,141		400,000		32,511,141	
<b>Capital assets:</b>							
Nondepreciable	1,059,997	568,672	555,663	21,999,800		24,184,132	
Depreciable buildings, property, equipment and infrastructure, net	109,915,914	22,660,846	23,055,474	11,225,254	177,422	167,034,910	9,388,177
Total noncurrent assets	<u>116,728,361</u>	<u>55,340,659</u>	<u>23,611,137</u>	<u>35,340,550</u>	<u>177,422</u>	<u>231,198,129</u>	<u>11,788,177</u>
Total assets	<u>142,783,159</u>	<u>79,365,307</u>	<u>34,792,153</u>	<u>53,226,778</u>	<u>260,049</u>	<u>310,427,446</u>	<u>42,422,737</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Deferred charge on refundings	1,610,648					1,610,648	
<b>LIABILITIES</b>							
<b>Current liabilities:</b>							
Accounts payable	1,748,677	1,326,668	64,305	1,732,440	12,122	4,884,212	643,398
Deposits payable	917,996		360,197	160,802	37,366	1,476,361	
Due to other funds	300,000					300,000	
Insurance claims payable - current portion							3,922,579
Accrued sick leave and vacation - current portion	192,643	63,476	43,655	94,731		394,505	344,084
Revenue bonds payable - current portion	1,905,000			675,795		2,580,795	
Loans/leases payable - current portion				34,546		34,546	
Unearned revenue	2,533,818			175,117		2,708,935	42,527
Accrued interest payable	1,116,009			66,304		1,182,313	
Total current liabilities	<u>8,714,143</u>	<u>1,390,144</u>	<u>468,157</u>	<u>2,939,735</u>	<u>49,488</u>	<u>13,561,667</u>	<u>4,952,588</u>
<b>Noncurrent liabilities:</b>							
Insurance claims payable							14,532,144
Accrued sick leave and vacation	252,234	88,394	67,398			408,026	579,175
Advances from other funds	2,400,000					2,400,000	
Net OPEB obligation	306,124	115,029	52,540	172,132		645,825	491,322
Revenue bonds payable	61,636,578			16,175,497		77,812,075	
Loans payable				389,944		389,944	
Total noncurrent liabilities	<u>64,594,936</u>	<u>203,423</u>	<u>119,938</u>	<u>16,737,573</u>	<u>49,488</u>	<u>81,655,870</u>	<u>15,602,641</u>
Total liabilities	<u>73,309,079</u>	<u>1,593,567</u>	<u>588,095</u>	<u>19,677,308</u>	<u>49,488</u>	<u>95,217,537</u>	<u>20,555,229</u>
<b>NET POSITION</b>							
Net investment in capital assets	47,434,333	23,229,518	23,611,137	23,475,092	177,422	117,927,502	9,388,177
Restricted for capital projects			429,961			429,961	
Restricted for debt service	4,647,309			1,475,738		6,123,047	
Unrestricted	19,003,086	54,542,222	10,162,960	8,598,640	33,139	92,340,047	12,479,331
Total net position	<u>71,084,728</u>	<u>77,771,740</u>	<u>34,204,058</u>	<u>33,549,470</u>	<u>210,561</u>	<u>216,820,557</u>	<u>21,867,508</u>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN FUND NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities-Enterprise Funds					Totals	Governmental Activities- Internal Service Funds
	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Non-Major Docktown Marina		
	\$	\$	\$	\$	\$	\$	\$
<b>Operating Revenues:</b>							
Charges for services	35,655,559	29,095,415	1,453,519	6,824,474	665,819	73,694,786	24,174,474
<b>Total Operating Revenues</b>	<b>35,655,559</b>	<b>29,095,415</b>	<b>1,453,519</b>	<b>6,824,474</b>	<b>665,819</b>	<b>73,694,786</b>	<b>24,174,474</b>
<b>Operating Expenses:</b>							
Employee services	4,678,254	2,049,050	770,485	1,263,098	142,807	8,903,694	8,266,681
Maintenance	782,923	1,025,697	205,234	99,888	79,212	2,192,954	2,291,137
Water purchases	12,912,842					12,912,842	
Utilities	386,353	179,960	108,062	213,975	142,012	1,030,362	45,440
Contractual services	364,962	12,507,833	669,434	670,895	169,884	14,383,008	748,965
Supplies and services	4,047,927	3,281,795	135,997	947,793	139,215	8,552,727	1,430,452
Noncapitalized projects	1,859,321	421,860				2,281,181	
Depreciation and amortization	2,923,325	523,563	579,103	1,085,224	32,258	5,143,473	1,203,181
Insurance and claims							14,189,647
<b>Total Operating Expenses</b>	<b>27,955,907</b>	<b>19,989,758</b>	<b>2,468,315</b>	<b>4,280,873</b>	<b>705,388</b>	<b>55,400,241</b>	<b>28,175,503</b>
<b>Operating Income (Loss)</b>	<b>7,699,652</b>	<b>9,105,657</b>	<b>(1,014,796)</b>	<b>2,543,601</b>	<b>(39,569)</b>	<b>18,294,545</b>	<b>(4,001,029)</b>
<b>Nonoperating Revenues (Expenses):</b>							
Gain (loss) on disposal of capital assets			13,700,440			13,700,440	(57,616)
Property taxes			104,814			104,814	
Grant revenue	58,535					58,535	
Investment earnings	252,370	126,519	74,191	46,316	190	499,586	247,461
Interest expense	(2,635,987)		(2,907)	(847,127)		(3,486,021)	
Increase (decrease) in investment in sewer authority		(4,362,086)				(4,362,086)	
Insurance recovery	3,450	682				4,132	23,711
Contributions			50,000			50,000	10,752
Other				36,735		36,735	
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(2,321,632)</b>	<b>(4,234,885)</b>	<b>13,926,538</b>	<b>(764,076)</b>	<b>190</b>	<b>6,606,135</b>	<b>224,308</b>
<b>Net Income (Loss) Before Capital Contributions and Transfers</b>	<b>5,378,020</b>	<b>4,870,772</b>	<b>12,911,742</b>	<b>1,779,525</b>	<b>(39,379)</b>	<b>24,900,680</b>	<b>(3,776,721)</b>
Capital contributions	557,012	958,929				1,515,941	1,496,864
Transfers in			426,461			426,461	6,023,047
Transfers (out)		(23,047)	(2,717,764)			(2,740,811)	(15,976)
<b>Total Capital Contributions and Transfers</b>	<b>557,012</b>	<b>935,882</b>	<b>(2,291,303)</b>			<b>(798,409)</b>	<b>7,503,935</b>
<b>Change in net position</b>	<b>5,935,032</b>	<b>5,806,654</b>	<b>10,620,439</b>	<b>1,779,525</b>	<b>(39,379)</b>	<b>24,102,271</b>	<b>3,727,214</b>
Total net position-beginning, as restated (Note 1N)	65,149,696	71,965,086	23,583,619	31,769,945	249,940	192,718,286	18,140,294
Total net position-ending	71,084,728	77,771,740	34,204,058	33,549,470	210,561	216,820,557	21,867,508

See accompanying notes to financial statements



CITY OF REDWOOD CITY, CALIFORNIA  
 PROPRIETARY FUNDS  
 COMBINING STATEMENT OF CASH FLOWS  
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Non-Major Docktown Marina	Totals	Governmental Activities - Internal Service Funds
	\$	\$	\$	\$	\$	\$	\$
<b>Cash flows from operating activities:</b>							
Cash received from customers	35,487,846	29,288,716	1,470,780	7,303,230	702,398	74,252,970	
Cash received from interfund services provided							24,049,864
Cash payments to suppliers for goods and services	(18,719,940)	(14,085,149)	(1,100,744)	(2,538,240)	(544,275)	(36,988,348)	(13,656,951)
Cash payments to employees for services	(5,611,907)	(2,505,183)	(750,652)	(1,376,515)	(142,807)	(10,387,064)	(8,301,413)
Right of way compensation	(2,262,500)	(1,865,119)	(42,000)			(4,169,619)	
Net cash provided by (used in) operating activities	8,893,499	10,833,265	(422,616)	3,388,475	15,316	22,707,939	2,091,500
<b>Cash flows from noncapital financing activities:</b>							
Nonoperating grant revenue	58,535			78,520		137,055	
Insurance recovery	3,450	682				4,132	23,711
Property taxes			104,814			104,814	
Transfers in			426,461			426,461	6,000,000
Transfers out			(2,717,764)			(2,717,764)	(15,976)
Advances to other funds							300,000
Advances from other funds	(300,000)		(1,300,000)			(1,600,000)	
Contributions			50,000			50,000	10,752
Net cash provided by (used in) noncapital financing activities	(238,015)	682	(3,436,489)	78,520		(3,595,302)	6,318,487
<b>Cash flows from capital and related financing activities:</b>							
Acquisition and construction of capital assets	(1,831,787)	(4,088,131)		(6,497,762)		(12,417,680)	(816,870)
Contributions	360,362					360,362	44,473
Principal retirements	(1,845,000)			(714,984)		(2,559,984)	
Interest paid	(2,269,566)		(2,907)	(823,485)		(3,095,958)	
Proceeds from sale of capital assets			13,967,690			13,967,690	1,382
Net cash used in capital and related financing activities	(5,585,991)	(4,088,131)	13,964,783	(8,036,231)		(3,745,570)	(771,015)
<b>Cash flows from investing activities:</b>							
Interest on investments	253,245	126,519	74,191	46,316	190	500,461	248,234
Net cash provided by investing activities	253,245	126,519	74,191	46,316	190	500,461	248,234
Net increase (decrease) in cash and cash equivalents	3,322,738	6,872,335	10,179,869	(4,522,920)	15,506	15,867,528	7,887,206
Cash and cash equivalents at beginning of year	24,953,356	14,771,134	631,362	23,035,234	31,036	63,422,122	21,640,621
Cash and cash equivalents at end of year	28,276,094	21,643,469	10,811,231	18,512,314	46,542	79,289,650	29,527,827
<b>Reconciliation of Net Cash Flow from Operating Activities</b>							
Operating income (loss)	7,699,652	9,105,657	(1,014,796)	2,543,601	(39,569)	18,294,545	(4,001,029)
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>							
Depreciation	2,923,325	523,563	579,103	1,085,224	32,258	5,143,473	1,203,181
Change in assets and liabilities:							
Decrease (increase) in accounts receivable	49,831	(139,395)	17,261	502,052	36,579	466,328	(61,464)
Decrease (increase) in due from other governmental agencies	(415,612)	332,696				(82,916)	(65,673)
Decrease (increase) in inventory/prepaid expenses/deposits	(10,440)	703,023	(320,483)	(90,417)	(7,500)	274,183	(37,806)
Increase (decrease) in vacation & sick leave payable	(201)	(41,313)	19,833	(144,299)		(165,980)	(34,732)
Increase (decrease) in accounts payable	(1,621,297)	349,034	(29,817)	(551,809)	(35,856)	(1,889,745)	32,125
Increase (decrease) in customer deposits	70,173		326,283	36,537	29,404	462,397	
Increase (decrease) in unearned revenue	198,068			(23,296)		174,772	2,527
Increase (decrease) in net OPEB obligation				30,882		30,882	
Increase (decrease) in insurance claims payable							5,054,371
Total adjustments	1,193,847	1,727,608	592,180	844,874	54,885	4,413,394	6,092,529
Net cash provided by (used in) operating activities	8,893,499	10,833,265	(422,616)	3,388,475	15,316	22,707,939	2,091,500
<b>Noncash investing, capital and financing activities:</b>							
Noncash capital contributions	196,650	935,882				1,132,532	1,475,438
Gain (loss) on disposal of equipment							(58,998)
Increase (decrease) in investment in sewer authority		(4,362,086)				(4,362,086)	

See accompanying notes to financial statements

CITY OF REDWOOD CITY  
 FIDUCIARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2014

	Successor Agency Private Purpose Trust Fund	Agency Funds
	<u>          </u> \$	<u>          </u> \$
<b>ASSETS</b>		
Cash and Investments, restricted	5,318,080	4,463,052
Accounts	8,838	
Loans	1,073,924	
Accrued Interest Receivable	315,333	
Deposits		29,505
Depreciable capital assets, net	17,816,516	
Unamortized bond issuance costs	<u>590,275</u>	
 Total Assets	 <u><u>25,122,966</u></u>	 <u><u>4,492,557</u></u>
 <b>LIABILITIES</b>		
Accounts payable	4,120	165
Advances from City	3,957,246	
Accrued interest payable	141,920	
Long-term debt:		
Due in one year	3,075,771	
Due in more than one year	39,309,439	
Due to Bondholders		4,408,680
Employee Benefit Plans Payable		<u>83,712</u>
 Total Liabilities	 <u><u>46,488,496</u></u>	 <u><u>4,492,557</u></u>
 <b>NET POSITION</b>		
Held in trust for other governments	<u><u>(21,365,530)</u></u>	

See accompanying notes to financial statements

CITY OF REDWOOD CITY  
 FIDUCIARY FUNDS  
 STATEMENT OF CHANGES IN NET POSITION  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Successor Agency Private Purpose Trust Fund <hr/>
	\$
<b>ADDITIONS</b>	
Property taxes	3,871,368
Investment earnings	<u>381,319</u>
Total additions	<u>4,252,687</u>
<b>DEDUCTIONS</b>	
Community development	1,511,510
Depreciation	518,272
Interest and fiscal agency expenses of former redevelopment agency	<u>2,202,975</u>
Total deductions	<u>4,232,757</u>
Change in net position	19,930
Net position - beginning, as restated	<u>(21,385,460)</u>
Net position - ending	<u><u>(21,365,530)</u></u>

See accompanying notes to financial statements

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. *Reporting Entity***

The City of Redwood City was incorporated in 1867, became a Charter City in 1929, and operates under a council-manager form of government. The City has defined its reporting entity in accordance with generally accepted accounting principles (“GAAP”) in the United States of America, which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body’s financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude. A primary government is financially accountable and shares a financial benefit or burden relationship if it appoints a voting majority of an organization’s governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Based upon the application of these criteria, the following is a brief description of each component unit included within the City’s reporting entity. All such component units have been “blended” as though they are part of the primary government because the component unit’s governing body is substantially the same as the City’s primary government and there is a financial benefit or burden relationship between the City and the component unit, management of the City has operational responsibilities for the component unit, and/or the component units provide services entirely to the City or otherwise exclusively benefits the City, even though it does not provide services directly to it.

Redwood City Facilities and Infrastructure Authority (RCFISA) was established in 1986 to finance the construction of certain public facilities such as the Main Fire Station, City Hall, and Main Library. After acquiring certain properties from the City, RCFISA leased them back to the City. The lease money provided the funds for the debt service for the certificates of participation issued by the RCFISA to acquire the properties from the City.

The Public Financing Authority (PFA) was established in 1991 to finance construction of the new Police Facility, to finance the defeasance of outstanding certificates of participation issued by the RCFISA, and to issue tax increment bonds on behalf of the former Redevelopment Agency. The PFA has since issued various types of debt on behalf of the City and the former Redevelopment Agency.

The Port of Redwood City was established under the City Charter as a department of the City and is managed by the Port Commission of Redwood City, whose members are appointed by the City Council. This commission is a semi-autonomous body and has full authority to manage the Port. Its financial system is maintained separately from the City by the Port’s own financial staff. The Port’s treasurer and legal counsel are the City’s Finance Director and the City Attorney, respectively. The financial transactions of the Port are incorporated as an enterprise fund.

Separate financial statements are not prepared for other component units.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basis of Presentation**

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. 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 of Net Position have been eliminated except those representing balances between the governmental activities, which are presented as internal balances and eliminated in the total primary government column. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Operating expenses for proprietary funds are those expenses that are essential to the primary operations of the funds. All other expenses are reported as non-operating expenses.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Major Funds**

GASB Statement No. 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, liabilities, revenues, or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The general fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General fund is to account for all financial resources except those to be accounted for in another fund. It is the general operating fund of the City.

Housing Legal Aid Society fund is to account for revenues previously deposited in the former redevelopment agency low and moderate income housing fund pursuant to an agreement with the Legal Aid Society.

Capital outlay fund is to account for all miscellaneous capital improvement projects that are financed by the general fund.

The City reported all of its enterprise funds except the Docktown Marina Fund as major funds in the accompanying financial statements:

Water utility fund is to account for the provision of water services to the residents of Redwood City.

Sewer utility fund is to account for the provision of sewer services to the residents of Redwood City.

Parking fund is to account for on-street and off-street parking operations within the boundaries of the central business district of the City.

Port of Redwood City (Port fund) is to account for Port activities within the Port Department including, but not limited to, administration, maintenance and operations, and Port improvements.

The City also reports the following fund types:

Internal service funds - Internal service funds are used to account for costs of the City's equipment services, the City's insurance program, the costs of the City's telephone/communications and information technology services, maintenance and repair of buildings, custodial services, and employee benefits. These services are provided to departments and other governments on a cost-reimbursement basis.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Fiduciary funds – These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains one private purpose trust fund to account for activities of the Successor Agency to the former Redevelopment Agency.

The City also maintains four agency funds - Employee Benefit Plans Fund, Pacific Shores Community Facilities District Fund, the Shores Transportation Improvement District Fund, and the One Marina Community Facilities District Fund - as an agent of the bondholders or City employees.

**D. Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after year-end.

The City's fiduciary funds consist of one private purpose trust fund and agency funds which use the accrual basis of accounting. The private purpose trust fund uses the economic resources measurement focus, whereas the agency funds do not have a measurement focus.

During fiscal year 2004/05, the State of California changed the distribution method of the City's sales tax allocation under a program called the "Triple Flip." Under the "Triple Flip," 25% of the City's share of sales tax is now distributed from property tax receipts, with remittance of the sales tax to the City coinciding with the semiannual collection of property tax receipts from property owners in December and April. To recognize the sales tax revenue earned as of June 30, the City has changed its availability period for sales tax revenue from 90 days after year-end to seven months after year-end.

The change in the availability period for sales tax will enable the City to accurately reflect sales tax earned in the reporting period.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures/expenses. The City's policy is to first apply restricted resources to such programs, followed by unrestricted resources if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

**E. *Compensated Absences***

In compliance with Governmental Accounting Standards Board Statement No. 16, the City has established a liability for accrued sick leave and vacation in relevant funds. For governmental activities, the current liability for the payouts made after June 30, 2014 for those employees retired on or before June 30, 2014 appears in the respective funds and the long-term liability appears in the government-wide financial statements. This liability is set up for the current employees at the current rates of pay. An employee may accumulate vacation up to two years entitlement and sick leave up to 960 or 1,920 hours depending on the bargaining unit (certain Fire Department employees who work 24 hour shifts may accumulate up to 2,400 hours of sick leave).

An employee may elect to receive compensation in lieu of sick leave credits for any calendar year with payment equal to varying amounts from 25% to 50% of the year's unused sick leave, depending upon the employee's sick leave usage during the year. In addition to sick leave, payouts are made for unused administrative holidays and accrued compensatory time.

If sick leave and vacation are not used by the employee or paid out during the term of employment, compensation is payable to the employee at the time of retirement. Such compensation is calculated at the employee's prevailing rate at the time of retirement or termination. Whereas vacation is compensated at 100% of accumulated hours, sick leave is compensated at 50% of accumulated hours at retirement depending upon varying restrictions of the bargaining units. Upon termination only accrued vacations are compensated. Each year an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. The general fund is primarily responsible for the repayment of the governmental portion of the compensated absences.

Individual proprietary funds are responsible for the repayment of the liability attributable to their respective funds.



**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Cash and Cash Equivalents**

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

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.

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 pooled 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 the change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying Basic Financial Statements.

For purposes of the statement of cash flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. *Inventories and Prepaid Items***

Inventories are stated at moving average cost. The cost is recorded as an expenditure at the time an individual inventory item is consumed. As inventories must be maintained at a certain level, an amount for inventories is recorded as nonspendable in the general fund balances. Consequently, these nonspendable fund balance amounts are not available for appropriation.

General fund inventories consist of stationery. Equipment services fund inventory consists of tires, batteries, testing equipment, automotive parts, and small tools.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**H. *Property Taxes***

Property taxes attach as an enforceable lien on property as of January 1, and are collected for a 12 month period effective July 1 by the San Mateo County tax collector. Taxes are billed once a year in late October and are payable in two equal installments due by December 10 and April 10 of the following year. The taxes not paid by those dates are subject to a penalty of 10%.

In September of 1993, the County of San Mateo Board of Supervisors adopted the “Teeter Plan” for secured property taxes. Under the Teeter Plan, the state law allows the county to advance to the cities all property taxes billed, regardless of whether the taxes have been paid. The county then is entitled to keep all penalties and interest accruing on delinquent taxes. Property taxes on unsecured taxable property are not affected by this change.

Under Proposition 13, adopted by the voters in a statewide ballot in 1978, assessed value is increased by the cost of living index, not to exceed 2% as of January 1 each year except for those properties that have changed ownership during the 12 month period since the lien date. City property tax revenues are recognized when levied to the extent that they result in current receivables.

**I. *Unbilled Service Receivables***

In the water and sewer utilities, residential customers are billed bi-monthly and all commercial and industrial customers monthly. Revenue is recorded as billed to customers on a cyclical basis. No accrual is made for unbilled services. There were no unbilled services in Port, parking, Docktown Marina, or internal service funds as of June 30, 2014.

There is no accrual for unbilled water services as of June 30, 2014; revenues cannot be recognized since water meters are not read at such date. Management believes that the revenue from unbilled services does not have a material effect on total revenue.

**J. *Capital Assets***

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The City’s policy is to capitalize all assets with costs exceeding certain minimum thresholds, \$5,000 for machinery and equipment, \$100,000 for buildings, improvements, and infrastructure, and with useful lives exceeding two years.

With the implementation of GASB Statement No. 34, the City recorded all of its public domain (infrastructure) capital assets placed in service after June 30, 1980, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems using the basic approach.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year’s pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

The City has assigned the useful lives listed as follows to capital assets:

Buildings	20-50 Years	Storm Drains	40 Years	Traffic Signals	20 Years
Improvements	33-60 Years	Bridges	30 Years	Streets	20 Years
Equipment	2-15 Years	Parks	25 Years		

**K. *Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element 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 related to the unamortized losses on refunding of debt. The losses on refunding result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or the refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows or resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The City has deferred inflows of resources related to unavailable revenues reported under the modified accrual basis of accounting in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, advances from the federal and state governments, and other sources as appropriate. These amounts are deferred and recognized as revenues in the period the amounts become available.

**L. *Interfund Transactions***

Interfund transactions are reflected as loans, services provided or used, reimbursements, or transfers.

Loans reported as receivables and payables are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

interfund loans) as appropriate and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses.

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are reflected as expenditures or expenses in the reimbursing fund and reductions to expenditures or expenses in the reimbursed fund.

All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

**M. Use of Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

**N. Implementation of New GASB Pronouncements**

In FY 2013-14 the City adopted the following new accounting standard in order to conform to the following Governmental Accounting Standards Board Statement:

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. The Statement reclassifies items from assets or liabilities in the statement of financial position into the new categories of deferred outflow or deferred inflow of resources. As a result, costs related to the issuance of debt, previously deferred, were restated as if they had been reported as an outflow of resources when incurred. The impact on the financial statements was a decrease in beginning net position as follows:

	Statement of Activities		Statement of Changes in Net Position
	Governmental Activities	Business-type Activities	Private Purpose Trust Fund
	\$	\$	\$
Net position - beginning of year, as previously reported	282,162,824	194,045,495	(21,050,915)
Restatement of deferred charge for debt issuance costs	(57,645)	(1,327,209)	(334,545)
Net position - beginning of year, as restated	282,105,179	192,718,286	(21,385,460)

**NOTE 2 – CASH AND INVESTMENTS**

**A. Cash and Deposits**

The carrying amount of the City’s cash and deposits, including restricted cash, was (\$2,405,628) at June 30, 2014. Bank balances before reconciling items were (\$41,574) at June 30, 2014. Of the total bank balances, \$495,000 was insured or held by the City or its agent in the City's name.

All cash deposits in banks are fully insured or collateralized. California state law requires that public fund deposits be collateralized by either government securities with a value equal to 110% of the deposits or first trust deed mortgage notes having a value equal to 150%. Per state law each institution must use a third party (which may be the institution’s trust department) to hold the pledged collateral in a pool to secure all the institution’s public fund deposits. The code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash is considered to be held in the City’s name. Banks and savings and loans in California are subject to state-mandated reporting requirements to ensure that the required levels of control are maintained. The City may waive collateral requirements for deposits, which are fully insured with each financial institution up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

Cash balances from all funds are combined and invested to the extent possible pursuant to the City Council approved investment policy and guidelines and state government code. The earnings from these investments are allocated monthly to each fund based on an average of monthly opening and closing balances of cash and investments. Investments are stated at fair value. All enterprise fund investments are considered to be liquid investments for cash flow purposes.

The following is a summary of pooled cash and investments, including cash and investments with fiscal agent at June 30, 2014:

	Government-wide Statement of Net Assets			Fiduciary Fund Financial Statements	Total
	Governmental Activities	Business-Type Activities	Total	Fiduciary Funds Statement of Net Assets	
	\$	\$	\$	\$	\$
Cash and Investment	126,898,699	71,821,704	198,720,403		198,720,403
Restricted Cash and Investments	5,477,181	7,467,946	12,945,127	9,781,132	<u>22,726,259</u>
Total Cash and Investments					<u><u>221,446,662</u></u>

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

**B. Risk Disclosures**

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed three years. Specific maturities of investments depend on liquidity needs.

As of June 30, 2014, the City had the following cash and investments available for operations:

	Fair Value	Investment Maturities (in years)		
		1-2 Years	2-3 Years	3-4 Years
	\$	\$	\$	\$
Demand Accounts at Banks	(3,614,370)	(3,614,370)		
Certificates of Deposit	1,095,000	1,095,000		
Petty Cash	11,360	11,360		
County of San Mateo Investment Pool	51,116,230	51,116,230		
California Local Agency Investment Fund	75,119,623	75,119,623		
U.S. Agencies, Securities, and Corporate Notes:				
Federal Home Loan Bank	39,010,380			39,010,380
Federal National Mortgage Association	5,998,320		5,998,320	
Federal Home Loan Mortgage Corporation	23,990,130			23,990,130
Federal Farm Credit	5,993,730		5,993,730	
U.S. Treasury Securities				
<b>TOTAL</b>	<b>198,720,403</b>	<b>123,727,843</b>	<b>11,992,050</b>	<b>63,000,510</b>

*Credit Risk* – Defined as the risk of loss of value of an investment due to a downgrade of its rating or the failure or impairment of its issuer. Credit Risk shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that failure of any one issue does not unduly harm the City's capital base and cash flow. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of commercial paper investments to those rated A-1 by Standard and Poor's or P-1 by Moody's Investor's Service, and corporate bonds to those rated A or better by Standard and Poor's or Moody's Investor's Service.

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Certificates of Deposit	1 year	7.50%	\$3 Million
Banker's acceptances	180 days	No limit	\$3 Million
Treasury Bills, Notes and Bonds	3 years	No limit	No limit
Government Agency Securities	3 years	No limit	No limit
Commercial Paper	15 days	No limit	\$1 Million
Local Agency Investment Fund	N/A	No limit	\$40 Million
Passbook Savings Accounts	1 year	No limit	\$100,000
San Mateo County Investment Fund	N/A	No limit	\$40 Million
Money Market/Mutual Funds	N/A	10%	No limit
Corporate Notes	3 years	30%	\$5 Million

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

The City’s investments are rated by the nationally recognized statistical rating organizations as follows:

	<b>Moody’s</b>	<b>S&amp;P</b>	<b>Fitch</b>
<b>U.S. Agencies, Securities, and Corporate Notes:</b>			
Federal Home Loan Bank	Aaa	AA+	
Federal National Mortgage Association	Aaa	AA+	AAA
Federal Home Loan Mortgage Corporation	Aaa	AA+	AAA
Federal Farm Credit	Aaa	AA+	AAA
U.S. Treasury Securities	Aaa	AA+	AAA
<b>External Investment Pools:</b>			
San Mateo County Investment Fund	Not Rated	AAAf/S1	Not Rated
California Local Agency Investment Fund	Not Rated	Not Rated	Not Rated

*Custodial Credit Risk.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All securities, with the exception of the County Pool and LAIF, are held by third-party custodians (Union Bank of California Trust Division, U.S. Bank and Bank of New York). Union Bank, U.S. Bank and Bank of New York are registered members of the Federal Reserve Bank. The securities held by Union Bank, U.S. Bank and Bank of New York are in street name, and an account number assigned to the City identifies ownership. None of the City’s investments were subject to custodial credit risk.

In fiscal year 1997-98, the City adopted Governmental Accounting Standards Board Statement No. 31, which requires that the City's investments be carried at fair value instead of cost. Under GASB 31, the City must adjust the carrying value of its investments to reflect their fair value at each fiscal year-end, and it must include the effects of these adjustments in income for that fiscal year. Changes in value at the fiscal year ended June 30, 2014 from the fiscal year ended June 30, 2013 amounted to an unrealized gain of \$358,088.

GASB 31 applies to all the City's investments, even if they are held to maturity and redeemed at full face value. Since the City's policy is to hold all investments to maturity, the fair value adjustments required by GASB 31 result in accounting gains or losses (called "recognized" gains or losses) which do not reflect actual sales of the investments (called "realized" gains or losses). Thus, recognized gains or losses on an investment purchased at par will now reflect changes in its value at each succeeding fiscal year-end, but these recognized gains or losses will net to zero if the investment is held to maturity. By following the requirements of GASB 31, the City is reporting the amount of resources which would actually have been available if it had been required to liquidate all its investments at any fiscal year-end.

**C. Restricted Cash**

The City’s restricted cash consisted of \$16,332,219 in cash and investments as of June 30, 2014 held by trustees or fiscal agents. The City had \$6,394,037 in restricted cash and investments held by the City. This restricted cash is pledged for the payment or security of certain bonds, certificates of participation, and lease obligations. The California government code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make. In some situations, these investments differ from those permitted by the City investment policy. Included in these investments at June 30, 2014 is a guaranteed

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

investment contract with a maturity date in fiscal year 2035 authorized in the bond indenture and by City Council prior to purchase.

**D. External Investment Pools**

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations. These investments may include the following:

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.

Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2014, the City had \$75,119,623 (estimated fair value) invested in LAIF. LAIF had invested 1.96% of the pool investment funds in Structured Notes and Asset-Backed Securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The City valued its investments in LAIF as of June 30, 2014, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. The fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized costs.

Accordingly, as of June 30, 2014, the City's investment in LAIF at fair value amounted to \$75,119,623 using a LAIF fair value factor of 1.00029875. The fair value of the City's position in the pool is materially equivalent to the value of the pool shares.

The City is also a voluntary participant in the San Mateo County Investment Fund that is regulated by California Government Code Section 16429 under oversight of the Treasurer of the County of San Mateo. The City reports its investment in the San Mateo County Investment Fund at the fair value amount provided by County of San Mateo. Included in the San Mateo County Investment Fund investment portfolio are US Treasury Notes, Obligations issued by agencies of the United States Government, LAIF, Corporate Notes, Commercial Paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.



**NOTE 3 - LOANS RECEIVABLE**

As of June 30, 2014, loans receivable consist of the following:

	<u>Government-wide</u>	<u>Private Purpose Trust Fund</u>
	\$	\$
Wyndham Place First Time Homebuyer Loan Program	439,383	
City Centre Plaza Loans	371,076	1,073,924
First Time Homebuyer Silent Loan Program	330,850	
Loans with Non-profits and For Profit Organizations	1,133,153	
Housing Rehabilitation Loans	1,612,292	
Shores Childcare Loan	1,534,452	
First Community Housing Loan	2,627,000	
PAL Loan	221,429	
Kainos Home and Training Center Loans	507,500	
HIP Housing Development Corporation Loan	92,197	
Mental Health Association of San Mateo County Loan	400,000	
Total	<u>9,269,332</u>	<u>1,073,924</u>

**A. *Wyndham Place First Time Homebuyer Loan Program***

The City established a First Time Homebuyer Program during fiscal year 1995 on a specific development sponsored by the former Redevelopment Agency called Wyndham Place. The program currently involves the resale of Wyndham units where the City has First Right of Refusal. The City exercises its First Right of Refusal and markets the units to qualified buyers.

A portion of the City's Shared Appreciation is used to assist the new buyer in the Resale Program. While the initial program in 1995 made 0% interest loans, current buyers in the Resale Program are assisted according to the needs of the borrower. Depending on the borrower's ability to secure private financing for a first mortgage, the City loan is underwritten based on the borrower's spendable income.

These loans bear no interest and are secured by second deeds of trust on the property, and typically, no payments are due until five years after the date of purchase. As of June 30, 2014 the City has outstanding loans of \$439,383 to twelve Wyndham Place buyers.

**B. *City Centre Plaza Loans***

The former Redevelopment Agency sold several parcels of land to the developers of the City Centre Plaza project (a residential and commercial development) for \$1,700,000 in 1996. The developers constructed City Center Plaza, which contains 81 affordable housing units, a childcare facility, residential and commercial parking, and 17,900 square feet of retail space. The promissory note from Mezes Court Associate in the amount of \$1,445,000 is to be repaid through 2028 from surplus revenues generated by the housing project and accrued interest at 3%, with \$371,076 due to the City's Low and Moderate Income Housing Asset Fund, and \$1,073,924 due to the Successor Agency Private Purpose Trust Fund.

**NOTE 3 - LOANS RECEIVABLE (CONTINUED)**

**C. *First Time Homebuyer Silent Loan Program***

In 2000, the former Redevelopment Agency established a First Time Homebuyer Silent Loan Program. Loans are deferred for the first five years, and then amortized at 4% interest over the remaining 25 years. An Equity Participation requirement shares appreciation based on the amount of the Agency's original loan amount. At June 30, 2014 there were outstanding loans to six homebuyers totaling \$330,850.

**D. *Loans with Non-profits and For Profit Organizations***

The City and former Redevelopment Agency loaned \$500,000 to MP Redwood Court Associates and \$650,000 to Hallmark Apartments LLP. The MP Redwood Court Associates loan agreement was entered into in July 2003 for the repair and rehabilitation of housing units. The loan term is 55 years and bears 0% interest. The loan to Hallmark Apartments LLP has interest deferred for the first 30 years after which it bears interest at 3% until the December 2058 maturity. The outstanding balance at June 30, 2014 was \$1,133,153.

**E. *Housing Rehabilitation Loans***

The City and former Redevelopment Agency have outstanding loans for housing rehabilitation in the amount of \$1,612,292.

**F. *Shores Childcare Loan***

The City entered into an agreement with Shores Childcare, LLC whereby \$3,200,000 was loaned to Shores Childcare, LLC for construction of a childcare facility on City-owned land in the Redwood Shores area. The term of the loan is 20 years maturing January 2023, with interest payable quarterly and calculated based on the quarterly rate of the State of California Local Agency Investment Fund plus 250 basis points. The outstanding balance of the loan at June 30, 2014 was \$1,534,452.

**G. *First Community Housing Loan***

The City entered into an agreement with First Community Housing whereby \$2,627,000 (\$200,000 from Community Development Block Grant, \$1,927,000 from the former Redevelopment Agency low and moderate housing fund, \$500,000 pass-through from County of San Mateo) was loaned to First Community Housing for construction of the Villa Montgomery housing development at El Camino and Vera Avenue. The portion of the loan attributable to the former Redevelopment Agency has been transferred to the City's Low and Moderate Income Housing Asset fund. The loan bears interest at 3% for 40 years. The loan will be repaid annually from 70% of the project's net cash flow. The outstanding balance of the loan at June 30, 2014 was \$2,627,000.

**H. *Police Activities League Loan***

In March 2006, the City paid off a construction loan in the amount of \$1,500,000 that the Police Activities League (PAL), a separate, private, non-profit agency, entered into with Bay Area Bank to partially finance the construction of the new PAL community center at Taft School. The City Council and

**NOTE 3 - LOANS RECEIVABLE (CONTINUED)**

PAL agreed that one-half of the amount, or \$750,000, will be paid back to the City by PAL over a period of 15 years. The outstanding balance of the loan at June 30, 2014 was \$221,429.

***I. Kainos Home and Training Center Loan***

In 1997/98, the City entered into an agreement with Kainos Home and Training Center whereby \$57,500 from Community Development Block Grant was loaned to acquire property for Kainos Home and Training Center. The loan is deferred and payable upon the sale of the property, at which time the City would receive repayment of the loan plus any accrued equity based on the prorated City share.

In 2012/13 the City entered into a second agreement with Kainos Home and Training Center whereby \$450,000 from HOME grant was loaned to acquire property located at 1033 Redwood Avenue for special needs housing. The loan is deferred for a term of 30 years at 0% interest.

***J. HIP Housing Development Corporation (HHDC) Loan***

In March 2013, the City entered into an agreement with HHDC whereby \$92,197 from HOME investment Partnership Act (HOME) funds were loaned to assist in the rehabilitation of a 12 unit apartment building located at 1157-1161 Willow Road in Menlo Park. The loan is deferred for a term of 30 years at 3% interest. The outstanding balance of the loan at June 30, 2014 was \$92,197.

***K. Mental Health Association of San Mateo County (MHA) Loan***

In July, 2013, the City entered into an agreement with MHA whereby \$400,000 from Community Development Block Grant (CDBG) was loaned to assist with the acquisition of a vacant commercial property located at 105 5<sup>th</sup> Avenue in Redwood City. The loan is deferred for a term of 30 years at 0% interest.

**NOTE 4 – CAPITAL ASSETS**

**A. Summary**

Capital assets at June 30 are comprised of the following:

	Beginning Balance \$	Additions \$	Retirements \$	Transfers \$	Ending Balance \$
<b>Government activities</b>					
Capital assets not being depreciated:					
Land	30,977,979	-	-	-	30,977,979
Construction in progress	20,252,073	5,152,914	(3,353,741)	(11,170,636)	10,880,610
Total capital assets not being depreciated	<u>51,230,052</u>	<u>5,152,914</u>	<u>(3,353,741)</u>	<u>(11,170,636)</u>	<u>41,858,589</u>
Capital assets being depreciated:					
Buildings	83,309,015	-	-	-	83,309,015
Accumulated depreciation	(25,093,249)	(1,664,156)	-	-	(26,757,405)
Improvements other than buildings	4,117,663	-	-	2,156,421	6,274,084
Accumulated depreciation	(1,377,426)	(195,988)	-	-	(1,573,414)
Parks	26,936,438	-	-	1,434,964	28,371,402
Accumulated depreciation	(14,363,447)	(891,810)	-	-	(15,255,257)
Streets	109,082,443	-	-	1,953,773	111,036,216
Accumulated depreciation	(56,827,208)	(4,220,060)	-	-	(61,047,268)
Bridges	2,248,335	-	-	-	2,248,335
Accumulated depreciation	(1,750,106)	(74,945)	-	-	(1,825,051)
Traffic Signals	2,606,620	-	-	-	2,606,620
Accumulated depreciation	(1,922,218)	(94,157)	-	-	(2,016,375)
Storm Drains	7,326,474	-	-	4,300,762	11,627,236
Accumulated depreciation	(1,533,289)	(263,600)	-	-	(1,796,889)
Machinery & Equipment	20,963,650	1,336,206	(179,863)	1,324,716	23,444,709
Accumulated depreciation	(11,403,225)	(1,557,018)	115,543	-	(12,844,700)
Net capital assets being depreciated	<u>142,320,470</u>	<u>(7,625,528)</u>	<u>(64,320)</u>	<u>11,170,636</u>	<u>145,801,258</u>
Governmental activity capital assets, net	<u>193,550,522</u>	<u>(2,472,614)</u>	<u>(3,418,061)</u>	<u>-</u>	<u>187,659,847</u>
<b>Business-Type Activities</b>					
Capital assets not being depreciated:					
Land	3,447,522	-	(267,250)	-	3,180,272
Construction in progress	14,890,312	12,379,559	-	(6,266,011)	21,003,860
Total capital assets not being depreciated	<u>18,337,834</u>	<u>12,379,559</u>	<u>(267,250)</u>	<u>(6,266,011)</u>	<u>24,184,132</u>
Capital assets being depreciated:					
Harbor improvements	4,045,440	-	-	-	4,045,440
Accumulated depreciation	(2,815,666)	(112,389)	-	-	(2,928,055)
Buildings	61,212,575	-	-	-	61,212,575
Accumulated depreciation	(10,575,643)	(1,270,034)	-	-	(11,845,677)
Machinery and equipment	1,644,706	16,261	-	-	1,660,967
Accumulated depreciation	(1,322,079)	(84,596)	-	-	(1,406,675)
Improvements other than buildings	161,301,995	239,913	-	6,266,011	167,807,919
Accumulated depreciation	(47,839,969)	(3,671,615)	-	-	(51,511,584)
Net capital assets being depreciated	<u>165,651,359</u>	<u>(4,882,460)</u>	<u>-</u>	<u>6,266,011</u>	<u>167,034,910</u>
Business-type activity capital assets, net	<u>183,989,193</u>	<u>7,497,099</u>	<u>(267,250)</u>	<u>-</u>	<u>191,219,042</u>

**B. Depreciation Allocation**

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

**Governmental Activities**

	\$
Community Development	216,438
Human Services	82,959
Public Safety	1,196,420
Transportation	4,364,062
Leisure, cultural, and information services	1,950,916
Policy development and implementation	805,681
Environmental support and protection	345,257
Total Depreciation Expense-Governmental Activities	<u><u>8,961,733</u></u>

**Business-Type Activities**

	\$
Water Utility Fund	2,918,486
Sewer Utility fund	523,563
Parking Fund	579,103
Dock Town	32,258
Port of Redwood City	1,085,224
Total Depreciation Expense-Business-Type Activities	<u><u>5,138,634</u></u>

**NOTE 5 – INVESTMENT IN SILICON VALLEY CLEAN WATER AUTHORITY**

Redwood City has an investment of \$27,309,412 in a joint powers authority (JPA) with the cities of San Carlos, Belmont, and the West Bay Sanitation District. In addition, the City and the Port of Redwood City have investments of \$4,801,729 and \$400,000, respectively, in Silicon Valley Clean Water Authority (SVCW) stage II construction. SVCW operates and maintains a sewer plant which was jointly constructed with federal and state grants and contributions from participating entities. SVCW is run by its board of directors which is comprised of four members. The city councils of each member city and the board of the West Bay Sanitation District each select one of their own members to serve on this board. No member agency has control of SVCW's budget, finances, or operations. The board acts autonomously of the respective member agencies.

Audited financial statements are available from Silicon Valley Clean Water Authority, 1400 Radio Road, Redwood City, CA 94065.

The condensed unaudited financial information of the JPA as of June 30, 2014 is as follows:

	\$
Total Assets	230,094,531
Total Liability	<u>155,718,113</u>
Total Net Position	<u><u>74,376,418</u></u>
Total Operating Revenues	33,530,273
Total Operating Expenses	<u>26,912,311</u>
Total Operating Income (loss)	6,617,962
Other Income (loss)	<u>(3,590,727)</u>
Net Income (loss)	<u><u>3,027,235</u></u>

**NOTE 5 – INVESTMENT IN SILICON VALLEY CLEAN WATER AUTHORITY (CONTINUED)**

	\$
Cumulative Agency Balances:	
Belmont	19,511,416
San Carlos	7,169,223
Redwood City	32,111,141
West Bay Sanitation District	<u>15,584,638</u>
Total Net Position	<u><u>74,376,418</u></u>

**NOTE 6 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT**

**A. Description**

Redwood City has no outstanding general obligation bonds. The following is the list of long-term obligations of the City.

**2013 Public Financing Authority Refunding lease** – In May 2013, the City entered into a lease agreement with BBVA Compass Bank in the amount of \$3,360,000 to refund the 2003 Public Financing Authority Bonds. Net proceeds of \$3,292,748 plus the 2003 Public Financing Authority Bond Reserve were utilized for the purpose of establishing an irrevocable escrow to refund \$5,880,000 of the City’s 2003 Public Financing Authority Bonds. Principal is due in annual installments of \$324,742 to \$347,486, with total principal and interest remaining on the lease in the amount of \$3,150,988 through July 15, 2018, payable out of the Public Financing Authority Refunding Lease Debt Service fund out of lease payment revenue received from the general fund, requiring less than 10% of net revenues. The refunding resulted in a decrease in total debt service payments of \$347,302 and an economic gain of \$270,485.

**B. Changes in Long-Term Obligations**

As of June 30, 2014, the City had the following long-term obligations outstanding:

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>	%	\$	\$	\$	\$	\$
2013 PFA Refunding Lease	1.51	<u>3,360,000</u>		<u>324,742</u>	<u>3,035,258</u>	<u>656,858</u>
Total Bonds and Loans		<u>3,360,000</u>		<u>324,742</u>	<u>3,035,258</u>	<u>656,858</u>
<b>Accrued Sick Leave and Vacation</b>		<u>9,535,933</u>	<u>830,536</u>	<u>386,490</u>	<u>9,979,979</u>	<u>346,856</u>
Total Governmental Activities Long-Term Debt		<u><u>12,895,933</u></u>	<u><u>830,536</u></u>	<u><u>711,232</u></u>	<u><u>13,015,237</u></u>	<u><u>1,003,714</u></u>

At year-end, \$923,259 of internal service fund compensated absences is included in the above amounts. For the governmental activities, compensated absences are generally liquidated by the general fund.

**NOTE 6 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)**

**C. Annual Repayment Requirements for Long-Term Debt**

**Governmental Activities:**

Year End June 30	Refunding Lease		Total	
	Principal	Interest	Principal	Interest
	\$	\$	\$	\$
2015	656,858	43,362	656,858	43,362
2016	666,814	33,406	666,814	33,406
2017	676,920	23,299	676,920	23,299
2018	687,180	13,039	687,180	13,039
2019	347,486	2,624	347,486	2,624
	<u>3,035,258</u>	<u>115,730</u>	<u>3,035,258</u>	<u>115,730</u>

**NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT**

**A. Description**

**Revenue Bonds:**

**Port of Redwood City 1999 Revenue Bonds** – In April 1999, bonds were issued in the amount of \$10,945,000 to finance improvements to the Port, the majority of which was expended on cleaning up hazardous waste remaining at the Port's liquid bulk terminal. The bonds are due in annual installments of \$170,000 to \$690,000 through 2030, with total principal and interest remaining of \$11,573,241. The bonds are payable out of net revenues of the Port, which are expected to equal at least 120% of the annual debt service requirement.

**Port of Redwood City 2012 Revenue Bonds** – In June 2012, bonds were issued in the amount of \$10,000,000 to finance construction of the Port's Wharf 1 & 2 Redevelopment Project. The bonds are due in annual installments of \$294,620 to \$725,679 through 2032, with total principal and interest remaining of \$13,361,287. The bonds are payable out of net revenues of the Port, which are expected to equal at least 120% of the annual debt service requirement.

**Water Revenue Bonds Series 2006A** – In February 2006, Redwood City Public Financing Authority issued \$26,000,000 of bonds to finance a portion of the City's recycled water project. Principal and interest is payable in 29 annual installments of \$1,568,926 to \$1,573,906 from August 2006 through February 2035, with total principal and interest remaining of \$32,998,720. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

**Water Revenue Bonds Series 2007A** – In February 2007, Redwood City Public Financing Authority issued \$15,150,000 of bonds to finance a portion of the City's recycled water project. Principal and interest is payable in 28 annual installments of \$728,072 to \$950,950 from August 2007 through February 2035, with total principal and interest remaining of \$19,912,062. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

**NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)**

**Water Revenue Bonds Series 2013** – In June 2013, Redwood City Public Financing Authority issued \$26,870,000 of bonds to refund the remaining Water Revenue Bonds Series 2005A. The refunding resulted in a decrease of total debt service payments of \$2,386,569 and an economic gain of \$1,231,113. Principal and interest is payable in 21 annual installments of \$1,584,262 to \$2,063,000 from August 2013 through February 2034, with total principal and interest remaining of \$41,212,700. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

**Pledges of Future Revenues** - The pledge of future water utility fund revenues ends upon repayment of the \$60.2 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2034-35. For fiscal year 2013-14, water utility fund operating revenues amounted to \$35,655,559 and operating expenses excluding depreciation and amortizations amounted to \$25,032,582. Net revenues available for debt service amounted to \$10,622,977 which represented coverage ratio of 2.58 over the \$4,114,566 in debt service.

The pledge of future Port of Redwood City fund revenues ends upon repayment of the \$17.1 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2031-32. Port of Redwood City fund operating revenues amounted to \$6,824,473 and operating expenses excluding depreciation, amortizations and subvention to the City amounted to \$2,840,631. Net revenues available for debt service amounted to \$3,983,842 which represented coverage ratio of 2.71 over the \$1,468,257 in debt service.

**Loans:**

**Yacht Harbor Rehabilitation Loan** – A loan from the State of California in the original principal amount of \$880,000. The loan is payable in annual installments of principal and interest of \$53,648 through the year 2024, with total principal and interest remaining of \$536,460. The loan is payable out of net revenues of the Port, but subordinated to the Port 1999 Revenue Bonds. At June 30, 2014, the ratio of net revenues to the debt service payment due during FY 2013-14 was 2.71 (271%).

**Parking Fund Loan** – A loan agreement with the civic center construction fund in the original principal amount of \$1,300,000 to finance the construction of the parking fund's downtown parking structure. Payments were for interest only until funds were available to pay principal. In 2000-01, the civic center construction fund was closed, and the loan receivable was transferred to the capital outlay fund. All principal was repaid as of June 30, 2014.



City of Redwood City  
Notes to the Basic Financial Statements  
For the year ended June 30, 2014

**NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)**

**B. Changes in Debt**

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
	%	\$	\$	\$	\$	\$
<b>Business-type Activities:</b>						
<b>Revenue Bonds:</b>						
Port of Redwood City - 1999 Series	4.00-5.25	8,060,000		305,000	7,755,000	320,000
Port of Redwood City - 2012 Series	4.20-4.20	9,705,380		341,186	9,364,194	355,795
Water Revenue Bonds Series 2006A	3.50-4.50	22,005,000		640,000	21,365,000	660,000
Water Revenue Bonds Series 2007A	4.00-4.50	13,230,000		375,000	12,855,000	390,000
Water Revenue Refunding Bonds Series 2013	3.00-5.00	26,870,000		830,000	26,040,000	855,000
Unamortized Premium		3,488,605		166,094	3,322,511	
Unamortized Discount - Water		(42,883)		(1,950)	(40,933)	
Unamortized Discount - Port		(278,438)		(10,536)	(267,902)	
		<u>83,037,664</u>		<u>2,644,794</u>	<u>80,392,870</u>	<u>2,580,795</u>
<b>Loans:</b>						
Yacht Harbor Rehabilitation Loan	4.70	457,548		33,058	424,490	34,546
Parking Fund Loan	variable	1,300,000		1,300,000		
		<u>1,757,548</u>		<u>1,333,058</u>	<u>424,490</u>	<u>34,546</u>
Total Bonds and Loans		<u>84,795,212</u>		<u>3,977,852</u>	<u>80,817,360</u>	<u>2,615,341</u>
Accrued Sick Leave and Vacation		968,511	383,157	549,137	802,531	394,505
Total Business-type Activities Long-Term Debt		<u>85,763,723</u>	<u>383,157</u>	<u>4,526,989</u>	<u>81,619,891</u>	<u>3,009,846</u>

**C. Annual Repayment Requirements for Business-type Activities Long Term Debt**

**Business-Type Activities:**

Year End June 30	Revenue Bonds		Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	\$	\$	\$	\$	\$	\$
2015	2,580,795	3,460,204	34,546	19,102	2,615,341	3,479,306
2016	2,681,029	3,360,070	36,101	17,547	2,717,130	3,377,617
2017	2,801,916	3,246,709	37,725	15,923	2,839,641	3,262,632
2018	2,918,483	3,127,341	39,423	14,225	2,957,906	3,141,566
2019	3,025,759	3,016,152	41,197	12,451	3,066,956	3,028,603
2020-2024	17,189,969	13,035,560	235,498	32,722	17,425,467	13,068,282
2025-2029	21,472,372	8,764,852			21,472,372	8,764,852
2030-2034	22,293,871	3,559,256			22,293,871	3,559,256
2035-2039	2,415,000	108,676			2,415,000	108,676
	<u>77,379,194</u>	<u>41,678,820</u>	<u>424,490</u>	<u>111,970</u>	<u>77,803,684</u>	<u>41,790,790</u>

**NOTE 8 – DEBT WITHOUT CITY COMMITMENT**

**A. Successor Agency Private Purpose Trust Fund Debt**

**Tax Increment Bonds:**

**2003 Tax Allocation Bonds** – In October 2003, the former Redevelopment Agency issued \$33,997,448 in bonds to finance various downtown improvements. These bonds consist of current coupon bonds and capital appreciation bonds. The current coupon bonds pay interest-only through January 15, 2010. Principal on the current coupon bonds is paid in annual installments of \$1,225,000 to \$3,045,000 from July 15, 2010 to July 15, 2015. Payments reflecting interest and principal on the capital appreciation bonds are due in annual installments of \$3,505,000 to \$3,510,000 from July 15, 2015 through July 15, 2032. Total principal and interest remaining on the bonds is \$66,304,369. Payments are made from property tax increment generated by the former redevelopment agency fund.

**B. Community Facilities District (Mello-Roos) Bonds**

On October 17, 2000, the Community Facilities District (CFD) issued \$21,000,000 of bonds on behalf of the developer of the Pacific Shores Project to fund various transportation system improvements within the City's right-of-way that were required as a condition of the development.

In July 2012 the CFD issued \$5,555,000 Community Facilities District No. 2000-1 Pacific Shores Special Tax Refunding Bonds, Series 2012 to refund \$8,655,000 of the Series 2000A bonds. The refunding reduced annual debt service payments by approximately 25% or \$52,000, and resulted in an economic gain of \$398,000, which equates to 7.61% of the refunding bonds.

These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings.

The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2014, the outstanding principal amount was \$4,215,000.

On January 17, 2001, the Shores Transportation Improvement District issued \$5,045,000 of Phase I CFD bonds, and on September 3, 2003 the District issued \$7,505,000 of Phase II CFD bonds. The proceeds of these bonds were used to fund various transportation projects that are required under development agreements with commercial property owners in the Redwood Shores area of the City.

In December 2012 the Shores Transportation District issued \$10,275,000 Redwood Shores Community Facilities District No. 99-1 Special Tax Refunding Bonds, Series 2012B to refund \$3,640,000 of the outstanding Series 2001A Bonds and \$6,675,000 of the outstanding Series 2003A Bonds. The refunding reduced annual debt service payments by approximately 16% or \$140,000, and resulted in an economic gain of \$1.7 million, which equates to 16.62% of the refunding bonds.

These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the

**NOTE 8 – DEBT WITHOUT CITY COMMITMENT (CONTINUED)**

payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings. The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2014, the outstanding principal amount was \$9,700,000.

On April 5, 2011, the Community Facilities District (CFD) issued \$5,760,000 of bonds on behalf of the developer of the One Marina Project to fund various transportation system improvements within the City's right-of-way that were required as a condition of the development.

These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings.

The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2014, the outstanding principal amount was \$5,760,000.

**NOTE 9 – EMPLOYEE BENEFITS**

**A. *Retirement System***

**PERS Safety and Miscellaneous Employees' Plans**

Substantially all City employees are eligible to participate in pension plans offered by California Public Employees' Retirement System (PERS), an agent multiple-employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. The City's employees participate in the separate safety (police and fire) and miscellaneous (all other) employee plans. Benefit provisions under both plans are established by state statute and City resolution.

Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both plans are determined annually on an actuarial basis as of June 30 by PERS; the City must contribute these amounts.

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

The plans' provisions and benefits in effect at June 30, 2014 are summarized as follows:

	Public Safety Tier 1	Public Safety Tier 2	Public Safety Tier 3
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	50	50
Benefit factor for each year of service, as a % of annual salary	3%	2.4% - 3%	2% - 2.7%
Required employee contribution rates	9%	9%	12%

	Miscellaneous Tier 1	Miscellaneous Tier 2	Miscellaneous Tier 3
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	50	52
Benefit factor for each year of service, as a % of annual salary	2% - 2.7%	1.092% - 2.418%	1% - 2.5%
Required employee contribution rates	8%	7%	6.25%

The City's Tier 2 plans for public safety and miscellaneous cover new employees hired on or after October 13, 2011.

The City's Tier 3 plans for public safety and miscellaneous cover new employees hired on or after January 1, 2013 pursuant to the Public Employees' Pension Reform Act of 2013.

Employer contributions are determined by PERS as a percentage of covered payroll and represent the actuarially required contribution. The employer contributions for the past three years are:

	Public Safety	Miscellaneous
2012	35.315%	18.328%
2013	35.645%	19.462%
2014	36.316%	20.856%

Since the City consistently applied the employer contribution rates, as determined by PERS, the City's annual pension cost equaled the City's actuarially required contribution for the fiscal year ended June 30, 2014.

All qualified permanent and probationary employees are eligible to participate in PERS. A credited service year is one year of full time employment. In accordance with the memorandums of understanding with the various employee groups, the City may contribute a portion of the employee contribution. This contribution varies from group to group. These benefit provisions and all other requirements are established by state statute and City ordinance. Contributions necessary to fund PERS on an actuarial basis are determined by PERS and its Board of Administration.

Police and fire safety employees hired before October 13, 2011 (Tier 1) are covered under the "3% at 50" formula. Under this retirement plan, an employee's retirement earnings at age 50 are calculated by

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

multiplying 3% by the employee's years of service. This percentage factor increases with the employee's age upon retirement.

Police and fire safety employees hired on or after October 13, 2011 (Tier 2) are covered under the "3% at 55" formula. Under this retirement plan, an employee's retirement earnings at age 55 are calculated by multiplying 3% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service, with the maximum percentage factor equal to 3%.

Police and fire safety employees hired on or after January 1, 2013 (Tier 3) are covered under the "2.7% at 57" formula. Under this retirement plan, an employee's retirement earnings at age 57 are calculated by multiplying 2.7% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service, with a maximum percentage factor equal to 2.7% at age 57.

Miscellaneous employees hired before October 13, 2011 (Tier 1) are covered under the "2.7% at 55" formula. Under this retirement plan, an employee's retirement earnings, at age 55, are calculated by multiplying 2.7% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

Miscellaneous employees hired on or after October 13, 2011 (Tier 2) are covered under the "2% at 60" formula. Under this retirement plan, an employee's retirement earnings at age 60 are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

Miscellaneous employees hired on or after January 1, 2013 (Tier 3) are covered under the "2% at 62" formula. Under this retirement plan, an employee's retirement earnings at age 62 are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 52 at a reduced pension amount. The pension amount increases with age and length of service, with a maximum percentage factor equal to 2.5% at age 67.

PERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities.

PERS uses the market-related value method of valuing the plan's assets. An investment rate of return of 7.5% is assumed, including inflation at 2.75%. Annual salary increases are assumed to vary depending on duration of service, age, and type of employment. Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of payroll over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year period with Direct Rate Smoothing with a 5-year ramp up/ramp down. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Audited annual financial statements and ten-year trend information for the fiscal year ended June 30, 2014, the most recent available, are available from PERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Total current payroll for all covered employees for the fiscal year ended June 30, 2014 was \$51,693,811. The payroll subject to retirement amounted to \$24,473,497 for public safety and \$27,220,314 for the miscellaneous group.

PERS has reported that the value of the net assets in the plan held for pension benefits changed as follows during the year ended June 30, 2013, the most recent available:

	<u>Public Safety</u>	<u>Miscellaneous</u>
	\$	\$
Beginning Balance 6/30/12	166,637,935	150,822,644
Contributions Received	11,406,260	9,217,945
Benefits and Refunds Paid	(13,180,525)	(10,664,339)
Expected Investment Earnings Credited	21,353,383	19,258,218
	<u>186,217,053</u>	<u>168,634,468</u>
Market Value of Assets 6/30/13	<u>186,217,053</u>	<u>168,634,468</u>
Market Value of Assets 6/30/13 Including Receivables	<u>187,110,004</u>	<u>169,943,544</u>

Additional disclosures will be included when made available by PERS.

Three years of trend information regarding annual pension costs for both plans is summarized as follows:

Fiscal Year	<u>Public Safety</u>			<u>Miscellaneous</u>		
	Annual Pension Cost	Percentage of APC	Net Pension Obligation	Annual Pension Cost	Percentage of APC	Net Pension Obligation
	APC	Contributed		APC	Contributed	
	\$			\$		
2012	7,384,820	100%	-	4,964,308	100%	-
2013	7,814,972	100%	-	5,362,636	100%	-
2014	8,887,795	100%	-	5,677,538	100%	-

As of June 30, 2013, the most recent actuarial valuation date, the public safety plan was 66.2% funded, the actuarial liability (AAL) for benefits was \$282,699,515, and the market value of plan assets was \$187,110,004, resulting in an unfunded actuarial accrued liability (UAAL) of \$95,589,511. The covered payroll (annual payroll of active employees covered by the plan) was \$21,048,349 and the ratio of UAAL to the covered payroll was 454.1%.

For the miscellaneous plan, the plan was 70.2% funded, the AAL for benefits was \$242,120,498, and the market value of plan assets was \$169,943,544, resulting in a UAAL of \$72,176,954. The covered payroll was \$27,759,758 and the ratio of UAAL to the covered payroll was 260%.

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**B. Post Employment Benefits**

**Redwood City:**

The City administers a single-employer defined benefit post employment healthcare plan. Permanent employees who retire under the City's retirement plan (CalPERS) are, pursuant to their respective collective bargaining agreements, eligible to have their medical insurance premiums reimbursed by the City up to the Kaiser family premium rate. Medical insurance premiums for spouses and other dependents generally are not paid by the City. In the case of public safety disability retirement, the City provides medical insurance for dependents. Currently there are 367 retirees receiving this benefit.

The City is not required by law or contractual agreement to provide funding for retiree health costs other than the pay-as-you-go amount necessary to provide current benefits to retirees. The City's retiree health plan is being managed through the California Employer's Retiree Benefits Trust (CERBT), an irrevocable trust fund that allows public employers to prefund the future cost of their retiree health insurance benefits and other post employment benefits for their covered employees or retirees.

The CERBT's administrator, CalPERS, issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811. During FY 2013-14, the City contributed \$4,890,000, or 100%, of the actuarially required contributions to the retiree health plan.

Total current payroll for all covered employees for the fiscal year ended June 30, 2014 was \$48,399,901.

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

The following table shows the components of the City’s annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation.

	\$
Annual Required Contribution	4,802,000
Interest on net OPEB obligation	530,000
Adjustment to annual required contribution	<u>(442,000)</u>
Annual OPEB Cost	4,890,000
Contributions made to irrevocable trust	(2,419,901)
Benefit payments made outside of trust	<u>(2,470,099)</u>
Increase in net OPEB obligation	
Net OPEB obligation - beginning of the year	<u>6,962,477</u>
Net OPEB obligation - end of the year	<u><u>6,962,477</u></u>

The General fund, the Capital Outlay fund, and other non-major funds have been used to finance the net OPEB obligation.

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2014 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation (Asset)
	\$	%	\$
6/30/2012	5,018,000	98	6,868,477
6/30/2013	5,172,000	98	6,962,477
6/30/2014	4,890,000	100	6,962,477

As of June 30, 2013, the most recent actuarial valuation date, the plan was 19.6% funded. The actuarial accrued liability (AAL) for benefits was \$56,177,000, and the actuarial value of plan assets was \$11,001,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$45,176,000. The covered payroll (annual payroll of active employees covered by the plan) was \$48,399,901 and the ratio of UAAL to the covered payroll was 93.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are



**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the actuarial cost method used is Entry Age Normal (EAN) cost method. Under the EAN cost method, the plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime. Entry age is based on current age minus years of service. The Actuarial Accrued Liability (AAL) is the cumulative value on the valuation date of prior Normal Cost. For the retirees, the AAL is the present value of all projected benefits. The Unfunded AAL is being amortized as a level dollar closed 30 year basis, as a level percent of payroll with a remaining amortization period at June 30, 2014 of 27 years.

GASB 45 requires the interest rate to represent the underlying expected return for the source of funds used to pay benefits. The actuarial methods and assumptions included a 7.61% interest rate, annual inflation at 3% per annum, aggregate payroll assumed to increase at 3.25% per annum, and an annual healthcare trend rate of 8.5% - 8.9% for 2014, reduced gradually each year with an ultimate rate of 5% for 2021 and thereafter. The study also used assumptions for the salary merit and longevity increases, and demographic assumptions such as mortality, withdrawal, and disability based on CalPERS 1997-2007 Experience Study. Retirement assumption was also based on CalPERS 1997-2007 Experience Study. For employees hired before October 24, 2011 it was assumed Miscellaneous Plan 2.7% at 55 years, with expected retirement age of approximately 57.8, and Public Safety 3% at 50 years, with expected retirement age of approximately 54 for Police and 54.9 for Fire.

For employees hired on or after October 24, 2011 it was assumed Miscellaneous Plan 2% at 60 years, with expected retirement age of approximately 60.3 years, and Public Safety 3% at 55 years, with expected retirement age of approximately 59.1 for Police and 56.9 for Fire.

**Port of Redwood City:**

The other post-employment benefits (other than pension) offered by the Port are limited to reimbursement of medical premiums only. Eligibility extends to those employees hired before January 1, 2011 who have worked ten or more consecutive years at the Port on a full time basis, and prior to retirement are: (a) enrolled in the Port's medical plan, (b) age 55 or older, and (c) have not been voluntarily or involuntarily terminated from employment at the Port. Spouses and/or dependents are ineligible.

The reimbursement of medical premiums is limited to the lesser of: (a) the medical insurance premium paid by the eligible retiree, or (b) the Port's cost to provide medical coverage for an active employee of the same age as the retiree, or (c) the insurance premium for a Medicare supplement plan at the retiree's earliest Medicare eligibility age, whether or not the retiree enrolls in Medicare.

The accounting rules governing other post-employment benefits (OPEB) do not require mandatory funding of the actuarial accrued liability or annual required contribution. During the fiscal year ended June 30, 2011, the Port adopted a comprehensive funding policy for post-employment benefits other than pension. The policy addresses the selection of a Section 115 Trust, prefunding strategy, valuation frequency, valuation methodology, disbursements, and administrative matters. The Section 115 Trust selected was the CalPERS California Employer's Retiree Benefit Trust Program (CERBT).

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

For the fiscal year ended June 30, 2014, the Port’s annual OPEB cost was \$32,421; of this amount \$1,539 was expensed and funded by reimbursements to current retirees and the remaining \$30,882 net OPEB obligation was expensed and recorded as a liability. Combined with the \$141,250 net OPEB obligation as of June 30, 2013, the total net OPEB obligation as of June 30, 2014 was \$172,132.

The annual required contribution was determined as part of the July 1, 2013 actuarial valuation using the Entry Age Actuarial Cost Method and assumptions consistent with the CalPERS OPEB Assumptions Model. The actuarial assumptions included: (a) salary increases of 3.25% per year, (b) a discount rate of 7.61%, (c) 100% of eligible employees assumed to elect coverage upon retirement and to remain covered for life, (d) retirement, withdrawal, and mortality rates based on CalPERS Assumption model for the classification “public agency miscellaneous 2.7% at 55”, and (e) medical premium inflation rates ranging from 9% to 6% over time. The actuarial present value of future benefits was calculated for each individual using the economic assumptions and specific member data, then aggregated. The amortization component of the unfunded actuarial accrued liability was based on a 30 year amortization period.

The following table shows the components of the Port’s annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the Port’s net OPEB obligation:

<b>Annual OPEB Costs and Net OPEB Obligation</b>		\$
Normal cost		7,905
Amortization of unfunded actuarial accrued liability		23,150
Annual required contribution		31,055
Interest on beginning net OPEB obligation		10,470
Annual required contribution adjustment		(9,104)
Annual OPEB expense		32,421
Actual current year employer payment		(1,539)
Increase in OPEB obligation		30,882
Net OPEB obligation at June 30, 2013		141,250
Net OPEB obligation at June 30, 2014		172,132
 <b>OPEB Unfunded Actuarial Accrued Liabilities</b>		 \$
Actuarial accrued liabilities		349,824
Actuarial value of plan assets		349,824
Unfunded actuarial accrued liabilities (UAAL)		0
Funded ratio		0%
Covered payroll		636,746
UAAL as a % of covered payroll		54.94%

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

The Port’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan for 2014 and the two preceding fiscal years were as follows:

Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation (Asset)
	\$	%	\$
6/29/2012	32,046	5.05	115,042
6/30/2013	28,260	7.26	141,250
6/30/2014	32,421	43.2	159,666

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the new employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**C. Cafeteria Benefit Plan**

The City has a cafeteria benefit plan established pursuant to section 125 of the IRS code. Under this plan eligible employees may direct a contribution, made by the City or elect to contribute pre-tax dollars, into any combination of the following three benefit categories:

1. Medical Insurance Premium Account
2. Out of Pocket Medical Spending Account
3. Dependent Care Spending Account

Under no circumstances may an employee direct more than \$5,000 annually into the Dependent Care Spending Account and \$2,500 annually into the Medical Spending Account. This cap applies to both City contributions and employee pre-tax contributions. There are no legal limits on contributions to the Health Premium Account.

All regular full-time and part-time employees employed on a regular and continuous basis, including certain contractual employees, are eligible to participate in this plan. Temporary and casual employees are not eligible. The plan year adopted by the City begins on January 1 and ends December 31.

**NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)**

To obtain reimbursement of expenses incurred within a plan year within the spending accounts (items 2 or 3), employees must submit claims within 90 days of the end of the plan year or separation of service from the City, whichever occurs first. Funds unclaimed after 90 days of the close of the plan year are then remitted to the City.

**D. *Deferred Compensation Plans***

City employees may defer a portion of their compensation under four separate, optional City-sponsored deferred compensation plans created in accordance with Internal Revenue Code Section 457. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death, or in an emergency as defined by the plans.

Effective January 1, 1998, the City signed new deferred compensation plan administration agreements with the deferred compensation providers to provide for the administration and management of employees' deferred compensation plan assets. These agreements incorporate changes in the law governing deferred compensation plan assets which now require plan assets to be held for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these new plans are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

Effective January 28, 2003, the City implemented a retirement enhancement plan (401-A defined contribution plan) for certain executive management employees. In February 2005, a plan amendment was adopted to extend the 401-A plan to all members of the executive management employee classification. Under this plan, the City contributes 2% of the employees' compensation into the 401-A plan.

Effective October 1, 2002 for the Redwood City Management Employees Association, the City contributes an amount equal to 2% of the base monthly salary to a deferred compensation plan offered by the City to members of the Association.

**NOTE 10 – NET POSITION AND FUND BALANCES**

GASB Statement No. 63 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 the excess of all the City's assets over all its liabilities, regardless of fund. Net position is divided into three captions. These captions apply only to net position, which is determined only 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.

**NOTE 10 – NET POSITION AND FUND BALANCES (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 developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes. At June 30, 2014, restricted net position for the governmental activities were \$49,268,810 of which all was restricted by enabling legislation.

*Unrestricted* describes the portion of net position which is not restricted as to use.

**B. Fund Balances**

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2014, fund balances for governmental funds are made up of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) 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, for example: inventories, prepaid amounts, and long-term loans receivable.

Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action, adopting a resolution, of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City adopting another resolution, as a resolution imposed the constraint originally.

Assigned Fund Balance – comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council or City Manager, to which the City Council has delegated the authority through a resolution, to assign amounts to be used for specific purposes.

Pursuant to the authority delegated by City Council, the City Manager determines the amount of assigned fund balances, which includes items such as encumbrances, and constrained amounts when it is the City's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of special revenue, capital projects and debt service funds which have not been restricted or committed.

Unassigned Fund Balance – is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. In other governmental funds, if expenditures exceed amounts restricted, committed, or assigned, the negative amount is reflected as negative unassigned fund balance. Within the unassigned

**NOTE 10 – NET POSITION AND FUND BALANCES (CONTINUED)**

fund balance of the general fund, the City Council has established a minimum balance representing a level not less than 15%, nor more than 20% of estimated general fund revenues.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

**C. Deficit Fund Equity/Net Position**

The Successor Agency private purpose trust fund had negative net position of \$21,365,530 due to long-term debt outstanding for bonds used to finance various downtown improvements.

The self-insurance internal service fund had negative net position of \$51,424 due to higher worker's compensation claims than budgeted and actuarial liability adjustments.

**NOTE 11 – FUNDS WITH EXPENDITURES EXCEEDING APPROPRIATIONS**

The budgetary expenditures exceeded appropriations in the general fund due to Library department expenditures exceeding budget, primarily due to unbudgeted program expenditures for which there were sufficient revenues available.

Expenditure of the Parks, Recreation and Community Services department also exceeded appropriations due primarily to unbudgeted program expenditures for which there were sufficient revenues available.

The budgetary expenditures exceeded appropriations in the Supplemental Law Enforcement Services fund due to increased and unbudgeted expenditures related to the program which were supported by available program revenues.

The budgetary expenditures exceeded appropriation in the Low and Moderate Income Housing Asset fund due to loans which had achieved certain milestones resulting in an unbudgeted write off. Sufficient revenues were available to fund these expenditures.

**NOTE 12 – INTERFUND TRANSFERS AND TRANSACTIONS**

**A. Transfers**

The following interfund transfers were made during the year:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
		\$
General Fund	Non-major Governmental Funds	260,000 <sup>(1)</sup>
	Capital Outlay Fund	150,503 <sup>(2)</sup>
	Internal Service Funds	15,976 <sup>(2)</sup>
Capital Outlay Fund	General Fund	9,166,504 <sup>(3)</sup>
	Parking Fund	2,717,764 <sup>(5)</sup>
Non-major Governmental Funds	General Fund	1,294,355 <sup>(3) (4)</sup>
	Non-major Governmental Funds	27,684 <sup>(5)</sup>
Parking Fund	General Fund	426,461 <sup>(4)</sup>
Internal Service Funds	General Fund	6,000,000 <sup>(4)</sup>
	Sewer Fund	23,047 <sup>(3)</sup>
		<u>20,082,294</u>

The reasons for these transfers are set forth below:

- <sup>(1)</sup> Reimburse General Fund for expenditures incurred for maintenance in the Redwood Shores area.
- <sup>(2)</sup> Reimburse General Fund for interest earned by funds supported by the General Fund.
- <sup>(3)</sup> Allocation of funds to construct/purchase general capital assets.
- <sup>(4)</sup> Allocation of funds to support operations.
- <sup>(5)</sup> Reimburse for expenditures/expenses incurred.

**B. Short-Term Due to/From other Funds**

At the end of the fiscal year the general fund had net utility users tax receivable in the amount of \$833,946. The policy of the City Council dictates the transfer of utility users tax to the capital outlay fund, and once the revenue is received, the general fund will transfer the cash to the capital outlay fund.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount Due to/From</u>
		\$
Capital Outlay Fund	General Fund	833,946
Internal Service Funds	Water Utility Fund	300,000
		<u>1,133,946</u>

**NOTE 12 – INTERFUND TRANSFERS AND TRANSACTIONS (CONTINUED)**

**C. Long-Term Interfund Loans**

<u>Fund Receiving Advance</u>	<u>Fund Making Advance</u>	<u>Amount of Advance</u>
		\$
Successor Agency Fund	Capital Outlay Fund	2,269,543
	Low and Moderate Income Housing Asset Fund	1,687,703
Water Utility Fund	Internal Service Funds	<u>2,400,000</u>
Total Long-Term Interfund Loans		<u><u>6,357,246</u></u>

During FY 2004-05, the capital outlay fund advanced \$3,000,000 to the redevelopment agency fund to finance various downtown improvements. During FY 2008-09 the Redevelopment Agency repaid \$115,622 of the advance, during FY 2009-10 the Redevelopment Agency repaid \$238,439, and during FY 2010-11 the Redevelopment Agency repaid \$248,364. During 2011-12 the Redevelopment Agency was dissolved and the advance payable was transferred to the successor agency private purpose trust fund. Prior to the dissolution the Redevelopment Agency repaid \$128,032.

During FY 2009-10, the low and moderate income housing fund advanced \$2,812,838 to the redevelopment agency fund to partially finance the amount taken away from the Redevelopment Agency by the State of California. During FY 2010-11 the Redevelopment Agency repaid \$562,568 to the low and moderate income housing fund. During FY 2011-12 the Redevelopment Agency was dissolved and the advance receivable was transferred to the low and moderate income housing asset fund, and the advance payable was transferred to the successor agency private purpose trust fund. During FY 2011-12 the Successor Agency repaid \$562,567 to the low and moderate income housing asset fund.

During FY 2012-13, the equipment services internal service fund advanced \$3,000,000 to the water utility enterprise fund for the implementation of the Automated Meter Infrastructure Project to replace water meters. During FY 2013-14 the water utility enterprise fund repaid \$300,000 to the equipment services internal service fund. As of June 30, 2014, \$300,000 of this advance is considered current.

**NOTE 13 – RISK MANAGEMENT AND SELF-INSURANCE FUND**

**A. Workers' Compensation and Property Insurance**

The City is self-insured for workers' compensation for the first \$350,000 per occurrence and has a commercial insurance policy that covers the City's exposure above the retained limits up to the statutory limits required by the State of California. The City paid \$423,239 during FY 2013-14 for the coverage.

The City's workers' compensation policy includes coverage for the Port of Redwood City. The Port carries property and liability insurance policies with limits of \$15,000,000 and \$150,000,000, respectively.



**NOTE 13 – RISK MANAGEMENT AND SELF-INSURANCE FUND (CONTINUED)**

**B. General Liability and Automobile**

The City is a member of the Bay Cities Joint Powers Insurance Authority (BCJPIA), which is a liability pool consisting of 18 San Francisco Bay Area government agencies, for general liability and auto liability coverage. In FY 2013-14 the City maintained a \$350,000 self-insured retention with coverage from \$350,000 to \$1,000,000 through the BCJPIA. The purpose of the pool is to provide certain levels of liability coverage, claims administration, and loss control support to member agencies. Annually, each agency pays an actuarially-determined premium based upon a formula which takes into account loss experience, annual payroll, and population. This premium pays for administrative costs and funds liability reserves. The premium paid in FY 2013-14 was \$633,788.

The BCJPIA belongs to the California Affiliated Risk Management Authority (CARMA) which is an excess liability pool comprised of the BCJPIA and four other local government insurance pools. CARMA provides coverage from \$1,000,001 to \$29,000,000. A layer from \$1,000,001 to \$4,000,000 is self-insured by CARMA, the layer from \$4,000,001 to \$29,000,000 is reinsured through agreements with commercial insurers.

The City also carries all risk coverage on buildings and their contents at replacement cost value.

Audited financial statements are available from the Bay Cities Joint Powers Insurance Authority at 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833. The following is the BCJPIA condensed audited financial results for the year ended June 30, 2014:

	\$
Assets	29,597,416
Reserves for Claims	16,149,653
Liabilities <sup>1</sup>	3,055,687
Net Position Unrestricted	10,392,076
Member Contributions	10,024,132
Other Income	88,546
Provisions for Claims and Claim Adjustment Expenses	4,782,196
Operating Expenses <sup>2</sup>	5,785,209
Change in Net Position	1,701,840

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<sup>1</sup> Excluding claims liabilities

<sup>2</sup> Excluding provisions for claims

**C. Self-Insurance Fund**

The City maintains a self-insurance internal service fund for its workers' compensation and general liability self-insurance programs. This fund accounts for revenues from departmental charges and operating expenses, including settlements within the City's self-insured retentions. Reserves for incurred but not reported claims are maintained within this fund. These reserves are based on an actuarial analysis performed by Richard E. Sherman & Associates, Inc. in accordance with GASB 10.

**NOTE 13 – RISK MANAGEMENT AND SELF-INSURANCE FUND (CONTINUED)**

Changes in the self-insurance fund’s claims payable liability for fiscal years ended 2012, 2013, and 2014 were:

	Beginning Balance \$	Current Year Claims/ Changes in Estimates \$	Claim Payments \$	Ending Balance \$
2011-12	10,951,960	2,407,125	(1,580,295)	11,778,790
2012-13	11,778,790	4,732,771	(3,111,209)	13,400,352
2013-14	13,400,352	7,617,770	(2,563,399)	18,454,723

Settlements have not exceeded coverage for each of the past three fiscal years.

**NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY**

As part of the FY 2011-12 State Budget package, and in an effort to help solve the State’s budget problems, the California legislature enacted and the Governor signed two companion bills addressing redevelopment, AB X1 26 (Dissolution Act) and AB X1 27 (Voluntary Program Act), which took effect on June 29, 2011.

The Dissolution Act immediately suspended all new redevelopment activities and incurrence of indebtedness, and eliminated redevelopment agencies as of October 1, 2011.

The Voluntary Program Act allows the community that created the redevelopment agency to avoid dissolution by opting to pay a substantial community remittance beginning FY 2011-12 and each year thereafter.

On July 18, 2011, the California Redevelopment Association, the League of California Cities, and others filed a Petition for Writ of Mandate in the Supreme Court of the State of California (California Redevelopment Association, et al. v. Ana Matosantos, et al., Case No. 5194861), challenging the constitutionality of the companion bills, the Dissolution Act, and the Voluntary Program Act, on behalf of cities, counties, and redevelopment agencies, and requesting a stay of their enforcement.

On December 29, 2011, the California Supreme Court upheld the Dissolution Act and found the Voluntary Program Act to be unconstitutional and extended the date of dissolution to February 1, 2012.

The Dissolution Act provides that upon dissolution of a redevelopment agency, either the city or another 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. The City Council elected to become Successor Agency on August 22, 2011 with resolution 15141, and reconfirmed this action on January 23, 2012 with resolution 15164.

Under the Dissolution Act, 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 at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

**NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY (CONTINUED)**

In FY 2010-11, prior to AB X1 26 becoming law, \$3.3 million of real property assets (vacant land) were transferred from the RDA's Low and Moderate Income Housing Fund to the City in an attempt to protect these assets from being diverted for the benefit of the State. AB X1 26, however, specifically disallowed such transfers. Accordingly, the assets were transferred to the Low and Moderate Income Housing Asset Fund in FY 2011-12.

Prior to the dissolution of the redevelopment agency, under an agreement with San Mateo County to receive a cumulative \$25 million of the County's share of tax increment and an agreement with the Legal Aid Society to deposit the first \$11.9 million of the \$25 million into the Low and Moderate Income Housing Fund, the agency had deposited \$10.3 million into the Low and Moderate Income Housing Fund as of June 30, 2011. Pursuant to the agreement with the Legal Aid Society to restrict these funds to housing, after the dissolution of the redevelopment agency these funds were deposited into a new fund, Housing Legal Aid Society Fund, to be used for housing purposes. The State Department of Finance has disputed that these funds are restricted for housing, and the City has filed a lawsuit against the State of California on this matter. On October 30, 2013 the Superior Court Judge hearing the lawsuit filed against the State of California Department of Finance concerning the \$10.3 million the City is holding in the Housing Legal Aid Society Fund as part of the dissolution of the former Redevelopment Agency issued a tentative ruling in favor of the State of California. On November 6, 2013 the Judge then issued a "Request for Further Briefing" to be held on November 22, 2013. On January 4, 2014 the Superior Court Judge ruled in favor of the State of California. In April 2014, the City filed an appeal, and as of the date of this report, a ruling on the appeal has not been issued. The accumulated funds in the amount of \$10.3 million are reflected as a liability in the Housing Legal Aid Society Fund pending the outcome of the lawsuit.

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 the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The City's former Redevelopment Agency had entered into agreements with certain public entities whose jurisdictions were within the territory of the former Redevelopment Agency under which these entities received a specified share of the property tax increment received by the former Redevelopment Agency. Under Assembly Bill X1 26 the responsibility for making these payments has been shifted to the County of San Mateo.

**NOTE 15 – LITIGATION AND CONTINGENT LIABILITIES**

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determinable in amount.

There are lawsuits pending in which the City is a party. In the opinion of the City Attorney, the City has adequate legal defenses and/or reserves to cover such liability if it does arise.

**NOTE 16 – CONSTRUCTION, OTHER SIGNIFICANT COMMITMENTS AND ENCUMBRANCES**

As of June 30, 2014, the City has the following significant commitments:

- \$2,775,211 – Professional services related to 101/84 Highway Interchange
- \$1,913,000 – Construction services related to Blomquist Avenue extension
- \$520,921 – Professional services related to Inner Harbor Community Engagement Framework

Purchase orders are issued throughout the fiscal year to encumber the budgets in the governmental funds. Following are the outstanding encumbrances as of June 30, 2014:

Major Funds:	\$
General Fund	523,558
Capital Outlay Fund	1,354,040
Total Major Funds	<u>1,877,598</u>
Non-Major Funds	<u>6,065,607</u>
Total Encumbrances	<u><u>7,943,205</u></u>

**NOTE 17 – SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY**

The City is a member of the South Bayside Waste Management Authority (SBWMA), a joint powers authority established to purchase the solid waste transfer station located in San Carlos, California from Browning-Ferris Industries. Currently there are 12 public entities that are members of this organization. Each of these members also, by individual and separate legislative action, has entered into a franchise agreement with Recology for solid waste collection within their respective jurisdictions.

The SBWMA issued \$20 million in bonds in 1999 to provide funds for the purchase of the transfer station. The debt issued by the SBWMA is not an obligation of any of the member entities. During FY 2009-10, SBWMA issued \$58.5 million in bonds to finance improvements at the solid waste transfer station, and the remaining balance of the 1999 bonds were retired.

The SBWMA also serves as a regional forum for member entities to collectively pursue other solid waste management matters such as rate setting, solid waste reduction, and meeting recycling goals as required by state law.

Audited financial statements are available from the SBWMA, c/o the City of San Carlos, 600 Elm Street, San Carlos, CA 94070. The following is SBWMA’s condensed unaudited financial results for the year-ended June 30, 2014.

	\$
Total assets	80,505,928
Total liabilities	<u>58,152,387</u>
Total net position	<u><u>22,353,541</u></u>

**NOTE 18 – RELATED PARTY TRANSACTIONS**

In June 2000, the City's former Redevelopment Agency authorized a First Time Homebuyer Program targeted to City employees and school teachers from the Redwood City Elementary School District. Under the program, the Agency offered first time homebuyers financial assistance in the purchase of a home within the City of Redwood City. These loans bear no interest and are secured by third deeds of trust on the property. No payments are due until five years after the date of purchase. This loan program is extended to City employees who meet the criteria of the program. As of June 30, 2014, one employee had a loan due to the City in the amount of \$36,139.

## REQUIRED SUPPLEMENTARY INFORMATION

### NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds, and capital projects funds.

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, special revenue, and debt service funds. Capital projects funds' budgets are adopted on a project length basis and are not presented here. As the Housing Legal Aid Society Fund was created after the February 1, 2012 dissolution of the former Redevelopment Agency and is currently under litigation, there is no adopted budget for this fund.

The City Manager submits a recommended operating budget in May each year to the City Council for the fiscal year commencing the following July 1, showing proposed expenditures by programs and the means of financing them.

The City Council conducts budget study sessions, which are open for public comment, before adopting the budget. Once the budget is adopted, expenditures may not legally exceed appropriations at program level except when the excess is attributable to a particular activity for which the City has been reimbursed. This is especially apparent in the Community Development Program where developers reimburse the City through sub-division fees and environmental impact report fees.

At the request of the department head through the City Manager, the City Council may, by resolution, transfer appropriations between sub-programs and funds. Any increase or decrease to the total appropriations provided for in the budget must also be carried through by resolution passed by the City Council. The City Manager may authorize the transfer of funds between object categories within a sub-program of a department. The adoption and administration of the Port of Redwood City budget, unless property tax revenues are requested, is exclusively under the control of the Board of Port Commissioners.

Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Individual amendments were not material in relation to the original appropriations.

All unexpended appropriations lapse at the end of the fiscal year. Appropriations for capital projects or appropriations that are encumbered are re-appropriated and carried over in the following year's budget.

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
	\$	\$	\$	\$
Fund balance, July 1	<u>21,753,742</u>	<u>21,753,742</u>	<u>21,753,742</u>	
<b>Resources (inflows):</b>				
Property taxes/special assessments	36,791,615	36,791,615	41,708,668	4,917,053
Sales and other taxes	36,944,232	36,944,232	39,970,312	3,026,080
Licenses and permits	1,911,000	1,911,000	2,559,720	648,720
Fines, forfeitures and penalties	575,000	575,000	629,017	54,017
Use of money and property	410,000	410,000	793,967	383,967
Intergovernmental	3,252,892	3,563,808	3,646,694	82,886
Charges for current services	9,498,466	14,733,785	14,668,911	(64,874)
Contributions	759,912	759,912	486,673	(273,239)
Other	<u>89,862</u>	<u>544,862</u>	<u>618,057</u>	<u>73,195</u>
Amounts available for appropriation	<u>90,232,979</u>	<u>96,234,214</u>	<u>105,082,019</u>	<u>8,847,805</u>
<b>Charges to appropriations (outflows):</b>				
<b>Current Operations:</b>				
<b>City Council:</b>				
City Council	328,460	330,860	326,671	4,189
Human Services Assistance	<u>34,800</u>	<u>34,800</u>	<u>34,800</u>	
Total City Council	<u>363,260</u>	<u>365,660</u>	<u>361,471</u>	<u>4,189</u>
<b>City Manager:</b>				
Management/Policy execution/ Organizational Efficiencies	1,585,942	1,585,942	1,247,445	338,497
Community promotion	259,862	259,862	350,625	(90,763)
Economic development	<u>339,167</u>	<u>339,167</u>	<u>339,596</u>	<u>(429)</u>
Total City Manager	<u>2,184,971</u>	<u>2,184,971</u>	<u>1,937,666</u>	<u>247,305</u>
City Attorney	<u>1,008,607</u>	<u>1,286,874</u>	<u>1,210,822</u>	<u>76,052</u>
<b>City Clerk:</b>				
City Clerk	613,708	616,108	612,139	3,969
Elections	139,938	139,938	114,381	25,557
Council support	<u>16,585</u>	<u>16,585</u>	<u>32,337</u>	<u>(15,752)</u>
Total City Clerk	<u>770,231</u>	<u>772,631</u>	<u>758,857</u>	<u>13,774</u>

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
	\$	\$		
Community development:				
Planning	829,183	839,800	882,101	(42,301)
Strategic planning	160,583	160,583	101,872	58,711
Building regulation	1,947,498	1,947,498	1,682,640	264,858
Administration	297,129	347,129	296,381	50,748
General engineering	370,331	370,331	410,472	(40,141)
Subdivision engineering	44,393	1,098,322	790,975	307,347
Code enforcement	677,326	677,326	563,172	114,154
Street system maintenance	250,929	271,929	249,589	22,340
Street cleaning	147,394	147,394	147,394	
Sidewalk maintenance/replacement	14,900	14,900	14,900	
Street tree maintenance	866,529	866,529	781,314	85,215
Downtown/Entry feature maintenance	37,214	37,214	20,373	16,841
Storm water collection/Disposal	8,498	8,498		8,498
Downtown development program	537,766	537,766	419,796	117,970
Redevelopment	1,324,555	1,324,555	1,273,006	51,549
Total Community Development	<u>7,514,228</u>	<u>8,649,774</u>	<u>7,633,985</u>	<u>1,015,789</u>
Finance:				
Financial services	1,396,507	1,531,495	1,507,061	24,434
Administrative support services	1,322,466	1,822,466	1,227,616	594,850
Public Financing Authority lease payments	1,045,986	434,392	427,899	6,493
Total Finance	<u>3,764,959</u>	<u>3,788,353</u>	<u>3,162,576</u>	<u>625,777</u>
Fire:				
Administration	1,429,932	965,396	933,965	31,431
Operations	15,124,133	15,582,776	15,759,272	(176,496)
San Carlos Fire		5,855,799	5,578,981	276,818
Prevention	845,098	655,974	622,366	33,608
Training	353,633	276,091	283,768	(7,677)
Emergency medical services	35,456	35,456	24,887	10,569
Emergency operations	105,752	105,752	161,377	(55,625)
Total Fire	<u>17,894,004</u>	<u>23,477,244</u>	<u>23,364,616</u>	<u>112,628</u>
Human Resources	<u>1,120,670</u>	<u>1,187,926</u>	<u>1,104,341</u>	<u>83,585</u>
Library:				
Administrative services unit	1,326,044	1,326,044	1,215,370	110,674
Downtown library	3,220,075	3,220,075	3,468,625	(248,550)
Literacy services unit	875,898	965,296	978,986	(13,690)
Neighborhood libraries and outreach	1,430,588	1,430,588	1,466,279	(35,691)
Total Library	<u>6,852,605</u>	<u>6,942,003</u>	<u>7,129,260</u>	<u>(187,257)</u>

(Continued)



CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget
	\$	\$	\$	Positive (Negative)
				\$
<b>Parks, Recreation and Community Services:</b>				
Fair Oaks Community Center	896,338	903,133	926,648	(23,515)
Information/Referral	297,655	421,860	391,239	30,621
Fair Oaks Senior Services	5,027	5,027	5,027	
Administration	701,163	719,539	614,999	104,540
Civic Cultural Commission	63,860	63,860	58,924	4,936
Landscape maintenance-City	2,107,410	2,107,410	2,184,129	(76,719)
Landscape maintenance-Redwood Shores	1,107,880	1,107,880	1,096,692	11,188
Landscape maintenance-Downtown	729,120	729,120	756,430	(27,310)
Youth and teen services	275,144	275,144	297,277	(22,133)
Elementary activities	493,326	503,326	607,201	(103,875)
Teen activities	279,668	279,668	325,535	(45,867)
After school program grant	1,371,368	1,321,368	1,395,345	(73,977)
Red Morton Community Center	1,099,616	1,099,616	1,115,251	(15,635)
Aquatics program	169,094	169,094	188,589	(19,495)
Adult sports	122,746	122,746	136,858	(14,112)
Middle school sports	505,355	836,355	644,096	192,259
Special interest classes	784,340	784,340	820,664	(36,324)
Sandpiper Community Center	390,749	390,749	411,247	(20,498)
Sandpiper youth club	150,556	150,556	213,499	(62,943)
Community services	1,052,449	1,102,449	1,134,231	(31,782)
Senior nutrition	153,923	133,923	131,457	2,466
	<u>12,756,787</u>	<u>13,227,163</u>	<u>13,455,338</u>	<u>(228,175)</u>
<b>Total Parks, Recreation and Community Services</b>				
<b>Police:</b>				
Administration	5,820,098	5,820,098	5,687,470	132,628
Records	1,031,441	1,034,174	927,450	106,724
Training	519,888	529,888	542,382	(12,494)
Property/Evidence	294,794	294,794	172,754	122,040
Police Activities League	126,367	126,367	91,958	34,409
Patrol services	19,229,266	20,104,652	20,151,970	(47,318)
Criminal investigation	4,437,500	4,476,621	4,789,876	(313,255)
	<u>31,459,354</u>	<u>32,386,594</u>	<u>32,363,860</u>	<u>22,734</u>
<b>Total Police</b>				
Reimbursement from Other Funds	<u>(5,956,714)</u>	<u>(5,956,714)</u>	<u>(5,956,714)</u>	
Total charges to appropriations	<u>79,732,962</u>	<u>88,312,479</u>	<u>86,526,078</u>	<u>1,786,401</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	365,000	365,000	426,479	61,479
Transfers (out)	<u>(10,586,294)</u>	<u>(16,636,294)</u>	<u>(16,887,320)</u>	<u>(251,026)</u>
Total Other Financing Sources (Uses)	<u>(10,221,294)</u>	<u>(16,271,294)</u>	<u>(16,460,841)</u>	<u>(189,547)</u>
Fund balance, June 30	<u>22,032,465</u>	<u>13,404,183</u>	<u>23,848,842</u>	<u>10,444,659</u>

## REQUIRED SUPPLEMENTARY INFORMATION

### NOTE 2 – PUBLIC EMPLOYEES RETIREMENT SYSTEM SCHEDULE OF FUNDING PROGRESS

*Public Safety Plan:*

Actuarial						
Valuation Date	Value of Assets *	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	\$	\$	\$	%	\$	%
2011	188,706,656	249,306,267	60,599,611	75.7	20,072,380	301.9
2012	199,093,142	265,379,700	66,286,558	75.0	19,553,357	339.0
2013	187,110,004	282,699,515	95,589,511	66.2	21,048,349	454.1

*Miscellaneous Plan:*

Actuarial						
Valuation Date	Value of Assets *	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	\$	\$	\$	%	\$	%
2011	176,271,009	219,035,437	42,764,428	80.5	28,015,399	152.6
2012	181,792,644	227,332,457	45,539,813	80.0	27,247,606	167.1
2013	169,943,544	242,120,498	72,176,954	70.2	27,759,758	260.0

\* Beginning with the 6/30/2013 Valuation Actuarial Value of Assets equals Market Value of Assets per CalPERS Direct Rate Smoothing Policy.

## REQUIRED SUPPLEMENTARY INFORMATION

### NOTE 3 – OTHER POSTEMPLOYMENT BENEFITS SCHEDULE OF FUNDING PROGRESS

*City of Redwood City:*

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	\$	\$	\$	%	\$	%
2009		37,264,000	37,264,000		43,764,165	85.2
2011	4,429,000	53,083,000	48,654,000	8.3	44,961,408	108.2
2013	11,001,000	56,177,000	45,176,000	19.6	48,399,901	93.3

*Port of Redwood City:*

Actuarial						
Valuation Date	Value of Assets	Entry Age Accrued Liability	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
	\$	\$	\$	%	\$	%
2011		303,153	303,153		682,637	44.4
2012		334,371	334,371		631,539	52.9
2013		362,074	362,074		629,034	57.6
2014		349,824	349,824		636,746	54.9



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2014*

## **GENERAL FUND**

The general fund accounts for resources traditionally associated with governments that are not required to be accounted for in another fund. Library operations, whose expenditures must be approved by the Library Board, are accounted for as part of this fund along with the general governmental expenditures not accounted for in other funds.

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
COMPARATIVE BALANCE SHEET  
JUNE 30, 2014 AND 2013

	2014	2013
<b>ASSETS</b>	\$	\$
Cash and investments available for operations	22,932,368	21,460,699
Receivables (net of allowance for uncollectibles):		
Taxes and assessments - current	7,781,376	6,380,053
Accounts	1,570,988	1,538,072
Loans	1,534,452	1,692,608
Accrued interest	155,289	119,895
Due from other governmental agencies	2,579,041	1,373,779
Inventory of supplies at cost	1,288	164
Prepaid expenditures	72,993	92,412
 Total Assets	 36,627,795	 32,657,682
<b>LIABILITIES</b>		
Accounts payable	1,945,002	2,042,937
Accrued payroll	3,248,659	2,907,558
Deposits payable	4,749,155	3,604,714
Due to other funds	833,946	811,980
Unearned revenue	2,002,191	1,505,951
Accrued sick leave and vacation - current		30,800
 Total Liabilities	 12,778,953	 10,903,940
<b>FUND BALANCE</b>		
Nonspendable:		
Loans	1,534,452	1,692,608
Inventory	1,288	164
Prepaid items	72,993	92,412
Committed to:		
General plan	536,108	370,927
Assigned to:		
Other purposes	223,061	148,534
Unassigned:		
City Council directed minimum balance	19,901,941	17,320,930
Residual balance	1,578,999	2,128,167
 Total Fund Balance	 23,848,842	 21,753,742
 Total Liabilities and Fund Balance	 36,627,795	 32,657,682

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013

	2014			2013		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$
<b>REVENUES</b>						
Property taxes	36,791,615	41,708,668	4,917,053	35,661,621	38,379,963	2,718,342
Sales and other taxes	36,944,232	39,970,312	3,026,080	34,613,371	37,072,870	2,459,499
Licenses and permits	1,911,000	2,559,720	648,720	1,211,000	1,897,584	686,584
Fines, forfeitures and penalties	575,000	629,017	54,017	575,000	549,591	(25,409)
Uses of money and property	410,000	513,647	103,647	608,500	495,003	(113,497)
Net increases (decreases) in fair value of investments		280,320	280,320		15,216	15,216
Intergovernmental	3,563,808	3,646,694	82,886	3,502,259	3,643,228	140,969
Charges for current services	14,733,785	14,668,911	(64,874)	9,553,142	9,321,628	(231,514)
Other	1,304,774	1,104,730	(200,044)	592,206	1,039,401	447,195
<b>Total revenues</b>	<u>96,234,214</u>	<u>105,082,019</u>	<u>8,847,805</u>	<u>86,317,099</u>	<u>92,414,484</u>	<u>6,097,385</u>
<b>EXPENDITURES</b>						
Community development	7,303,310	6,420,415	882,895	6,580,019	6,330,555	249,464
Human services	1,364,820	1,357,714	7,106	1,467,393	1,462,092	5,301
Public safety	55,863,838	55,728,476	135,362	47,452,457	49,043,503	(1,591,046)
Transportation	286,829	264,489	22,340	198,226	182,657	15,569
Environmental support and protection	155,892	147,394	8,498	345,285	344,716	569
Leisure, cultural, and information services	19,742,889	20,063,371	(320,482)	19,250,785	19,448,415	(197,630)
Policy development and implementation	3,594,901	2,544,219	1,050,682	5,465,590	4,597,542	868,048
<b>Total expenditures</b>	<u>88,312,479</u>	<u>86,526,078</u>	<u>1,786,401</u>	<u>80,759,755</u>	<u>81,409,480</u>	<u>(649,725)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	7,921,735	18,555,941	10,634,206	5,557,344	11,005,004	5,447,660
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	365,000	426,479	61,479	450,000	384,637	(65,363)
Transfers (out)	(16,636,294)	(16,887,320)	(251,026)	(11,011,337)	(9,460,452)	1,550,885
<b>Total Other Financing Sources (Uses)</b>	<u>(16,271,294)</u>	<u>(16,460,841)</u>	<u>(189,547)</u>	<u>(10,561,337)</u>	<u>(9,075,815)</u>	<u>1,485,522</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>(8,349,559)</u>	2,095,100	<u>10,444,659</u>	<u>(5,003,993)</u>	1,929,189	<u>6,933,182</u>
Fund balance at beginning of year		21,753,742			19,824,553	
Fund balance at end of year		<u>23,848,842</u>			<u>21,753,742</u>	

CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
SCHEDULE OF REVENUES COMPARED WITH BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2014		Variance with Final Budget Positive (Negative)	2013
	Budget	Actual		Actual
<b>Property Taxes:</b>	\$	\$	\$	\$
Property taxes - secured and unsecured	36,791,615	41,708,668	4,917,053	38,379,963
Total Property Taxes	<u>36,791,615</u>	<u>41,708,668</u>	<u>4,917,053</u>	<u>38,379,963</u>
<b>Sales and Other Taxes:</b>				
Sales tax	18,825,233	20,781,613	1,956,380	19,240,290
Franchises	1,586,000	1,676,834	90,834	1,621,972
Transient occupancy tax	4,827,206	5,262,280	435,074	4,526,424
Property transfer tax	420,000	729,522	309,522	599,316
Business license tax	1,830,500	1,925,660	95,160	1,668,370
Utility users tax	9,455,293	9,594,403	139,110	9,416,498
Total Sales and Other Taxes	<u>36,944,232</u>	<u>39,970,312</u>	<u>3,026,080</u>	<u>37,072,870</u>
<b>Licenses and Permits:</b>				
Building permits	1,800,000	2,545,577	745,577	1,881,030
Fire and other permits	111,000	14,143	(96,857)	16,554
Total Licenses and Permits	<u>1,911,000</u>	<u>2,559,720</u>	<u>648,720</u>	<u>1,897,584</u>
<b>Fines, Forfeitures and Penalties:</b>				
Parking fines	575,000	629,017	54,017	549,591
Total Fines, Forfeitures and Penalties	<u>575,000</u>	<u>629,017</u>	<u>54,017</u>	<u>549,591</u>
<b>Uses of Money and Property:</b>				
Rent and concessions	390,000	483,253	93,253	401,823
Interest income	20,000	30,394	10,394	93,180
Total Uses of Money and Property	<u>410,000</u>	<u>513,647</u>	<u>103,647</u>	<u>495,003</u>
<b>Net Increase (Decrease) in Fair Value of Investments</b>		<u>280,320</u>	<u>280,320</u>	<u>15,216</u>
<b>Intergovernmental:</b>				
Motor vehicle in lieu tax				33,547
Public safety sales tax	677,250	693,969	16,719	659,002
Police training allowance	10,000	27,477	17,477	29,258
Homeowners' property tax relief	185,000	178,204	(6,796)	178,647
State mandated programs grant		46,378	46,378	38,606
Grants - County, State, and Federal	2,270,458	2,228,007	(42,451)	2,246,651
Abandoned vehicle fees	40,000	63,191	23,191	81,757
Port contribution	381,100	409,468	28,368	375,760
Total Intergovernmental	<u>3,563,808</u>	<u>3,646,694</u>	<u>82,886</u>	<u>3,643,228</u>
<b>Charges for Current Services:</b>				
Fire services	6,685,299	5,678,156	(1,007,143)	1,693,334
Police services	165,000	232,463	67,463	223,306
Plan checking	602,000	1,515,469	913,469	862,129
Garbage collections - net	2,405,887	2,350,084	(55,803)	2,344,689
Engineering services	13,200	22,757	9,557	11,866
Planning services	451,400	514,803	63,403	539,380
Library fees	125,000	93,321	(31,679)	152,724
Recreation programs	2,223,000	2,294,238	71,238	2,112,047
Other current service charges	2,062,999	1,967,620	(95,379)	1,382,153
Total Charges for Current Services	<u>14,733,785</u>	<u>14,668,911</u>	<u>(64,874)</u>	<u>9,321,628</u>
<b>Other:</b>				
Contributions	759,912	486,673	(273,239)	498,214
Miscellaneous	544,862	618,057	73,195	541,187
Total Other	<u>1,304,774</u>	<u>1,104,730</u>	<u>(200,044)</u>	<u>1,039,401</u>
<b>Total Revenue</b>	<u><u>96,234,214</u></u>	<u><u>105,082,019</u></u>	<u><u>8,847,805</u></u>	<u><u>92,414,484</u></u>



CITY OF REDWOOD CITY, CALIFORNIA  
GENERAL FUND  
SCHEDULE OF EXPENDITURES COMPARED WITH BUDGET (GAAP BASIS) AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014  
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	2014		Variance with Final Budget Positive (Negative)	2013 Actual
	Budget	Actual		
<b>Community Development:</b>	\$	\$	\$	\$
Community planning	1,000,383	983,973	16,410	1,185,081
Building regulation	1,947,498	1,682,640	264,858	1,795,126
Administration	347,129	296,381	50,748	231,049
Engineering services	1,468,653	1,201,447	267,206	881,083
Code enforcement	677,326	563,172	114,154	637,179
Redevelopment	1,862,321	1,692,802	169,519	1,601,037
<b>Total Community Development</b>	<b>7,303,310</b>	<b>6,420,415</b>	<b>882,895</b>	<b>6,330,555</b>
<b>Human Services:</b>				
Human services assistance program	34,800	34,800		93,556
Social services center	1,330,020	1,322,914	7,106	1,368,536
<b>Total Human Services</b>	<b>1,364,820</b>	<b>1,357,714</b>	<b>7,106</b>	<b>1,462,092</b>
<b>Public Safety:</b>				
Law enforcement	32,386,594	32,363,860	22,734	31,895,762
Fire safety	23,477,244	23,364,616	112,628	17,147,741
<b>Total Public Safety</b>	<b>55,863,838</b>	<b>55,728,476</b>	<b>135,362</b>	<b>49,043,503</b>
<b>Transportation:</b>				
Street system/sidewalk maintenance, repair	286,829	264,489	22,340	182,657
<b>Total Transportation</b>	<b>286,829</b>	<b>264,489</b>	<b>22,340</b>	<b>182,657</b>
<b>Environmental Support and Protection:</b>				
Street cleaning/storm water collection, disposal	155,892	147,394	8,498	344,716
<b>Total Environmental Support and Protection</b>	<b>155,892</b>	<b>147,394</b>	<b>8,498</b>	<b>344,716</b>
<b>Leisure, Cultural, and Information Services:</b>				
Parks and recreation	12,800,886	12,934,111	(133,225)	12,637,536
Information services	6,942,003	7,129,260	(187,257)	6,810,879
<b>Total Leisure, Cultural, and Information Services</b>	<b>19,742,889</b>	<b>20,063,371</b>	<b>(320,482)</b>	<b>19,448,415</b>
<b>Policy Development and Implementation:</b>				
Legislative/policy determination	330,860	326,671	4,189	311,680
Management/policy execution	2,184,971	1,937,666	247,305	1,441,880
Legislative services/records management	772,631	758,857	13,774	604,187
Financial services	1,531,495	1,507,061	24,434	1,342,300
Legal services	1,286,874	1,210,822	76,052	969,049
Human Resources	1,187,926	1,104,341	83,585	1,005,597
Other administrative support services	2,256,858	1,655,515	601,343	4,706,177
Less reimbursements from other funds	(5,956,714)	(5,956,714)		(5,783,328)
<b>Total Policy Development and Implementation</b>	<b>3,594,901</b>	<b>2,544,219</b>	<b>1,050,682</b>	<b>4,597,542</b>
<b>Total Expenditures</b>	<b>88,312,479</b>	<b>86,526,078</b>	<b>1,786,401</b>	<b>81,409,480</b>

## NON-MAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

Special revenue funds are used to account for revenue derived from specific taxes or other dedicated revenue sources (other than for major capital projects) that are restricted by law or administrative action to expenditures for specified purposes.

**Special Gas Tax Street Improvement Fund** – This fund accounts for revenue received from the State of California derived from gasoline taxes. These funds may only be used for street purposes as specified in the State of California Streets and Highway Code.

**Transportation Grants Fund** – This fund accounts for grants and developer contributions received for specific transportation projects.

**Grants Fund** – This fund accounts for grants received for specific purposes. These include funds received under the Housing and Community Development Act.

**Traffic Safety Fund** – This fund accounts for revenues received from traffic fines and used for traffic safety programs.

**Transportation Fund** – This fund accounts for the City's share of special sales tax for transportation. Expenditures from this fund may only be incurred on transportation-related programs.

**Seaport Landscape Maintenance Fund** – This fund accounts for funds to be provided by property owners in the Seaport Boulevard area for maintenance of landscaping on Seaport Boulevard.

**Seaport Centre Maintenance Fund** – This fund accounts for funds provided by property owners in the Seaport Centre area for the maintenance and repair of drains and sewer lines connecting the Centre facilities to the public facilities.

**Redwood Shores Maintenance Fund** – This fund accounts for funds collected from property owners in the Redwood Shores area for the maintenance of various public areas.

**Redwood Shores Landscape Maintenance Fund** – This fund accounts for funds collected from property owners for landscape maintenance of certain areas in Redwood Shores.

**Supplemental Law Enforcement Services Fund** – This fund accounts for funds from the State of California "Citizens Option for Public Safety" program.

**Traffic Mitigation Fees Fund** – This fund accounts for developer contributions received for general transportation projects.

**Low and Moderate Income Housing Asset Fund** – This fund accounts for the restricted and obligated balances (other than the Legal Aid Society balance) of the former redevelopment agency low and moderate income housing fund that were transferred to the City after the dissolution of the redevelopment agency on February 1, 2012.

**Planning Cost Recovery Fund** – This fund accounts for fees charged for reimbursement of the expenditures associated with processing planning applications related to major projects.

## **DEBT SERVICE FUNDS**

Debt service funds are used to account for the payment of interest and principal on general debt of the City and related entities.

**Public Financing Authority 2013 Refunding Lease Fund** – This fund accounts for a lease entered into to refund the 2003 Public Financing Authority bonds. This lease is secured by lease payment from the City.

## **CAPITAL PROJECTS FUNDS**

Capital project funds are established to account for resources used for the acquisition and construction of capital facilities by the City except for those financed by the proprietary funds or special revenue funds. Funding for these projects is provided by the general fund and by special assessment districts. Currently the City has the following funds:

**Facilities Fee Construction Fund** – This fund derives its revenue from fees collected from the developers in the Redwood Shores area. Funds are used for improvements to roads, drainage, water, traffic lights, canals, etc. in the area.

**Parks Impact and In Lieu Fee Fund** – This fund accounts for parks impact fees and Quimby Act in lieu fees charged to developers on new development projects, to enable the City to expand and improve its system of parks, parkland, and recreational facilities to provide services to future development.

**Shores Transportation Improvement District Fund** – This fund accounts for community facility district bonds that were issued and developer contributions that were received by the City to fund various transportation projects in the Redwood Shores area.

**One Marina Community Facilities District Fund** – This fund accounts for certain public infrastructure improvements within the One Marina district that are financed by community facilities district bonds, and developer contributions.

CITY OF REDWOOD CITY, CALIFORNIA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2014

SPECIAL REVENUE FUNDS

	Special Gas Tax Street Improvement Fund \$	Transportation Grants Fund \$	Grants Fund \$	Traffic Safety Fund \$	Transportation Fund \$	Seaport Landscape Maintenance Fund \$
<b>ASSETS</b>						
Cash and investments available for operations	6,802,440	4,459,774	2,042,164	55,801	1,679,115	525,689
Cash and investments, restricted			102,383			
Receivables (net of allowance for uncollectibles):						
Taxes and assessments - current	240,998				113,293	
Accounts	14,969		14,112	6,103		
Loans			3,387,471			
Accrued interest			51,252			
Due from other governmental agencies		1,145,781	133,780	26,141		
Due from other funds				7,474		
Advances to RDA successor agency						
Investment in land held for redevelopment			2,410,000			
<b>Total Assets</b>	<b>7,058,407</b>	<b>5,605,555</b>	<b>8,141,162</b>	<b>95,519</b>	<b>1,792,408</b>	<b>525,689</b>
<b>LIABILITIES</b>						
Accounts payable	69,986	410,533	212,930	54,381	6,378	125
Deposits payable						
Due to other funds		7,474				
<b>Total Liabilities</b>	<b>69,986</b>	<b>418,007</b>	<b>212,930</b>	<b>54,381</b>	<b>6,378</b>	<b>125</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue - interest			51,252			
<b>Total Deferred Inflows of Resources</b>			<b>51,252</b>			
<b>FUND BALANCES</b>						
Restricted for:						
Community development			6,649,424			
Public safety						
Transportation	126,735	3,500,157			457,998	
Environmental support and protection						520,107
Leisure, cultural and information services			351,041			
Capital projects		1,687,391	876,515		1,328,032	5,457
Other purposes						
Committed to:						
Capital projects	6,368,041					
Assigned to:						
Community development						
Transportation				41,138		
Capital projects	493,645					
<b>Total Fund Balances</b>	<b>6,988,421</b>	<b>5,187,548</b>	<b>7,876,980</b>	<b>41,138</b>	<b>1,786,030</b>	<b>525,564</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>7,058,407</b>	<b>5,605,555</b>	<b>8,141,162</b>	<b>95,519</b>	<b>1,792,408</b>	<b>525,689</b>

SPECIAL REVENUE FUNDS

Seaport Centre Maintenance Fund	Redwood Shores Maintenance Fund	Redwood Shores Landscape Mtc. Fund	Supplemental Law Enforcement Services Fund	Traffic Mitigation Fees Fund
\$	\$	\$	\$	\$
1,748,866	1,172,573	60,313	115,266	4,048,911 5,374,798
			10,253	123,322
<u>1,748,866</u>	<u>1,172,573</u>	<u>60,313</u>	<u>125,519</u>	<u>9,547,031</u>
94	60,649	844	13,726	61,953 11,088
<u>94</u>	<u>60,649</u>	<u>844</u>	<u>13,726</u>	<u>73,041</u>
			111,793	3,205,080
1,719,579	656,913	59,469		6,268,910
29,193	455,011			
<u>1,748,772</u>	<u>1,111,924</u>	<u>59,469</u>	<u>111,793</u>	<u>9,473,990</u>
<u>1,748,866</u>	<u>1,172,573</u>	<u>60,313</u>	<u>125,519</u>	<u>9,547,031</u>

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2014

	SPECIAL REVENUE FUNDS		DEBT SERVICE FUNDS
	Low & Moderate Income Housing Asset Fund \$	Planning Cost Recovery Fund \$	Public Financing Authority 2013 Refunding Lease Fund \$
<b>ASSETS</b>			
Cash and investments available for operations	1,587,081	317,254	
Cash and investments, restricted			
Receivables (net of allowance for uncollectibles):			
Taxes and assessments - current			
Accounts	4,830		
Loans	4,125,980		
Accrued interest	736,449		
Due from other governmental agencies			
Due from other funds			
Advances to RDA successor agency	1,687,703		
Investment in land held for redevelopment	3,331,208		
	11,473,251	317,254	
<b>LIABILITIES</b>			
Accounts payable	500,000	60,206	
Deposits payable	4,104	257,048	
Due to other funds			
	504,104	317,254	
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue - interest	736,449		
	736,449		
<b>FUND BALANCES</b>			
Restricted for:			
Community development	9,682,698		
Public safety			
Transportation			
Environmental support and protection			
Leisure, cultural and information services			
Capital projects			
Other purposes			
Committed to:			
Capital projects			
Assigned to:			
Community development	550,000		
Transportation			
Capital projects			
	10,232,698		
Total Fund Balances	10,232,698		
Total Liabilities, Deferred Inflows of Resources and Fund Balances	11,473,251	317,254	

CAPITAL PROJECTS FUNDS

Facilities Fee Construction Fund	Parks Impact and In Lieu Fee Fund	Shores Transportation Improvement District Fund	One Marina Community Facilities District Fund	Total Nonmajor Governmental Funds
\$	\$	\$	\$	\$
428,304	10,219,803	592,920	316,461	36,172,735 5,477,181
				354,291 40,014 7,513,451 787,701 1,439,277 7,474 1,687,703 5,741,208
<u>428,304</u>	<u>10,219,803</u>	<u>592,920</u>	<u>316,461</u>	<u>59,221,035</u>
	15,875			1,467,680 272,240 7,474
	<u>15,875</u>			<u>1,747,394</u>
				<u>787,701</u>
				<u>787,701</u>
				16,332,122 111,793 7,384,562 2,956,068 9,732,155 12,409,017 307,399
120,905 307,399	9,381,114 822,814	94,592 498,328	316,461	6,368,041 550,000 41,138 493,645
<u>428,304</u>	<u>10,203,928</u>	<u>592,920</u>	<u>316,461</u>	<u>56,685,940</u>
<u>428,304</u>	<u>10,219,803</u>	<u>592,920</u>	<u>316,461</u>	<u>59,221,035</u>

CITY OF REDWOOD CITY, CALIFORNIA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2014

SPECIAL REVENUE FUNDS

	Special Gas Tax Street Improvement Fund \$	Transportation Grants Fund \$	Grants Fund \$	Traffic Safety Fund \$	Transportation Fund \$
<b>REVENUES</b>					
Property taxes/special assessments					
Fines, forfeitures and penalties				258,292	
Use of money and property		52,516	71,073		12,276
Intergovernmental	2,506,108	1,357,530	977,293		1,900,848
Contributions					
Charges for current services	106,074		100	4,800	
Other			380	4,070	
<b>Total Revenues</b>	<b>2,612,182</b>	<b>1,410,046</b>	<b>1,048,846</b>	<b>267,162</b>	<b>1,913,124</b>
<b>EXPENDITURES</b>					
Current Operations:					
Community development			623,556		
Public safety					
Transportation	2,359,716	183,440		1,521,155	583,651
Environmental support and protection	391,844	390,290			
Leisure, cultural and information services					
Capital outlay	519,001	756,853	41,505		662,719
Debt service:					
Principal retirement					
Interest and fiscal charges					
<b>Total Expenditures</b>	<b>3,270,561</b>	<b>1,330,583</b>	<b>665,061</b>	<b>1,521,155</b>	<b>1,246,370</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(658,379)</b>	<b>79,463</b>	<b>383,785</b>	<b>(1,253,993)</b>	<b>666,754</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	20,210			1,271,884	
Transfers (out)		(27,684)			
<b>Total Other Financing Sources (Uses)</b>	<b>20,210</b>	<b>(27,684)</b>		<b>1,271,884</b>	
<b>Net change in fund balances</b>	<b>(638,169)</b>	<b>51,779</b>	<b>383,785</b>	<b>17,891</b>	<b>666,754</b>
Fund balances - beginning	7,626,590	5,135,769	7,493,195	23,247	1,119,276
<b>FUND BALANCES - ENDING</b>	<b>6,988,421</b>	<b>5,187,548</b>	<b>7,876,980</b>	<b>41,138</b>	<b>1,786,030</b>



SPECIAL REVENUE FUNDS

Seaport Landscape Maintenance Fund	Seaport Centre Maintenance Fund	Redwood Shores Maintenance Fund	Redwood Shores Landscape Maintenance Fund	Supplemental Law Enforcement Services Fund	Traffic Mitigation Fees Fund
\$	\$	\$	\$	\$	\$
212,441	186,951	765,648	218,669		
4,838	16,636	11,832	338	1,045	59,516
				114,765	1,579,820
<u>217,279</u>	<u>203,587</u>	<u>777,480</u>	<u>219,007</u>	<u>115,810</u>	<u>1,639,336</u>
				155,372	266,619
214,282	98,452	524,485	241,207		339,007
<u>214,282</u>	<u>98,452</u>	<u>524,485</u>	<u>241,207</u>	<u>155,372</u>	<u>605,626</u>
2,997	105,135	252,995	(22,200)	(39,562)	1,033,710
			29,945		
		(260,000)			
		(260,000)	29,945		
2,997	105,135	(7,005)	7,745	(39,562)	1,033,710
<u>522,567</u>	<u>1,643,637</u>	<u>1,118,929</u>	<u>51,724</u>	<u>151,355</u>	<u>8,440,280</u>
<u>525,564</u>	<u>1,748,772</u>	<u>1,111,924</u>	<u>59,469</u>	<u>111,793</u>	<u>9,473,990</u>

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2014

	SPECIAL REVENUE FUNDS		DEBT SERVICE FUNDS
	Low & Moderate Income Housing Asset Fund	Planning Cost Recovery Fund	Public Financing Authority 2013 Refunding Lease Fund
	\$	\$	\$
<b>REVENUES</b>			
Property taxes/special assessments			
Fines, forfeitures and penalties			
Use of money and property	25,190		356,497
Intergovernmental			
Contributions	550,000		
Charges for current services		535,109	
Other	735		
	<u>575,925</u>	<u>535,109</u>	<u>356,497</u>
<b>Total Revenues</b>	<b>575,925</b>	<b>535,109</b>	<b>356,497</b>
<b>EXPENDITURES</b>			
Current Operations:			
Community development	35,000	535,109	
Public safety			
Transportation			
Environmental support and protection			
Leisure, cultural and information services			
Capital outlay			
Debt service:			
Principal retirement			324,742
Interest and fiscal charges			31,755
	<u>35,000</u>	<u>535,109</u>	<u>356,497</u>
<b>Total Expenditures</b>	<b>35,000</b>	<b>535,109</b>	<b>356,497</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>540,925</b>		
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in			
Transfers (out)			
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Total Other Financing Sources (Uses)</b>			
<b>Net change in fund balances</b>	<b>540,925</b>		
<b>Fund balances - beginning</b>	<b>9,691,773</b>		
<b>FUND BALANCES - ENDING</b>	<b>10,232,698</b>		

CAPITAL PROJECTS FUNDS

Facilities Fee Construction Fund	Parks Impact and In Lieu Fee Fund	Shores Transportation Improvement District Fund	One Marina Community Facilities District Fund	Total Nonmajor Governmental Funds
\$	\$	\$	\$	\$
				1,383,709
				258,292
13,637	67,264	5,643		698,301
				6,856,544
171,111	2,719,137		316,461	5,336,529
				646,083
				5,185
<u>184,748</u>	<u>2,786,401</u>	<u>5,643</u>	<u>316,461</u>	<u>15,184,643</u>
				1,193,665
				155,372
55,463				4,914,581
				1,916,023
	82,149			82,149
	82,664			2,401,749
				324,742
				31,755
<u>55,463</u>	<u>164,813</u>			<u>11,020,036</u>
<u>129,285</u>	<u>2,621,588</u>	<u>5,643</u>	<u>316,461</u>	<u>4,164,607</u>
				1,322,039
				(287,684)
				1,034,355
129,285	2,621,588	5,643	316,461	5,198,962
<u>299,019</u>	<u>7,582,340</u>	<u>587,277</u>		<u>51,486,978</u>
<u>428,304</u>	<u>10,203,928</u>	<u>592,920</u>	<u>316,461</u>	<u>56,685,940</u>

CITY OF REDWOOD CITY, CALIFORNIA  
 BUDGETED NON-MAJOR FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	SPECIAL GAS TAX			TRANSPORTATION GRANTS FUND		
	STREET IMPROVEMENT FUND		Variance with Final Budget Positive (Negative)	TRANSPORTATION GRANTS FUND		Variance with Final Budget Positive (Negative)
	Budget	Actual		Budget	Actual	
	\$	\$	\$	\$	\$	\$
<b>REVENUES</b>						
Property taxes/special assessments						
Fines, forfeitures and penalties						
Use of money and property				35,000	52,516	17,516
Intergovernmental	2,281,151	2,506,108	224,957	1,383,672	1,357,530	(26,142)
Contributions						
Charges for current services		106,074	106,074			
Other						
<b>Total Revenues</b>	<b>2,281,151</b>	<b>2,612,182</b>	<b>331,031</b>	<b>1,418,672</b>	<b>1,410,046</b>	<b>(8,626)</b>
<b>EXPENDITURES</b>						
Current operations:						
Community development						
Public safety						
Transportation	2,366,632	2,359,716	6,916	213,424	183,440	29,984
Environmental support and protection	391,909	391,844	65	375,838	390,290	(14,452)
Debt service:						
Principal retirement						
Interest and fiscal charges						
<b>Total Expenditures</b>	<b>2,758,541</b>	<b>2,751,560</b>	<b>6,981</b>	<b>589,262</b>	<b>573,730</b>	<b>15,532</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(477,390)</b>	<b>(139,378)</b>	<b>338,012</b>	<b>829,410</b>	<b>836,316</b>	<b>6,906</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	659,575	20,210	(639,365)			
Transfers (out)					(27,684)	(27,684)
<b>Total Other Financing Sources (Uses)</b>	<b>659,575</b>	<b>20,210</b>	<b>(639,365)</b>		<b>(27,684)</b>	<b>(27,684)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>182,185</b>	<b>(119,168)</b>	<b>(301,353)</b>	<b>829,410</b>	<b>808,632</b>	<b>(20,778)</b>
Adjustments to budgetary basis:						
Capital outlay		(519,001)			(756,853)	
Funds not budgeted:						
Facilities Fee Construction Fund						
Parks Impact and In Lieu Fee Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Fund balances - beginning		7,626,590			5,135,769	
Fund balances - ending		<u>6,988,421</u>			<u>5,187,548</u>	

There were no material changes between the original and final budgeted amounts.

GRANTS FUND			TRAFFIC SAFETY FUND			TRANSPORTATION FUND		
Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$	\$
			270,000	258,292	(11,708)			
300,000	71,073	(228,927)				9,000	12,276	3,276
1,236,519	977,293	(259,226)				1,855,312	1,900,848	45,536
	100	100		4,800	4,800			
	380	380		4,070	4,070			
<u>1,536,519</u>	<u>1,048,846</u>	<u>(487,673)</u>	<u>270,000</u>	<u>267,162</u>	<u>(2,838)</u>	<u>1,864,312</u>	<u>1,913,124</u>	<u>48,812</u>
1,305,737	623,556	682,181						
			1,567,633	1,521,155	46,478	601,566	583,651	17,915
<u>1,305,737</u>	<u>623,556</u>	<u>682,181</u>	<u>1,567,633</u>	<u>1,521,155</u>	<u>46,478</u>	<u>601,566</u>	<u>583,651</u>	<u>17,915</u>
230,782	425,290	194,508	(1,297,633)	(1,253,993)	43,640	1,262,746	1,329,473	66,727
			1,297,633	1,271,884	(25,749)			
			1,297,633	1,271,884	(25,749)			
<u>230,782</u>	<u>425,290</u>	<u>194,508</u>		<u>17,891</u>	<u>17,891</u>	<u>1,262,746</u>	<u>1,329,473</u>	<u>66,727</u>
	(41,505)						(662,719)	
	<u>7,493,195</u>			<u>23,247</u>			<u>1,119,276</u>	
	<u>7,876,980</u>			<u>41,138</u>			<u>1,786,030</u>	

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA  
 BUDGETED NON-MAJOR FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	SEAPORT LANDSCAPE MAINTENANCE FUND			SEAPORT CENTRE MAINTENANCE FUND		
	Budget	Actual	Variance with	Budget	Actual	Variance with
			Final Budget Positive (Negative)			Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$
<b>REVENUES</b>						
Property taxes/special assessments	212,500	212,441	(59)	187,000	186,951	(49)
Fines, forfeitures and penalties						
Use of money and property	2,900	4,838	1,938	9,200	16,636	7,436
Intergovernmental						
Contributions						
Charges for current services						
Other						
<b>Total Revenues</b>	<b>215,400</b>	<b>217,279</b>	<b>1,879</b>	<b>196,200</b>	<b>203,587</b>	<b>7,387</b>
Current operations:						
Community development						
Public safety						
Transportation						
Environmental support and protection	239,166	214,282	24,884	146,725	98,452	48,273
Debt service:						
Principal retirement						
Interest and fiscal charges						
<b>Total Expenditures</b>	<b>239,166</b>	<b>214,282</b>	<b>24,884</b>	<b>146,725</b>	<b>98,452</b>	<b>48,273</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(23,766)</b>	<b>2,997</b>	<b>26,763</b>	<b>49,475</b>	<b>105,135</b>	<b>55,660</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in						
Transfers (out)						
<b>Total Other Financing Sources (Uses)</b>						
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>(23,766)</b>	<b>2,997</b>	<b>26,763</b>	<b>49,475</b>	<b>105,135</b>	<b>55,660</b>
Adjustments to budgetary basis:						
Capital outlay						
Funds not budgeted:						
Facilities Fee Construction Fund						
Parks Impact and In Lieu Fee Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Fund balances - beginning		522,567			1,643,637	
Fund balances - ending		525,564			1,748,772	

There were no material changes between the original and final budgeted amounts.

REDWOOD SHORES MAINTENANCE FUND			REDWOOD SHORES LANDSCAPE MAINTENANCE FUND			SUPPLEMENTAL LAW ENFORCEMENT SERVICES FUND		
Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$	\$
706,318	765,648	59,330	219,600	218,669	(931)			
5,000	11,832	6,832		338	338		1,045	1,045
						125,771	114,765	(11,006)
<u>711,318</u>	<u>777,480</u>	<u>66,162</u>	<u>219,600</u>	<u>219,007</u>	<u>(593)</u>	<u>125,771</u>	<u>115,810</u>	<u>(9,961)</u>
						154,127	155,372	(1,245)
635,170	524,485	110,685	249,545	241,207	8,338			
<u>635,170</u>	<u>524,485</u>	<u>110,685</u>	<u>249,545</u>	<u>241,207</u>	<u>8,338</u>	<u>154,127</u>	<u>155,372</u>	<u>(1,245)</u>
76,148	252,995	176,847	(29,945)	(22,200)	7,745	(28,356)	(39,562)	(11,206)
			29,945	29,945				
(260,000)	(260,000)							
(260,000)	(260,000)		29,945	29,945				
<u>(183,852)</u>	<u>(7,005)</u>	<u>176,847</u>		<u>7,745</u>	<u>7,745</u>	<u>(28,356)</u>	<u>(39,562)</u>	<u>(11,206)</u>
	<u>1,118,929</u>			<u>51,724</u>			<u>151,355</u>	
	<u>1,111,924</u>			<u>59,469</u>			<u>111,793</u>	

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA  
 BUDGETED NON-MAJOR FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	TRAFFIC MITIGATION FEES FUND			LOW AND MODERATE INCOME HOUSING ASSET FUND		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$
<b>REVENUES</b>						
Property taxes/special assessments						
Fines, forfeitures and penalties						
Use of money and property	23,000	59,516	36,516		25,190	25,190
Intergovernmental						
Contributions	720,000	1,579,820	859,820		550,000	550,000
Charges for current services						
Other					735	735
<b>Total Revenues</b>	<b>743,000</b>	<b>1,639,336</b>	<b>896,336</b>		<b>575,925</b>	<b>575,925</b>
Current operations:						
Community development				25,000	35,000	(10,000)
Public safety						
Transportation	266,619	266,619				
Environmental support and protection						
Debt service:						
Principal retirement						
Interest and fiscal charges						
<b>Total Expenditures</b>	<b>266,619</b>	<b>266,619</b>		<b>25,000</b>	<b>35,000</b>	<b>(10,000)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>476,381</b>	<b>1,372,717</b>	<b>896,336</b>	<b>(25,000)</b>	<b>540,925</b>	<b>565,925</b>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
<b>Total Other Financing Sources (Uses)</b>						
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>476,381</b>	<b>1,372,717</b>	<b>896,336</b>	<b>(25,000)</b>	<b>540,925</b>	<b>565,925</b>
Adjustments to budgetary basis:						
Capital outlay		(339,007)				
Funds not budgeted:						
Facilities Fee Construction Fund						
Parks Impact and In Lieu Fee Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Fund balances - beginning		8,440,280			9,691,773	
Fund balances - ending		9,473,990			10,232,698	

There were no material changes between the original and final budgeted amounts.



PLANNING COST RECOVERY FUND			PUBLIC FINANCING AUTHORITY 2013 REFUNDING LEASE FUND		
Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
\$	\$	\$	\$	\$	\$
			359,247	356,497	(2,750)
1,132,523	535,109	(597,414)			
<u>1,132,523</u>	<u>535,109</u>	<u>(597,414)</u>	<u>359,247</u>	<u>356,497</u>	<u>(2,750)</u>
1,132,523	535,109	597,414			
			324,742	324,742	
			34,505	31,755	2,750
<u>1,132,523</u>	<u>535,109</u>	<u>597,414</u>	<u>359,247</u>	<u>356,497</u>	<u>2,750</u>

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA  
 BUDGETED NON-MAJOR FUNDS  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	TOTALS		
	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$
<b>REVENUES</b>			
Property taxes/special assessments	1,325,418	1,383,709	58,291
Fines, forfeitures and penalties	270,000	258,292	(11,708)
Use of money and property	743,347	611,757	(131,590)
Intergovernmental	6,882,425	6,856,544	(25,881)
Contributions	720,000	2,129,820	1,409,820
Charges for current services	1,132,523	646,083	(486,440)
Other		5,185	5,185
<b>Total Revenues</b>	<b>11,073,713</b>	<b>11,891,390</b>	<b>817,677</b>
<b>Current operations:</b>			
Community development	2,463,260	1,193,665	1,269,595
Public safety	154,127	155,372	(1,245)
Transportation	5,015,874	4,914,581	101,293
Environmental support and protection	2,038,353	1,860,560	177,793
<b>Debt service:</b>			
Principal retirement	324,742	324,742	
Interest and fiscal charges	34,505	31,755	2,750
<b>Total Expenditures</b>	<b>10,030,861</b>	<b>8,480,675</b>	<b>1,550,186</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,042,852</b>	<b>3,410,715</b>	<b>2,367,863</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	1,987,153	1,322,039	(665,114)
Transfers (out)	(260,000)	(287,684)	(27,684)
<b>Total Other Financing Sources (Uses)</b>	<b>1,727,153</b>	<b>1,034,355</b>	<b>(692,798)</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>2,770,005</b>	<b>4,445,070</b>	<b>1,675,065</b>
<b>Adjustments to budgetary basis:</b>			
Capital outlay		(2,319,085)	
<b>Funds not budgeted:</b>			
Facilities Fee Construction Fund		428,304	
Parks Impact and In Lieu Fee Fund		10,203,928	
Shores Transportation Improvement District		592,920	
One Marina Community Facilities District		316,461	
<b>Fund balances - beginning</b>		<b>43,018,342</b>	
<b>Fund balances - ending</b>		<b>56,685,940</b>	

There were no material changes between the original and final budgeted amounts.



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2014*

## INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods and services provided by one City department to others on a cost reimbursement basis.

**Equipment Services Fund** – This fund accounts for the costs of operation, maintenance, and replacement of automotive equipment used by other departments. Such costs are billed to the consuming departments at a rate that includes operation, maintenance, and an amount necessary to provide replacement of the equipment at a future date. Additional equipment is budgeted by the consuming department and is then transferred to the equipment services fund after purchase.

**Self-Insurance Fund** – This fund accounts for the City's total insurance program which includes, but is not limited to, workers' compensation, comprehensive automobile and general liability, marinas, and property and crime insurance. Included are administrative costs and costs associated with self-insurance and the purchase of excess insurance to adequately protect the City. User departments are charged for workers' compensation insurance at rates based on loss experience and on departmental budget size.

**Internal Services Fund** – This fund accounts for the costs of operation of the City's telephone/communications service, maintenance and repair of buildings, custodial services, and information technology services. The costs are billed to the user departments based on actual use by the departments.

**Employee Benefits Fund** – This fund is used to account for providing City workers with self-insured dental and vision benefits, unemployment insurance, and health insurance to retired City employees.

CITY OF REDWOOD CITY, CALIFORNIA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET POSITION  
JUNE 30, 2014

	Equipment Services Fund	Self Insurance Fund	Internal Services Fund	Employee Benefits Fund	Total
<b>ASSETS</b>	\$	\$	\$	\$	\$
Current assets:					
Cash and investments available for operations	8,722,534	18,495,049	1,716,950	593,294	29,527,827
Receivables (net of allowance for uncollectibles):					
Accounts		75,000	23,248	455	98,703
Accrued interest	2,946				2,946
Due from other governmental agencies	74,536		193,280		267,816
Due from other funds	300,000				300,000
Inventory of supplies at cost	150,818				150,818
Deposits		275,000			275,000
Prepaid items and other assets	486	1,918	9,046		11,450
Total current assets	<u>9,251,320</u>	<u>18,846,967</u>	<u>1,942,524</u>	<u>593,749</u>	<u>30,634,560</u>
Noncurrent assets:					
Advances to other funds	2,400,000				2,400,000
Capital assets:					
Equipment, net	<u>8,586,203</u>		<u>801,974</u>		<u>9,388,177</u>
Net capital assets	<u>8,586,203</u>		<u>801,974</u>		<u>9,388,177</u>
Total noncurrent assets	<u>10,986,203</u>		<u>801,974</u>		<u>11,788,177</u>
Total assets	<u>20,237,523</u>	<u>18,846,967</u>	<u>2,744,498</u>	<u>593,749</u>	<u>42,422,737</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	116,092	417,674	109,351	281	643,398
Insurance claims payable - current portion		3,922,579			3,922,579
Accrued sick leave and vacation - current portion	45,675		298,409		344,084
Unearned revenue	<u>42,527</u>				<u>42,527</u>
Total current liabilities	<u>204,294</u>	<u>4,340,253</u>	<u>407,760</u>	<u>281</u>	<u>4,952,588</u>
Noncurrent liabilities:					
Insurance claims payable		14,532,144			14,532,144
Accrued sick leave and vacation	73,592		505,583		579,175
Net OPEB obligation	<u>74,492</u>	<u>25,994</u>	<u>390,836</u>		<u>491,322</u>
Total noncurrent liabilities	<u>148,084</u>	<u>14,558,138</u>	<u>896,419</u>		<u>15,602,641</u>
Total liabilities	<u>352,378</u>	<u>18,898,391</u>	<u>1,304,179</u>	<u>281</u>	<u>20,555,229</u>
<b>NET POSITION</b>					
Invested in capital assets	8,586,203		801,974		9,388,177
Unrestricted	<u>11,298,942</u>	<u>(51,424)</u>	<u>638,345</u>	<u>593,468</u>	<u>12,479,331</u>
Total net position	<u>19,885,145</u>	<u>(51,424)</u>	<u>1,440,319</u>	<u>593,468</u>	<u>21,867,508</u>

CITY OF REDWOOD CITY, CALIFORNIA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES,  
EXPENSES, AND CHANGES IN FUND NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2014

	Equipment Services Fund \$	Self Insurance Fund \$	Internal Services Fund \$	Employee Benefits Fund \$	Total \$
<b>OPERATING REVENUES</b>					
Charges for services	4,262,961	5,206,289	8,774,795	5,930,429	24,174,474
<b>OPERATING EXPENSES</b>					
Employee services	872,348	381,751	7,012,582		8,266,681
Maintenance	1,253,084		1,038,053		2,291,137
Utilities	23,086	3,014	19,340		45,440
Contractual services	141,823	582,648	9,910	14,584	748,965
Supplies and services	81,086	484,642	864,724		1,430,452
Depreciation	1,059,436		143,745		1,203,181
Insurance and claims		8,512,343		5,677,304	14,189,647
Total operating expenses	3,430,863	9,964,398	9,088,354	5,691,888	28,175,503
Operating Income (Loss)	832,098	(4,758,109)	(313,559)	238,541	(4,001,029)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Gain (loss) on disposal of capital assets	(86)		(57,530)		(57,616)
Investment earnings	85,960	123,994	21,203	16,304	247,461
Insurance recovery	23,711				23,711
Contributions	10,752				10,752
Net Nonoperating Revenues (Expenses)	120,337	123,994	(36,327)	16,304	224,308
Net Income (Loss) Before Capital Contributions and Transfers	952,435	(4,634,115)	(349,886)	254,845	(3,776,721)
Capital contributions	1,190,671		306,193		1,496,864
Transfers in	23,047	6,000,000			6,023,047
Transfers (out)			(15,976)		(15,976)
Total Capital Contributions and Transfers	1,213,718	6,000,000	290,217		7,503,935
Change in net position	2,166,153	1,365,885	(59,669)	254,845	3,727,214
Net position - beginning	17,718,992	(1,417,309)	1,499,988	338,623	18,140,294
Net position - ending	19,885,145	(51,424)	1,440,319	593,468	21,867,508

CITY OF REDWOOD CITY, CALIFORNIA  
INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF CASH FLOWS  
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Equipment Services Fund	Self Insurance Fund	Internal Services Fund	Employee Benefits Fund	Total
	\$	\$	\$	\$	\$
Cash flows from operating activities:					
Cash received from interfund services provided	4,307,655	5,131,289	8,680,491	5,930,429	24,049,864
Cash payments to suppliers for goods and services	(1,547,356)	(4,374,013)	(2,043,975)	(5,691,607)	(13,656,951)
Cash payments to employees for services	(917,795)	(381,751)	(7,001,867)		(8,301,413)
Net cash provided by (used in) operating activities	<u>1,842,504</u>	<u>375,525</u>	<u>(365,351)</u>	<u>238,822</u>	<u>2,091,500</u>
Cash flows from noncapital financing activities					
Insurance recovery	23,711				23,711
Transfers in		6,000,000			6,000,000
Transfers out			(15,976)		(15,976)
Advances to other funds	300,000				300,000
Contributions	10,752				10,752
Net cash provided by (used in) non-capital financing activities	<u>334,463</u>	<u>6,000,000</u>	<u>(15,976)</u>		<u>6,318,487</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(808,762)		(8,108)		(816,870)
Contributions	44,473				44,473
Proceeds from sale of capital assets	1,382				1,382
Net cash used in capital and related financing activities	<u>(762,907)</u>		<u>(8,108)</u>		<u>(771,015)</u>
Cash flows from investing activities:					
Interest on investments	86,733	123,994	21,203	16,304	248,234
Net cash provided by investing activities	<u>86,733</u>	<u>123,994</u>	<u>21,203</u>	<u>16,304</u>	<u>248,234</u>
Net increase (decrease) in cash and cash equivalents	1,500,793	6,499,519	(368,232)	255,126	7,887,206
Cash and cash equivalents at beginning of year	7,221,741	11,995,530	2,085,182	338,168	21,640,621
Cash and cash equivalents at end of year	<u>8,722,534</u>	<u>18,495,049</u>	<u>1,716,950</u>	<u>593,294</u>	<u>29,527,827</u>
<b>Reconciliation of Net Cash Flow from Operating Activities</b>					
Operating income (loss)	832,098	(4,758,109)	(313,559)	238,541	(4,001,029)
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:					
Depreciation	1,059,436		143,745		1,203,181
Change in assets and liabilities:					
Decrease (increase) in accounts receivable	36,784	(75,000)	(23,248)		(61,464)
Decrease (increase) in due from other governmental agencies	5,383		(71,056)		(65,673)
Decrease (increase) in inventory/prepaid expense/deposits	(10,913)	(26,918)	25		(37,806)
Increase (decrease) in vacation & sick leave payable	(45,447)		10,715		(34,732)
Increase (decrease) in accounts payable	(37,364)	181,181	(111,973)	281	32,125
Increase (decrease) in unearned revenue	2,527				2,527
Increase (decrease) in net OPEB obligation					
Increase (decrease) in insurance claims payable		5,054,371			5,054,371
Total adjustments	<u>1,010,406</u>	<u>5,133,634</u>	<u>(51,792)</u>	<u>281</u>	<u>6,092,529</u>
Net cash provided by (used in) operating activities	<u>1,842,504</u>	<u>375,525</u>	<u>(365,351)</u>	<u>238,822</u>	<u>2,091,500</u>
Noncash investing, capital and financing activities:					
Noncash capital contributions	1,169,245		306,193		1,475,438
Gain (loss) on disposal of equipment	(1,468)		(57,530)		(58,998)

## AGENCY FUNDS

Agency funds are used to account for assets held by government in a trustee capacity or as an agent for an individual.

**Employee Benefit Plans Fund** – This fund is used to account for contributions to certain employee benefit categories established by the City under Section 125 of the Internal Revenue Code for the employees and their dependents.

**Pacific Shores Community Facilities District Fund** – This fund accounts for the Mello-Roos Pacific Shores Project special tax bonds that were issued to fund various transportation system improvements within the City's right-of-way in the Pacific Shores district.

**Shores Transportation Improvement District Fund** – This fund accounts for the Mello-Roos Shores Transportation Improvement special tax bonds that were issued to fund various transportation projects in the Redwood Shores area.

**One Marina Community Facilities District Fund** – This fund accounts for the Mello-Roos One Marina Project special tax bonds that were issued to fund certain public infrastructure improvements projects within the One Marina district.



CITY OF REDWOOD CITY, CALIFORNIA  
AGENCY FUNDS  
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Balance July 1, 2013	Additions	Withdrawals	Balance June 30, 2014
	\$	\$	\$	\$
<b>EMPLOYEE BENEFIT PLANS</b>				
<b>ASSETS</b>				
Cash and Investments, restricted				
Cafeteria Benefits Plan	50,382	308,370	304,545	54,207
Deposits	8,157	29,505	8,157	29,505
Total Assets	<u>58,539</u>	<u>337,875</u>	<u>312,702</u>	<u>83,712</u>
<b>LIABILITIES</b>				
Cafeteria Benefits Plan Payable	58,539	337,875	312,702	83,712
Total Liabilities	<u>58,539</u>	<u>337,875</u>	<u>312,702</u>	<u>83,712</u>
<b>PACIFIC SHORES COMMUNITY FACILITIES DISTRICT</b>				
<b>ASSETS</b>				
Cash and Investments, restricted	2,460,177	1,348,070	1,470,675	2,337,572
Total Assets	<u>2,460,177</u>	<u>1,348,070</u>	<u>1,470,675</u>	<u>2,337,572</u>
<b>LIABILITIES</b>				
Due to Bondholders	2,460,177	1,348,070	1,470,675	2,337,572
Total Liabilities	<u>2,460,177</u>	<u>1,348,070</u>	<u>1,470,675</u>	<u>2,337,572</u>
<b>SHORES TRANSPORTATION IMPROVEMENT DISTRICT</b>				
<b>ASSETS</b>				
Cash and Investments, restricted	1,527,930	802,583	1,012,653	1,317,860
Accrued interest receivable	24		24	
Total Assets	<u>1,527,954</u>	<u>802,583</u>	<u>1,012,677</u>	<u>1,317,860</u>
<b>LIABILITIES</b>				
Due to Bondholders	1,527,954	802,583	1,012,677	1,317,860
Total Liabilities	<u>1,527,954</u>	<u>802,583</u>	<u>1,012,677</u>	<u>1,317,860</u>
<b>ONE MARINA COMMUNITY FACILITIES DISTRICT</b>				
<b>ASSETS</b>				
Cash and Investments, restricted	1,184,439	470,652	901,678	753,413
Accrued interest receivable	15		15	
Total Assets	<u>1,184,454</u>	<u>470,652</u>	<u>901,693</u>	<u>753,413</u>
<b>LIABILITIES</b>				
Accounts payable	2,278	165	2,278	165
Due to Bondholders	1,182,176	470,487	899,415	753,248
Total Liabilities	<u>1,184,454</u>	<u>470,652</u>	<u>901,693</u>	<u>753,413</u>
<b>TOTAL FOR ALL FUNDS</b>				
<b>ASSETS</b>				
Cash and Investments, restricted	5,222,928	2,929,675	3,689,551	4,463,052
Accrued interest receivable	39		39	
Deposits	8,157	29,505	8,157	29,505
Total Assets	<u>5,231,124</u>	<u>2,959,180</u>	<u>3,697,747</u>	<u>4,492,557</u>
<b>LIABILITIES</b>				
Accounts payable	2,278	165	2,278	165
Due to Bondholders	5,170,307	2,621,140	3,382,767	4,408,680
Employee Benefit Plans Payable	58,539	337,875	312,702	83,712
Total Liabilities	<u>5,231,124</u>	<u>2,959,180</u>	<u>3,697,747</u>	<u>4,492,557</u>



*City of Redwood City  
Comprehensive Annual Financial Report  
June 30, 2014*

## Statistical Section

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This part of the City of Redwood City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<b><u>Contents</u></b>	<b><u>Pages</u></b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	114-121
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	122-125
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	126-130
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	131-133
<b>Operating Information</b> These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	134-136

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

**Schedule 1**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**NET POSITION BY COMPONENT**  
**Last Ten Fiscal Years**  
*(accrual basis of accounting)*

	<b>Fiscal Years</b>				
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
	\$	\$	\$	\$	\$
Governmental activities					
Net investment in capital assets	141,068,539	158,410,981	156,907,578	156,560,228	161,627,155
Restricted	85,744,834	64,855,313	54,756,987	50,323,338	52,368,702
Unrestricted	29,809,721	39,583,698	62,441,526	63,104,332	49,292,416
Total governmental activities net position	<u>256,623,094</u>	<u>262,849,992</u>	<u>274,106,091</u>	<u>269,987,898</u>	<u>263,288,273</u>
Business-type activities					
Net investment in capital assets	38,599,000	28,718,115	70,506,885	78,785,990	81,617,178
Restricted	27,422,661	36,638,784	6,139,177	5,785,576	5,548,281
Unrestricted	52,654,580	55,293,919	49,663,838	66,030,719	55,230,314
Total business-type activities net position	<u>118,676,241</u>	<u>120,650,818</u>	<u>126,309,900</u>	<u>150,602,285</u>	<u>142,395,773</u>
Primary government					
Net investment in capital assets	179,667,539	187,129,096	227,414,463	235,346,218	243,244,333
Restricted	113,167,495	101,494,097	60,896,164	56,108,914	57,916,983
Unrestricted	82,464,301	94,877,617	112,105,364	129,135,051	104,522,730
Total primary government net position	<u>375,299,335</u>	<u>383,500,810</u>	<u>400,415,991</u>	<u>420,590,183</u>	<u>405,684,046</u>

**Schedule 1 (Continued)**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**NET POSITION BY COMPONENT**  
**Last Ten Fiscal Years**  
*(accrual basis of accounting)*

<b>Fiscal Years</b>				
<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
169,093,206	169,197,701	185,512,524	190,190,522	184,624,589
54,628,813	48,959,550	39,238,667	43,957,061	49,268,810
37,166,449	42,990,998	48,138,559	48,015,241	60,038,520
<u>260,888,468</u>	<u>261,148,249</u>	<u>272,889,750</u>	<u>282,162,824</u>	<u>293,931,919</u>
90,877,809	101,835,656	107,036,885	110,901,151	117,927,502
5,660,219	5,838,632	5,868,399	6,637,669	6,553,008
64,022,824	65,532,636	69,695,347	76,506,675	92,340,047
<u>160,560,852</u>	<u>173,206,924</u>	<u>182,600,631</u>	<u>194,045,495</u>	<u>216,820,557</u>
259,971,015	271,033,357	292,549,409	301,091,673	302,552,091
60,289,032	54,798,182	45,107,066	50,594,730	55,821,818
101,189,273	108,523,634	117,833,906	124,521,916	152,378,567
<u>421,449,320</u>	<u>434,355,173</u>	<u>455,490,381</u>	<u>476,208,319</u>	<u>510,752,476</u>

**Schedule 2**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**CHANGES IN NET POSITION**  
**Last Ten Fiscal Years**  
**(accrual basis of accounting)**

	Fiscal Year				
	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$
<b>Expenses</b>					
Governmental Activities:					
Community development	13,922,037	15,653,209	13,744,289	16,263,530	15,808,848
Human services	1,260,521	1,279,535	1,351,113	1,518,333	1,623,102
Public safety	39,677,167	41,264,413	42,600,983	45,450,681	48,500,457
Transportation	10,007,929	9,683,728	13,302,505	10,620,489	13,930,238
Environmental support and protection	2,804,327	3,715,183	2,930,603	2,010,545	2,890,119
Leisure, cultural and information services	18,186,423	18,879,833	19,520,000	20,994,657	23,947,621
Policy development and implementation	2,599,708	2,646,873	2,653,677	2,792,115	4,766,661
Interest on long term debt	3,702,727	3,599,533	3,450,169	3,251,324	2,986,613
Total governmental activities expenses	<u>92,160,839</u>	<u>96,722,307</u>	<u>99,553,339</u>	<u>102,901,674</u>	<u>114,453,659</u>
Business-type activities					
Water utility fund	16,692,690	19,846,801	19,341,678	22,594,685	21,595,698
Sewer utility fund	12,742,427	12,785,043	16,299,485	15,828,257	16,125,292
Parking fund	457,482	595,559	1,794,044	2,195,805	2,890,896
Port of Redwood City	4,468,366	4,207,224	4,053,686	3,937,037	3,896,043
Docktown Marina					
Total business-type activities expenses	<u>34,360,965</u>	<u>37,434,627</u>	<u>41,488,893</u>	<u>44,555,784</u>	<u>44,178,929</u>
Total primary government expenses	<u>126,521,804</u>	<u>134,156,934</u>	<u>141,042,232</u>	<u>147,457,458</u>	<u>158,632,588</u>
<b>Program Revenues</b>					
Governmental activities:					
Charges for services:					
Community Development	2,658,444	1,984,721	3,981,057	3,777,584	2,760,718
Public Safety	1,884,219	1,836,985	1,741,393	1,861,194	1,807,675
Transportation	87,945	161,112	250,265	522,453	298,955
Environmental support and protection	1,251,622	1,210,222	1,296,745	1,380,110	1,371,562
Leisure, cultural, and information services	2,709,142	3,023,953	3,169,556	2,515,117	2,508,597
Policy development and implementation	729,524	583,237	609,683	1,604,897	1,534,944
Operating grants and contributions	5,740,716	6,337,751	6,364,633	5,302,686	6,741,821
Capital grants and contributions	24,469,000	10,170,784	10,223,691	12,778,701	6,987,681
Total governmental activities program revenues	<u>39,530,612</u>	<u>25,308,765</u>	<u>27,637,023</u>	<u>29,742,742</u>	<u>24,011,953</u>
Business-type activities:					
Water utility fund	16,311,364	18,704,466	20,879,685	23,318,628	25,578,282
Sewer utility fund	10,274,952	11,772,513	14,104,270	16,818,581	20,259,668
Parking fund	550,611	607,515	862,328	1,098,340	840,414
Port of Redwood City	5,950,512	6,254,362	5,676,604	5,689,697	6,702,772
Docktown Marina					
Total business-type activities program revenues	<u>33,087,439</u>	<u>37,338,856</u>	<u>41,522,887</u>	<u>46,925,246</u>	<u>53,381,136</u>
<b>Net (Expense)/Revenue</b>					
Governmental activities	(52,630,227)	(71,413,542)	(71,916,316)	(73,158,932)	(90,441,706)
Business-type activities	<u>(1,273,526)</u>	<u>(95,771)</u>	<u>33,994</u>	<u>2,369,462</u>	<u>9,202,207</u>
Total primary government net expense	<u>(53,903,753)</u>	<u>(71,509,313)</u>	<u>(71,882,322)</u>	<u>(70,789,470)</u>	<u>(81,239,499)</u>
<b>General Revenues and Other Changes in Net Position</b>					
Governmental activities:					
Taxes:					
Property taxes	29,831,476	36,256,452	39,899,711	43,329,876	47,082,041
Sales taxes	16,476,894	17,902,816	19,208,709	18,136,670	15,552,681
Other taxes	19,545,345	18,370,347	17,165,197	18,636,208	18,325,098
Investment Earnings	2,432,000	3,321,134	4,844,480	5,371,665	2,036,661
Other	1,774,027	1,751,381	1,710,333	1,630,933	1,813,256
Extraordinary item					
Gain (loss) on retirement of capital assets					
Transfers	34,964	38,310	(343,138)	(18,064,613)	(1,067,656)
Total governmental activities	<u>70,094,706</u>	<u>77,640,440</u>	<u>82,485,292</u>	<u>69,040,739</u>	<u>83,742,081</u>
Business-type activities:					
Property taxes	34,081	50,583	60,688	27,358	28,390
Investment Earnings	951,375	2,058,075	2,509,321	3,117,508	1,264,220
Incr. (decr.) in investment in sewer authority	3,272				
Other			230,215	713,444	27,537
Extraordinary item - pollution remediation					(19,796,522)
Gain (loss) on retirement of capital assets					
Transfers	(34,964)	(38,310)	343,138	18,064,613	1,067,656
Total business-type activities	<u>953,764</u>	<u>2,070,348</u>	<u>3,143,362</u>	<u>21,922,923</u>	<u>(17,408,719)</u>
Total primary government	<u>71,048,470</u>	<u>79,710,788</u>	<u>85,628,654</u>	<u>90,963,662</u>	<u>66,333,362</u>
<b>Change in Net Position</b>					
Governmental activities	17,464,479	6,226,898	10,568,976	(4,118,193)	(6,699,625)
Business-type activities	<u>(319,762)</u>	<u>1,974,577</u>	<u>3,177,356</u>	<u>24,292,385</u>	<u>(8,206,512)</u>
Total primary government	<u>17,144,717</u>	<u>8,201,475</u>	<u>13,746,332</u>	<u>20,174,192</u>	<u>(14,906,137)</u>

Schedule 2 (Continued)  
CITY OF REDWOOD CITY, CALIFORNIA  
CHANGES IN NET POSITION  
Last Ten Fiscal Years  
*(accrual basis of accounting)*

2010	2011	2012	2013	2014
\$	\$	\$	\$	\$
18,412,550	17,702,202	22,954,181	9,090,251	8,150,880
1,554,411	1,582,251	1,495,964	1,562,157	1,462,300
46,093,823	46,022,760	50,621,439	51,355,424	59,435,400
13,535,438	11,650,032	11,352,844	11,332,401	11,572,619
4,124,316	2,919,735	2,327,751	1,996,098	2,746,600
22,168,928	21,547,087	21,681,720	21,548,736	22,823,528
4,726,541	5,528,602	4,773,768	6,030,657	5,982,346
2,762,933	2,551,146	1,616,333	314,022	48,341
<u>113,378,940</u>	<u>109,503,815</u>	<u>116,824,000</u>	<u>103,229,746</u>	<u>112,222,014</u>
20,702,048	21,889,834	28,680,794	31,123,859	30,591,894
17,776,510	19,900,464	20,017,426	19,287,430	19,989,758
2,476,991	2,420,716	2,420,029	2,430,359	2,471,222
4,038,336	4,251,855	4,739,397	5,628,403	5,091,265
			243,335	705,388
<u>44,993,885</u>	<u>48,462,869</u>	<u>55,857,646</u>	<u>58,713,386</u>	<u>58,849,527</u>
<u>158,372,825</u>	<u>157,966,684</u>	<u>172,681,646</u>	<u>161,943,132</u>	<u>171,071,541</u>
3,996,401	6,503,254	4,852,265	4,651,706	8,553,508
1,995,853	2,345,175	3,199,818	3,131,805	6,922,702
304,275	256,929	404,042	546,820	374,859
1,351,354	1,328,009	1,330,208	1,335,544	1,417,353
2,430,818	2,632,930	2,843,954	2,827,087	3,074,537
1,626,141	1,656,917	1,817,823	1,780,367	1,871,774
7,380,584	6,159,842	6,193,090	6,716,207	7,072,772
7,978,474	6,243,279	8,503,363	12,658,933	9,505,357
<u>27,063,900</u>	<u>27,126,335</u>	<u>29,144,563</u>	<u>33,648,469</u>	<u>38,792,862</u>
23,255,926	26,038,320	28,465,337	33,202,194	36,271,106
22,241,030	24,156,749	26,898,440	28,100,341	25,692,258
1,005,328	1,100,304	1,267,531	1,366,984	1,503,519
6,073,755	7,674,030	7,638,585	6,262,660	6,824,474
			493,262	665,819
<u>52,576,039</u>	<u>58,969,403</u>	<u>64,269,893</u>	<u>69,425,441</u>	<u>70,957,176</u>
(86,315,040)	(82,377,480)	(87,679,437)	(69,581,277)	(73,429,152)
7,582,154	10,506,534	8,412,247	10,712,055	12,107,649
<u>(78,732,886)</u>	<u>(71,870,946)</u>	<u>(79,267,190)</u>	<u>(58,869,222)</u>	<u>(61,321,503)</u>
48,052,021	46,614,369	42,432,818	38,379,963	41,708,668
15,023,882	15,671,238	16,998,443	19,240,290	20,781,613
18,034,397	18,440,213	19,595,982	20,335,928	21,612,376
1,629,298	1,042,032	579,394	301,171	992,221
2,093,288	1,598,452	1,260,652	1,069,894	1,205,727
		19,161,516		
				(3,359,063)
<u>(917,651)</u>	<u>(729,043)</u>	<u>(607,867)</u>	<u>(472,895)</u>	<u>2,314,350</u>
<u>83,915,235</u>	<u>82,637,261</u>	<u>99,420,938</u>	<u>78,854,351</u>	<u>85,255,892</u>
25,904	28,080	77,425	104,081	104,814
435,559	327,435	281,583	151,041	499,586
2,885	17,324	14,585	4,792	4,132
				13,700,440
917,651	729,043	607,867	472,895	(2,314,350)
1,381,999	1,101,882	981,460	732,809	11,994,622
<u>85,297,234</u>	<u>83,739,143</u>	<u>100,402,398</u>	<u>79,587,160</u>	<u>97,250,514</u>
(2,399,805)	259,781	11,741,501	9,273,074	11,826,740
8,964,153	11,608,416	9,393,707	11,444,864	24,102,271
<u>6,564,348</u>	<u>11,868,197</u>	<u>21,135,208</u>	<u>20,717,938</u>	<u>35,929,011</u>

Schedule 3  
CITY OF REDWOOD CITY, CALIFORNIA  
FUND BALANCES - GOVERNMENTAL FUNDS  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

	Fiscal Years			
	2005	2006	2007	2008
	\$	\$	\$	\$
<b>General Fund</b>				
Reserved	4,215,063	3,872,498	4,177,832	5,554,149
Unreserved	34,381,730	39,266,188	40,827,073	40,900,734
Total general fund	<u>38,596,793</u>	<u>43,138,686</u>	<u>45,004,905</u>	<u>46,454,883</u>
<b>All Other Governmental Funds</b>				
Reserved	38,919,889	35,256,257	40,323,695	25,925,282
Unreserved, reported in:				
Special revenue funds	21,745,503	17,875,037	19,220,633	24,369,952
Debt service funds	(29,697)	(50,285)	(41,058)	46,511
Capital projects funds	38,852,090	29,329,795	18,892,346	26,565,268
Total all other governmental funds	<u>99,487,785</u>	<u>82,410,804</u>	<u>78,395,616</u>	<u>76,907,013</u>
Total governmental funds	<u>138,084,578</u>	<u>125,549,490</u>	<u>123,400,521</u>	<u>123,361,896</u>
	2011	2012	2013	2014
	\$	\$	\$	\$
<b>General Fund</b>				
Nonspendable	5,522,056	1,902,685	1,785,184	1,608,733
Restricted				
Committed	864,057	551,640	370,927	536,108
Assigned	775,772	151,178	148,534	223,061
Unassigned	17,687,858	17,219,050	19,449,097	21,480,940
Total general fund	<u>24,849,743</u>	<u>19,824,553</u>	<u>21,753,742</u>	<u>23,848,842</u>
<b>All Other Governmental Funds</b>				
Nonspendable	16,740,323			
Restricted	39,829,153	39,468,697	43,969,746	49,268,810
Committed	22,014,259	24,806,534	22,494,438	29,788,888
Assigned	3,064,843	7,424,963	7,817,738	8,128,032
Unassigned	(3,181,518)			
Total all other governmental funds	<u>78,467,060</u>	<u>71,700,194</u>	<u>74,281,922</u>	<u>87,185,730</u>
Total governmental funds	<u>103,316,803</u>	<u>91,524,747</u>	<u>96,035,664</u>	<u>111,034,572</u>

Notes:

The City began to classify fund balances into specifically defined classifications when it implemented GASB Statement No. 54 in FY 2010/11.



Schedule 3 (Continued)  
 CITY OF REDWOOD CITY, CALIFORNIA  
 FUND BALANCES - GOVERNMENTAL FUNDS  
 Last Ten Fiscal Years  
 (modified accrual basis of accounting)

Fiscal Years	
2009	2010
\$	\$
4,630,992	3,732,535
<u>34,464,505</u>	<u>20,991,436</u>
<u>39,095,497</u>	<u>24,723,971</u>
25,660,144	26,067,203
28,419,218	32,706,733
78,418	40,589
<u>21,189,395</u>	<u>18,520,889</u>
<u>75,347,175</u>	<u>77,335,414</u>
<u><u>114,442,672</u></u>	<u><u>102,059,385</u></u>

**Schedule 4**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**Last Ten Fiscal Years**

	Fiscal Years				
	2005	2006	2007	2008	2009
	\$	\$	\$	\$	\$
<b>REVENUES</b>					
Property taxes/special assessments	33,007,808	39,392,649	42,495,915	44,573,382	48,371,857
Sales and other taxes	29,920,574	32,954,880	34,234,028	34,567,051	31,674,430
Licenses and permits	1,086,454	1,167,735	1,519,504	1,557,547	902,723
Fines, forfeitures and penalties	1,012,208	948,858	972,557	977,774	921,566
Use of money and property	5,896,426	6,499,826	8,447,097	8,445,701	4,995,104
Intergovernmental	17,029,762	13,503,927	11,068,009	13,523,007	10,397,158
Contributions	13,265,096	182,492	736,549	1,190,376	540,186
Charges for current services	5,918,790	6,051,971	7,431,181	7,843,245	7,326,776
Other	1,297,216	1,193,120	1,281,626	1,166,364	2,173,942
Total Revenues	<u>108,434,334</u>	<u>101,895,458</u>	<u>108,186,466</u>	<u>113,844,447</u>	<u>107,303,742</u>
<b>EXPENDITURES</b>					
Current Operations:					
Community development	13,639,528	15,574,342	13,752,526	15,866,328	15,305,951
Human services	1,153,640	1,195,315	1,287,907	1,433,258	1,511,733
Public safety	37,901,952	40,631,780	40,929,708	44,390,736	46,713,987
Transportation	6,715,527	6,294,030	7,216,139	6,158,706	8,866,814
Environmental support and protection	2,778,068	3,699,378	2,954,547	1,958,690	2,863,738
Leisure, cultural and information services	16,149,697	16,844,333	17,804,190	19,236,180	21,873,848
Policy development and implementation	1,877,692	1,704,545	2,338,164	918,430	2,785,266
Capital outlay	33,524,241	22,341,941	15,600,102	17,326,293	9,894,551
Debt service:					
Principal retirement	4,662,321	4,887,321	4,822,321	4,067,321	3,747,321
Interest and fiscal charges	2,757,238	2,426,923	2,213,040	1,945,514	1,608,310
Bond issuance costs					
Total Expenditures	<u>121,159,904</u>	<u>115,599,908</u>	<u>108,918,644</u>	<u>113,301,456</u>	<u>115,171,519</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(12,725,570)</u>	<u>(13,704,450)</u>	<u>(732,178)</u>	<u>542,991</u>	<u>(7,867,777)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	18,731,139	14,945,169	14,819,568	13,557,675	14,275,221
Transfers (out)	(18,706,330)	(15,234,654)	(16,236,359)	(14,139,291)	(15,326,668)
Sale of property	25,387	5,100			
Bond proceeds/Refunding Lease					
Contribution from (to) other funds					
Gain from sale of land held for redevelopment	230,991				
Payment to bond refunding escrow agent					
Total Other Financing Sources (Uses)	<u>281,187</u>	<u>(284,385)</u>	<u>(1,416,791)</u>	<u>(581,616)</u>	<u>(1,051,447)</u>
Extraordinary gain (loss)					
NET CHANGE IN FUND BALANCES	<u>(12,444,383)</u>	<u>(13,988,835)</u>	<u>(2,148,969)</u>	<u>(38,625)</u>	<u>(8,919,224)</u>
Debt service as a percentage of non-capital expenditures	8.47%	7.84%	7.54%	6.26%	5.09%

Schedule 4 (Continued)  
 CITY OF REDWOOD CITY, CALIFORNIA  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 Last Ten Fiscal Years

Fiscal Years				
2010	2011	2012	2013	2014
\$	\$	\$	\$	\$
49,351,469	47,906,240	43,732,410	39,709,199	43,092,377
30,964,483	31,575,135	34,231,492	37,072,870	39,970,312
875,019	1,097,906	1,266,183	1,897,584	2,561,642
1,216,604	1,404,168	1,313,826	1,198,611	887,309
4,264,447	3,813,336	2,302,262	2,476,647	1,771,829
13,711,717	9,126,252	10,223,281	10,505,927	10,835,761
829,561	1,850,469	3,971,547	7,743,498	8,301,860
8,395,583	11,227,564	10,830,462	10,411,028	15,345,006
1,608,439	1,028,902	750,414	557,739	623,242
<u>111,217,322</u>	<u>109,029,972</u>	<u>108,621,877</u>	<u>111,573,103</u>	<u>123,389,338</u>
18,155,500	17,440,348	22,125,748	8,595,743	7,864,788
1,465,105	1,504,568	1,389,422	1,462,092	1,347,136
45,500,450	45,470,647	49,175,285	49,368,709	56,115,246
8,552,901	6,729,077	6,472,378	6,452,755	6,714,370
4,152,609	2,916,577	2,260,457	1,959,881	2,601,280
20,479,455	19,876,261	19,585,039	19,778,480	20,789,647
3,299,086	3,979,560	2,617,522	5,470,098	3,598,453
5,025,308	4,902,938	7,665,302	10,502,338	5,310,292
14,657,321	3,182,321	3,275,000	5,880,000	324,742
1,378,637	1,007,650	930,487	326,059	31,755
			67,252	
<u>122,666,372</u>	<u>107,009,947</u>	<u>115,496,640</u>	<u>109,863,407</u>	<u>104,697,709</u>
<u>(11,449,050)</u>	<u>2,020,025</u>	<u>(6,874,763)</u>	<u>1,709,696</u>	<u>18,691,629</u>
28,655,915	13,288,203	18,062,351	13,223,617	13,632,786
(29,590,152)	(14,050,840)	(18,655,801)	(13,782,396)	(17,325,507)
	30			
			3,360,000	
<u>(934,237)</u>	<u>(762,607)</u>	<u>(593,450)</u>	<u>2,801,221</u>	<u>(3,692,721)</u>
		(4,323,843)		
<u>(12,383,287)</u>	<u>1,257,418</u>	<u>(11,792,056)</u>	<u>4,510,917</u>	<u>14,998,908</u>
13.63%	4.10%	3.90%	6.25%	0.36%

Schedule 5

CITY OF REDWOOD CITY, CALIFORNIA

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

Last Ten Fiscal Years

Fiscal Year	Real Property		Personal Property	Less:	Total Taxable	% Increase/	Effective
	State Assessed	Locally Assessed	Locally Assessed	Tax Exempt Property	Assessed Value	(Decrease) Over Prior Year	Direct Tax Rate*
	\$	\$	\$	\$	\$	%	%
2005	11,069,324	10,978,316,191	577,189,796	358,123,641	11,208,451,670	3.79	0.2429
2006	4,454,190	11,577,635,719	527,383,171	365,930,032	11,743,543,048	4.77	0.2389
2007	4,342,506	12,521,555,794	579,933,721	441,803,730	12,664,028,291	7.84	0.2420
2008	5,003,014	13,671,991,606	586,031,204	541,024,340	13,722,001,484	8.35	0.2439
2009	5,003,014	14,734,164,661	676,178,812	642,703,087	14,772,643,400	7.66	0.2350
2010	5,003,014	14,885,525,123	757,610,502	664,018,869	14,984,119,770	1.43	0.2397
2011	5,003,014	14,673,871,469	770,364,641	704,940,601	14,744,298,523	(1.60)	0.2373
2012	1,466,946	14,712,120,582	674,899,038	646,459,575	14,742,026,991	(0.02)	0.2030
2013	1,466,946	15,154,966,352	763,901,657	766,118,316	15,154,216,639	2.80	0.2101
2014	1,466,946	16,187,528,735	785,538,767	726,787,642	16,247,746,806	7.22	0.1921

Note: In 1978 the voters of the State of California passed Proposition 13 which limited basic property tax to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is the purchase price. The estimated market value of taxable property is not available.

The amount shown above includes assessed value data for both the City and the Redevelopment Agency.

\* The direct tax rate calculation does not include the property tax amount that is shifted from local agencies by the State of California to the Educational Revenue Augmentation Fund used to support K-14 education.

Source: San Mateo County Assessor's records

**Schedule 6**

**CITY OF REDWOOD CITY, CALIFORNIA**

**DIRECT AND OVERLAPPING PROPERTY TAX RATES**

**Last Ten Fiscal Years**

*(rate per \$100 of assessed values)*

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Direct Rates</b>										
City	0.2429	0.2389	0.2420	0.2439	0.2350	0.2397	0.2373	0.2030	0.2101	0.1921
County and All Others*	0.7571	0.7611	0.7580	0.7561	0.7650	0.7603	0.7627	0.7970	0.7899	0.8079
Total Direct Rate	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
<b>Overlapping Rates</b>										
Elementary School	0.0065	0.0279	0.0265	0.0250	0.0229	0.0238	0.0249	0.0255	0.0256	0.0240
High School	0.0164	0.0223	0.0208	0.0205	0.0282	0.0277	0.0311	0.0358	0.0356	0.0313
Community College	0.0282	0.0065	0.0184	0.0171	0.0165	0.0182	0.0193	0.0199	0.0194	0.0194
Total Overlapping Rate	0.0511	0.0567	0.0657	0.0626	0.0676	0.0697	0.0753	0.0812	0.0806	0.0747
Total Direct and Overlapping Rate	1.0511	1.0567	1.0657	1.0626	1.0676	1.0697	1.0753	1.0812	1.0806	1.0747

Source: San Mateo County Assessor's records (tax rate area 9-001)

\* Elementary School, High School, Community College, MidPeninsula Open Space District, Bay Area Air Pollution, County Harbor District, Mosquito Abatement District, Sequoia Hospital District, and County Education tax.

Schedule 7  
 CITY OF REDWOOD CITY, CALIFORNIA  
 PRINCIPAL PROPERTY TAX PAYERS  
 Current Year and Nine Years Ago

Taxpayer	2014			2005		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
	\$			\$		
Oracle Corporation	590,221,772	1	3.63%	729,507,982	1	6.51%
Pacific Shores Investors LLC	408,654,895	2	2.52%	422,859,936	2	3.77%
Westport Office Park LLC	266,009,011	3	1.64%			
Slough Redwood City LLC	241,982,979	4	1.49%	211,921,902	7	1.89%
Electronic Arts Inc	204,086,925	5	1.26%			
SPK - Redwood Shores	193,010,865	6	1.19%	188,145,700	9	1.68%
SRI Eight Pacific Shores LLC	181,719,875	7	1.12%			
Informatica Corp.	158,972,725	8	0.98%			
Irvine Co. LLC	135,947,863	9	0.84%	241,054,237	5	2.15%
Metropolitan Life Insurance Co.	130,360,408	10	0.80%	189,092,041	8	1.69%
Arrillage, John Tr et al				330,808,342	3	2.95%
Selco Service Corporation				298,256,051	4	2.66%
Credit Agricole et al				231,620,318	6	2.07%
Security Capital Pacific Trust				118,192,184	10	1.05%
	<u>2,510,967,318</u>		<u>15.45%</u>	<u>2,961,458,693</u>		<u>26.42%</u>

Source: San Mateo County Assessor via MuniServices, LLC. and the City's previous audited financials.

Schedule 8  
 CITY OF REDWOOD CITY, CALIFORNIA  
 PROPERTY TAX LEVIES AND COLLECTIONS  
 Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy			Total Collections	
		Amount <sup>1</sup>	Percentage of Levy	Delinquent Tax Collections <sup>2</sup>	Amount	Percentage of Levy
					\$	%
2005	19,306,928	19,289,656	99.91	NA	19,289,656	99.91
2006	20,217,010	19,687,100	97.38	NA	19,687,100	97.38
2007	21,825,495	21,688,365	99.37	NA	21,688,365	99.37
2008	23,599,098	23,230,333	98.44	NA	23,230,333	98.44
2009	25,185,881	24,732,667	98.20	NA	24,732,667	98.20
2010	25,402,023	25,081,429	98.74	NA	25,081,429	98.74
2011	25,027,079	24,734,718	98.83	NA	24,734,718	98.83
2012	25,004,405	24,713,562	98.84	NA	24,713,562	98.84
2013	25,724,570	25,478,547	99.04	NA	25,478,547	99.04
2014	27,363,041	27,345,209	99.93	NA	27,345,209	99.93

Source: Audited City financial records - general fund

<sup>1</sup> Amount collected is less than levy as refunds are deducted from the current year tax apportionment and tax roll adjustments are initiated by the County of San Mateo after the levy has been established.

<sup>2</sup> San Mateo County assesses properties and bills, collects, and distributes property taxes to all taxing entities including the City. Under State law, known as the Teeter Plan, the County remits the entire amount levied for secured property taxes and handles all delinquencies, retaining interest and penalties.

Schedule 9

CITY OF REDWOOD CITY, CALIFORNIA

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

(amounts expressed in thousands, except per capita amount)

	<u>Governmental Activities</u>					<u>Business-Type Activities</u>				
	Revenue Bonds	Refunding Lease	GID Bonds	Tax Increment Bonds*	Loans*	Revenue Bonds	Loans	Total Primary Govt	Per Capita	Debt/ Personal Income
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
2005	28,834		4,005	44,694	339	45,815	1,975	125,662	1,659	4.58
2006	26,794		2,305	45,780	296	70,775	1,952	147,902	1,944	5.20
2007	24,679		800	45,878	254	84,403	1,928	157,942	2,059	5.35
2008	22,493		170	45,998	212	81,981	1,903	152,757	1,977	4.95
2009	20,228			46,133	169	80,141	1,876	148,547	1,909	4.79
2010	9,807			43,423	127	78,236	1,848	133,441	1,698	4.37
2011	7,892			43,767	85	76,266	1,819	129,829	1,671	4.20
2012	5,882					84,217	1,789	91,888	1,174	2.94
2013		3,360				81,346	1,758	86,464	1,093	2.70
2014		3,035				80,393	424	83,852	1,038	NA

\*Tax Increment Bonds and Loans were transferred from Governmental Funds to a Private Purpose Trust Fund in 2012.



Schedule 10  
 CITY OF REDWOOD CITY, CALIFORNIA  
 DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT  
 As of June 30, 2014

<u>Governmental Unit</u>	<u>Estimated Percentage Applicable<sup>1</sup></u>	<u>Estimated Share of Direct and Overlapping Debt</u>
	%	\$
<b>City Overlapping Debt</b>		
Debt Repaid with Property Taxes		
San Mateo Community College District	10.399	58,584,846
Sequoia Union High School District	25.002	82,165,323
Belmont-Redwood Shores School District	43.682	14,146,131
Belmont-Redwood Shores School District School Facilities Improvement Distr.	93.328	21,572,767
Redwood City School District	61.241	24,559,389
San Carlos School District	1.385	977,420
Redwood City Community Facilities District 2000-1	100.000	4,215,000
Redwood City Redwood Shores Community Facilities District No. 99-1	100.000	9,700,000
Redwood City Community Facilities District 2010-1	100.000	5,760,000
TOTAL DEBT REPAYED WITH PROPERTY TAXES		<u>221,680,876</u>
Other Debt		
San Mateo County General Fund Obligations	10.399	49,267,323
San Mateo County Board of Education Certificates of Participation	10.399	1,138,691
Belmont-Redwood Shores School District Certificates of Participation	61.241	405,459
Midpeninsula Regional Park District General Fund Obligations	8.436	11,237,572
Menlo Park Fire Protection District	0.024	2,764
TOTAL OTHER DEBT		<u>62,051,809</u>
<b>Total City Overlapping Debt</b>		<u>283,732,685</u>
<b>City Direct Debt</b>		
City of Redwood City General Fund Obligations	100.000	3,035,258
<b>Total City Direct Debt</b>		<u>3,035,258</u>
<b>Total Overlapping and Direct Debt</b>		<u><u>286,767,943</u></u>

Source: California Municipal Statistics and City's Audited Financials

**Note:** Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Redwood City. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

<sup>1</sup> The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.



Schedule 12  
CITY OF REDWOOD CITY, CALIFORNIA  
PLEDGED-REVENUE COVERAGE  
Last Ten Fiscal Years

Fiscal Year	Water Revenue Bonds					Coverage Ratio
	Gross	Less:	Net	Debt Service		
	Revenue	Operating	Available	Principal	Interest	
	\$	\$	\$	\$	\$	
2005	16,664,486	13,838,208	2,826,278			N/A
2006	19,096,962	14,064,659	5,032,303	830,000	1,198,016	2.48
2007	21,573,646	16,216,165	5,357,481	1,325,000	2,207,065	1.52
2008	23,440,411	17,862,037	5,578,374	1,560,000	2,690,956	1.31
2009	23,631,719	17,304,434	6,327,285	1,620,000	2,754,920	1.45
2010	23,232,886	17,421,424	5,811,462	1,675,000	2,938,691	1.26
2011	26,119,782	18,597,779	7,522,003	1,730,000	2,930,765	1.61
2012	28,234,480	22,103,449	6,131,031	1,795,000	2,868,003	1.31
2013	33,167,498	25,992,025	7,175,473	1,865,000	2,802,852	1.54
2014	35,655,559	25,032,582	10,622,977	1,845,000	2,269,566	2.59

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses. Special assessment bonds were paid off in 2008.

Schedule 12 (Continued)  
 CITY OF REDWOOD CITY, CALIFORNIA  
 PLEDGED-REVENUE COVERAGE  
 Last Ten Fiscal Years

Port Revenue Bonds						
Fiscal Year	Gross	Less:	Net	Debt Service		Coverage
	Revenues	Operating Expenses <sup>1</sup>	Available Revenue	Principal	Interest	Ratio <sup>2</sup>
	\$	\$	\$	\$	\$	
2005	6,079,416	2,576,993	3,502,423	222,231	555,917	4.50
2006	6,665,761	2,367,549	4,298,212	233,246	545,937	5.52
2007	6,443,530	2,505,950	3,937,580	239,292	535,231	5.08
2008	6,188,729	2,529,213	3,659,516	250,385	524,033	4.73
2009	5,967,743	2,516,939	3,450,804	266,528	512,090	4.43
2010	5,729,278	2,648,046	3,081,232	277,721	499,137	3.97
2011	5,820,715	2,561,439	3,259,276	288,969	485,389	4.21
2012	6,159,871	2,746,082	3,413,789	305,273	471,085	4.40
2013	6,262,660	2,703,564	3,559,096	644,144	875,483	2.34
2014	6,824,474	2,786,181	4,038,293	646,186	819,930	2.75

Tax Increment Bonds				
	Property Tax	Debt Service		Coverage
	Increment	Principal	Interest	Ratio
	\$	\$	\$	
2005	6,169,024	1,060,000	1,279,409	2.64
2006	6,422,792	1,105,000	1,094,898	2.92
2007	7,346,699	1,160,000	1,043,515	3.33
2008	8,416,294	1,210,000	988,415	3.83
2009	7,921,159	1,270,000	929,730	3.60
2010 <sup>3</sup>	7,953,318	4,195,000	886,687	1.57
2011	7,552,777	1,225,000	632,713	4.07
2012 <sup>4</sup>		1,265,000	585,975	
2013 <sup>4</sup>		2,480,000	511,075	
2014 <sup>4</sup>		2,895,000	385,481	

<sup>1</sup> Port operating expenses above exclude \$409,468 subvention to the City and depreciation.

<sup>2</sup> Debt service coverage is calculated using maximum annual debt service as required for the annual disclosure report.

<sup>3</sup> In FY 2009-10, the 1997 Tax Increment Bonds were paid off resulting in additional principal payment of \$2,865,000.

<sup>4</sup> As a result of the California Supreme Court upholding AB X1 26, Redevelopment Agencies were eliminated as of January 31, 2012. Consequently, all former tax increment revenue is retained by the County of San Mateo Controller's Office and deposited into the "Redevelopment Property Tax Trust Fund" (RPTTF) and is disbursed according to the provisions of AB X1 26 and AB 1484, the clean-up legislation that became law effective June 27, 2012. Under these laws the Successor Agencies to the Redevelopment Agencies now receive funding from the RPTTF to pay these types of debt obligations as the Redevelopment Agency is no longer in existence to receive tax increment revenue.

Schedule 13  
 CITY OF REDWOOD CITY, CALIFORNIA  
 DEMOGRAPHIC AND ECONOMIC STATISTICS  
 Last Ten Fiscal Years

Calendar Year	Population	Personal Income (\$000)	Per Capita Personal Income	Unemployment Rate	Number of Water System Customers
		\$	\$	%	
2005	75,763	2,746,333	36,249	4.50	23,520
2006	76,086	2,846,986	37,418	3.90	23,566
2007	76,695	2,951,530	38,484	3.90	23,650
2008	77,269	3,087,824	39,962	5.00	23,710
2009	77,819	3,098,753	39,820	8.90	23,718
2010	78,568	3,052,053	38,846	9.10	23,784
2011	77,712	3,091,772	39,785	8.70	23,972
2012	78,244	3,125,218	39,942	7.10	24,119
2013	79,074	3,204,632	40,527	5.40	24,296
2014	80,768	3,342,018	41,378	4.20	24,347

**Sources:**

Population is provided by the State of California Department of Finance. Population numbers in this schedule reflect the Department of Finance's annual adjustments.

Personal income and per capita personal income is provided by United States Census Data via MuniServices, LLC and is adjusted for inflation.

The unemployment rate for the City of Redwood City is provided by the State of California Employee Development Department and is not seasonally adjusted.

The number of water system customers is provided by the City's utility billing system.

**Note:**

The most recent fiscal year personal income and per capita income figures are not available until the following fiscal year.

**Schedule 14**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**PRINCIPAL EMPLOYERS**  
**Current and Eight Years Ago (Historical data not available)**

Employer	2014			2006		
	Employees*	Rank	% of Total City Employment	Employees**	Rank	% of Total City Employment
Oracle Corporation	6,750	1	15.70%	8,000	1	20.73%
Electronic Arts	2,367	2	5.50%	1,826	3	4.73%
Kaiser Permanente Medical Group	911	3	2.12%	1,800	4	4.66%
Kaiser Foundation Hospitals	773	4	1.80%			
Stanford Hospital & Clinics	750	5	1.74%			
Silver Spring Networks	602	6	1.40%			
Equinix	532	7	1.24%			
Genomic Health	479	8	1.11%			
Pacific Data Images (Dreamworks)	449	9	1.04%			
Abbott Vascular	347	10	0.81%			
County of San Mateo				2,200	2	5.70%
Sequoia Hospital				1,154	5	2.99%
Redwood City School District				1,050	6	2.72%
Informatica				1,000	7	2.59%
OpenWave Systems				900	8	2.33%
Broad Vision				759	9	1.97%
Sequoia Union High School District				700	10	1.81%

Source: \*2014 Data from City of Redwood City Business License Database; non-profit organizations' data is not available.  
 \*\*2006 Data from Redwood City Chamber of Commerce.

Notes: The top ten principal employers for previous years are not available, but will be memorialized from 2006 going forward in this document.

**Schedule 15**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**FULL TIME EQUIVALENT EMPLOYEES BY FUNCTION**  
**Last Ten Fiscal Years**

Function	Fiscal Years									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Community Development	68.45	70.25	71.00	71.63	73.48	72.68	71.53	69.33	62.63	64.76
Human Services	7.08	7.08	7.20	7.20	7.92	7.92	7.82	7.82	7.82	7.82
Public Safety*	202.00	202.00	202.00	203.42	204.32	194.57	178.50	180.34	181.84	207.00
Transportation	20.45	20.45	20.90	22.90	23.10	18.85	17.15	16.05	16.05	16.09
Environmental Support/Protection	8.25	15.00	8.25	8.25	8.25	7.95	5.95	5.85	3.15	3.55
Leisure/Cultural/Information Services	131.85	131.35	131.24	135.16	156.96	142.08	128.65	127.94	124.74	103.80
Policy Development/Implementation	61.46	53.02	62.95	63.57	65.54	63.94	59.52	60.42	59.57	80.90
Water	36.05	36.69	35.90	35.90	35.35	35.45	32.45	30.85	35.05	30.97
Sewer	15.35	15.35	15.20	15.20	16.20	16.20	16.20	15.70	18.40	17.88
Parking	1.90	2.65	5.20	5.47	5.55	5.45	5.35	5.65	5.65	5.65
Port	9.00	9.00	9.00	11.00	10.00	10.00	10.00	10.00	10.00	9.00
<b>Total</b>	<b>561.84</b>	<b>562.84</b>	<b>568.84</b>	<b>579.70</b>	<b>606.67</b>	<b>575.09</b>	<b>533.12</b>	<b>529.95</b>	<b>524.90</b>	<b>547.42</b>

\* Redwood City began providing fire services to the residents of San Carlos in FY 13-14 as a result of a shared services agreement between the two cities.

Source: Redwood City Adopted Budget

**Schedule 16**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**OPERATING INDICATORS BY FUNCTION/PROGRAM**  
**Last Ten Fiscal Years**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Function/Program</b>										
Community Development:										
Building permits	2,437	2,349	2,366	2,143	2,038	2,003	2,191	1,972	2,320	2,549
Building inspections conducted	16,200	16,415	15,422	14,283	13,122	10,732	13,502	13,391	11,844	16,669
Public Safety:										
Police:										
Moving citations (per 1,000 population)	163	202	217	217	170	131	114	112	94	97
Fire:										
Emergency responses - all calls*	6,492	6,738	6,688	7,073	6,671	6,683	6,733	7,111	7,656	9,096
Leisure/Cultural/Information Services:										
Number of items in collection	263,198	291,270	335,590	336,339	329,296	324,672	295,444	326,251	332,776	299,673
Water:										
Average daily consumption (thousands of gallons)	10,614	10,295	10,879	10,465	9,962	9,193	9,337	9,446	9,402	9,910

\* Redwood City began providing fire services to the residents of San Carlos in FY 13-14 as a result of a shared services agreement between the two cities.

Sources: Various City departments



**Schedule 17**  
**CITY OF REDWOOD CITY, CALIFORNIA**  
**CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM**  
**Last Ten Fiscal Years**

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Function/Program</b>										
Public Safety:										
Police:										
Number of stations	1	1	1	1	1	1	1	1	1	1
Fire:										
Number of stations*	5	5	5	5	5	5	5	5	5	7
Transportation										
Miles of streets	154	154	155	155	155	155	155	155	155	155
Number of street lights**	8,500	8,500	8,500	8,500	8,500	8,500	8,500	4,512	4,512	5,035
Leisure/Cultural/Information Services										
Number of parks	30	30	30	37	23	23	24	24	24	24
Number of libraries	4	4	4	4	4	4	4	4	4	4
Number of recreation center facilities	8	8	8	5	5	5	5	5	5	5
Water										
Miles of water mains	263	264	264	264	264	264	264	264	264	262
Miles of recycled water system lines***			3	13	15	15	15	15	15	17
Sewer										
Miles of sanitary sewers	185	185	185	185	193	193	193	193	193	196
Miles of storm sewers	103	103	103	103	129	129	129	129	129	130

Sources: Various city departments

Notes:

\* In FY 2013-14 Redwood City entered into a shared services agreement with the City of San Carlos. Redwood City provides fire services to the residents of San Carlos out of the two fire stations located in San Carlos.

\*\*In 2012 the Public Works Services division employed a consultant to create a physical inventory of street lights. Criteria was updated and applied for a more accurate count of the number of street lights in the City's right-of-way. Inventories were refined and lights were added through the LED conversion process in 2014.

\*\*\*The recycled water system lines were built starting in FY 2006-07.

Schedule 18  
 CITY OF REDWOOD CITY, CALIFORNIA  
 CONSTRUCTION VALUES  
 Last Ten Fiscal Years

Fiscal Year	Residential Construction		All Other Construction		Residences/Additions and Alterations		Other Buildings Additions/Alterations		Total Property Values
	Number of Units	Property Value	Number of Permits Issued	Property Value	Number of Permits Issued	Property Value	Number of Permits Issued	Property Value	
		\$		\$		\$		\$	\$
2005	15	5,557,587	5	16,168,717	1,375	28,805,766	252	36,685,451	87,217,521
2006	63	14,557,510	10	7,028,000	1,209	29,180,052	287	53,593,643	104,359,205
2007	21	6,466,202	14	20,756,000	1,196	32,351,149	320	113,440,767	173,014,118
2008	33	10,698,818	14	38,772,000	1,002	24,882,578	291	79,925,295	154,278,691
2009	36	17,739,134	2	590,000	1,028	20,000,165	972	36,405,222	74,734,521
2010	39	15,495,398	5	6,048,354	1,098	21,065,615	861	26,436,017	69,045,384
2011	47	25,629,952	5	1,078,000	1,088	25,554,042	1,051	35,938,801	88,200,795
2012	200	40,914,805	22	402,509	912	21,119,778	1,011	64,738,238	127,175,330
2013	605	126,141,306	3	19,333,650	1,226	28,200,872	1,041	56,330,964	230,006,792
2014	426	82,816,188	5	94,930,847	1,270	30,617,300	1,213	73,184,001	281,548,336

Source: Redwood City's Community Development Department



**INDEPENDENT AUDITORS' 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 City Council  
of the City of Redwood City  
Redwood City, California

We have audited, in accordance with the 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 City of Redwood City, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated December 22, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, 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.

Honorable Mayor and Members of City Council  
of the City of Redwood City  
Redwood City, California  
Page 2

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City's financial statements are free from 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Badawi and Associates  
Certified Public Accountants  
Oakland, California  
December 22, 2014

**APPENDIX C**  
**CITY INVESTMENT POLICY**

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**CITY OF REDWOOD CITY**  
**INVESTMENT POLICY AND GUIDELINES**  
July 2013

**I. SCOPE**

**Scope:** This policy shall cover all investments for all City and the Successor Agency to the Redwood City Redevelopment Agency (hereinafter all references to City shall include the City, Successor Agency, Port of Redwood City, and any component units) funds in the custody and control of the City Treasurer (and funds controlled by fiscal agents acting under the direction of the City Treasurer) and which are accounted for in the City's Comprehensive Annual Financial Report except for employee retirement funds (Deferred Compensation funds, California Public Employee Retirement funds and funds held for other post employment benefits), which are administered separately.

**II. STANDARD OF CARE**

**Prudence:** All investments shall be made within the policy framework of liquidity and safety with judgment and care which a person of prudence and intelligence would, under circumstances when prevailing, exercise in the management of his/her affairs.

**Ethics:** Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions. All investment personnel shall comply with reporting requirements of applicable state laws including annual filing of Statements of Economic Interests. While managing the portfolio, the Treasurer and staff shall avoid any transaction that might impair public confidence in the City.

**III. OBJECTIVE**

The primary investment objectives of this policy in order of priorities are:

**Safety:** Safety of the principal shall be the top priority in consideration of any investment undertaken by the City Treasurer. The portfolio shall be so diversified that the losses, if any, on particular securities or from an institute shall be offset by the revenue generated from other investments. The intention is to hold investments until maturity unless the City will realize a profit by liquidating the investment prior to maturity. The City shall seek to preserve principal by mitigating credit risk and interest rate risk.

Credit risk - defined as the loss due to failure of the issuer of a security, shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that failure of any one issue does not unduly harm the City's capital base and cash flow.

Interest rate risk - defined as market value fluctuations due to overall changes in the general level of interest rates will be mitigated by structuring the investment portfolio so that securities

mature to meet the cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity.

**Liquidity:** The Treasurer shall keep the portfolio sufficiently liquid to meet the operating and capital needs of the City which can be reasonably anticipated from his/her experience of the City operations and adopted budget. He/she shall also review the various construction and other contracts the City has entered into to anticipate cash needs.

**Return on Investment:** Within the safety and liquidity constraints, investment portfolio shall be designed to attain the market rate of return.

#### **IV. AUTHORITY AND DELEGATION**

The authority to invest City funds is assigned to the City Treasurer (Director of Finance) pursuant to section 34 of the Charter of Redwood City and section 2.33.1 of the Redwood City code of ordinances.

The Treasurer will be assisted in the management of City funds by a Deputy Treasurer (designated by the Treasurer). The Deputy Treasurer will be a Finance Department employee whose primary treasury responsibilities will be supporting the day-to-day treasury management activities of the City.

#### **V. CASH FLOW AND AVAILABILITY**

An average amount of six months cash flow is to be maintained in immediately available investments, such as the State Treasurer's Local Agency Investment Fund or a similar liquid instrument. This may include commercial paper. Weekly analysis of cash flow will serve as a basis for determining the maturity date of investments.

The Treasurer and Deputy Treasurer shall certify each month that enough liquid resources (including maturities) are available to meet the next six months cash flow requirements.

#### **VI. ACCEPTABLE INVESTMENT INSTRUMENTS**

Unless expressly approved in advance by the City Council all investments must be made in accordance with this policy and State of California Government Code Sections 53600 et.seq. The Council may, as part of a bond issuance, direct or authorize staff to invest bond reserve funds in investment instruments authorized by the California Government Code that are not contained within this policy.

The City investment portfolio may include the following instruments:

- Certificates of Deposit purchased from banks
- Bankers Acceptances
- Treasury Bills, Notes, and Bonds
- Government Agency Securities (e.g. Federal National Mortgage Association, Government National Mortgage Association, Federal Farm Credits, and Federal Home Loan Bank Board)



- Commercial Paper
- State of California Local Agency Investment Fund (LAIF)
- Passbook Savings Accounts
- County of San Mateo Investment Pool
- Money Market Certificates
- Money Market Funds
- Corporate Notes

## **VII. AMOUNTS TO BE INVESTED**

The City will invest all funds not required for its immediate needs.

## **VIII. GUIDELINES BY TYPE OF INVESTMENT**

### **A. CERTIFICATES OF DEPOSIT:**

Cash will be invested only in FDIC insured or fully collateralized certificates of deposit. Collateral for a given investment must be 110% of principal for government securities collateral and 150% of principal for first mortgage collateral. No more than 7.5% of the City portfolio, not to exceed \$3 Million shall be invested in any one institution. An institution must meet the following criteria to be considered by the City:

For investments greater than \$250,000, the institution must maintain \$100 Million in assets. For investments greater than \$300,000, the institution must maintain at least \$300 Million in assets.

The City will not invest in any institution less than five years old.

The institution must maintain a net worth to asset ratio of at least 3% and a positive earnings records for the immediate past three years.

The institution must have on file with the City a current FDIC call report (banks) or FHLB report.

The institution must be located in California.

The institution must have a jumbo certificate to total assets ratio of less than 50%.

The above requirements will be waived whenever the total amount on deposit with any institution does not exceed \$250,000; providing, that the institution is insured by the Federal Deposit Insurance Corporation (FDIC).

### **B. BANKERS ACCEPTANCES:**

The City will only invest through the 15 largest banks in the United States or the 100 largest banks in the world (in terms of assets). The maximum investment with any one institution will not exceed \$3 Million (with a maximum maturity of 180 days).

**C. TREASURY BILLS, NOTES, AND BONDS:**

The City will require safekeeping documentation of the treasury instrument in an acceptable safekeeping account in the City's name in accordance with Section XI. The maximum maturity on a treasury instrument will be three years.

**D. GOVERNMENT AGENCY SECURITIES:**

The City will require physical delivery of these securities to an acceptable safekeeping account in the City's name in accordance with Section XI. Examples of these securities include Government National Mortgage Association, Federal National Mortgage Association, Federal Land Bank, Federal Home Loan Bank Board, and Federal Farm Credit Banks.

**E. COMMERCIAL PAPER:**

The City will require safekeeping documentation of the security in an acceptable safekeeping account in the City's name. Commercial paper will be used solely as a short term investment not to exceed 15 days. A rating of Standard and Poors A-1 or Moodys P-1 is required. The City will only invest in the largest 15 banks (in terms of total assets) in the United States. The investment in any one institution will not exceed \$1 Million.

**F. STATE LOCAL AGENCY INVESTMENT FUND (LAIF):**

The investment in LAIF may not exceed the maximum amount permitted by State regulation.

**G. PASSBOOK SAVINGS ACCOUNTS:**

Savings accounts may be maintained for amounts under \$100,000 that are received too late in the day to invest in other instruments.

**H. SAN MATEO COUNTY INVESTMENT POOL:**

The investment with the County of San Mateo Investment Pool shall not exceed \$40 Million per account.

**I. MONEY MARKET FUNDS:**

Not more than 10% of the portfolio may be invested in money market funds. Funds must comply with the investment restrictions of the California Government Code Section 53630 et seq., and be issued by diversified management companies or mutual funds. They shall be rated in the highest rating category of at least two of the three nationally recognized rating services (e.g., Moody's P-1 or S&P AAAm), and must have in excess of \$500,000,000 in assets under management.

## **J. CORPORATE NOTES**

Not more than 30% of the portfolio may be invested in Corporate Notes. Corporate Notes must be rated "A" or better by Moody's or Standard and Poor's rating services at the time of purchase. No more than \$5 million may be invested in any single issuer.

## **IX. MATURITY OF INVESTMENTS**

With the exception of Treasury Notes, Treasury Bonds, Corporate Notes, and Agencies, the maturity of a given investment will not exceed one year. Treasury Notes, Treasury Bonds, Corporate Notes, and Agencies may be purchased for a period not to exceed three years.

Approximately 50% of idle funds will be placed in investments that can be sold for face value in the open market in the event of an emergency.

Not more than 50% shall be invested for more than one year and not more than 25% of the portfolio for more than two years.

## **X. USE OF SECURITIES DEALERS AND BROKERS**

The City will utilize the services of brokers and security dealers only if the firm is recognized as a primary dealer by the Federal Government. No public deposit shall be made except in a state qualified depository.

## **XI. FINANCE COMMITTEE AUTHORITY AND REPORTS TO COUNCIL**

An investment committee consisting of the Finance Director and staff members of the Finance Department will meet regularly to review the City investment portfolio daily cash reports and anticipated cash requirements in selecting investment instruments for idle City funds.

The City Council Finance Committee will meet as needed (at least once a year) to insure that City investments are consistent with the adopted policy and to consider changes in the policy if deemed necessary.

Pursuant to the Redwood City Code Section 2.33.2 Council will receive a detailed monthly listing of all investments in the City portfolio. This report shall also include:

Current Fed Funds Rate as of the last day of the month. (Any new investments made during the month which indicates an interest rate varying from the Fed Funds Rate by 2% or more must be explained.)

Certification signed by the Treasurer and Deputy Treasurer stating ...."These are all the securities in which the City funds, including all Trust Funds and Oversight Agencies are invested (excluding approved deferred compensation plans) and all of these investments are in compliance with the City policy."

Certification signed by the Treasurer and Deputy Treasurer that sufficient liquid resources (including maturities) are available to meet the next six months cash flow.

Listing of all brokers and total business transacted during the month.

## **XII. INVESTMENT CONTRACT**

All investment contracts shall be routed through the City Attorney's office prior to signing by the Treasurer.

## **XIII. CONTINUING EDUCATION**

The Treasurer and Deputy Treasurer shall attend investment training at least once a year.

## **XIV. WIRE TRANSFERS**

All wire transfers exceeding \$250,000 must be authorized by at least two members of the staff.

## **XV. INTERNAL CONTROLS**

A Finance Department staff member who is not involved in the purchase of investments, wire transfers, or maintaining the general ledger shall be designated the responsibility of reviewing and reconciling the monthly reports received from brokers and dealers. This review shall include, but not be limited to, reconciling the listing and amounts of each investment as submitted by the dealer/broker with the records maintained by the Treasurer. Each month, the same staff person will also confirm the interest receivable amounts and schedules prepared by the Treasury staff and compare these items with those submitted by the broker/dealer.

## **XVI. SAFEKEEPING OF SECURITIES**

All securities owned by the City, excluding Certificates of Deposit, shall be held in safekeeping by a third party administrator (custody bank or trust department) acting as agent for the City under the terms of a custody or trustee agreement executed by the bank and the City. All securities will be received and delivered using the standard delivery versus payment (DVP) procedure.

## APPENDIX D

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

#### DEFINITIONS

*"Accountant's Report"* means a report signed by an Independent Certified Public Accountant.

*"Acquisition," "Acquire" or "Acquired"* means, with respect to the Project, the acquisition or perfection of an ownership or capacity interest in the Project, or the construction, refinancing or ownership of the Project.

*"Additional Bonds"* means all bonds ranking on a parity with the Series 2015 originally issued under the Indenture.

*"Additional Revenues"* means, with respect to the issuance of any Parity Obligations, an allowance for Net Revenues (i) arising from any increase in the charges made for service from the Enterprise adopted prior to the incurring of such Parity Obligations and effective within eighteen (18) months following the date of incurring such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, and (ii) arising from any increase in service connections to the Enterprise prior to the incurring of such Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such connections had been in existence during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, all as shown by the certificate or opinion of an Independent Municipal Finance Consultant.

*"Bond Counsel"* means Jones Hall, A Professional Law Corporation, and any other attorney or firm of attorneys acceptable to the Authority and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

*"Bond Year"* means the period from the Closing Date through February 1, 2016, and thereafter the twelve-month period commencing on February 2 of each year through and including February 1 of the following year.

*"Business Day"* means any day other than a Saturday, Sunday or legal holiday or a day on which banks are authorized to be closed for business in California or on which the Principal Office is authorized to be closed.

*"Certificate of the Authority"* means an instrument in writing signed by an Authorized Officer.

*"Code"* means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced herein) 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.

*"Debt Service"* means, during any period of computation, the amount obtained for such period by totaling the following amount--

(a) The principal amount of all Outstanding serial Bonds and Parity Obligations coming due and payable by their terms in such period (except to the extent that such principal has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the principal to which such amounts are pledged);

(b) The minimum principal amount of all Outstanding term Bonds and Parity Obligations scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon (except to the extent that such principal has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the principal to which such amounts are pledged); and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds and Parity Obligations which would be Outstanding in such period if the Bonds or Parity Obligations are retired as scheduled (except to the extent that such interest has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the interest to which such amounts are pledged), but deducting and excluding from such aggregate amount the amount of Bonds and Parity Obligations no longer Outstanding; provided that, whenever interest as described herein accrues at other than a fixed rate, such interest shall be assumed to be a rate equal to the greater of (i) the actual rate on the date of calculation, or if the Parity Obligation is not yet outstanding, the initial rate (if established and binding), (ii) if the Parity Obligation has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Parity Obligation is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published The Bond Buyer Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (y) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities, plus fifty (50) basis points.

*"Engineer's Report"* means a report signed by an Independent Engineer.

*"Fair Market Value"* means 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, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the Authority and related parties do not own more than a 10% beneficial interest therein if the return paid by the fund is without regard to the source of the investment. To the extent required by the applicable regulations under the Code, the term "investment" will include a hedge.

*"Federal Securities"* means (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of the interest and principal by the United States of America, (c) obligations of any agency or instrumentality of the United States of America as to which the timely payment of the interest on and the principal of such obligations is backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

*"Generally Accepted Accounting Principles"* means the uniform accounting and reporting procedures prescribed by the California State Controller or his successor for municipalities in the State of California, or failing the prescription of such procedures means generally accepted accounting principles as presented and recommended by the American Institute of Certified Public Accountants or its successor, or by the Governmental Accounting Standards Board or its successor, or by any other generally accepted authority on such principles.

*"Governmental Loan"* means a loan from the State or the United States of America, acting through any of its agencies, to finance improvements to the Enterprise, and the obligation of the City to make payments to the State or the United States of America under the loan agreement memorializing said loan on a parity basis with the payment of Installment Payments.

*"Gross Revenues"* means all gross income and revenue received or receivable by the City from the ownership and operation of the Enterprise, calculated in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges (including connection fees) received by the City for Water Service and all other income and revenue howsoever derived by the City from the Enterprise or arising from the Enterprise (including transfers from the Rate Stabilization Fund to the Revenue Fund); provided, however, that (i) any specific charges levied for the express purpose of reimbursing others for all or a portion of the cost of the acquisition or construction of specific facilities, or (ii) customers' deposits or any other deposits subject to refund until such deposits have become the property of the City, are not Gross Revenues and are not subject to the lien of the Installment Purchase Contract. Gross Revenues shall also include interest with respect to any Parity Obligations reimbursed to or on behalf of the District by the United States of America.

*"Independent Certified Public Accountant"* means any certified public accountant or firm of certified public accountants duly licensed and entitled to practice and practicing as such under the laws of the State of California, appointed and paid by the City, and each of whom--

1. is in fact independent and not under the control of the City;
2. does not have a substantial financial interest, direct or indirect, in the operations of the City; and
3. is not connected with the City as a board member, officer or employee of the City, but may be regularly retained to audit the accounting records of and make reports thereon to the City.

*"Independent Engineer"* means any registered engineer or firm of engineers of national reputation generally recognized to be well qualified in engineering matters relating to systems similar to the Enterprise, appointed and paid by the City, and who or each of whom--

1. is in fact independent and not under the control of the City;
  2. does not have a substantial financial interest, direct or indirect, in the City;
- and
3. is not connected with the City as a council member, officer or employee of the City, but may be regularly retained to make reports to the City.

*"Independent Municipal Finance Consultant"* means any municipal finance consultant or firm of such consultants of national reputation registered with the Municipal Securities Rulemaking Board and the Securities and Exchange Commission generally recognized to be well qualified in financial matters relating to systems similar to the Enterprise, appointed and paid by the City, and who, or each of whom--

1. is in fact independent and not under the control of the City;
  2. does not have a substantial financial interest, direct or indirect, in the City;
- and
3. is not connected with the City as a council member, officer or employee of the City, but may be regularly retained to make reports to the City.

*"Installment Payment Date"* means the date three (3) Business Days prior to each August 1 and February 1, commencing in July, 2015.

*"Installment Payments"* means the installment payments of principal and interest scheduled to be paid by the City under the Installment Purchase Contract, plus amounts required to be paid under the Installment Purchase Contract to replenish the Reserve Fund.

*"Insurance Consultant"* means any nationally recognized independent actuary, insurance company or broker who has actuarial personnel knowledgeable with respect to insurance carried by, required for and available to municipalities operating facilities similar to the Enterprise, including a pooled self-insurance program in which premiums are established on the basis of the recommendation of an actuary of national reputation.

*"Interest Payment Date"* means August 1, 2013 and each February 1 and August 1 thereafter.

*"Maintenance and Operation Costs"* of the Enterprise means the reasonable and necessary costs and expenses paid by the City (excluding Installment Payments or other payments in the nature of debt service on obligations secured by Net Revenues) for maintaining and operating the Enterprise, as determined in accordance with Generally Accepted Accounting Principles, including but not limited to (a) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, (b) the cost of wholesale water purchases from the San Francisco Public Utilities Commission and any surcharges related thereto, and (c) administrative costs of the City attributable to the Enterprise and the financing thereof; Maintenance and Operation Costs exclude (x) depreciation, replacement and obsolescence charges or reserves therefore, (y) in any Fiscal Year prior to setting aside an amount equal to the Installment Payments for such Fiscal Year, capital



expenditures other than as set forth in subsection (a) above, and (z) amortization of intangibles or other bookkeeping entries or a similar nature.

*"Maximum Annual Debt Service"* means, as of the date of any calculation, the maximum sum obtained for the current or any future Bond Year so long as any of the Bonds remain Outstanding by totaling the following amounts for such Bond Year:

(a) the principal amount of the Bonds and Parity Obligations coming due and payable by their terms in such Bond Year, including the principal amount of any term Bonds and term Parity Obligations which are subject to mandatory sinking fund redemption in such Bond Year; and

(b) the amount of interest which would be due during such Bond Year on the aggregate principal amount of the Bonds and Parity Obligations which would be Outstanding in such Bond Year if such Bonds and Parity Obligations are retired as scheduled.

*"Moody's"* means Moody's Investors Service, Inc., its successors and assigns.

*"Net Proceeds"* means, when used with respect to any insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all reasonable expenses (including attorneys' fees) incurred in the collection of such proceeds.

*"Net Revenues"* means, for any period, all of the Gross Revenues during such period less all of the Maintenance and Operation Costs during such period.

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

1. Bonds canceled by the Trustee;
2. Bonds paid or deemed to have been paid within the meaning of the Indenture; and
3. Bonds in lieu of or in substitution for which replacement Bonds shall have been executed and delivered under the Indenture.

*"Owner"* or *"Bondowner"* means the registered owner of any Outstanding Bond.

*"Parity Obligations"* means the 2013 Installment Purchase Contract, the 2007 Installment Purchase Contract and all bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the City, payable from and secured by a pledge of and lien upon any of the Net Revenues incurred on a parity with the payment of the Installment Payments.

*"Permitted Investments"* means any of the following, but only to the extent that the same are acquired at Fair Market Value, which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein (the Trustee is entitled to conclusively rely upon any direction of the City or the Authority as a certification that such investment constitutes a Permitted Investment and is a legal investment under the laws of the State of California):

1. 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,

but excluding CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States 4 America.

2. 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):

Farmers Home Administration (FmHA)

Certificates of beneficial ownership

Federal Housing Administration Debentures (FHA)

General Services Administration

Participation certificates

Government National Mortgage Association (GNMA or "Ginnie Mae")

GNMA — guaranteed mortgage-backed bonds

GNMA — guaranteed pass-through obligations (participation certificates)  
(not acceptable for certain cash-flow sensitive issues.)

U.S. Maritime Administration

Guaranteed Title XI financing

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

Project Notes

Local District Bonds

New Communities Debentures — U.S. Government guaranteed debentures

U.S. Public Housing Notes and Bonds — U.S. Government guaranteed public housing notes and bonds

3. 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):

Federal Home Loan Bank Enterprise

Senior debt obligations

Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")

Participation certificates

Senior debt obligations

Federal National Mortgage Association (FNMA or "Fannie Mae")

Mortgage-backed securities and senior debt obligations

Resolution Funding Corp. (REFCORP) obligations

Farm Credit Enterprise

Consolidated system-wide bonds and notes

Federal Agriculture Mortgage Association

Tennessee Valley District

4. Money market funds 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," "AAA-m," or "AA-m" and if rated by Moody's rated "Aaa," "AA1" or "Aa2," including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

5. U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks (including the Trustee and its affiliates) which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A1+" by S&P and maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank.

6. Investment agreements, guaranteed investment contracts, funding agreements, or any other form of corporate note which represents the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution which has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, "AA" and "Aa2", respectively, by S&P and Moody's, provided that (1) such agreement shall require that if during its term the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3," respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Authority, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" category rating in an "A" category rated structured financing (with a market value approach); or (ii) at the sole expense of the provider, the provider shall obtain the unconditional assumption of their remaining obligations under the same terms and conditions of the investment agreement from an eligible replacement provider whose ratings are at least "AA-" and "Aa3" by S&P and Moody's, respectively; (2) if the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3," respectively, the provider must, at the direction of the City, the Authority or the Trustee, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Authority; (3) in the event that the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the City, the Authority or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or the Trustee, as appropriate; and (4) should the provider become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or the Trustee, as appropriate. For purposes of this definition, a rating category includes any rating with the same letter, regardless of the modifier. For purposes of illustration, "A", "A+" and "A-" are in the "A" rating category.

7. Commercial paper rated, at the time of purchase, "Prime -1" by Moody's and "A-1" or better by S&P.

8. 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.

9. 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+" by S&P.

10. Repurchase agreements for 30 days or less must provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), 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.

11. Medium-term Notes: Corporate notes issued by corporations organized and operating within the United States with a rating of "AAA" or higher at the time of purchase by a nationally recognized rating service and with a maximum remaining maturity of no more than three (3) years after the date of purchase.

12. The Local Agency Investment Fund created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

13. The San Mateo County Pooled Investment Fund.

14. Investment Trust of California, doing business as CalTRUST.

15. Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of California, as it may be amended.

*"Principal Office"* means the corporate trust office of the Trustee set forth in the Indenture (except for payment, surrender and exchanges of the Bonds which shall be the corporate trust office of the Trustee in St. Paul, Minnesota), or such other or additional offices as may be designated by the Trustee.

*"Rate Stabilization Fund"* means the Rate Stabilization Fund of the City.

*"Record Date"* means the fifteenth day of the calendar month prior to an Interest Payment Date.

*"Refunding Fund"* means the fund of that name established by the Trustee pursuant to the Indenture.

*"Reserve Requirement"* means, with respect to the Series 2015 Bonds, as of any date of calculation, the lesser of (i) 10% of the original principal amount of the Series 2015 Bonds, (ii) an amount equal to maximum annual Debt Service on the Series 2015 Bonds payable by the Authority between the date of such calculation and the final maturity of the Series 2015 Bonds, or (iii) 125% of average annual Debt Service on the Series 2015 Bonds payable hereunder.

*"Reserve Requirement"* with respect to any Additional Bonds shall have the meaning provided in the supplemental indenture relating thereto.

*"Revenue Fund"* means the "Water Utility Fund" currently maintained by the City, or such other fund of the City into which it deposits Gross Revenues.

*"Revenues"* means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Installment Purchase Contract, including, without limiting the generality of the foregoing, all of the Installment Payments (including both timely and delinquent payments and any late charges), prepayments of Installment Payments, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund, (b) amounts deposited in the Reserve Fund and Payment Fund, and (c) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture (except the Project Fund and the Rebate Fund).

*"Water Service"* means the service made available or provided by the Enterprise.

## THE INDENTURE

### **Transfer and Exchange of Bonds**

Subject to the provisions of the Indenture each Bond shall be transferable only upon a register of the names of each Owner (the "Bond Register"), which shall be kept for that purpose at the Principal Office, by the Owner thereof in person or by his or her attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or his or her duly authorized attorney. The Trustee shall deem and treat the person in whose name any Outstanding Bond shall be registered upon the Bond Register as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes, and all such payments so made to any such Owner or upon his or her order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority nor the Trustee shall be affected by any notice to the contrary. The Trustee shall not be obliged to effect any exchange or transfer of any Bond during the period after the mailing of notice calling such Bond or a portion thereof for redemption, nor during the fifteen (15) days preceding the giving of such notice of redemption.

### **Deposit of Installment Payments**

All Installment Payments received by the Authority shall be paid to the Trustee on the applicable installment Payment Date. Such payments received by the Trustee shall be held in trust by the Trustee under the terms of the Indenture and shall be deposited by it as and when received in the Payment Fund, which fund the Trustee hereby agrees to establish and maintain so long as any Bonds are Outstanding.

### **Held in Trust**

The moneys and investments held by the Trustee are irrevocably held in trust for the benefit of the Owners, and for the purposes specified in the Indenture, and such moneys, and any income or interest earned thereon, shall be expended only as provided in the Indenture, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the Trustee or the Authority.

## **Acquisition, Disposition, and Valuation of Investments**

Except as otherwise provided in the Indenture, the Authority covenants that all investments of amounts deposited in any fund or account created by or pursuant to this Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of section 148 of the Code) will be acquired, disposed of, and valued (as of the date that valuation is required by this Indenture or the Code) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Code and (unless valuation is undertaken at least annually) investments in the Reserve Fund will be valued at their present value (within the meaning of section 148 of the Code).

## **Pledge of Revenues**

All of the Revenues are irrevocably pledged to the punctual payment of Debt Service and such Revenues shall not be used for any other purpose while any of the Bonds remain outstanding, except as provided in the Indenture. This pledge shall constitute a first lien on the Revenues for the payment of the Bonds and payments in accordance with the terms of the Indenture and thereof.

## **Receipt and Deposit of Revenues**

The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Installment Purchase Contract (except for certain rights to indemnification set forth therein). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. Although all Bonds are secured equally and ratably by the Revenues, moneys with respect to obligations other than the Bonds may be held by the Trustee or by trustees other than the Trustee under documents and agreements other than the Indenture, and the Indenture imposes no obligations upon the Trustee with respect to such other obligations. The Authority shall make such transfers necessary to effectuate such obligations' parity claim on such Revenues contemplated hereby.

## **Liability of Authority Limited**

Notwithstanding anything contained in the Indenture, the Authority shall not be required to advance any moneys derived from any source of income other than Revenues legally available therefor and the other funds provided in the Indenture for the payment of the Installment Payments or for the performance of any agreements or covenants contained in the Indenture required to be performed by it. The Authority may, however, but shall not be required to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the Authority for such purpose. The obligation of the Authority to pay principal of and interest on the Bonds and the other amounts due under the Indenture is a special obligation of the Authority payable solely from the moneys legally available therefor under the Indenture, and does not constitute a debt of the Authority or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

## **Refunding Fund**

The Trustee will establish and hold a fund entitled the Refunding Fund. On the Closing Date, the Trustee will deposit the amounts specified in the Indenture into the Refunding Fund and, immediately thereafter, transfer such amounts to the Prior Trustee for deposit in the Bond Service Fund created pursuant to the 2006 Indenture.

## **Compliance with Indenture**

The Authority will not suffer or permit any material default by it to occur under the Indenture, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms hereof required to be complied with, kept, observed and performed by it.

## **Observance of Laws and Regulations**

The Authority will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by it, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

## **Prosecution and Defense of Suits**

The Authority will promptly, upon request of the Trustee or any Owner, take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the lien on the Revenues or any part thereof, whether now existing or hereafter developing, will prosecute all actions, suits or other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee and every Owner harmless from all cost, damage, expense or loss, including attorneys' fees, which they or any of them may incur by reason of any such cloud, defect, action, suit or other proceeding.

## **Against Encumbrances**

The Authority covenants that there is no pledge of or lien on Revenues senior to the pledge and lien securing the Bonds. The Authority will not make any pledge of or place any lien on the Revenues, provided that the Authority may at any time, or from time to time, pledge or encumber the Revenues in connection with the issuance or execution of Additional Bonds.

## **Punctual Payment**

The Authority shall punctually pay or cause to be paid the principal of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

## **Extension of Payment of Bonds**

The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the

purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any 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 thereon which shall not have been so extended. Nothing shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

### **Tax Covenants**

(a) Private Activity Bond Limitation. The Authority will assure that the proceeds of the Bonds are not so used as to cause the 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.

(b) Federal Guarantee Prohibition. The Authority will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

(c) Rebate Requirement. The Authority will 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 Bonds.

(d) No Arbitrage. The Authority will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the 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 Bonds would have caused the Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code.

(e) Maintenance of Tax-Exemption. The Authority will take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the 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 Bonds.

(f) Record Retention. The Authority will retain its records of all accounting and monitoring it carries out with respect to the Bonds for at least 3 years after the Bonds mature or are redeemed (whichever is earlier); however, if the Bonds are redeemed and refunded, the Authority will retain its records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the Bonds.

(g) Compliance with Tax Certificate. The Authority will comply with the provisions of the Tax Certificate and the Use of Proceeds Certificate with respect to the Bonds, which are incorporated herein as if fully set forth herein. The covenants of this Section will survive payment in full or defeasance of the Bonds.

### **Power to Issue Bonds and Make Pledge and Assignment**

The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, to the extent permitted by law,



defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

### **Payment of Claims**

The Authority will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues or any part thereof or on any funds in the control of the Authority or the Trustee prior or superior to the lien of the Bonds or which might impair the security of the Bonds; provided the Authority shall not be obligated to make such payment so long as the Authority contracts such payment in good faith.

### **No Additional Obligations**

The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part, except as provided in the Indenture with respect to Additional Bonds.

### **Rebate of Excess Investment Earnings to United States**

The Authority shall calculate or cause to be calculated, and shall provide or cause to be provided written notice to the Trustee of, the excess investment earnings (as defined in the Code, "Excess Investment Earnings") at such times and in such manner as may be required pursuant to the Code. The Authority shall inform the Trustee how frequently calculations are to be made, and shall ensure that a copy of all such calculations is given promptly to the Trustee. The Authority agrees to deposit with the Trustee, promptly upon the receipt of any calculations made, the amount of Excess Investment Earnings so calculated. The Trustee shall pay to the United States of America from the amounts on deposit in the Rebate Fund such amounts as shall be identified pursuant to written notice filed with the Trustee by the Authority for such purpose from time to time.

### **Books and Accounts; Financial Statements**

The Authority shall keep proper books of record and accounts, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Installment Purchase Contract. Said books shall, upon prior request, be subject to the inspection of the Trustee (who shall have no duty to inspect) or the Owners of not less than ten percent (10%) of the Outstanding Bonds, or their representatives authorized in writing, upon not less than two (2) Business Days' prior notice to the Authority. The Authority shall cause its books and accounts to be audited annually by an independent certified public accountant or firm of certified public accountants, not more than two hundred and seventy (270) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the Bond Owners at the office of the Authority and at the Principal Office of the Trustee.

### **Installment Purchase Contract**

The Trustee shall promptly collect all amounts due from the City pursuant to the Installment Purchase Contract and shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City thereunder.

## **Continuing Disclosure to Owners**

Pursuant to the Installment Purchase Contract, the City has undertaken all responsibility for compliance with continuing disclosure requirements with respect to the Bonds, and the Authority shall have no liability to the holders of the Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default.

## **Continued Existence of the Authority**

The Authority will take or cause to be taken all actions reasonably necessary to continue its existence until such time as the Bonds have been paid in full, including but not limited to the addition or substitution of one or more new members.

## **Events of Default**

One or more of the following shall constitute an Event of Default under the Indenture:

(a) default shall be made in the due and punctual payment by the Authority of any payment of principal of or interest on the Bonds when and as the same shall become due and payable;

(b) default shall be made by the Authority in the performance of any of the other agreements or covenants contained herein required to be performed by it, and such default shall have continued for a period of sixty (60) days after the Authority shall have been given notice in writing of such default by the Trustee;

(c) the Authority shall file a petition seeking arrangement or reorganization under federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property;

(d) an event of default shall have occurred with respect to any Additional Bonds; or

(e) an event of default shall have occurred under the Installment Purchase Contract.

The Trustee shall notify the Authority promptly of any default under (a) above. Upon the occurrence of an Event of Default under the Indenture, the Trustee may declare the principal and interest with respect to all such Bonds immediately due and payable and such principal and interest shall thereupon be due and payable immediately. The Trustee shall apply amounts on deposit in the funds and accounts in accordance with the Indenture. This provision, however, is subject to the condition that, except with respect to an Event of Default under subsection (c) above, if at any time after such Outstanding principal amount of the Bonds and the accrued interest thereon shall have been so declared due and payable and before the acceleration date or the date of any judgment or decree for the payment of the money due shall have been obtained or entered, the Authority shall

deposit with the Trustee a sum sufficient to pay such amount due prior to such date and the accrued interest thereon, with interest on such overdue payments at the rate on such Bonds, and the reasonable fees and expenses of the Trustee, including those of its attorneys, and any and all other defaults known to the Authority (other than in the payment of such principal amount of the Bonds and the accrued interest thereon 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 may rescind and annul such declaration and its consequences; but 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.

### **Other Remedies of the Trustee**

The Trustee may, subject to the receipt of indemnity as provided in the Indenture:

(a) by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the Authority, or any board member, officer or employee thereof, and compel the Authority or any such board member, officer or employee to perform and carry out its or his or her duties under applicable law and the agreements and covenants contained in the Indenture required to be performed by it or him;

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Trustee or the Bondowners under the Indenture;

(c) intervene in judicial proceedings that affect the Bonds or the security therefor or under the Indenture; or

(d) by suit in equity upon the happening of an Event of Default require the Authority and its officers and employees to account as the trustee of an express trust.

### **Non-Waiver**

A waiver of any default or breach of duty or contract by the Trustee, or the Owners shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee or the Owners by law or by this Article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee. Any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or the Owners, the Trustee, the Owners and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

### **Remedies Not Exclusive**

No remedy in the Indenture conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other law.

### **No Liability by the Trustee to the Owners**

Except for the duty of the Trustee to make payments of principal, redemption premiums and interest with respect to the Bonds from moneys received from the Authority, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the principal of or interest on the Bonds, or with respect to the performance by the Authority of the other agreements and covenants required to be performed by it contained in the Indenture.

### **Limitation on Owner's Right to Bring Suit**

No Owner of any Bond shall have any right to institute any proceeding, judicial or otherwise, under or with respect to the Indenture or the Installment Purchase Contract, or for the appointment of a receiver or trustee or for any other remedy hereunder, at law or in equity, unless:

(1) such Owner has previously given written notice to the Trustee of a continuing event of default;

(2) the owners of not less than a majority in principal amount of the Bonds Outstanding have made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee under the Indenture;

(3) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and

(4) the Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

It being understood and intended that no one or more Owners shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the lien of the Indenture or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under the Indenture, except in the manner herein provided and for the equal and ratable benefit of all Bonds. Notwithstanding the foregoing, the Owner of any Bond shall have the right which is absolute and unconditional to receive payment of interest on such Bond when due in accordance with the terms thereof and of the Indenture and the principal of such Bond at the stated maturity thereof and to institute suit for the enforcement of any such payment in accordance with the provisions of the Indenture and such rights shall not be impaired without the consent of such Owner.

## **Application of Funds Upon Default**

All monies received by the Trustee or by any receiver pursuant to any right given or action taken shall, after payment of the reasonable costs and fees of, and the reasonable fees, expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Payment Account and all moneys so deposited during the continuance of an Event of Default, together with all moneys in the funds and accounts maintained by the Trustee under the Indenture, shall be applied as follows:

(a) Unless the principal of all Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

*First:* To the payment to the persons entitled thereto of all installments of interest then due on the Bonds, with interest on overdue installments, if lawful, at the rate per annum borne by the Bonds, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the persons entitled thereto without any discrimination or privilege; and

*Second:* To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on overdue interest and principal, as aforesaid, without preference or priority over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bonds over any other Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

## **The Trustee**

The Authority or the Owners of a majority in aggregate principal amount of all Bonds Outstanding may, by thirty (30) days prior written request, remove the Trustee initially a party hereto, and any successor thereto, and in such event, or in the event the Trustee resigns, the Authority shall appoint a successor Trustee, but any such successor shall be a bank or trust company in good standing doing business and having an office in Los Angeles or San Francisco, California, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company shall have) a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars (\$50,000,000) and subject to supervision or examination by federal or state authority. The Trustee may at any time resign by giving written notice to the Authority and by giving to the Bond Owners notice by mailing a notice of such resignation to their addresses appearing in the Bond Register. Upon receiving any such notice of resignation,

the Authority shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the Authority does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may petition at the expense of the Authority an appropriate court having jurisdiction to appoint a successor Trustee or to resign.

The Trustee may execute any of the trusts or powers hereof and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture; provided that unless the Authority is in default hereunder, the Trustee shall first obtain the prior written consent of the Authority.

Before taking any remedial action under the Indenture the Trustee may require that a satisfactory indemnity bond or other indemnity satisfactory to the Trustee be furnished for the reimbursement of all reasonable expenses to which it may be put and to protect it against all liability which may be incurred in connection with the taking of such action, except liability which is adjudicated to have resulted from its negligence or misconduct; provided, however, the Trustee shall not seek such indemnity prior to making payments on the Bonds. The Trustee, prior to the occurrence of an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform only such duties as are specifically set forth in the Indenture. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a reasonable person would exercise or use in the conduct of such person's own affairs. The Trustee shall not be deemed to have knowledge of an Event of Default (except in connection with a failure of the Authority to make Installment Payments when due) until a Responsible Officer has actual knowledge thereof, or until notified in writing of such Event of Default.

No provision of the Indenture or any other document related thereto shall require the Trustee to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights under the Indenture. The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of a majority (or other percentage provided for herein) in aggregate principal amount of Bonds outstanding relating to the exercise of any right, power or remedy available to the Trustee. The permissive right of the Trustee to do things enumerated in the Indenture shall not be construed as a duty.

The Trustee shall not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, acts of terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes (by employees other than employees of the Trustee), freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

## **Amendment or Supplement**

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may be modified or amended by the Authority at any time by the execution of a Supplemental Indenture and with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture; provided, that no such consent of the Owners shall be required in connection with an amendment or supplement executed with respect to the issuance of Additional Bonds as authorized in the Indenture. No such modification or amendment shall (1) extend the date for payment of any principal of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the Authority to pay the principal thereof, or interest thereon, or any premium payable on the redemption thereof, at the time and place and at the rate and in the currency provided therein, without the written consent of the Owner of such Bond, (2) permit the creation by the Authority of any mortgage, pledge or lien upon the Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by the Indenture), (3) reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification, or (4) modify any of the rights or obligations of the Trustee without its written consent thereto.

The Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture which the Authority and the Trustee may enter into without the consent of any Bond Owners, if the Trustee determines that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority or the City other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority or the City;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority or the City may deem necessary or desirable;

(c) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(d) to make such additions, as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds; or

(e) to authorize the issuance of Additional Bonds.

## **Disqualified Bonds**

Bonds owned or held by or for the account of the Authority shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds, and shall not be entitled to consent to or take any other action, and the

Trustee may adopt appropriate regulations to require each Owner, before his or her consent provided for in the Indenture shall be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified.

### **Defeasance**

Any Outstanding Bonds shall be paid and discharged in any one or more of the following ways:

(a) by paying or causing to be paid the principal of and interest on such Bonds Outstanding, as and when the same become due and payable;

(b) by irrevocably depositing with the Trustee, in trust, at or before maturity money which, together with the amounts then on deposit in the funds and accounts established pursuant to the Indenture is fully sufficient to pay any such Bonds Outstanding, including all principal, interest and redemption premiums; or

(c) by irrevocably depositing with the Trustee, in trust, non-callable Federal Securities in such amount (i) will, together with amounts then on deposit in the funds and accounts established pursuant to the Indenture (except amounts on deposit in the Rebate Fund and the Project Fund) be sufficient to pay and discharge the indebtedness on all Bonds (including the principal interest and premium, if any, thereon) at or before their respective maturity dates, or (ii) as an Independent Certified Public Accountant shall certify to the Trustee, will, together with the interest to accrue thereon and moneys then on deposit in the funds and accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on any such Bonds Outstanding (including all principal, interest and redemption premiums) at or before their respective maturity dates; and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, then notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture and all other obligations of the Authority under this Indenture with respect to all Bonds Outstanding shall cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon, and thereafter Revenues shall not be payable to the Trustee. Notice of such election shall be filed with the Trustee.

Notwithstanding that some Bonds may not have been surrendered for payment, all obligations of the Authority and the Trustee under the Indenture with respect to such defeased Bonds shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid to the Owners of such Bonds all sums due thereon and the obligation of the Authority to indemnify and pay the Trustee in accordance with the Indenture.

### **Unclaimed Moneys**

Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or principal of the Bonds which remains unclaimed for the lesser of the period ending one day prior to the date such money would escheat to the State or two (2) years after the date when the payments evidenced and represented by such Bonds have become payable, if such money was held by the Trustee at such date, or for the lesser of the period ending one day prior to the date such money would escheat to the State or two (2) years after the date of deposit



of such money if deposited with the Trustee after the date when the interest and principal evidenced and represented by such Bonds have become payable, the Trustee shall pay such amounts to the Authority as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Authority for interest and principal represented by such Bonds.

### **Waiver of Personal Liability**

No board member, officer or employee of the Authority shall be individually or personally liable for the payment of the interest or principal the Bonds, but nothing contained in the Indenture shall relieve any board member, officer or employee of the Authority from the performance of any official duty provided by any applicable provisions of law or hereby.

### **Investments**

Amounts on deposit in any fund or account created pursuant to the Indenture shall be invested in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such money is anticipated to be needed for disbursement under the Indenture, in accordance with such written directions as the Authority or the City may from time to time provide to the Trustee. Amounts on deposit in the Reserve Fund shall be invested by the Trustee, in accordance with written directions from the Authority or the City, in Permitted Investments (i) having an average aggregate weighted term to maturity not greater than five (5) years, or (ii) of any maturity, but callable at par for any purpose required by the Indenture.

Except as relating to the valuation of the Reserve Fund, valuation shall occur not less often than immediately prior to each Interest Payment Date, and upon any draw on the Reserve Fund. Except for investment agreements and repurchase agreements, if at any time after investment therein a Permitted Investment ceases to meet the criteria set forth in the definition of Permitted Investments and such obligation, aggregated with other non-conforming investments, exceeds ten percent (10%) of invested funds, such Permitted Investment shall be sold or liquidated.

### **California Law**

The Indenture shall be construed and governed in accordance with the laws of the State of California.

### **Payments Due on Days that are not Business Days**

In any case where the date fixed for payment of principal or interest on the Bonds or the date fixed for redemption of Bonds shall not be a Business Day, then payment of such principal or interest or redemption price shall be made on the next succeeding Business Day, with the same force and effect as if made on such non-Business Day and no interest shall accrue on such amounts from and after such non-Business Day.

## **THE INSTALLMENT PURCHASE CONTRACT**

### **Purchase and Sale of the Project**

The City represents and warrants that it is the owner of certain interests in the Project. The Authority purchases from the City, and the City sells to the Authority, the Project in accordance with the provisions of the Installment Purchase Contract. All right,

title and interest in the Project shall immediately vest in the Authority on the Closing Date without further action on the part of the Authority or the City. The City purchases from the Authority, and the Authority sells to the City, the Project in accordance with the provisions of the Installment Purchase Contract. Upon the Closing Date, all of the Authority's remaining interest in the Project, if any, shall be transferred to and vest in the City, without the necessity of any additional document or transfer. Nothing herein shall require the Authority to perform any obligations of any purchaser with respect to any contract or purchase order with respect to the Project.

### **Payment of the Installment Payments**

Each Installment Payment shall be payable to the Authority in accordance with the terms of the Installment Purchase Contract and at the times required by the Installment Purchase Contract in lawful money of the United States of America. In the event the City fails to make any of the payments required to be made by it, such payment shall continue as an obligation of the City until such amount shall have been fully paid and the City agrees to pay the same as set forth in the Installment Purchase Contract. In the event an Installment Payment is insufficient to make the payments of principal and interest represented by the Bonds on the next succeeding Interest Payment Date, due to investment losses incurred while on deposit in the Payment Fund or for any other reason, the City shall immediately pay to the Trustee upon notice therefrom additional amounts to cure such insufficiency.

The obligation of the City to make the Installment Payments from Net Revenues is absolute and unconditional, whether or not the Project shall be acquired, and until such time as all Installment Payments shall have been fully paid and the Bonds are no longer Outstanding (or provision for the payment thereof shall have been made pursuant to Article IX of the Indenture), the City will not, under any circumstances, discontinue, abate or suspend any Installment Payments required to be made by it under the Installment Purchase Contract when due, whether or not the Enterprise or any part thereof is operating or operable or has been completed, or whether or not the Enterprise is condemned, damaged, destroyed or seized or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments from Net Revenues shall not be subject to reduction whether by offset, counterclaim, defense, recoupment, abatement, suspension, deferment or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or covenant contained in the Installment Purchase Contract for any cause whatsoever.

### **Interest Component of the Installment Payments**

The Installment Payments include interest from the date of the respective series of Bonds until the payment of the principal thereof and the prepayment premiums, if any, thereon, shall have been made or provided for in accordance with the provisions of Article IX of the Indenture, whether at maturity, upon prepayment or otherwise. The interest component of the Installment Payments accrued from the date of the respective series of Bonds and from each Interest Payment Date to, but not including, the next succeeding Interest Payment Date shall be paid on each such succeeding Interest Payment Date and shall be computed on the basis of a year of 360 days and twelve 30-day months.

### **Certain Necessary Transfers**

The parties to the Installment Purchase Contract acknowledge that although all Parity Obligations are secured equally and ratably by Net Revenues, debt service and other funds with respect to obligations other than the Series 2015 Bonds may be held by the Trustee or by trustees other than the Trustee under documents and agreements other than the Indenture and the Installment Purchase Contract, and the Installment Purchase Contract and the Indenture impose no obligations upon the Trustee with respect to such other obligations. The Finance Officer is hereby authorized to make such transfers from the Revenue Fund necessary to effectuate such Parity Obligations' parity claim on the Net Revenues contemplated hereby.

### **Deposits to Payment Fund**

On the Installment Payment Date next preceding each Interest Payment Date, the City shall deposit with the Trustee, for deposit in the Payment Fund, from amounts legally available therefor on deposit in the Revenue Fund, a sum equal to the amount of interest becoming due under the Installment Purchase Contract in the next Interest Payment Date plus the amount of principal becoming due under the Installment Purchase Contract on such Interest Payment Date. The City shall be entitled to receive as a credit against Installment Payments an amount equal to the amount of any balance contained in the Payment Fund prior to the Installment Payment Date for such Installment Payments (excluding money designated for the prepayment of Bonds). All money in the Payment Fund shall be used and withdrawn by the Trustee in accordance with the Indenture.

### **Reserve Fund**

If amounts on deposit in the Reserve Fund or an account therein shall, at any time, be less than the Reserve Requirement, such deficiency shall be made up by the City from the first available Net Revenues after required payment of Installment Payments over a twelve (12) month period, in twelve (12) substantially equal payments. No deposit need be made in the Reserve Fund if the amount available and contained therein (valued from time to time in accordance with the Indenture) is at least equal to the Reserve Requirement.

### **Compliance with Installment Purchase Contract**

The City will punctually pay the Installment Payments in strict conformity with the terms of the Installment Purchase Contract, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Contract required to be observed and performed by it, and will not terminate the Installment Purchase Contract for any cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, condemnation of the Project by any governmental entity, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term required to be observed and performed by it contained in the Installment Purchase Contract, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Purchase Contract.

## **Against Encumbrances**

The City covenants that, subject to the Indenture, there is no pledge of or lien on Net Revenues senior to the pledge and lien securing the Installment Payments. The City will not make any further pledge of or place any lien on the Net Revenues, provided that the City may at any time, or from time to time, pledge or encumber the Net Revenues in connection with the issuance or execution of Parity Obligations or other obligations permitted by the Installment Purchase Contract, or subordinate to the pledge of Net Revenues in the Installment Purchase Contract.

## **Against Sale or Other Disposition of Property**

The City will not sell, lease, encumber or otherwise dispose of the Enterprise or any part thereof in excess of one-half of one percent of the book value of the Enterprise in any Fiscal Year, unless a Finance Officer certifies that such sale, lease, encumbrance or disposition will not materially adversely affect the operation of the Enterprise or the Net Revenues; provided however, any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Enterprise, or any material or equipment which has become worn out, may be sold or exchanged at not less than the fair market value thereof and the proceeds (if any) of such sale or exchange shall be deposited in the Revenue Fund. The City will not enter into any agreement or lease which would impair the ability of the City to meet the covenant set forth in the Installment Purchase Contract or which would otherwise impair the rights of the Bond Owners or the operation of the Enterprise.

## **Against Competitive Facilities**

The City will not, to the extent permitted by law, acquire, maintain or operate and will not, to the extent permitted by law and its current contractual rights and obligations and within the reasonable scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, maintain or operate within the City any utility system competitive with the Enterprise, which utility system has a materially adverse impact on Revenues.

## **Tax Covenants**

(a) Private Activity Bond Limitation. The City will assure that the proceeds of the Bonds are not so used as to cause the 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.

(b) Federal Guarantee Prohibition. The City will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

(c) Rebate Requirement. The City will 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 Series 2015 Bonds.

(d) No Arbitrage. The City will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Series 2015 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 Series 2015 Bonds would have caused the Series 2015 Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

(e) Maintenance of Tax-Exemption. The City will take all actions necessary to assure the exclusion of interest on the Series 2015 Bonds from the gross income of the Owners of the 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 Series 2015 Bonds.

(f) Record Retention. The City will retain its records of all accounting and monitoring it carries out with respect to the Series 2015 Bonds for at least 3 years after the Series 2015 Bonds mature or are redeemed (whichever is earlier); however, if the Series 2015 Bonds are redeemed and refunded, the City will retain its records of accounting and monitoring at least 3 years after the earlier of the maturity or redemption of the obligations that refunded the Series 2015 Bonds.

(g) Compliance with Tax Certificate. The City will comply with the provisions of the Certificate as to Arbitrage and the Use of Proceeds Certificate with respect to the Series 2015 Bonds, which are incorporated herein as if fully set forth herein. The covenants of this Section will survive payment in full or defeasance of the Series 2015 Bonds.

### **Maintenance and Operation of the Enterprise; Budgets**

The City will maintain and preserve the Enterprise in good repair and working order at all times and will operate the Enterprise in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Enterprise as they become due and payable.

### **Payment of Claims**

The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Revenues or any part thereof or on any funds in the control of the City or the Trustee prior or superior to the lien of the Installment Payments or which might impair the security of the Installment Payments.

### **Compliance with Contracts**

The City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, expressed or implied, required to be performed by it contained in all contracts for the use of the Enterprise and all other contracts affecting or involving the Enterprise to the extent that the City is a party thereto.

### **Insurance**

The City will procure and maintain insurance on the Enterprise with commercial insurers or through participation in a joint powers insurance authority, in such amounts, with such deductibles and against such risks (including accident to or destruction of the Enterprise) as are usually insurable in connection with similar enterprises in the region. In the event of any damage to or destruction of the Enterprise caused by the perils covered by such insurance, the proceeds of such insurance shall be applied to the repair, reconstruction or replacement of the damaged or destroyed portion of the Enterprise. The City shall cause such repair, reconstruction or replacement to begin promptly after such damage or destruction shall occur and to continue and to be properly completed as expeditiously as possible, and shall pay out of the proceeds of such insurance all costs and expenses in connection with such repair, reconstruction or replacement so that the same shall be completed and the Enterprise shall be free and clear of all liens and claims. If the proceeds received by reason of any such loss shall exceed the costs of such repair, reconstruction or replacement, the excess shall be applied to the prepayment of

Installment Payments and payments on any Parity Obligations as provided in the Installment Purchase Contract.

Alternatively, if the proceeds of such insurance are sufficient to enable the City to retire all outstanding Parity Obligations and the Installment Payments and all other amounts due under the Installment Purchase Contract and under the Indenture, the City may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Enterprise, and thereupon such proceeds shall be applied to the prepayment of the Installment Payments as provided in the Installment Purchase Contract and to the payment of all other amounts due under the Installment Purchase Contract and under the Indenture, and as otherwise required by the documents pursuant to which such Parity Obligations were issued.

In lieu of obtaining insurance coverage as required, such coverage may be maintained by the City in the form of self-insurance so long as Insurance Consultant certifies annually to the Trustee and the Authority that the City's general insurance reserves are actuarially sound and are adequate to provide the necessary coverage and that such reserves are held in a separate trust fund by an independent trustee. Such certification, and the requirement that funds be held in a trust fund, shall not be required unless the City is fully self-insured with respect to such coverage.

#### **Books and Accounts**

The City will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee or of the Owners of not less than ten percent (10%) of the principal amount of a series of Bonds then Outstanding or their representatives authorized in writing.

The City will prepare annually not more than two hundred seventy (270) days after the close of each Fiscal Year a summary statement showing the amount of the Gross Revenues and the disbursements from the Gross Revenues, and the Maintenance and Operation Costs, in reasonable detail, for the preceding Fiscal Year, and a general statement of the financial and physical condition of the Enterprise.

#### **Protection of Security and Rights of Authority; Amendment**

The City will preserve and protect the security and the rights of the Authority to the Installment Payments under the Installment Purchase Contract and will warrant and defend such rights against all claims and demands of all persons. In connection therewith, the Authority and the City shall not amend the Installment Purchase Contract without first obtaining an opinion of nationally recognized bond counsel to the effect that such amendment will not materially adversely affect the security of the Bond Owners; provided, however, that the City and the Authority may at any time amend or modify Exhibit A of the Installment Purchase Contract in connection with the issuance of any Additional Bonds, without the consent of the Trustee or any of the Bond Owners.

#### **Payment of Taxes and Compliance with Governmental Regulations**

The City will pay and discharge all taxes, assessments and other governmental charges, if any, which may hereafter be lawfully imposed upon the Enterprise or any part thereof or upon the Gross Revenues when the same shall become due. The City will duly observe and conform with all valid regulations and requirements of any governmental

authority relative to the operation of the Enterprise or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

### **Operation of Enterprise; Collection of Rates and Charges**

The City will, so long as the Bonds are Outstanding, continue to operate the Enterprise and shall have in effect at all times rules and regulations requiring all users of the Enterprise provided by the City that is provided or made available to pay the rates, fees and charges applicable to the Enterprise provided or made available to such users, and providing for the billing thereof and for a due date and a delinquency date for each bill. Except in connection with the receipt of federal or State funding, or as required as a condition to the acquisition or operation of the Project, the City will not permit any part of either Enterprise, or any facility thereof, to be used, or taken advantage of, free of charge by any person, firm or corporation, or by any public agency (including the United States of America, the State of California and any public corporation, political subdivision, city, county, district or agency of any thereof), excepting only that the City may without charge use the services and facilities of the Enterprise.

### **Eminent Domain Proceeds**

If all or any part of the Enterprise shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If (1) the City prepares a report showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the City by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Enterprise proposed to be acquired by the City from any Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) on the basis of such certificate, the City determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the City to meet its obligations hereunder will not be substantially impaired (which determination shall be final and conclusive); then the City shall promptly proceed with the acquisition of such additions, betterments, extensions or improvements substantially in accordance with such report and such Net Proceeds shall be applied for the payment of the costs of such acquisition, and any balance of such Net Proceeds not required by the City for such purpose shall be applied to prepay the Installment Payments pursuant to the Installment Purchase Contract, and any Parity Obligations, on a pro rata basis in the manner provided in the Installment Purchase Contract and in the instruments authorizing such Parity Obligations.

(b) If the foregoing conditions are not met, then such Net Proceeds shall be applied to the prepayment of Installment Payments.

### **Further Assurances**

The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Authority of the rights and benefits provided to it in the Installment Purchase Contract.

## **Continuing Disclosure**

The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement of the City, dated as of the Closing Date. Notwithstanding any other provision of the Installment Purchase Contract, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Authority may (and, at the request of any participating underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, after receiving indemnification to its satisfaction) or any Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations.

## **Security Deposit**

Notwithstanding any other provision of the Installment Purchase Contract, the City may secure the payment of all or a portion of Installment Payments by a deposit with the Trustee, as escrow holder under an escrow deposit and trust agreement as referenced in and in conformance with the Indenture, of either (i) cash in an amount which, together with available amounts on deposit in the Payment Fund and the Reserve Fund or reserve fund established with respect to Parity Obligations, is sufficient to pay such unpaid Installment Payments, including the principal and interest components thereof, in accordance with the Installment Payment schedule set forth in Exhibit B attached to the Installment Purchase Contract, or (ii) non-callable Federal Securities (as defined in the Indenture) or pre-refunded non-callable municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively, together with cash if required, in such amount as will, in the opinion of nationally-recognized bond counsel and of an independent certified public accountant (which opinion shall be addressed to the Trustee, together with interest to accrue thereon and, if required, all or a portion of moneys or non-callable Federal Securities then on deposit in the Payment Fund and Reserve Fund or reserve fund established with respect to Parity Obligations, be fully sufficient to pay such unpaid Installment Payments on their payment dates so that such Installment Payments shall be defeased as provided for in the Indenture; or

In the event of a deposit, and provided that all other amounts payable by the City have been paid in full, all obligations of the City under the Installment Purchase Contract shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, all Installment Payments from the deposit made by City and the obligation to pay amounts due the Trustee. Said deposit shall be deemed to be and shall constitute a special fund for the payment of Installment Payments in accordance with the provisions of the Installment Purchase Contract.

## **Events of Default and Events of Mandatory Acceleration; Acceleration of Maturities**

If one or more of the following Events of Default shall happen:

(a) default shall be made in the due and punctual payment by the City of any Installment Payment when and as the same shall become due and payable;

(b) default shall be made by the City in the performance of any of the other agreements or covenants contained in the Installment Purchase Contract or in the Indenture required to be performed by it, and such default shall have continued for a period of sixty (60) days after the City shall have been given notice in writing of such default by the Authority or the Trustee;



(c) the City shall file a petition seeking arrangement or reorganization under federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property; or

(d) an event of default shall have occurred with respect to any Parity Obligations;

then and in each and every such case during the continuance of such Event of Default the Authority may, by notice in writing to the City declare the principal amount of the unpaid Installment Payments to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the Installment Purchase Contract to the contrary notwithstanding.

This provision, however, is subject to the condition that, except with respect to an Event of Default under subsection (c) above, if at any time after such principal amount of the unpaid Installment Payments shall have been so declared due and payable and before the acceleration date or the date of any judgment or decree for the payment of the money due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay such unpaid principal amount of the Installment Payments due prior to such date, with any interest due on such overdue installments, and the reasonable expenses of the Authority and the Trustee, and any and all other defaults known to the Authority (other than in the payment of such principal amount of the unpaid Installment Payments due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor, then and in every such case the Authority, by written notice to the City, may rescind and annul such declaration and its consequences; but 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 moneys and investments in the funds and accounts held under the Installment Purchase Contract and under the Indenture (other than the Rebate Fund, if any) upon the date of the declaration of acceleration and all Gross Revenues thereafter received shall be applied as provided for in the Indenture.

### **Other Remedies of the Authority**

The Authority may--

(a) by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the City, or any board member, officer or employee thereof, and compel the City or any such board member, officer or employee to perform and carry out its or his duties under applicable law and the agreements and covenants contained in the Installment Purchase Contract required to be performed by it or him;

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Authority;

(c) by suit in equity upon the happening of an Event of Default require the City and its board members, officers and employees to account as the trustee of an express trust; or

(d) by suit in equity, to seek the appointment of a receiver or other third party to operate the Enterprise and collect the Gross Revenues.

### **Non-Waiver**

Nothing in any provision of the Installment Purchase Contract shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Installment Payments to the Authority at the respective due dates or upon prepayment from the Gross Revenues, or, except as expressly provided in the Installment Purchase Contract, shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Purchase Contract

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by applicable law may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority. If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the City and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

### **Remedies Not Exclusive**

No remedy in the Installment Purchase Contract conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other law.

### **Liability of City Limited**

Notwithstanding anything contained in the Installment Purchase Contract, the City shall not be required to advance any moneys derived from any source of income other than the Net Revenues legally available therefor in the Revenue Fund or the Reserve Fund, and the other funds provided in the Installment Purchase Contract and in the Indenture for the payment of the Installment Payments or for the performance of any agreements or covenants contained in the Installment Purchase Contract required to be performed by it. The City may, however, but shall not be required to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose. The obligation of the City to make the Installment Payments and the other amounts due under the Installment Purchase Contract is a special obligation of the City payable solely from the moneys legally available therefor under the Installment Purchase Contract and under the Indenture, including but not limited to the Net Revenues and such other funds, but excluding the proceeds of any taxes, and does not constitute a debt or pledge of the faith

and credit of the City or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

### **Waiver of Personal Liability**

No board member, officer or employee of the City shall be individually or personally liable for the payment of the Installment Payments, but nothing contained in the Installment Purchase Contract shall relieve any board member, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Contract.

### **Assignment**

The Installment Purchase Contract and any rights thereunder shall be assigned by the Authority, in accordance with the Indenture, to the Trustee or any successor in interest to the Trustee, without the necessity of obtaining the prior consent of the City. The City may not assign any of its rights under the Installment Purchase Contract.

### **Amendments**

The Installment Purchase Contract may be amended in writing as may be mutually agreed by the City and the Authority, with the written consent of the Owners of a majority of the aggregate principal evidenced by the Bonds then Outstanding; provided, however, that no such amendment shall (i) extend the payment date of any Installment Payment or reduce the amount of any Installment Payment, or the interest rate applicable thereto, without the prior written consent of the Owner of each Bond so affected, (ii) reduce the percentage of Owners whose consent is required for any amendment thereof without the prior written consent of the Owners of all Bonds then Outstanding, or (iii) amend the requirements for an amendment without the prior written consent of the Owners of all Bonds then Outstanding. The Installment Purchase Contract and the rights and obligations of the City and the Authority thereunder may also be amended or supplemented at any time by an amendment or supplement which shall become binding upon execution by the City and the Authority, without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes -

(i) to add to the agreements, conditions, covenants and terms required by the Authority or the City to be observed or performed therein or other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the City, or to surrender any right or power reserved therein to or conferred herein on the Authority or the City, and which in either case shall not materially adversely affect the interests of the Owners;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained therein or in regard to questions arising thereunder which the Authority or the City may deem desirable or necessary and not inconsistent herewith, and which shall not materially adversely affect the interests of the Owners;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion of interest from federal or State income taxes;

(iv) to provide for the issuance of Parity Obligations or the issuance of Additional Bonds as provided for in the Indenture;

(v) to make such other changes therein or modifications hereto as the Authority or the City may deem desirable or necessary, and which shall not materially adversely affect the interests of the Owners.

Any amendment made in violation shall be a nullity and void.

**Net Contract**

The Installment Purchase Contract shall be deemed and construed to be a net-net-net contract, and the City shall pay absolutely net during the term thereof the Installment Payments and all other payments required thereunder free of any deductions and without abatement, diminution or set-off whatsoever.

**California Law**

The Installment Purchase Contract shall be construed and governed in accordance with the laws of the State of California.

## APPENDIX E

### FORM OF FINAL OPINION OF BOND COUNSEL

[Letterhead of Jones Hall, A Professional Law Corporation]

[Closing Date]

City of Redwood City Public Financing Authority  
1017 Middlefield Road  
Redwood City, CA 94063

OPINION:     \$\_\_\_\_\_ City of Redwood City Public Financing Authority Water Revenue  
Refunding Bonds, Series 2015

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Ladies and Gentlemen:

We have acted as bond counsel to the City of Redwood City Public Financing Authority (the "Authority") in connection with the issuance by the Authority of the captioned bonds dated the date hereof (the "Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Bond Law"), the Indenture of Trust, dated as of May 1, 2015 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and a resolution (the "Resolution") of the Authority adopted April 13, 2015. Under the Indenture, the Authority has pledged certain revenues (the "Revenues") for the payment of principal, premium (if any), and interest on the Bonds when due, including installment payments made by the City of Redwood City (the "City") under an Installment Purchase Contract, dated as of May 1, 2015 (the "Installment Purchase Agreement") between the Authority and the City.

Regarding questions of fact material to our opinion, we have relied on representations of the Authority contained in the Indenture and the City contained in the Installment Purchase Agreement, and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Authority is a duly created and validly existing joint exercise of powers authority with the power to adopt the Resolution, enter into the Indenture and perform the agreements on its part contained therein, and issue the Bonds.

2. The City is a duly created and validly existing chartered city with the power to enter into the Installment Purchase Agreement and perform the agreements on its part contained therein.

3. The Indenture has been duly authorized, executed and delivered by the Authority, and constitutes a valid and binding obligation of the Authority, enforceable against the Authority.

4. The Installment Purchase Agreement has been duly authorized, executed and delivered by the Authority and the City, and constitutes a valid and binding obligation of the Authority and the City, enforceable against the Authority and the City.

5. The Indenture creates a valid lien on the Revenues and other funds pledged by the Indenture for the security of the Bonds, on a parity with other bonds (if any) issued or to be issued under the Indenture.

6. The Bonds have been duly authorized and executed by the Authority, and are valid and binding limited obligations of the Authority, payable solely from the Revenues and other funds provided therefor in the Indenture.

7. Interest on the Bonds is excludable 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 opinions set forth in the preceding sentence are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the delivery of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the City have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

8. 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 are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF REDWOOD CITY (the "City") in connection with the issuance of by the City of Redwood City Public Financing Authority (the "Authority") of its \$\_\_\_\_\_ \* City of Redwood City Public Financing Authority (San Mateo County, California) Water Revenue Refunding Bonds, Series 2015 (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust, dated as of May 1, 2015 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds shall be secured by a pledge, charge and lien upon Net Revenues (as such term is defined in the Indenture). Pursuant to Section 5.21 of that certain Installment Purchase Contract, dated as of May 1, 2015, by and between the Authority and the City, the Agency covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

"*Annual Report*" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Beneficial Owner*" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Dissemination Agent*" shall mean U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation. In the absence of such a designation, the City shall act as the Dissemination Agent.

"*EMMA*" or "*Electronic Municipal Market Access*" means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"*Listed Events*" shall mean any of the events listed in Section 5(a) or 5(b) 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 which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Participating Underwriter*" shall mean any original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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\* Preliminary, subject to change.

### Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The City shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for the 2014-15 Fiscal Year, which is due not later than March 31, 2016, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance.* If the City is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the City shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the City is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

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

(a) *Financial Statements.* Audited financial statements of the City for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the City, financial information and operating data with respect to the City and the Enterprise for the preceding fiscal year, substantially as set forth in Exhibit B hereto.

(c) *Cross References.* Any or all of the items listed in Exhibit B may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on EMMA. The City shall clearly identify each such other document so included by reference.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.



Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The City shall, or shall cause the Dissemination Agent (if not the City) to, give notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) 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.

Note: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) *Material Reportable Events.* The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.
- (5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
- (6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* The City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of Any Listed Event. Notwithstanding the

foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Indenture.

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

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the 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 City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent*. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the City. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bond owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the City shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the City.

(b) *Compensation of Dissemination Agent*. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the City or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent*. In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the City to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the City under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances*. If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), 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 the type of business conducted.

(b) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Bond owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bond owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the City shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this 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. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Certificate owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) 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 the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Indenture. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: [Closing Date]

CITY OF REDWOOD CITY

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

ACKNOWLEDGED:

U.S. BANK NATIONAL ASSOCIATION, as  
Dissemination Agent

By \_\_\_\_\_  
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: City of Redwood City

Name of Issue: City of Redwood City Public Financing Authority (San Mateo County, California) Water Revenue Refunding Bonds, Series 2015

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the Obligor in connection with the Issue. The Obligor anticipates that the Annual Report will be filed by \_\_\_\_\_.

Date: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION,  
Dissemination Agent

By \_\_\_\_\_  
Authorized Officer

EXHIBIT B

FORM OF ANNUAL REPORT

\$ \_\_\_\_\_  
CITY OF REDWOOD CITY PUBLIC FINANCING AUTHORITY,  
WATER REVENUE REFUNDING BONDS,  
SERIES 2015

Date of this Annual Report: \_\_\_\_\_

For Fiscal Year: \_\_\_\_\_

This Annual Report is hereby submitted under Section 4 of the Continuing Disclosure Certificate (the "Disclosure Certificate") dated May 1, 2015, executed by the undersigned (the "City") for and on behalf of itself and the City of Redwood City Public Financing Authority (the "Authority") in connection with the issuance of the above-captioned bonds by the Authority.

Capitalized terms used in this Annual Report but not otherwise defined have the meanings given to them in the Disclosure Certificate.

Any or all of the items listed below may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board through its *Electronic Municipal Market Access* ("EMMA") the centralized on-line repository. The City shall clearly identify each such other document so included by reference.

**I. Audited Financial Statements**

Attached are audited financial statements of the City, which include financial statements of the City's municipal water system enterprise (the "Enterprise") 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.

**II. Existing Water Supply and Demand**

The table below sets forth the average daily demand and maximum daily demand on the Enterprise for the prior Fiscal Year.

	Average Daily Demand (MGD)	Maximum Daily Demand (MGD)
Current Demand		
Current Supply Regional Water System		
Current Supply Recycled Water		
Current Capacity Surplus		

### III. Enterprise Revenues

The table below sets forth Enterprise revenues by customer type for the prior Fiscal Year.

Enterprise Revenues by Customer Type					
	<u>Number of Accounts</u>	<u>Consumption (CCF)</u>	<u>Percent of Total Consumption</u>	<u>Total Revenues</u>	<u>Percent of Total Revenue</u>
Single-family					
Multifamily					
Irrigation-Residential					
Subtotal					
Commercial					
Irrigation-Commercial					
Subtotal					
Fire Services & other					
Total					

### IV. Debt Service Coverage

The table below sets forth Enterprise revenues and expenses, debt service on the Bonds, and the resulting debt service coverage ratio for the prior Fiscal Year.

Revenues, Expenses and Debt Service Coverage

GROSS REVENUES
Charges for services
Non-operating Income
TOTAL GROSS REVENUES
MAINTENANCE AND OPERATION COSTS
NET REVENUES AVAILABLE FOR DEBT SERVICE
2007 Installment Payments
2013 Installment Payments
2015 Installment Payments
TOTAL DEBT SERVICE
DEBT SERVICE COVERAGE

### V. No Default Certificate

A certified statement of the City to the effect that no Event of Default (as defined in that certain Installment Purchase Contract, dated as of May 1, 2015, by and between the Authority and the City (the "Installment Purchase Contract") has occurred, or if an Event of Default has occurred, specifying the nature thereof and, if the City has a right to cure pursuant to Section 7.01 of the Installment Purchase Contract, stating in reasonable detail the measures, if any, being undertaken by the City to cure such Event of Default.

### VI. Insurance Compliance

A certified statement of the City to the effect that all insurance required by the Installment Purchase Contract to be carried by the City with respect to the Enterprise is in full force and effect and complies with the terms of the Installment Purchase Contract.

**VII. Application of Gross Revenues**

A summary statement showing the amount of the Gross Revenues and the disbursements from the Gross Revenues, and the Maintenance and Operation Costs, in reasonable detail, for the preceding Fiscal Year, and a general statement of the financial and physical condition of the Enterprise.

CITY OF REDWOOD CITY

By \_\_\_\_\_  
Director of Finance



## APPENDIX G

### BOOK-ENTRY ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, redemption premium, if any, and interest with respect to the Bonds to The Depository Trust Company (“DTC”), New York, NY, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the Authority of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The City, the Authority, the Trustee and the Underwriter understand that the current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and that the current “Procedures” of DTC to be followed in dealing with Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by 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 rating from Standard & Poor’s of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 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 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 the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Trust Agreement. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 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 Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

The foregoing information concerning DTC and DTC's book-entry system has been provided by DTC, and neither the Authority nor the Trustee takes any responsibility for the accuracy thereof.

**NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.**

Neither the Authority nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

In the event that the book-entry system is discontinued as described above, the requirements of the Trust Agreement will apply.

The City, the Authority and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

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