

*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 2015A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; provided, however, that for the purposes of computing the alternative minimum tax imposed on certain corporations such interest is required to be taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, interest on the 2015 Bonds is exempt from California personal income taxation. Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the ownership, sale or disposition of the 2015 Bonds, or the amount, accrual or receipt of interest on the 2015 Bonds. See "TAX MATTERS" herein.*

**\$31,210,000**

**Successor Agency to the Redevelopment Agency of  
the City of San Mateo  
Tax Allocation Refunding Bonds  
2015 Series A (Tax-Exempt)**

**\$7,385,000**

**Successor Agency to the Redevelopment Agency of  
the City of San Mateo  
Tax Allocation Refunding Bonds  
2015 Series B (Federally Taxable)**

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

The Successor Agency to the Redevelopment Agency of the City of San Mateo (the "Successor Agency") is issuing its Tax Allocation Refunding Bonds, 2015 Series A (Tax-Exempt) (the "2015A Bonds") to (i) refund tax-exempt bonds previously issued by the Former Agency (as described herein) and (ii) pay the costs of issuance of the 2015A Bonds. The Successor Agency is issuing its Tax Allocation Refunding Bonds, 2015 Series B (Federally Taxable) (the "2015B Bonds" and, together with the 2015A Bonds, the "2015 Bonds") to (i) refund taxable bonds previously issued by the Former Agency and (ii) pay the costs of issuance of the 2015B Bonds. See "PLAN OF REFUNDING" herein.

The 2015 Bonds are special obligations of the Successor Agency and are payable solely from and secured by a pledge of certain tax increment revenues (Tax Revenues, as defined herein) deposited in the Redevelopment Property Tax Trust Fund (as defined herein) and certain other funds established under the Indenture of Trust, dated as of August 1, 2015, as supplemented by a First Supplement to Indenture of Trust, dated as of August 1, 2015 (as supplemented, the "Indenture") each by and between the Successor Agency and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

Interest on the 2015 Bonds will be payable on February 1 and August 1 of each year, commencing February 1, 2016. The 2015 Bonds will be initially delivered in book-entry form, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Principal of and interest on the 2015 Bonds will be paid by the Trustee to DTC. DTC is required to remit such principal and interest to its Participants for disbursement to the beneficial owners of the 2015 Bonds. See APPENDIX G – "DTC AND BOOK-ENTRY ONLY SYSTEM."

**The 2015 Bonds are subject to redemption prior to their respective stated maturities as described herein.**

THE 2015 BONDS ARE SPECIAL OBLIGATIONS OF THE SUCCESSOR AGENCY PAYABLE SOLELY FROM TAX REVENUES AND OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE AND, AS SUCH, ARE NOT A DEBT OF THE CITY OF SAN MATEO (THE "CITY"), THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS, AND NEITHER THE CITY, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS OTHER THAN THE SUCCESSOR AGENCY IS LIABLE FOR THE PAYMENT THEREOF.

**This cover page contains information for reference only. It is not a summary of this transaction. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.**

*The 2015 Bonds are offered when, as and if issued by the Successor Agency 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 Successor Agency by the City Attorney, acting as General Counsel to the Successor Agency, and by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Quint & Thimmig LLP, Larkspur, California. It is anticipated that the 2015 Bonds, in book entry form, will be available for delivery on or about August 5, 2015.*

**RAYMOND JAMES®**

## MATURITY SCHEDULE

**\$31,210,000**

**Successor Agency to the Redevelopment Agency of the City of San Mateo  
Tax Allocation Refunding Bonds  
2015 Series A (Tax-Exempt)**

(Base CUSIP<sup>†</sup> No.: 799014)

<u>Maturity Date (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP<sup>†</sup></u>
2022	\$ 530,000	4.000%	2.470%	AA3
2023	1,265,000	4.000	2.700	AB1
2024	1,325,000	4.000	2.890	AC9
2025	1,375,000	4.000	3.060	AD7
2026	3,840,000	5.000	3.270*	AE5
2027	4,025,000	5.000	3.420*	AF2
2028	3,410,000	5.000	3.540*	AG0
2029	3,580,000	5.000	3.620*	AH8
2030	3,760,000	5.000	3.690*	AJ4
2031	3,950,000	5.000	3.750*	AK1
2032	4,150,000	4.000	4.070	AL9

**\$7,385,000**

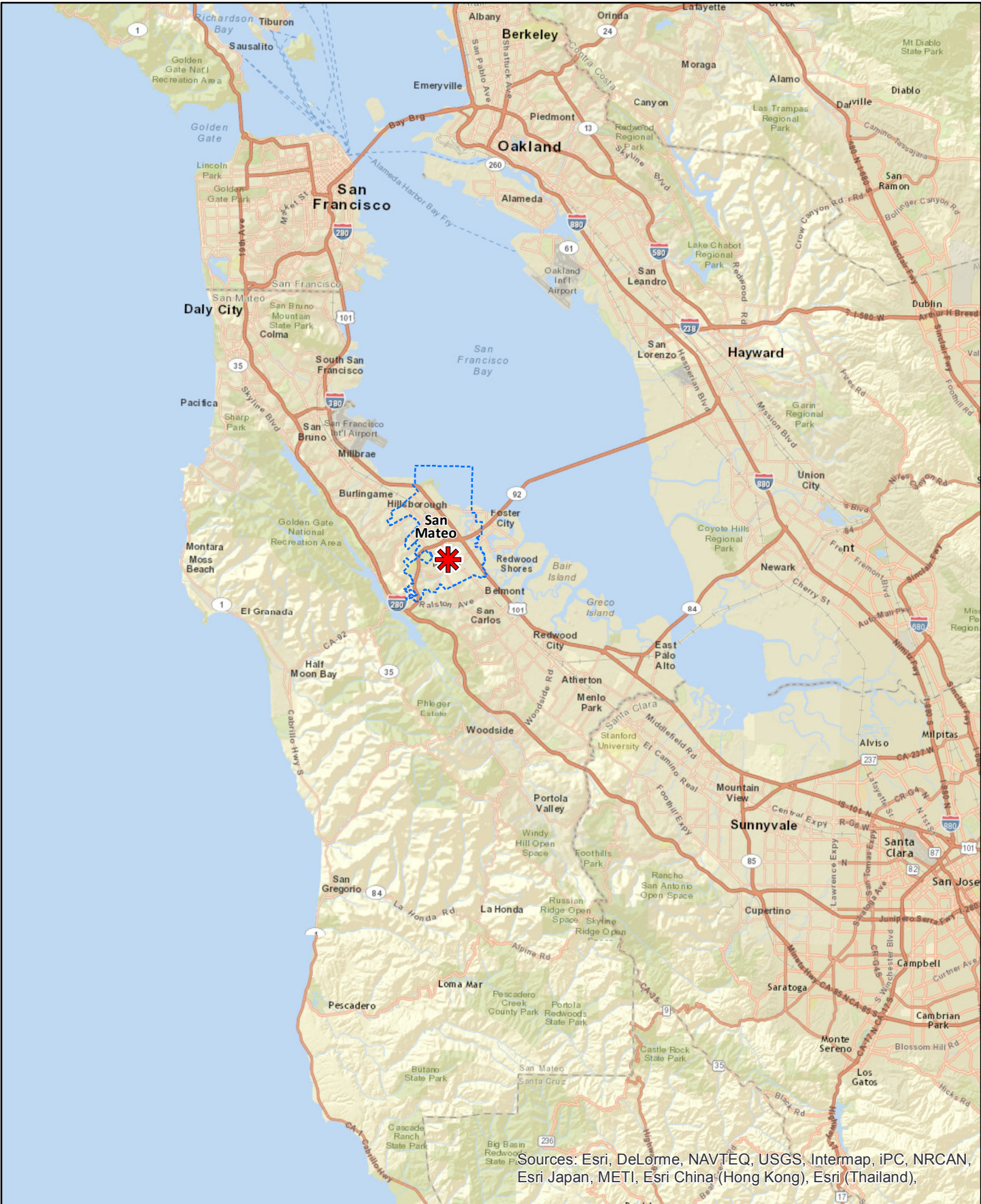
**Successor Agency to the Redevelopment Agency of the City of San Mateo  
Tax Allocation Refunding Bonds  
2015 Series B (Federally Taxable)**

(Base CUSIP<sup>†</sup> No.: 799014)

<u>Maturity Date (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP<sup>†</sup></u>
2016	\$1,080,000	1.430%	1.430%	AM7
2017	1,070,000	1.840	1.840	AN5
2018	1,095,000	2.230	2.230	AP0
2019	1,115,000	2.840	2.840	AQ8
2020	1,145,000	3.140	3.140	AR6
2021	1,185,000	3.600	3.600	AS4
2022	695,000	3.900	3.900	AT2

<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2015 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the Successor Agency, the Underwriter or their agents or counsel assumes responsibility for the accuracy of such numbers.

\* Price assumes a par call on August 1, 2025.



Sources: Esri, DeLorme, NAVTEQ, USGS, Intermap, iPC, NRCAN, Esri Japan, METI, Esri China (Hong Kong), Esri (Thailand),

# City of San Mateo Regional Context Map



No dealer, broker, salesperson or other person has been authorized by the Successor Agency to give any information or to make any representation 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 2015 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 2015 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 representations of facts.

The information set forth herein has been obtained from the Successor Agency and from other sources and is believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made under the Indenture shall, under any circumstances, create any implication that there has been no change in the affairs of the Successor Agency since the date hereof. This Official Statement is submitted in connection with the sale of the 2015 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Successor Agency. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more nationally recognized municipal securities information repositories.

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

This Official Statement contains statements which, to the extent they are not recitations of historical facts, constitute “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe,” and similar expressions are intended to identify forward-looking statements. A number of important factors, including factors affecting the Successor Agency’s financial condition and factors which are otherwise unrelated thereto, could cause actual results to differ materially from those stated in such forward-looking statements.

A wide variety of other information, including financial information, concerning the Successor Agency is available from publications of the City of San Mateo (the “City”) and the Successor Agency and on the internet site created and maintained by the City. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of, or incorporated into, this Official Statement. The references to internet websites contained in this Official Statement are shown for reference and convenience only; the information contained in such websites is not incorporated herein by such references and does not constitute a part of this Official Statement.

In connection with this offering, the underwriter may over allot or effect transactions which stabilize or maintain the market price of the 2015 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The 2015 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon the exemption contained in such Act. The 2015 Bonds have not been registered or qualified under the securities laws of any State.

**SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF  
THE CITY OF SAN MATEO**

**SAN MATEO CITY COUNCIL/AGENCY BOARD**

Maureen Freschet, *Mayor*  
Jack Matthews, *Deputy Mayor*  
Rick Bonilla, *Council Member*  
Joe Goethals, *Council Member*  
David Lim, *Council Member*

**AGENCY STAFF**

Larry Patterson, *Executive Director*  
Shawn Mason, Esq., *General Counsel*  
Kathleen VonAchen, *Interim Finance Director-Treasurer*  
Patrice Olds, *Secretary*  
George White, *Community Development Director*  
Kathy Kleinbaum, *Senior Management Analyst for Redevelopment*

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San Francisco, California

**Fiscal Consultant**

Urban Analytics, LLC  
San Francisco, California

**Disclosure Counsel**

Orrick, Herrington & Sutcliffe LLP  
San Francisco, California

**Trustee**

The Bank of New York Mellon Trust Company, N.A.  
San Francisco, California

**Municipal Advisors**

Kitahata & Company  
San Francisco, California

William Euphrat Municipal Finance, Inc.  
San Francisco, California

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## OFFICIAL STATEMENT

<b>\$31,210,000</b> <b>Successor Agency to the Redevelopment Agency</b> <b>of the City of San Mateo</b> <b>Tax Allocation Refunding Bonds</b> <b>2015 Series A (Tax-Exempt)</b>	<b>\$7,385,000</b> <b>Successor Agency to the Redevelopment Agency</b> <b>of the City of San Mateo</b> <b>Tax Allocation Refunding Bonds</b> <b>2015 Series B (Federally Taxable)</b>
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### INTRODUCTION

*This introduction is not a summary of this Official Statement (as defined herein). It is only a brief description of and guide to, and is qualified in its entirety by, more complete and detailed information contained in this Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the 2015 Bonds (as defined herein) to potential investors is made only by means of this Official Statement. References to, and summaries of, provisions of the laws of the State of California or any other document referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the original source document.*

This Official Statement, which includes the cover page, the inside cover page and appendices hereto (the "Official Statement"), is provided to furnish information in connection with the sale by the Successor Agency to the Redevelopment Agency of the City of San Mateo (the "Successor Agency") of its Tax Allocation Refunding Bonds, 2015 Series A (Tax-Exempt) (the "2015A Bonds") in the aggregate principal amount of \$31,210,000 and its Tax Allocation Refunding Bonds, 2015 Series B (Federally Taxable) (the "2015B Bonds" and, together with the 2015A Bonds, the "2015 Bonds") in the aggregate principal amount of \$7,385,000.

#### **Authorization; Purpose**

The 2015 Bonds are being issued pursuant to the provisions of the Community Redevelopment Law of the State of California, constituting Part 1 of Division 24 of the Health and Safety Code of the State (as amended, the "Redevelopment Law"), Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code (the "Refunding Law"), Part 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code (as amended from time to time, the "Dissolution Act" and together with the Redevelopment Law, the "Law") and, with respect to the 2015A Bonds, pursuant to an Indenture of Trust, dated as of August 1, 2015 (the "Master Indenture"), by and between the Successor Agency and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") and, with respect to the 2015B Bonds, pursuant to the Master Indenture as supplemented by a First Supplement to Indenture of Trust, dated as of August 1, 2015, by and between the Successor Agency and the Trustee (the "First Supplement" and, together with the Master Indenture, the "Indenture"). On April 20, 2015, the Successor Agency adopted a resolution which authorized the issuance, sale and delivery of the 2015 Bonds.

The 2015A Bonds are being issued by the Successor Agency to: (i) refund the outstanding Redevelopment Agency of the City of San Mateo Merged Area Tax Allocation Bonds, 2005 Series A (the "Prior Tax-Exempt Bonds") issued by the Redevelopment Agency of the City of San Mateo (the "Former Agency"), of which \$33,985,000 is currently outstanding; and (ii) pay the costs of issuance of the 2015A Bonds.

The 2015B Bonds are being issued by the Successor Agency to: (i) refund the outstanding Redevelopment Agency of the City of San Mateo Merged Area Housing Set-Aside Tax Allocation Bonds,

2005 Series A (Taxable) (the “Prior Taxable Bonds” and, together with the Prior Tax-Exempt Bonds, the “Prior Bonds”) issued by the Former Agency, of which \$7,315,000 is currently outstanding; and (ii) pay the costs of issuance of the 2015B Bonds. See “PLAN OF REFUNDING” herein.

### **The City and the Successor Agency**

The City of San Mateo (the “City”) is located in the County of San Mateo (the “County”), approximately 20 miles south of San Francisco and 30 miles north of San Jose. The City, acting pursuant to the Law, activated the Former Agency by Ordinance No. 1969-6 of the City Council of the City (the “City Council”) adopted on March 3, 1969. Under the terms of said Ordinance, the City Council declared itself to be the governing body of the Former Agency. On January 9, 2012, the City Council elected to become the Successor Agency for the Former Agency. Although the Successor Agency is an entity distinct from the City, certain City personnel provide staff support for the Successor Agency. See “THE SUCCESSOR AGENCY.”

### **Project Areas**

The Project Areas consist of an aggregate of 869 acres, and is comprised of two formerly separate project areas known as the San Mateo City Downtown Redevelopment Project and the San Mateo City Shoreline Redevelopment Project, which were merged by Ordinance Nos. 1996-21 and 1996-22 of the City Council, adopted on October 21, 1996. The Successor Agency has no other project areas.

***Downtown Project Area.*** On July 8, 1981, the City Council adopted the Redevelopment Plan for the San Mateo City Downtown Redevelopment Project (the “Downtown Redevelopment Plan”) by Ordinance No. 1981-25 and established the Downtown Redevelopment Project (the “Downtown Project Area”). The Downtown Redevelopment Plan was amended by Ordinance No. 1994-1, adopted by the City Council on January 19, 1994, by Ordinance No. 1996-21, adopted by the City Council on October 21, 1996, and by Ordinance No. 2005-11, adopted by the City Council on May 16, 2005. The Downtown Project Area is composed of approximately 166 acres in over 600 parcels and is generally bounded by El Camino Real on the west, Tilton Avenue on the north, Delaware Street on the east and Ninth Avenue on the south. The area is commonly referred to as “Downtown San Mateo.” See “THE PROJECT AREAS – The Downtown Project Area” herein for additional information.

***Shoreline Project Area.*** On July 8, 1981, the City Council adopted the Redevelopment Plan for the San Mateo City Shoreline Redevelopment Project (the “Shoreline Redevelopment Plan,” and, together with the Downtown Redevelopment Plan, the “Redevelopment Plan”) by Ordinance No. 1981-24 and established the Shoreline Redevelopment Project (the “Shoreline Project Area”). The Shoreline Redevelopment Plan was amended by Ordinance No. 1994-1, adopted by the City Council on January 19, 1994, by Ordinance No. 1996-22, adopted by the City Council on October 21, 1996, and by Ordinance No. 2005-12, adopted by the City Council on May 16, 2005. The Shoreline Project Area covers approximately 703 acres and includes approximately 1,000 parcels of property. The Shoreline Project Area lies east of Interstate 101, generally extending along the City's bay front at Monte Diablo Avenue southerly to the City limits of Foster City and Belmont. See “THE PROJECT AREAS – The Shoreline Project Area” herein for additional information.

In connection with the issuance of the 2015 Bonds, the Successor Agency retained the services of Urban Analytics, LLC, San Francisco, California (the “Fiscal Consultant”) to prepare a report on the Project Areas. See APPENDIX C – “FISCAL CONSULTANT’S REPORT.”

The Project Areas are expected to generate a total of \$15,427,268 in tax increment revenue in Fiscal Year 2014-15. See Table 1 under the caption “THE PROJECT AREAS – Assessed Valuation.”

## **Security for the 2015 Bonds**

The 2015 Bonds are limited obligations of the Successor Agency payable solely from and secured by a pledge of Tax Revenues (defined herein) and certain other funds as provided in the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS.” The 2015 Bonds will refund the Prior Bonds. Following the refunding, the Successor Agency will have outstanding bonds (the “2007 Bonds” herein) secured by a pledge of tax increment revenue senior to the pledge of the tax increment revenues securing the 2015 Bonds. Immediately following issuance of the 2015 Bonds, the Successor Agency will not have any bonds that are secured by a pledge of tax increment other than the 2007 Bonds and the 2015 Bonds.

The Successor Agency will not fund a reserve fund for the 2015 Bonds.

Tax Revenues are exclusively and irrevocably pledged to and constitute a trust fund for, in accordance with the provisions of the Indenture and the Law, the payment of the principal of, premium (if any) and interest on the 2015 Bonds and any Parity Debt (as described below). In addition, the 2015 Bonds are additionally secured by a security interest in and first lien upon all of the moneys in the Redevelopment Obligation Retirement Fund, the Debt Service Fund, the Interest Account and the Principal Account (as such terms are defined in the Indenture). Except for the Tax Revenues and amounts held by the Trustee under the Indenture, no funds or properties of the Successor Agency will be pledged to, or otherwise liable for, the payment of principal of or interest on the 2015 Bonds.

In addition to the 2015 Bonds, the Successor Agency may issue or incur additional Parity Debt in such principal amount as shall be determined by the Successor Agency for refunding purposes only. Parity Debt may be issued as bonds pursuant to a Supplemental Indenture, and any such bonds and the 2015 Bonds are collectively referred to in this Official Statement as “Bonds.” See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS – Issuance of Parity Debt” and APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—COVENANTS OF THE SUCCESSOR AGENCY – Issuance of Parity Debt; Subordinate Debt; Senior Debt.”

## **Housing Set-Aside**

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

The Dissolution Act eliminates the characterization of certain tax increment revenues as Housing Set-Aside. The 2015 Bonds will refund all of the existing housing debt of the Successor Agency. Tax increment from the Project Areas formerly pledged to the low- and moderate-income housing bonds will be available to pay debt service on the 2015 Bonds and any Parity Debt (but not available to the 2007 Bonds). All of the 2015 Bonds include a pledge of, or offset for a pledge of, any Housing Set-Aside. Accordingly, the 2015 Bonds will be payable from, and secured by, Tax Revenues, including amounts constituting the former Housing Set-Aside. See also, “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS – Low and Moderate Income Housing Fund.”

## **Continuing Disclosure**

The Successor Agency has covenanted for the benefit of the holders and beneficial owners of the 2015 Bonds to provide certain financial information and operating data relating to the Successor Agency

by not later than 270 days following the end of the Successor Agency's Fiscal Year (presently June 30) (the "Annual Report"), commencing with the report for the 2014-15 Fiscal Year, and to provide notices of the occurrence of certain enumerated events. See "CONTINUING DISCLOSURE" and APPENDIX F – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter of the 2015 Bonds in complying with Securities Exchange Commission Rule 15c2-12(b)(5).

## **Miscellaneous**

Brief descriptions of the 2015 Bonds, the security and sources of payment for the 2015 Bonds, the Successor Agency and its financial status, the pledge of Tax Revenues and the Project Areas are presented herein. Such references and descriptions do not purport to be comprehensive or definitive. All references herein to various documents are qualified in their entirety by reference to the forms thereof. All capitalized terms used herein and not otherwise defined shall have the meanings given such terms in Appendix D hereto or in the Indenture.

Copies of the documents referred to herein and information concerning the Successor Agency and the 2015 Bonds are available from the Finance Director, City of San Mateo, 330 West 20th Avenue, San Mateo, CA 94403-1388, telephone (650) 522-7100. The Successor Agency may impose a charge for copying, mailing and handling.

## **THE 2015 BONDS**

### **Description of the 2015 Bonds**

The 2015 Bonds will be dated their date of delivery and will be issued in the principal amounts, bear interest at the rates, and mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. Interest on the 2015 Bonds (including the final interest payment upon maturity) shall be payable on February 1, 2016 and semiannually thereafter on February 1 and August 1 of each year so long as any of the 2015 Bonds remain Outstanding under the Indenture (each an "Interest Payment Date") to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee mailed by first class mail, postage prepaid, on the Interest Payment Date, to such Owner at the address of such Owner as it appears on the Registration Books as of such Record Date; provided however, that payment of interest may be by wire transfer to an account in the United States of America to any registered owner of 2015 Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee prior to the applicable Record Date. Principal of any 2015 Bond shall be paid upon presentation and surrender thereof, at maturity or earlier redemption, at the Principal Corporate Trust Office of the Trustee. Both the principal of and interest on the 2015 Bonds shall be payable in lawful money of the United States of America.

Each 2015 Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) a 2015 Bond is authenticated on or before the first Record Date, in which event it shall bear interest from the date on which the 2015 Bonds are delivered by the Successor Agency to the original purchaser thereof (the "Closing Date"); provided, however, that if, as of the date of authentication of any 2015 Bond, interest thereon is in default, such 2015 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the 2015 Bonds. The 2015 Bonds shall initially be issued exclusively in book-entry form and will be registered in the name of Cede & Co., DTC’s partnership nominee. One fully registered 2015 Bond will be issued for each series and maturity date, in the aggregate principal amount applicable to that series and maturity date. So long as Cede & Co. is the registered owner of the 2015 Bonds (except as otherwise specified herein), as nominee of DTC, references herein to the owners of the 2015 Bonds shall mean Cede & Co. and shall not mean the actual purchasers of the 2015 Bonds. See APPENDIX G – “DTC AND BOOK-ENTRY SYSTEM.”

## **Redemption Provisions**

***Optional Redemption.*** The 2015A Bonds maturing on or before August 1, 2025 are not subject to optional redemption prior to maturity. The 2015A Bonds maturing on and after August 1, 2025, are subject to redemption, at the option of the Successor Agency on any date on or after August 1, 2025, as a whole or in part, by such maturities as will be determined by the Successor Agency, and by lot within a maturity, from any available source of funds, at a redemption price equal to the principal amount of the 2015A Bonds to be redeemed, together with accrued interest thereon to the date fixed for redemption, without premium.

The 2015B Bonds are not subject to redemption prior to their stated maturity.

***Notice of Redemption.*** The Trustee on behalf and at the expense of the Successor Agency will mail (by first class mail, postage prepaid) notice of any redemption at least thirty (30) but not more than sixty (60) days prior to the redemption date, to (i) the Owners of any 2015 Bonds designated for redemption at their respective addresses appearing on the Registration Books, and (ii) the Securities Depositories and to the Information Services; however, such mailing will not be a condition precedent to such redemption and neither failure to receive any such notice nor any defect therein will affect the validity of the proceedings for the redemption of such 2015 Bonds or the cessation of the accrual of interest thereon. Such notice will state the redemption date and the redemption price, will state that such redemption is conditioned upon the timely delivery of the redemption price by the Successor Agency to the Trustee for deposit in the Redemption Account, will designate the CUSIP number of the 2015 Bonds to be redeemed, will state the individual number of each 2015 Bond to be redeemed or will state that all Bonds between two stated numbers (both inclusive) or all of the 2015 Bonds Outstanding are to be redeemed, and will require that such 2015 Bonds be then surrendered at the Principal Corporate Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such 2015 Bonds will not accrue from and after the redemption date.

The Successor Agency has the right to rescind any notice of the optional redemption of 2015 Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2015 Bonds then called for redemption, and such cancellation will not constitute an Event of Default. The Successor Agency and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Indenture.

While the 2015 Bonds are subject to the DTC book-entry system, the Trustee will be required to give notice of redemption only to DTC as provided in the letter of representations, and the Trustee will not be required to give any such notice of redemption to any other person or entity. DTC and the DTC Participants will have sole responsibility for providing any such notice of redemption to the beneficial owners of the 2015 Bonds to be redeemed. Any failure at DTC to notify any DTC Participant, or any

failure of a DTC Participant to notify the beneficial owner of any 2015 Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption described below under “Effect of Redemption.”

Upon the payment of the redemption price of 2015 Bonds being redeemed, each check or other transfer of funds issued for such purpose will, to the extent practicable, bear the CUSIP number identifying, by issue and maturity, the 2015 Bonds being redeemed with the proceeds of such check or other transfer.

***Partial Redemption of Bonds.*** In the event only a portion of any 2015 Bond is called for redemption, then upon surrender of such 2015 Bond the Successor Agency will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Successor Agency, a new 2015 Bond or 2015 Bonds of the same interest rate and maturity, of authorized denominations, in aggregate principal amount equal to the unredeemed portion of the 2015 Bond to be redeemed.

***Effect of Redemption.*** From and after the date fixed for redemption, if funds available for the payment of the redemption price of and interest on the 2015 Bonds so called for redemption will have been duly deposited with the Trustee, such 2015 Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price and accrued interest to the redemption date, and no interest will accrue thereon from and after the redemption date specified in such notice.

***Manner of Redemption.*** Whenever any 2015 Bonds or portions thereof are to be selected for redemption by lot, the Trustee will make such selection, in such manner as the Trustee will deem appropriate, and will notify the Successor Agency thereof to the extent 2015 Bonds are no longer held in book-entry form. In the event of redemption by lot of 2015 Bonds, the Trustee will assign to each 2015 Bond then Outstanding a distinctive number for each \$5,000 of the principal amount of each such 2015 Bond. The 2015 Bonds to be redeemed will be the 2015 Bonds to which were assigned numbers so selected, but only so much of the principal amount of each such 2015 Bond of a denomination of more than \$5,000 will be redeemed as will equal \$5,000 for each number assigned to it and so selected. All 2015 Bonds redeemed or purchased pursuant to the Indenture will be cancelled and destroyed.

## **PLAN OF REFUNDING**

The Successor Agency is issuing the 2015 Bonds to provide moneys to refund and defease the Prior Bonds in whole. The net proceeds of the 2015 Bonds, along with certain funds related to the Prior Bonds, will be deposited in the respective Bond Funds for the Prior Bonds with The Bank of New York Mellon Trust Company, N.A., as prior trustee with respect to the Prior Bonds, and used to redeem the Prior Bonds on August 5, 2015, the date of issuance of the 2015 Bonds. The amounts in the bond funds for the Prior Bonds on the date of issuance of the 2015 Bonds will be sufficient to defease and redeem the Prior Bonds, and will not be invested. See “ESTIMATED SOURCES AND USES OF FUNDS.” Upon deposit of such proceeds and other moneys into the respective Bond Funds, the Prior Bonds will no longer be deemed outstanding.

The moneys held in the bond funds for the Prior Bonds are pledged to the payment of the respective Prior Bonds and are not available to pay principal of or interest on the 2015 Bonds.

## ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses related to the 2015 Bonds are as follows:

<u>Sources</u>	<u>2015A Bonds</u>	<u>2015B Bonds</u>	<u>Total</u>
Bond Proceeds	\$31,210,000.00	\$7,385,000.00	\$38,595,000.00
Net Premium	3,099,786.70	--	3,099,786.70
Total	<u>\$34,309,786.70</u>	<u>\$7,385,000.00</u>	<u>\$41,694,786.70</u>

<u>Uses</u>	<u>2015A Bonds</u>	<u>2015B Bonds</u>	<u>Total</u>
Redemption of Prior Bonds	\$34,001,841.63	\$7,318,966.36	\$41,320,807.99
Costs of Issuance <sup>(1)</sup>	307,945.07	66,033.64	373,978.71
Total	<u>\$34,309,786.70</u>	<u>\$7,385,000.00</u>	<u>\$41,694,786.70</u>

(1) Includes the Successor Agency's direct expenses, underwriter's discount, initial Trustee fees, bond counsel, disclosure counsel and municipal advisor fees and expenses, and other expenses associated with issuance of the 2015 Bonds.

## DEBT SERVICE SCHEDULE

The debt service schedule for the 2015 Bonds is as follows:

Payment Date (August 1,)	2015A Bonds		2015B Bonds		Bond Year Total
	Principal	Interest	Principal	Interest	
2016	\$ --	\$ 1,457,672	\$1,080,000	\$194,746	\$ 2,732,418
2017	--	1,474,050	1,070,000	181,491	2,725,541
2018	--	1,474,050	1,095,000	161,803	2,730,853
2019	--	1,474,050	1,115,000	137,384	2,726,434
2020	--	1,474,050	1,145,000	105,718	2,724,768
2021	--	1,474,050	1,185,000	69,765	2,728,815
2022	530,000	1,474,050	695,000	27,105	2,726,155
2023	1,265,000	1,452,850	--	--	2,717,850
2024	1,325,000	1,402,250	--	--	2,727,250
2025	1,375,000	1,349,250	--	--	2,724,250
2026	3,840,000	1,294,250	--	--	5,134,250
2027	4,025,000	1,102,250	--	--	5,127,250
2028	3,410,000	901,000	--	--	4,311,000
2029	3,580,000	730,500	--	--	4,310,500
2030	3,760,000	551,500	--	--	4,311,500
2031	3,950,000	363,500	--	--	4,313,500
2032	4,150,000	166,000	--	--	4,316,000
<b>Total</b>	<b><u>\$31,210,000</u></b>	<b><u>\$19,615,322</u></b>	<b><u>\$7,385,000</u></b>	<b><u>\$878,011</u></b>	<b><u>\$59,088,333</u></b>

## SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS

*The following information relates to the 2015 Bonds issued under the Indenture, and the defined terms used in this section unless otherwise defined will have the meanings assigned such terms in the Indenture. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”*

### **Pledge of Tax Revenues**

The 2015 Bonds are payable from and secured by a first lien Tax Revenues (as defined below), all of the moneys in the Redevelopment Obligation Retirement Fund established and held by the Successor Agency pursuant to the Dissolution Act together with all of the moneys in the Debt Service Fund (including the Interest Account, the Principal Account and the Redemption Account) established and held by the Trustee under the Indenture. Taxes levied on the property within the Project Areas on that portion of the taxable valuation over and above the taxable valuation of the applicable base year property tax roll with respect to the various territories within the Project Areas, to the extent that such taxes constitute Tax Revenues as described in this Official Statement, will be deposited in the Redevelopment Property Tax Trust Fund for transfer by the San Mateo County Auditor-Controller (the “County Auditor-Controller”) to the Successor Agency’s Redevelopment Obligation Retirement Fund on January 2 and June 1 of each year to the extent required for payments listed in the Successor Agency’s Recognized Obligation Payment Schedule (“ROPS”) in accordance with the requirements of the Dissolution Act. See the caption “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS—Recognized Obligation Payment Schedule.” Tax Revenues deposited by the County Auditor-Controller into the Successor Agency’s Redevelopment Obligation Retirement Fund will be transferred by the Successor Agency to the Trustee for deposit in the Debt Service Fund established under the Indenture and administered by the Trustee in accordance with the Indenture.

The term “Tax Revenues” is defined in the Indenture to mean, for each Fiscal Year, all moneys deposited in the fund established and held by the Successor Agency pursuant to Section 34170.5(a) of the California Health and Safety Code (the “Redevelopment Property Tax Trust Fund” or “RPTTF”), as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act (see “THE SUCCESSOR AGENCY”), excluding (i) the amount of tax increment revenue pledged under the 2007 Indenture to make payments on the 2007 Bonds, but only to the extent required to make such payments, (ii) amounts payable under the Agreement Between Redevelopment Agency of the City of San Mateo and San Mateo City School District Pursuant to Health and Safety Code Section 33401, dated June 15, 1981, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds and (iii) amounts payable pursuant to Sections 33607.5, 33607.7 and 33676 of the Redevelopment Law, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds. As described herein, projections used in the Fiscal Consultant’s Report incorporate the pass-through payments made under the AB 1290 statutory provisions. No payments are assumed under the single Section 33401 fiscal agreement that the Successor Agency has with the School District. All of the payments made under the AB 1290 statutory provisions are subordinate to the 2015 Bonds.

The 2015 Bonds are payable from tax increment revenues on a basis junior and subordinate to the 2007 Bonds with respect to that portion of tax increment revenue pledged under the 2007 Indenture to make payments on the 2007 Bonds, but only to the extent required to make such payments. All of the payments made under the AB 1290 statutory provisions are subordinate to the 2007 Bonds.

The Successor Agency is not obligated to pay principal of and interest on the 2015 Bonds except from such Tax Revenues. Tax Revenues include amounts constituting the former Housing Set-Aside (see “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS – Low and Moderate Income



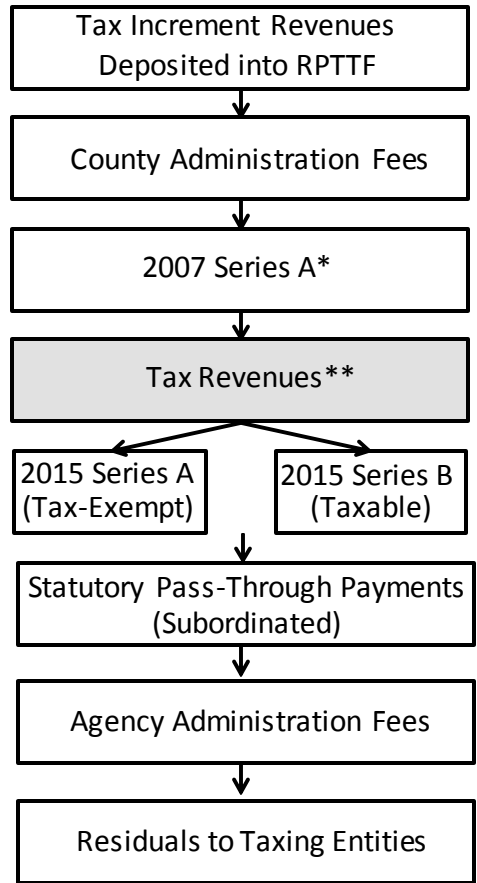
Housing Fund”). Tax Revenues includes amounts constituting the former Housing Set-Aside, which portion of tax increment revenues constituting the former Housing Set-Aside is not pledged to the 2007 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS – Low and Moderate Income Housing Fund.”

All Tax Revenues received by the Successor Agency with respect to a Bond Year in excess of the amount required to pay debt service on the 2015 Bonds and any Parity Debt in such Bond Year, and except as may be provided to the contrary in the 2007 Indenture or any resolution, indenture of trust, loan agreement, trust agreement or other instrument authorizing the issuance of any Parity Debt, including, without limitation, a Supplemental Indenture issued in accordance with the Indenture (each, a “Parity Debt Instrument”), will be released from the pledge and lien under the Indenture and will be applied in accordance with the Law, including but not limited to the payment of any amounts due and owing to the United States of America in accordance with the Indenture. Prior to the payment in full of the principal of and interest on the 2015 Bonds and the payment in full of all other amounts payable under the Indenture and under any Supplemental Indentures, the Successor Agency will not have any beneficial right or interest in the moneys on deposit in the Redevelopment Obligation Retirement Fund, except as may be provided in the Indenture and in any Supplemental Indenture.

The Indenture provides that the Successor Agency may not issue additional bonds or incur additional obligations that are payable from moneys deposited in the RPTTF on a senior basis to the 2015 Bonds.

The following diagram is illustrative of the moneys constituting Tax Revenues. See also, “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS.”

### Flow of Funds



\*The 2007 Series A Bonds are secured solely by the 80% of tax increment that was previously dedicated to non-housing purposes

\*\*No payments are assumed to be due/payable under the single Section 33401 fiscal agreement with the San Mateo-Foster City School District. See Fiscal Consultant’s Report attached as Appendix C.

The Successor Agency has no power to levy and collect taxes and various factors beyond its control could affect the amount of Tax Revenues available in any six-month period (or twelve-month period if then applicable under the Dissolution Act) to pay the principal of and interest on indebtedness including, without limitation, the 2015 Bonds. See “LIMITATIONS ON TAX REVENUES” and “SPECIAL RISK FACTORS.”

Pursuant to Section 34177.5(g) of the Dissolution Act, the 2015 Bonds and any Parity Debt will be equally secured by a pledge of, security interest in and lien on all of the Tax Revenues, including all of the Tax Revenues on deposit in the Redevelopment Obligation Retirement Fund and all of the moneys in the Debt Service Fund, the Interest Account and the Principal Account, without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Tax Revenues and such moneys, no funds or properties of the Successor Agency will be pledged to, or otherwise liable for, the payment of principal of or interest on the 2015 Bonds.

The Successor Agency will transfer amounts to the Trustee for payments when due on the 2015 Bonds. Tax Revenues are exclusively and irrevocably pledged to and constitute a trust fund for, in accordance with the provisions of the Indenture and the Law, the payment of the principal of, premium (if any) and interest on the 2015 Bonds and any Parity Debt. Except for the Tax Revenues and amounts held by the Trustee under the Indenture, no funds or properties of the Successor Agency will be pledged to, or otherwise liable for, the payment of principal of or interest on the 2015 Bonds.

### **Recognized Obligation Payment Schedule**

The Successor Agency has established the Redevelopment Obligation Retirement Fund pursuant to Section 34170.5(a) of the Dissolution Act and, so long as any of the 2015 Bonds are Outstanding, the Successor Agency will continue to hold and maintain such fund as a separate fund in its treasury (which will be a separate account from other accounts of the Successor Agency and the County into which no other moneys will be deposited). The Successor Agency will deposit all of the Tax Revenues received with respect to any Semiannual Period into the Redevelopment Obligation Retirement Fund promptly upon receipt thereof by the Successor Agency.

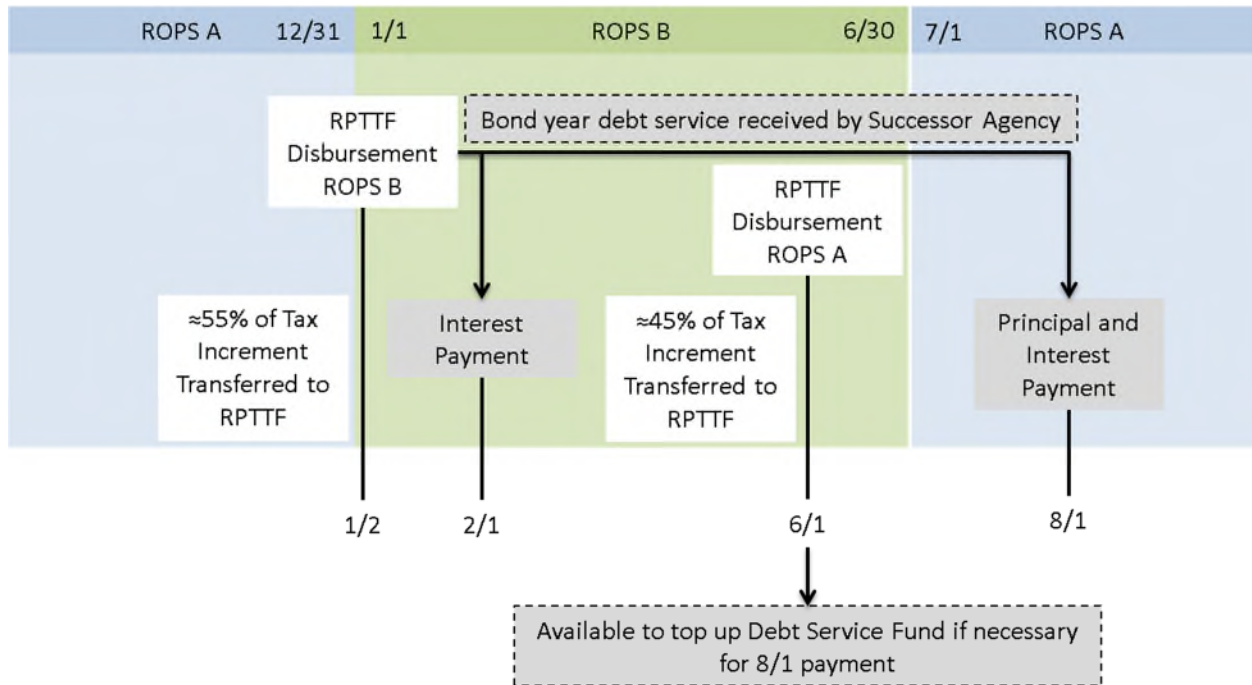
Before each six-month period (or twelve-month period if then applicable under the Dissolution Act), the Dissolution Act requires each successor agency to prepare and approve, and submit to its oversight board and the State Department of Finance (the "DOF") for approval, a ROPS pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. The Dissolution Act provides that, commencing on the date the first ROPS is valid, only those payments listed in the ROPS may be made by the successor agency from the funds specified in the ROPS.

The ROPS must be submitted by the Successor Agency, after approval by the oversight board that is established in the legislation with membership consisting of representatives from various taxing entities (the "Oversight Board" as relates to the County), to the County Administrative Officer, the County Auditor-Controller, the DOF, and the State Controller no later than 90 days before the date of the next January 2 or June 1 property tax distribution.

In accordance with the Law and the Indenture, the Successor Agency will:

(a) include in a ROPS for the six month period from January 1 to June 30 so as to enable the County Auditor-Controller to distribute from the RPTTF for deposit in the Redevelopment Obligation Retirement Fund on each January 2 an amount equal to the debt service due on the 2007 Bonds for the period from January 1 to December 31; and

(b) include in a ROPS for the six-month period from January 1 to June 30 an amount equal to scheduled annual debt service on the 2015 Bonds, so as to enable the County Auditor-Controller to distribute from the RPTTF for deposit in the Redevelopment Obligation Retirement Fund on each January 2 amounts required to enable the Successor Agency to pay timely principal of, and interest on the 2015 Bonds coming due for the period from January 1 to December 31.



The Dissolution Act provides that any bonds authorized under its terms to be issued by a successor agency will be considered indebtedness incurred by the related dissolved agency, with the same legal effect as if the bonds had been issued prior to effective date of AB 26, in full conformity with the applicable provision of the Law that existed prior to that date, and debt service will be included in the Successor Agency’s ROPS.

In the event funds distributed from the RPTTF and deposited into the Redevelopment Obligation Retirement Fund during the January 1 to June 30 period are insufficient to pay debt service on the 2015 Bonds for the period January 1 to December 31, the Successor Agency shall include said shortfall in a Recognized Obligation Retirement Schedule submitted to the County Auditor-Controller for the period July 1 to December 31.

The Successor Agency has covenanted under the Indenture to take all actions required under the Dissolution Act to include in a ROPS for the six month period from January 1 to June 30 so as to enable the County Auditor-Controller to distribute from the RPTTF for deposit in the Redevelopment Obligation Retirement Fund on each January 2 an amount equal to the debt service due on the 2007 Bonds, and principal of, and interest on the 2015 Bonds, for the period from January 1 to December 31 and, in the event funds distributed from the RPTTF and deposited into the Redevelopment Obligation Retirement Fund during the January 1 to June 30 period are insufficient to pay debt service on the Bonds for the period January 1 to December 31, the Successor Agency shall include said shortfall in a Recognized Obligation Retirement Schedule submitted to the County Auditor-Controller for the period July 1 to December 31. See “TAX REVENUES AND PROCEDURES – Recognized Obligation Payment Schedule” and “– Covenants of the Successor Agency.”

**Tax Allocation Financing**

Prior to the enactment of AB X1 26, the Law authorized the financing of redevelopment projects through the use of tax increment revenues. This method provided that the taxable valuation of the property within a redevelopment project area on the property tax roll last equalized prior to the effective

date of the ordinance which adopts the redevelopment plan becomes the base year valuation. Assuming that the taxable valuation never drops below the base year level, the taxing agencies thereafter received that portion of the taxes produced by applying then current tax rates to the base year valuation, and the redevelopment agency was allocated the remaining portion produced by applying then current tax rates to the increase in valuation over the base year. Such incremental tax revenues allocated to a redevelopment agency were authorized to be pledged to the payment of agency obligations.

The Dissolution Act authorizes refunding bonds, including the 2015 Bonds, to be secured by a pledge of moneys deposited from time to time in a redevelopment property tax trust fund held by a county auditor controller with respect to a successor agency, which are equivalent to the tax increment revenues that were formerly allocated under the Law to the redevelopment agency and formerly authorized under the Law to be used for the financing of redevelopment projects.

Tax increment revenues for the Successor Agency are computed based upon the annual incremental assessed value of the Project Areas multiplied by a tax rate determined by the County Auditor-Controller. The tax rates which are applied to incremental taxable values consist of two components: the basic levy tax rate of \$1.00 per \$100 of taxable values and tax revenue from debt service override levies, except those that are imposed to repay indebtedness approved by voters on or after January 1, 1989. The basic levy tax rate may not exceed 1% (\$1.00 of \$100 taxable value) in accordance with Article XIII A. Based upon the County Auditor-Controller's reliance to use the basic one percent tax rate in calculating the RPTTF allocation, a one percent levy is used in the revenue projections herein and in the Fiscal Consultant's Report. See "THE PROJECT AREAS – Projected Tax Revenues and Debt Service Coverage" for a discussion of the tax rate assumptions utilized by the Fiscal Consultant in projecting gross tax increment for the Project Areas. Section 34183(a)(1) of the Law requires the auditor controller to allocate all revenues attributable to tax rates levied to make annual repayments of the principal of and interest on any bonded indebtedness for the acquisition or improvement of real property to the taxing entity levying the tax rate.

As described below under "Pass-Through Obligations— Pass-Through Agreements," "— Statutory Pass-Through Payments" and "Section 33676 Election," the Successor Agency may pay a portion of the former tax increment revenues to other Taxing Agencies under Pass-Through Agreements and as statutory pass-through amounts and 33676 Amounts. See also "SPECIAL RISK FACTORS" and "LIMITATIONS ON TAX REVENUES — Redevelopment Plan Limits."

Successor agencies have no power to levy property taxes and must look specifically to the allocation of taxes as described above. See "SPECIAL RISK FACTORS."

## **Debt Service Fund**

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

(a) *Interest Account.* On or before the fourth (4th) Business Day preceding each Interest Payment Date, the Successor Agency shall withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee, for deposit in the Interest Account an amount which when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date. No such

transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable.

(b) *Principal Account.* On or before the fourth (4th) Business Day preceding August 1 in each year beginning August 1, 2016, the Successor Agency shall withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then contained in the Principal Account, will be equal to the principal becoming due and payable on the Outstanding Bonds, including the aggregate principal amount of the Term Bonds required to be redeemed on the next August 1. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next August 1 on all of the Outstanding Bonds. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds, including the aggregate principal amount of the Term Bonds required to be redeemed pursuant to a Supplemental Indenture, as it shall become due and payable.

(c) *Redemption Account.* On or before the Business Day preceding any date on which Bonds are to be optionally redeemed pursuant to the Indenture, the Trustee shall withdraw from the Debt Service Fund any amount transferred by the Successor Agency pursuant to the Indenture for deposit in the Redemption Account, such amount being the amount required to pay the principal of and premium, if any, on the Bonds to be optionally redeemed on such date pursuant to the Indenture and any Supplemental Indenture. All moneys in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium, if any, on the Bonds to be optionally redeemed pursuant to the Indenture and any Supplemental Indenture on the date set for such redemption. Interest due on Bonds to be redeemed on the date set for redemption shall, if applicable, be paid from funds available therefor in the Interest Account.

#### **No Reserve Account for the 2015 Bonds**

The Successor Agency will not fund a reserve fund for the 2015 Bonds. Amounts held or to be held in a reserve fund or account established for any other series of bonds or any reserve fund credit policy for any other series of bonds will not be used or drawn upon to pay principal of or interest on the 2015 Bonds.

#### **Issuance of Parity Debt**

In addition to the 2015 Bonds, the Successor Agency may issue or incur additional Parity Debt in such principal amount as shall be determined by the Successor Agency for refunding purposes only. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—COVENANTS OF THE SUCCESSOR AGENCY – Issuance of Parity Debt; Subordinate Debt; Senior Debt.” The Successor Agency may issue and deliver any such Parity Debt subject to the following specific conditions precedent to the issuance and delivery of such Parity Debt issued under the Indenture:

(a) The additional Parity Debt must have been issued in compliance with the refunding provisions of the Dissolution Act;

(b) The Successor Agency shall certify that the aggregate principal of and interest on the 2015 Bonds, the 2007 Bonds, any Parity Debt (including the Parity Debt to be incurred) and Subordinate Debt coming due and payable will not exceed the maximum amount of Tax Revenues permitted under

any Plan Limit to be allocated and paid to the Successor Agency with respect to the Project Areas after the issuance of such Parity Debt if any such Plan Limit is applicable; and

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

Any Parity Debt issued as Bonds may provide for separate funds and accounts, including a debt service reserve account for such Bonds, under the Supplemental Indenture pursuant to which such Bonds are issued.

The Successor Agency may issue or incur Subordinate Debt in such principal amount as shall be determined by the Successor Agency. Any Subordinate Debt that is issued as bonds or incurred in the form of a loan shall be payable on the same dates as the 2015 Bonds.

In addition, from and after the Closing Date, the Successor Agency may not issue or incur any bonds, notes, loans, advances or other indebtedness that are secured by a pledge of moneys deposited in the RPTTF, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act, on a basis senior or superior to the 2015 Bonds.

### **Limited Obligations**

The Successor Agency will not be required to advance any money derived from any source of income other than the Tax Revenues for the payment of the principal of and interest on the 2015 Bonds and any Parity Debt. The 2015 Bonds are special obligations of the Successor Agency and are payable, as to interest thereon and principal thereof, exclusively from the Tax Revenues and the other funds pledged therefor under the Indenture, and the Successor Agency is not obligated to pay them except from the Tax Revenues and such other funds. All of the 2015 Bonds are equally secured by a pledge of, and charge and lien upon, all of the Tax Revenues, and the Tax Revenues constitute a trust fund for the security and payment of the principal of, and the interest on the 2015 Bonds, to the extent set forth in the Indenture. The 2015 Bonds are not a debt of the City, the County, the State of California or any other political subdivision of the State, and neither said City, said State, said County nor any of the State's other political subdivisions other than the Successor Agency is liable therefor, nor in any event will the 2015 Bonds and any Parity Debt be payable out of any funds or properties other than those of the Successor Agency pledged therefor as provided in the Indenture. The 2015 Bonds do not constitute an indebtedness within the meaning of any constitutional or statutory limitation or restriction, and neither the members of the Successor Agency nor any persons executing the 2015 Bonds are liable personally on the 2015 Bonds by reason of their issuance.

### **Pass-Through Obligations**

***Pass-Through Agreements.*** Prior to 1994, under the Law, a redevelopment agency could enter into an agreement to pay former tax increment revenues to any affected taxing agency that has territory located within a redevelopment project in an amount which in the redevelopment agency's determination is appropriate to alleviate any financial burden or detriment caused by the redevelopment project. These agreements normally provided for payment or pass-through of tax increment revenue directed to the affected taxing agency, and, therefore, are commonly referred to as pass-through agreements or tax sharing agreements.

Under redevelopment law existing at the time of the Former Agency's plan adoption, taxing jurisdictions that would experience a fiscal burden due to the existence of the redevelopment plan could

enter into fiscal agreements with redevelopment agencies to alleviate that burden. Such agreements, known as Section 33401 fiscal, or pass-through, agreements, generally provide for redevelopment agencies to pay to a taxing entity some or all of that entity's share of the tax increment received by the agency. Taxing entities could separately receive their share of the growth in valuation due to inflation, known as Section 33676 or the 2% payments.

The Successor Agency is party to a Section 33401 fiscal agreement with the San Mateo-Foster City School District (the "School District"). The Successor Agency has no resolutions in effect with taxing entities under Section 33676.

For more information about the Pass-Through Agreements, see the Fiscal Consultant's Report attached to this Official Statement as Appendix C.

All Section 33401 pass-through payments are calculated and made by the County Auditor-Controller and not by the Successor Agency.

Under the Section 33401 agreement with the School District, the School District may submit documentation to the Successor Agency of the amount of fiscal burden imposed by the existence of tax increment revenue allocations to the Successor Agency; the Successor Agency then determines whether the request is justified and pays some or all of the requested amount.

Under California school district funding statutes, the State guarantees California school districts a minimum revenue per student. This revenue consists of local property tax revenues and, if such amount is not at least equal to the minimum, or threshold, per-student revenue established by the State, a payment made by the State to such school district. Because the District falls below the per-student property tax revenue threshold established by the State, and because the State funds the difference between that threshold and the amount of property tax revenue the School District receives, the School District has not experienced a fiscal burden from redevelopment and has not requested payments under the fiscal agreement from the Successor Agency. Consequently, the Successor Agency makes no payments under its existing fiscal agreement with the School District and the Fiscal Consultant's Report and this Official Statement assumes no such payments will be required.

It is possible that the School District may at a future date achieve a level of property tax funding in excess of the per-student revenue limit established by the State, converting the School District to 'basic-aid' funding status. In this event, the School District might claim a fiscal burden under its agreement with the Successor Agency. Any such burden would be for the School District's share of property tax revenue (approximately 21% in the Project Areas) above the future per-student revenue limit. While this is not expected to affect the Successor Agency's current level of tax increment receipts, a future decrease in the per-student revenue limit below the School District's current revenue per student with no change in the School District's number of students or in its current property tax revenue, or a future decrease in the School District's number of students with no change in the state per-student revenue limit or in the School District's current property tax revenue could result in School District revenue per student exceeding the state per-student revenue limit. This could cause the School District to rely on property tax revenue funding for that portion of revenue above the state per-student revenue limit, and could result in the School District claiming a fiscal burden under its agreement with the Successor Agency for its share of that portion of the excess revenue derived from the Project Areas.

Projections used in the Fiscal Consultant's Report assume no payments are made under the single Section 33401 fiscal agreement with the School District.



***Statutory Pass-Through Payments.*** Assembly Bill 1290 (Chapter 942, Statutes of 1993) (“AB 1290”), effective January 1, 1994, eliminated the statutory authority for negotiated pass-through agreements and provided a formula for mandatory tax sharing, applicable to projects adopted after January 1, 1994 or amended after that date to add territory or make certain other amendments. These payments, which are to begin the fiscal year following the year a redevelopment plan was adopted (if after January 1, 1994) or the fiscal year following the year that a redevelopment plan’s original plan limitations would have taken effect (in the case of pre-1994 redevelopment plans), are calculated using the increase in revenue less the amount of revenue generated by the project area in the year that the redevelopment plan was adopted or the former limit would have been reached, as applicable. Under the Dissolution Act, in particular Section 34183, the County Auditor-Controller is obligated to remit these statutory pass-through amounts to the affected taxing entities from the Successor Agency’s RPTTF for each ROPS period.

Statutory pass-through payments, specified in redevelopment law established by AB 1290, provide taxing entities with their share of twenty-five percent of incremental tax revenues above certain thresholds, either the assessed valuation in the project area’s base year (for plans adopted on or after January 1, 1994 or the assessed valuation in the year in which the original plan limit was reached for plans adopted prior to that date). Tax increment above that amount is distributed to those taxing entities that do not have Section 33401 fiscal agreements in effect with the Successor Agency. New thresholds are established ten and thirty years beyond the initial threshold date and a portion of tax increment above these new thresholds are also paid to taxing entities.

Statutory pass-through payments are made to the San Mateo Union High School District, the San Mateo Community College District, the County Office of Education, the Peninsula Hospital District, the Bay Area Air Quality Management District, the Mosquito Abatement District, the City of San Mateo and the County Harbor District in the Downtown and Shoreline Project Areas; this has been the case since the year after the original time and fiscal limits in the plans were reached in, respectively, Fiscal Year 2003-04 and Fiscal Year 1999-00. These tax sharing payments continue so long as tax increment is available to repay indebtedness in the applicable Project Areas. The statutory pass-through amounts are determined by specific formulas under the Law; and post-dissolution, these payment obligations of the Successor Agency to affected taxing entities are administered by the County Auditor-Controller under the Dissolution Act.

The payments of the statutory pass-through amounts to the affected taxing entities are allocated among each affected taxing entity in proportion to the share of property taxes each affected taxing entity received in the year funds are allocated. For more information about the statutory pass-through amounts, see the Fiscal Consultant’s Report attached to this Official Statement as Appendix C.

Under California redevelopment law and the Dissolution Act (described below) a successor agency may subordinate statutory pass-through payments to the repayment of indebtedness. On May 20, 2015, the Successor Agency notified the entities receiving statutory pass-through payments that it intends to subordinate the statutory pass-through payments to the repayment of 2015 Bonds. After a 45-day period, and in the absence of any disapproval by a taxing entity based on substantial evidence that the Successor Agency will not be able to pay its pass-through obligation and the debt service payments, the subordination request is deemed approved. The Successor Agency has requested that taxing entities subordinate their statutory pass-through amounts to the payment of debt service on the 2015 Bonds. That 45-day period has run without material objection by any taxing agency, and, accordingly, the Successor Agency has obtained approval that the payments to affected taxing agencies from Tax Revenues are subordinated to debt service payments on the 2015 Bonds.

The Former Agency contributed funds to the San Mateo Union High School District for school facilities prior to dissolution. Under redevelopment law, facilities contributions to other taxing entities must be repaid; a portion of the annual pass-through payment to the San Mateo Union High School District is credited by the County Auditor-Controller to the Successor Agency for the repayment of those facility payments.

Projections used in the Fiscal Consultant's Report incorporate the pass-through payments made under the AB 1290 statutory provisions. All of the payments made under the AB 1290 statutory provisions are subordinate to the 2015 Bonds.

See APPENDIX C – "FISCAL CONSULTANT'S REPORT" for more detailed and complete information on fiscal agreements and AB 1290 pass-through payments.

### **Section 33676 Election**

Prior to the enactment of AB 1290, redevelopment project areas adopted between January 1, 1985 and January 1, 1994 were subject to payments to schools and to other affected taxing agencies that elected to receive tax revenue payments set forth under Section 33676 of the Law ("33676 Amounts"). The annual payments represent that portion of property taxes that are, or otherwise would be, calculated annually pursuant to subdivision (f) of Section 110.1 of the Revenue and Taxation Code (and referred to as the 2% inflation allocation).

Under a 1993 Attorney General's opinion these payments are not considered tax increment and, where they occur, are deducted from redevelopment agency revenue prior to apportionment to the agency. The payments, established under language previously included in Section 33676, are sometimes referred to as 2% or 33676 payments and are generally distributed directly to taxing entities by the county controller.

A 2002 court decision in Santa Ana regarding statutory payments made to taxing entities under the pre-1994 and post-1984 Section 33676 of the Health and Safety Code found that school districts and community college districts that had failed to elect to receive payments under that section were entitled to collect them.

Because the Project Areas were formed on July 1, 1981, prior to the period covered by the Santa Ana decision, the school districts and community college districts that overlap the Project Areas are not eligible for separate payments under Section 33676.

### **Low and Moderate Income Housing Fund**

The Redevelopment Plan provided that a portion of all taxes that are allocated to the Successor Agency pursuant to the Law were deposited into a separate Low and Moderate Income Housing Fund (the "Housing Fund") and encumbered and expended by the Former Agency for the purpose of increasing and improving the community's supply of housing available at an affordable housing cost to persons and families of low and moderate income. Pursuant to the Dissolution Act, former tax increment revenues generated in the Project Areas are no longer required to be deposited into the Housing Fund previously established pursuant to Section 33334.3 of the Law.

As of August 2, 2014, the Successor Agency had \$7.315 million of outstanding debt secured by the low- and moderate-income housing fund. The 2015 Bonds will refund this debt in full. Tax Revenues include amounts constituting the former Housing Set-Aside such that tax increment from the Project Areas formerly required to pay debt service on the low- and moderate-income housing bonds will

be available to pay debt service on the 2015 Bonds and any Parity Debt (and not available to the 2007 Bonds). Tax Revenues includes amounts constituting the former Housing Set-Aside, which portion of tax increment revenues constituting the former Housing Set-Aside is not pledged to the 2007 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS – Pledge of Tax Revenues.”

### **Other ROPS Obligations**

The Successor Agency has various enforceable obligations that are, or will be, listed on the Successor Agency’s ROPS and paid from moneys deposited in the Successor Agency’s RPTTF from time to time. The Successor Agency has determined that these obligations are either subordinate to the 2015 Bonds or not secured by a pledge of Tax Revenues.

## **TAX REVENUES AND PROCEDURES**

### **Tax Revenues**

Under California law, the rate of *ad valorem* property taxes which may be levied with respect to property within a project area is generally limited to 1% of the “full cash” assessed value. In this Official Statement such taxes are referred to as the “general levy” and are allocated to the State, the County, the City of San Mateo, and all other taxing entities having jurisdiction over all or a portion of the Project Areas. The assessed values of property within such project area, as last equalized prior to adoption of the redevelopment plan, is the “base year” assessed values (the “Base Year”).

Pursuant to subdivision (b) of Section 33670 of the Law and Section 16 of Article XVI of the Constitution of the State and as provided in the related redevelopment plan, taxes levied upon taxable property in the respective redevelopment project area each year by or for the benefit of the State, any city, county, city and county, district, or other public corporation (herein sometimes collectively called “taxing agencies”) after the effective date of the ordinance approving such related redevelopment plan, or the respective effective dates of ordinances approving amendments to such related redevelopment plan that added territory to the respective redevelopment project area, as applicable, are to be divided as follows:

(a) To Taxing Agencies: That portion of the taxes which would be produced by the rate upon which the tax is levied each year by or for each of the taxing agencies upon the total sum of the assessed value of the taxable property in the respective redevelopment project area as shown upon the assessment roll used in connection with the taxation of such property by such taxing agency last equalized prior to the effective date of the ordinance adopting the related redevelopment plan, or the respective effective dates of ordinances approving amendments to the related redevelopment plan that added territory to the respective redevelopment project area, as applicable (each, a “base year valuation”), will be allocated to, and when collected will be paid into, the funds of the respective taxing agencies as taxes by or for the taxing agencies on all other property are paid; and

(b) To the Successor Agency: Except for that portion of the taxes in excess of the amount identified in (a) above which are attributable to a tax rate levied by a taxing agency for the purpose of producing revenues in an amount sufficient to make annual repayments of the principal of, and the interest on, any bonded indebtedness approved by the voters of the taxing agency on or after January 1, 1989 for the acquisition or improvement of real property, which portion will be allocated to, and when collected will be paid into, the fund of that taxing agency, that portion of the levied taxes each year in excess of such amount, annually allocated within the plan limit following the Delivery Date, when collected will be paid into a special fund of the former redevelopment agency. Section 34172 of the Dissolution Act provides that, for purposes of Section 16 of Article XVI of the State Constitution, the RPTTF attributable to a successor agency and its project areas will be deemed to be a special fund of such

successor agency to pay the debt service on indebtedness incurred by the applicable former redevelopment agency.

That portion of the levied taxes described in paragraph (b) above, less amounts deducted pursuant to Section 34183(a) of the Dissolution Act for permitted administrative costs of the County Auditor-Controller, constitute the amounts required under the Dissolution Act to be deposited by the County Auditor-Controller into the RPTTF. In addition, Section 34183 of the Dissolution Act effectively eliminates the January 1, 1989 date from paragraph (b) above.

Taxes are due in two equal installments. Installments of taxes levied upon secured property become delinquent after December 10 and April 10. Taxes on unsecured property are due July 1 and become delinquent August 31. As of February 1, 2012, the allocation of tax increment revenue was dictated by the legislation adopted as AB 26. Revenue to successor agencies is now made on January 2 and June 1 of each fiscal year. All tax increment revenue is accumulated by the County Auditor-Controller in the RPTTF for allocation on these two dates. The tax increment revenue available for allocation on January 2 consists of revenues collected after June 1 of the previous fiscal year and for collections in November and December of the current fiscal year. The tax increment revenues available for allocation on June 1 include revenues collected from January 2 to June 1 of the current fiscal year.

Any amount remaining in the RPTTF after payment of administrative costs, pass-through payments and ROPS obligations (including any amounts retained for obligations due in the subsequent ROPS) is immediately distributed to other taxing entities.

The County Auditor-Controller applies any tax refunds paid to property owners in the Project Areas against the Successor Agency's tax increment allocation. Should tax refunds exceed the portion of the tax increment allocation that is derived from sources other than the annual secured, unsecured and utility rolls, the tax increment revenue available for debt service could fall below the amount shown in this Official Statement and the Fiscal Consultant's Report as "Available Tax Increment."

The County Auditor-Controller removes negative tax increment revenue at the tax rate area code level in the County, rather than at the project area level as is done in most counties. Where the annual assessed valuation for any roll in a tax rate area code is less than the base year for that roll in that tax rate area code, that negative tax increment is disregarded and not deducted from an agency's tax increment.

Unitary utility roll revenue is derived from utility properties including pipelines and other properties that are assessed on a countywide basis as a unit. Property taxes on these unitary assessments are distributed to jurisdictions in the County using an allocation formula similar to the regular apportionment mechanism. Unitary revenue is reported to the Successor Agency on an agency-wide basis; the Project Areas are estimated to receive approximately \$148,000 in unitary revenue annually from the one percent levy.

The State Board of Equalization separately assesses railroad, pipeline and other utility properties with tax revenue apportioned through the local apportionment process. The Successor Agency receives less than \$100 in tax increment revenue from state-assessed utility properties located in the Project Areas.

The County utilizes a mechanism for the distribution of tax increment revenue to redevelopment agencies that has a similar effect on the Successor Agency's tax increment revenues as the device known as the Teeter Plan (Section 4701 et seq. of the California Revenue and Taxation Code). The Teeter Plan allows counties to distribute secured property tax revenue to participating jurisdictions without regard to delinquencies by maintaining a reserve fund to cover delinquencies and allocating revenue based on the original secured roll, retaining all delinquent tax payments and penalties. Under the mechanism used by

the County to distribute tax increment revenue to former redevelopment agencies, the County pays one-half of the taxes from the secured incremental assessed valuation and all of the taxes from the unsecured incremental assessed valuation appearing on the equalized tax roll to each agency's RPTTF on January 2 and the other one-half of the taxes on the secured incremental assessed valuation on June 1. Delinquencies are not deducted from the RPTTF revenue, and delinquent tax payments and defaulted tax redemptions, penalties and interest are not added to RPTTF revenue. Consequently, the Successor Agency is not affected by delinquent tax payments.

From the amounts accumulated in the RPTTF for each allocation date, the County Auditor-Controller is to deduct its own administrative charges and is to calculate and deduct amounts (if not subordinated) owed to taxing entities for tax sharing agreements entered into pursuant to Section 33401 of the Law and for statutory tax sharing obligations required by Sections 33607.5 and 33607.7 of the Law that have not been subordinated to debt obligations, including debt service. The amount remaining after these reductions, if any, will be available for payment by the Successor Agency of debt obligations on a valid ROPS of the former redevelopment agency. The County administrative fee is based on County costs that vary from year to year so that the amount charged to each jurisdiction annually is variable. The current administration fee amounts to approximately 1.32% of the tax increment revenue from the Project Areas.

Prior to receiving revenues on January 2 and June 1, the Successor Agency must adopt a ROPS that lists the debt obligations of the former redevelopment agency that must be paid during the upcoming six month periods of January 1 through June 30 and July 1 through December 31 (or the upcoming twelve month period of January 1 through December 31 if then applicable under the Dissolution Act). There is provision in the legislation for the Successor Agency to request additional amounts in one ROPS period to allow it to make payments that may be beyond the revenues available in the upcoming allocation cycle. The ROPS must be approved by the Oversight Board, with subsequent approval from the DOF.

The Successor Agency is entitled to receive tax revenues to cover the administrative costs of winding down the business of the former redevelopment agency. This amount is set by the legislation at a minimum \$250,000 per year and a maximum that is 3% of the RPTTF allocated to the successor agency for each fiscal year. To the extent that revenues are insufficient to pay all of the approved ROPS obligations, including debt service on the 2015 Bonds and Parity Debt, the Successor Agency's administrative cost allowance will be reduced or eliminated.

RPTTF amounts remaining after payment of the 2007 Bonds, the 2015 Bonds and Parity Debt, reductions for County administrative charges, pass-through obligations, ROPS obligations and the Successor Agency's administrative cost allowance are referred to as Residual Revenue. Residual Revenue for each ROPS cycle is proportionately allocated to the taxing entities and to the Educational Revenue and Augmentation Fund ("ERAF").

The Successor Agency has no power to levy and collect taxes, and any provision of law limiting property taxes or allocating additional sources of income to taxing agencies and having the effect of reducing the property tax rate must necessarily reduce the amount of tax increment revenues and, accordingly, Tax Revenues that would otherwise be available to pay debt service on the 2015 Bonds. Likewise, broadened property tax exemptions could have a similar effect (see "LIMITATIONS ON TAX REVENUES" and "SPECIAL RISK FACTORS" below). Conversely, any increase in the present tax rate or assessed valuation, or any reduction or elimination of present property tax exemptions, or the satisfaction of enforceable obligations, would increase the Tax Revenues available to pay debt service on the 2015 Bonds (see "LIMITATIONS ON TAX REVENUES" and "SPECIAL RISK FACTORS" for discussion of the Constitutional constraints of increasing tax rates and assessed valuation).

The Dissolution Act requires the County Auditor-Controller to determine the amount of property taxes that would have been allocated to the Successor Agency had the Former Agency not been dissolved pursuant to the operation of Assembly Bill No. X1 26 effective June 29, 2011 (“AB 26”), using current assessed values on the last equalized roll on August 20, and to deposit that amount in the RPTTF for the Successor Agency established and held by the County Auditor-Controller pursuant to the Dissolution Act. The Dissolution Act further provides that any bonds authorized under its terms to be issued by the Successor Agency will be considered indebtedness incurred by the dissolved Former Agency, with the same legal effect as if the bonds had been issued prior to effective date of AB 26, in full conformity with the applicable provision of the Law that existed prior to that date, and debt service will be included in the Successor Agency’s ROPS. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS – Recognized Obligation Payment Schedule.”

The Dissolution Act further provides that bonds authorized under its terms to be issued by the Successor Agency will be secured by a pledge of, and lien on, and will be repaid from moneys deposited from time to time in the RPTTF attributable to the Successor Agency and the Project Areas, and that property tax revenues pledged to any bonds authorized under the Dissolution Act, such as the 2015 Bonds, are taxes allocated to the Successor Agency pursuant to the provisions of the Law and the State Constitution which provided for the allocation of tax increment revenues under the Law, as described in the foregoing paragraph.

The Successor Agency has no power to levy property taxes and must look specifically to the allocation of taxes as described above.

### **Recognized Obligation Payment Schedule Filing Procedures**

Before each six-month period (or twelve-month period if then applicable under the Dissolution Act), the Dissolution Act requires successor agencies to prepare and approve, and submit to the successor agency’s oversight board and the DOF for approval, a ROPS pursuant to which enforceable obligations (as defined in the Dissolution Act) of the successor agency are listed, together with the source of funds to be used to pay for each enforceable obligation. As defined in the Dissolution Act, “enforceable obligation” includes bonds, including the required debt service, reserve set-asides, and any other payments required under the indenture or similar documents governing the issuance of the outstanding bonds of the former redevelopment agency, as well as other obligations such as loans, judgments or settlements against the former redevelopment agency, any legally binding and enforceable agreement that is not otherwise void as violating the debt limit or public policy, contracts necessary for the administration or operation of the successor agency, and amounts borrowed from the Low and Moderate Income Housing Fund. A reserve may be included on the ROPS and held by the successor agency when required by the bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of the bond for the next payment due in the following six-month period (or twelve-month period if then applicable under the Dissolution Act).

The Dissolution Act provides that, commencing on the date the first ROPS is valid, only those payments listed in the ROPS may be made by the successor agency from the funds specified in the ROPS.

The ROPS must be submitted by the successor agency, after approval by the oversight board, to the county administrative officer, the county auditor-controller, the DOF, and the State Controller no later than 90 days before the date of the next January 2 or June 1 property tax distribution. If a successor agency does not submit an oversight board-approved ROPS by such deadlines, the successor agency will be subject to a civil penalty equal to \$10,000 per day for every day the schedule is not submitted to the DOF. Additionally, the successor agency’s administrative cost allowance is reduced by 25% if the successor agency does not submit an oversight board approved ROPS by the 80th day before the date of

the next January 2 or June 1 property tax distribution, as applicable, with respect to the ROPS for subsequent six-month periods (or twelve-month periods if then applicable under the Dissolution Act).

The Dissolution Act requires the DOF to make a determination of the enforceable obligations and the amounts and funding sources of the enforceable obligations no later than 45 days after the ROPS is submitted. Within 5 business days of the determination by the DOF, successor agencies may request additional review by the DOF and an opportunity to meet and confer on disputed items, if any. The DOF will notify successor agencies and the county auditor-controller as to the outcome of its review at least 15 days before the January 2 or June 1 date of property tax distribution, as applicable. Additionally, the county auditor-controller may review a submitted ROPS and object to the inclusion of any items that are not demonstrated to be enforceable obligations and may object to the funding source proposed for any items, provided that the county auditor-controller must provide notice of any such objections to successor agencies, the oversight board, and the DOF at least 60 days prior to the January 2 or June 1 date of property tax distribution, as applicable.

In connection with the allocation and distribution by the county auditor-controller of property tax revenues deposited in the RPTTF, under the Dissolution Act the county auditor-controller must prepare estimates of the amounts of (i) property tax to be allocated and distributed and (ii) the amounts of pass-through payments to be made in the upcoming six-month period (or twelve-month period if then applicable under the Dissolution Act), and provide those estimates to the entities receiving the distributions and the DOF no later than October 1 and April 1 of each year, as applicable. If, after receiving such estimate from the county auditor-controller, the successor agency determines and reports, no later than December 1 or May 1, as applicable (i.e., by May 1, 2015 with respect to the ROPS for July 1, 2015 through December 31, 2015), that the total amount available from the RPTTF allocation to the successor agency's Redevelopment Obligation Retirement Fund, from other funds transferred from a dissolved agency, and from funds that have or will become available through asset sales and all redevelopment operations, is insufficient to fund the payment of pass-through obligations, for the successor agency's enforceable obligations listed on the ROPS, and for the successor agency's administrative cost allowance, the county auditor-controller must notify the State Controller and the DOF no later than 10 days from the date of the successor agency's notification. If the State Controller concurs that there are insufficient funds to pay required debt service, the Dissolution Act provides for certain adjustments to be made to the estimated distributions.

The Dissolution Act provides that any bonds authorized under its terms to be issued by a successor agency will be considered indebtedness incurred by the related dissolved agency, with the same legal effect as if the bonds had been issued prior to effective date of AB 26, in full conformity with the applicable provision of the Law that existed prior to that date, and debt service will be included in the successor agency's ROPS. Additionally, if an enforceable obligation provides for an irrevocable commitment of property tax revenue and where allocation of revenues is expected to occur over time, the Dissolution Act provides that a successor agency may petition the DOF to provide written confirmation that its determination of such enforceable obligation as approved in a ROPS is final and conclusive, and reflects the DOF's approval of subsequent payments made pursuant to the enforceable obligation. If the confirmation is granted by the DOF, then the DOF's review of such payments in each future ROPS will be limited to confirming that they are required by the prior enforceable obligation.

The Successor Agency has covenanted under the Indenture to take all actions required under the Dissolution Act to include in a ROPS for the six month period from January 1 to June 30 so as to enable the County Auditor-Controller to distribute from the RPTTF for deposit in the Redevelopment Obligation Retirement Fund on each January 2 an amount equal to the debt service due on the 2007 Bonds, and principal of, and interest on the 2015 Bonds, for the period from January 1 to December 31 and, in the event funds distributed from the RPTTF and deposited into the Redevelopment Obligation Retirement

Fund during the January 1 to June 30 period are insufficient to pay debt service on the Bonds for the period January 1 to December 31, the Successor Agency shall include said shortfall in a Recognized Obligation Retirement Schedule submitted to the County Auditor-Controller for the period July 1 to December 31. See “Covenants of the Successor Agency” below.

These actions will include, without limitation, placing on the periodic ROPS for approval by the Oversight Board and the DOF, to the extent necessary, the amounts to be held by the Successor Agency as a reserve until the next six-month period (or twelve-month period if then applicable under the Dissolution Act), as contemplated by paragraph (1)(A) of subdivision (d) of Section 34171 of the Dissolution Act, that are necessary to provide for the payment of the principal of, premium (if any), and interest under the Indenture, when the next property tax allocation is projected to be insufficient to pay all obligations due under the Indenture for the next payment due in the following six-month period (or twelve-month period if then applicable under the Dissolution Act).

### **Approval by Oversight Board and Department of Finance**

Before the issuance of refunding bonds under the Dissolution Act, a successor agency must obtain by resolution the approval of its oversight board. Such oversight board resolution becomes effective when approved, or deemed approved, by the DOF. The issuance of the 2015 Bonds by the Successor Agency was approved by the Oversight Board on April 22, 2015. On June 23, 2015 the DOF issued a determination letter with respect to the Oversight Board’s resolution (the “DOF Letter”) stating the DOF’s approval of the Oversight Board’s approval of the issuance of the 2015 Bonds. The DOF Letter conditioned such approval on the understanding that the 2015 Bonds will meet the limitations in Health and Safety Code Section 34177.5.

Following DOF approval of the Oversight Board resolution approving the issuance of the 2015 Bonds, the scheduled payments on the 2015 Bonds must be listed on the Successor Agency’s ROPS (see “Recognized Obligation Payment Schedule” above) and will not be subject to further review and approval by the DOF or the State Controller. Furthermore, once the 2015 Bonds are issued with the Oversight Board’s approval, the Oversight Board will not be permitted to unilaterally approve any amendments to or early termination of the 2015 Bonds.

The Dissolution Act also provides that, notwithstanding any other State law, an action to challenge the issuance of bonds under the Dissolution Act must be brought within 30 days after the date on which the Oversight Board adopts the resolution approving the issuance of the bonds by the Successor Agency. More than 30 days have expired between the adoption of the Oversight Board resolution approving the issuance of the 2015 Bonds and the date of this Official Statement. During this interim, none of the Successor Agency, the County or the Oversight Board has received notice of any action challenging the issuance of the 2015 Bonds.

### **Due Diligence Reviews**

Pursuant to the Dissolution Act, the Successor Agency was required to retain an independent accountant to conduct two reviews, known as due diligence reviews (each, a “DDR”): one for the Housing Fund and the other for all of the other funds and accounts (the “Other Funds”). The purpose of the DDRs was to determine the unobligated balance (the “Unobligated Balance”), if any, of the Housing Fund and the Other Funds, as of June 30, 2012, so that such Unobligated Balance would be distributed to the taxing agencies. Pursuant to the specific procedure for determining the Unobligated Balance set forth in the Dissolution Act, legally restricted funds (including bond proceeds), value of assets that are not cash or cash equivalents (such as land and equipment) and amounts that are needed to satisfy obligations listed on an approved ROPS were excluded from the Unobligated Balance.



With respect to each DDR, the Successor Agency was required to and did submit such DDR, after review and approval by the Oversight Board, to the DOF. The DOF issued determination letters confirming the Unobligated Balance from the Housing Fund and the Other Funds to be remitted to the County Auditor-Controller. The Successor Agency issued payments to the County Auditor-Controller for the required amounts.

Because the Successor Agency has made the remittances required by the DOF's final determination concerning the DDRs, as well as certain other amounts previously required to be remitted pursuant to the Dissolution Act, the DOF issued a "Finding of Completion" to the Successor Agency. Upon receipt of such Finding of Completion, the Successor Agency is authorized to proceed with actions permitted under certain provisions of the Dissolution Act, such as the disposition of real property assets following Oversight Board and DOF approval of a long range property management plan.

### **Covenants of the Successor Agency**

*Punctual Payment.* The Successor Agency will punctually pay or cause to be paid the principal and interest to become due in respect of all the 2015 Bonds in strict conformity with the terms of the 2015 Bonds and of the Indenture. The Successor Agency will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and the 2015 Bonds. Nothing contained in the Indenture prevents the Successor Agency from making advances of its own moneys howsoever derived to any of the uses or purposes referred to therein.

*Compliance with the Law; Recognized Obligation Payment Schedules.* The Successor Agency shall comply with all of the requirements of the Law. In addition, the Successor Agency shall take all actions required under the Law to:

(a) include in a ROPS for the six month period from January 1 to June 30 so as to enable the County Auditor-Controller to distribute from the RPTTF for deposit in the Redevelopment Obligation Retirement Fund on each January 2 an amount equal to the debt service due on the 2007 Bonds for the period from January 1 to December 31;

(b) include in a ROPS for the six-month period from January 1 to June 30 an amount equal to scheduled annual debt service on the 2015 Bonds, so as to enable the County Auditor-Controller to distribute from the RPTTF for deposit in the Redevelopment Obligation Retirement Fund on each January 2 amounts required to enable the Successor Agency to pay timely principal of, and interest on the 2015 Bonds coming due for the period from January 1 to December 31;

(c) in the event funds distributed from the RPTTF and deposited into the Redevelopment Obligation Retirement Fund during the January 1 to June 30 period are insufficient to pay debt service on the 2015 Bonds for the period January 1 to December 31, the Successor Agency shall include said shortfall in a Recognized Obligation Retirement Schedule submitted to the County Auditor- Controller for the period July 1 to December 31; and

(d) in the event funds are transferred from a debt service reserve account for any Parity Debt issued as Bonds to pay debt service on such Parity Debt, the Successor Agency shall include the amount so transferred in the next Recognized Obligation Retirement Schedule submitted to the County Auditor-Controller in order to replenish such debt service reserve account.

The foregoing obligates the Successor Agency to place on the periodic ROPS for approval by the Oversight Board and the DOF, to the extent necessary, the amounts to be held by the Successor Agency as a reserve until the next six-month period, as contemplated by Section 34171(d)(1)(A) of the California

Health and Safety Code, that are necessary to provide for the payment of principal and interest under the Indenture when the next property tax allocation is projected to be insufficient to pay all obligations due under the Indenture in the following six-month period, including the inclusion on the applicable Recognized Obligation Schedule the amounts set forth in the Recognized Obligation Debt Service Schedule attached to the Indenture. The ROPS shall not be amended except by Supplemental Indenture entered into pursuant to the Indenture.

Additionally, the Successor Agency covenants that it will, on or before December 1 of each year, file a Notice of Insufficiency with the County Auditor-Controller if the amount of Tax Revenues available to the Successor Agency from the RPTTF on the upcoming January 2 is insufficient to pay debt service on the 2015 Bonds and to pay debt service on any Parity Debt.

In the event the provisions set forth in the Dissolution Act as of the Closing Date of the 2015 Bonds that relate to the filing of ROPS are amended or modified in any manner, the Successor Agency agrees to take all such actions as are necessary to comply with such amended or modified provisions so as to ensure the timely payment of debt service on the 2015 Bonds and, if the timing of distributions of the RPTTF is changed, the receipt of (i) not less than all amounts required to pay debt service due during each Bond Year on all Outstanding Bonds prior to February 1 of such Bond Year, and (ii) in the event funds distributed from the RPTTF and deposited into the Redevelopment Obligation Retirement Fund during the January 1 to June 30 period are insufficient to pay debt service on the 2015 Bonds for the period January 1 to December 31, said shortfall prior to the next succeeding August 1.

*Plan Limit.* If and to the extent that the plan limits apply to the Successor Agency under the Law, the Successor Agency shall annually review the total amount of property tax revenues available to be deposited into the RPTTF under the plan limits, as well as future cumulative annual payments on the 2007 Bonds, the 2015 Bonds, any Parity Debt, any subordinate bonds payable from property tax revenues deposited into the RPTTF.

As provided in the 2007 Indenture, once the Successor Agency has determined that during the next succeeding Bond Year, the total amount of Pledged Tax Revenues (as defined in the 2007 Indenture) remaining available to be received by the Successor Agency under the Redevelopment Plan's cumulative tax increment limitation is expected to equal at least 90% of the Redevelopment Plan's cumulative tax increment limitation for either Project Area, then the Successor Agency shall either (1) deposit all future Pledged Tax Revenues (as defined in the 2007 Indenture from the applicable Project Area into a special escrow account exclusively for the payment of interest on and principal of and redemption premiums, if any, on the 2007 Bonds or (2) adopt a plan approved by an Independent Financial Consultant or Independent Redevelopment Consultant (as such terms are defined in the 2007 Indenture) which demonstrates the Successor Agency's continuing ability to pay debt service on the 2007 Bonds. In determining the amount to be deposited into such a special escrow account, the Successor Agency may take into account reasonable projected interest earnings on the amounts so deposited.

As long as the Plan Limits apply to the Successor Agency under the Law and any 2015 Bonds are outstanding, the Successor Agency shall comply with its obligations under the 2007 Indenture regarding Plan Limits but, in doing so, shall take all actions necessary to ensure that it can adopt a plan approved by an Independent Financial Consultant or Independent Redevelopment Consultant (as such terms are defined in the 2007 Indenture) which demonstrates the Successor Agency's continuing ability to pay debt service on the 2007 Bonds rather than the option under the 2007 Indenture to deposit all future Pledged Tax Revenues (as defined in the 2007 Indenture) from the applicable Project Area into a special escrow account exclusively for the payment of interest on and principal of and redemption premiums, if any, on the 2007 Bonds. In furtherance of the covenant in the preceding sentence, if the Successor Agency ever determines that during the next succeeding Bond Year, the total amount of property tax revenues

available to be deposited into the RPTTF under the Plan Limits is expected to equal at least 80% of the Plan Limit for either Project Area, then the Successor Agency shall either (i) adopt a plan approved by an Independent Redevelopment Consultant that demonstrates the Successor Agency's continuing ability to pay debt service, first, on the 2007 Bonds and, second, pro rata on the 2015 Bonds and any Parity Debt, or (ii) claim all property tax revenues deposited in the RPTTF not needed to pay current or any past due debt service on any Successor Agency obligations on each Recognized Obligation Payment Schedule for so long as the 80% threshold set forth above is met and deposit such amounts when received into a Trustee-held escrow account (the "Escrow Account") and invested in Defeasance Obligations. Moneys in the Escrow Account must be used only to pay debt service, first, on the 2007 Bonds and, second, pro rata on the 2015 Bonds and any Parity Debt, or to redeem 2015 Bonds and any Parity Debt that does not constitute Bonds.

In connection with the 2016 Proposed Budget, the Department of Finance published proposed budget trailer bill, which was revised in March 2015, addressing the redevelopment agency dissolution process. The proposed legislation provides that solely for the purpose of approved enforceable obligations, redevelopment plan time limits and tax increment caps do not apply. The terms of the budget trailer bill have not yet been approved by the Governor or enacted into law.

*Extension of Payment.* The Successor Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any 2015 Bond or claim for interest on any of the 2015 Bonds and will not, directly or indirectly, be a party to or approve any such arrangement by purchasing or funding the 2015 Bonds or claims for interest in any other manner.

*Payment of Claims.* The Successor Agency shall promptly pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Successor Agency or upon the Tax Revenues or other amounts pledged to the payment of the 2015 Bonds, or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the 2015 Bonds. Nothing contained in the Indenture shall require the Successor Agency to make any such payment so long as the Successor Agency in good faith shall contest the validity of said claims.

*Dissolution Act Invalid; Maintenance of Tax Revenues.* In the event that the applicable property tax revenues provisions of the Dissolution Act are determined by a court in a final judicial decision to be invalid and, in place of the invalid provisions, provisions of the Law or the equivalent become applicable to the 2015 Bonds, the Successor Agency shall comply with all requirements of the Law or the equivalent to ensure the allocation and payment to it of the Tax Revenues, including without limitation the timely filing of any necessary statements of indebtedness with appropriate officials of the County and, in the case of amounts payable by the State, appropriate officials of the State and shall apply any such Tax Revenues received by the Successor Agency in the manner set forth in the Indenture. In the event that the applicable property tax revenues provisions of the Dissolution Act are determined by a court in a final judicial decision to be invalid and neither provisions of the Law nor the equivalent replace the invalid provisions, then the Successor Agency shall use good faith efforts to ensure the allocation and payment to it of the Tax Revenues and, if and to the extent the Tax Revenues are thereafter insufficient for the Successor Agency to satisfy its obligations under the Indenture, an Event of Default shall be deemed to have occurred and the remedies upon an Event of Default contained in the Indenture shall apply.

*Maintenance of Tax-Exemption.* The Successor Agency shall take all actions necessary to assure the exclusion of interest on the 2015A Bonds from the gross income of the Owners of the 2015A 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 2015A Bonds.

*Continuing Disclosure.* The Successor Agency covenants and agrees in the Indenture that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate related to the 2015 Bonds. Notwithstanding any other provision of the Indenture, failure of the Successor Agency to comply with the Continuing Disclosure Certificate shall not be an Event of Default under the Indenture. However, any Participating Underwriter or any holder or beneficial owner of the 2015 Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Successor Agency to comply with its obligations under the Indenture.

*Further Assurances.* The Successor Agency will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the 2015 Bonds the rights and benefits provided in the Indenture.

## **THE SUCCESSOR AGENCY**

The Former Agency was activated by the action of the City Council on March 3, 1969 pursuant to the Law. Assembly Bill No. X1 26, effective June 29, 2011, together with Assembly Bill No. 1484, effective June 27, 2012, codified Part 1.8 (commencing with Section 34161) and Part 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code (as amended from time to time (referred to as the Dissolution Act in this Official Statement), and resulted in the dissolution of the Former Agency as of February 1, 2012, and the vesting in a successor agency of all of the authority, rights, powers, duties and obligations of the Former Agency. On January 9, 2012, the City Council elected to become the Successor Agency for the Former Agency. The Successor Agency is governed by a five-member governing board whose members are the same as the City Council. The City Manager serves as the Executive Director of the Successor Agency, the City Attorney serves as Successor Agency General Counsel and the City Finance Director serves the same function and Treasurer for the Successor Agency.

### **Successor Agency Powers**

All powers of the Successor Agency are vested in its five-members who are elected members of the City Council. Pursuant to the Dissolution Act, the Successor Agency is a separate public body from the City and succeeds to the organizational status of the Former Agency but without any legal authority to participate in redevelopment activities, except to complete any work related to an approved enforceable obligation. The Successor Agency is tasked with expeditiously winding down the affairs of the Former Agency, pursuant to the procedures and provisions of the Dissolution Act. Under the Dissolution Act, many successor agency actions are subject to approval by its oversight board, as well as review by the DOF. California has strict laws regarding public meetings (known as the Ralph M. Brown Act) which generally make all successor agency and oversight board meetings open to the public in similar manner as city council meetings.

Previously, Section 33675 of the Law required the Former Agency to file not later than the first day of October of each year with the County Auditor of a statement of indebtedness certified by the chief fiscal officer of the Former Agency for each redevelopment plan which provides for the allocation of taxes (i.e., the Redevelopment Plan). The statement of indebtedness was required to contain the date on which bonds issued by the Former Agency were delivered, the principal amount, term, purposes and interest rate of the bonds and the outstanding balance and amount due on the bonds. Similar information was required to be given for each loan, advance or indebtedness that the Former Agency had incurred or entered into which is payable from tax increment. Section 33675 also provided that payments of tax increment revenues from the County Auditor to the Former Agency could not exceed the amounts shown on the Former Agency's statement of indebtedness. The Dissolution Act eliminates this requirement and

provides that, commencing on the date the first ROPS is valid, the ROPS supersedes the statement of indebtedness previously required under the Law, and commencing from such date, the statement of indebtedness will no longer be prepared nor have any effect under the Law (see “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS – Recognized Obligation Payment Schedule”).

### **Financial Information**

Included in this Official Statement as Appendix B are excerpts of the City’s Comprehensive Annual Financial Report (the “CAFR”) for the Year Ended June 30, 2014. The audited financial statements in the CAFR have been audited by Badawi & Associates (the “Auditor”), certified public accountants, as stated in its report included in Appendix B. The Auditor has not consented to the inclusion of its report herein and has not undertaken to update its report. No opinion is expressed by the Auditor with respect to any event subsequent to its report dated November 21, 2014. See Appendix B. At the time of issuance of the 2015 Bonds, the Successor Agency will certify that there has been no material adverse change in the financial condition of the Successor Agency since June 30, 2014.

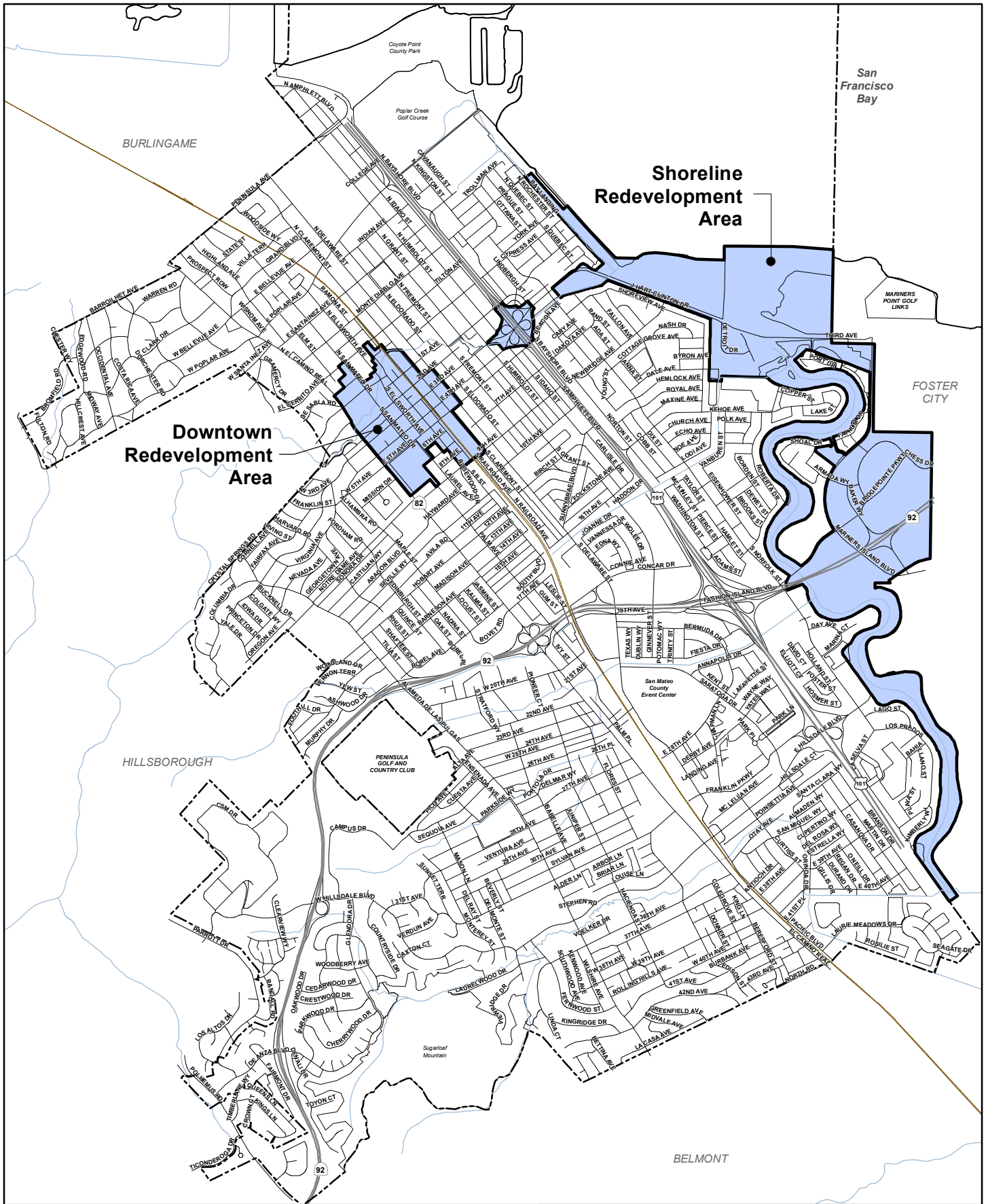
### **No Prior Defaults**

Neither the Former Agency nor the Successor Agency has ever defaulted in the payment of principal of or interest on any of their bonds or other debt obligations.

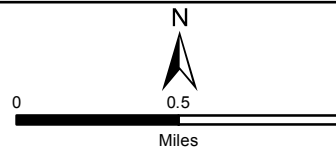
### **THE PROJECT AREAS**

Tax increment revenues securing the payment of the 2015 Bonds will be derived from tax increment revenues from the Downtown Project Area and the Shoreline Project Area which were merged by ordinances adopted by the City Council of the City of San Mateo on October 21, 1996.

The Project Areas are comprised of approximately 869 acres. The Project Areas consist of two formerly separate project areas known as the Downtown Project Area and the Shoreline Project Area which are non-contiguous and separated by U.S. 101. A map showing the Project Areas is on the following page.



**City of San Mateo  
Merged Redevelopment Project Area**



## **General**

The Downtown Project Area is composed of approximately 166 acres generally bounded by El Camino Real on the west, Tilton Avenue on the north, Delaware Street on the east and Ninth Avenue on the south. In addition, the Third Avenue and Interstate 101 interchange is also within the Downtown Project Area. The area consists of over 600 parcels and is commonly referred to as “Downtown San Mateo.”

The Shoreline Project Area covers approximately 703 acres comprised of several different land uses and includes approximately 1,000 parcels of property. The Shoreline Project Area lies east of Interstate 101, generally extending along the City’s bay front at Monte Diablo Avenue southerly to the city limits of Foster City and Belmont. The Shoreline Project Area is, in part, congruent with the planning areas of the San Mateo Shoreline Parks Master Plan and includes all of the Marina Lagoon water areas (formerly Seal Slough). The southerly third of the Shoreline Project Area shares a common boundary area with Foster City.

## **The Downtown Project Area**

The Downtown Project Area is composed of approximately 166 acres in over 600 parcels and is generally bounded by El Camino Real on the west, Tilton Avenue on the north, Delaware Street on the east and Ninth Avenue on the south. In addition, the Third Avenue and Interstate 101 interchange is also within the Downtown Project Area. The area is commonly referred to as “Downtown San Mateo.”

Retail, medical office, and general office comprise the majority of the uses but there are also some residential and light industrial uses as well as a large public park. The diversity of uses has contributed to a stable tax base. The retail stores include independent, franchised, and national corporate ownerships and retail vacancy rates have remained stable over the past several years and are approximately 5%. Office vacancies downtown have decreased noticeably over the past year reflecting the region’s recovery from the 2009 economic downturn and increased market demand and are under 2%, according to an April 2015 report from Colliers International. The Downtown Project Area is essentially built out, and except for several small vacant parcels, new growth will be in the redevelopment of existing property rather than development of raw land. The relatively small sizes of most parcels provide challenges for redevelopment. While the City encourages parcel assemblage, turnover of parcels is infrequent.

Over the past fifteen years, the Downtown Project Area has received significant investment, both public and private. Projects that have been completed include:

- 101 Ellsworth, a Class A office tower containing approximately 100,000 square feet of office and ground floor retail and over 200 parking spaces in three underground levels.
- Century Theatre, a 12-screen cinema recently acquired by Cinemark, USA.
- Main Street Garage, a 381-space public parking garage serving Cinema patrons and other dining and shopping patrons and six occupied ground-floor retail spaces.
- Transit Center, a commuter rail station with approximately 250 parking spaces in two levels of parking and two free-standing commercial buildings totaling over 5,000 sq. ft. One of the buildings is leased to office tenants. The Melting Pot, a full service national franchise restaurant, opened in the second building in October 2007.

- Streetscape improvements, including repaving of a significant portion of the streets in the downtown area and new sidewalks, street trees and crosswalks in several blocks.

Several new private development projects are proposed within the Downtown Project Area. Projects that have been recently entitled include a 12,500 square foot ethnic supermarket on 80 North B Street, a 24,500 square foot mixed-use office and retail project at 2 East Third Avenue, and a 32,500 square foot office and retail mixed-use project at 2215 El Camino.

In 2007, the City adopted an update to the 1993 Downtown Specific Plan to guide development in the area. The City plans to initiate another update to the plan in fall 2015, which is anticipated to be completed in Fiscal Year 2016-17. The updated plan will focus on maximizing development on the key opportunity sites downtown, including the former Successor Agency parcels which are to be redeveloped under the adopted Long Range Property Management Plan.

### **The Shoreline Project Area**

The Shoreline Project Area covers approximately 703 acres and includes approximately 1,000 parcels of property. The Shoreline Project Area lies east of Interstate 101, generally extending along the City's bay front at Monte Diablo Avenue southerly to the Foster City city limit. The Shoreline Project Area is, in part, congruent with the planning areas of the San Mateo Shoreline Parks. Master Plan and includes all of the Marina Lagoon water areas (formerly Seal Slough).

The Shoreline Project Area is characterized mostly by flat terrain and is drained by San Mateo Creek and Marina Lagoon. The northerly part of the Shoreline Project Area includes the San Francisco Bay Shoreline and has vegetation that includes salt and brackish marshlands, weedy grass lands and riparian trees and shrubs associated with drainage. This area includes the City Water Quality Control Plant and the former City dumpsite, which has been covered and converted to a landscaped shoreline park area.

Approximately 40% of the Shoreline Project Area is developed or developable land, and the balance is made up of waterway and tidelands open space (former landfill). Of the privately developed land, about 25% is Class A office buildings, most of which (with the exception noted in the following paragraph) were constructed in the early 1980's. Vacancy information specifically for this submarket is not available, but overall, vacancy rates for Class A office space in San Mateo were 8.3% in the first quarter of 2015.

Among the prominent tenants in the Shoreline Project Area are Sony Computer Entertainment, Residence Inn by Marriott and Home Depot USA Inc. Also within the Shoreline Project Area is Bridgepointe Shopping Center, an approximately 62-acre retail and hotel development located within the Shoreline Project Area. Retail businesses include Toys R Us, Target, Staples, Sports Authority, Ethan Allen, Pier 1, Hallmark, ULTA, Marshalls and Bed, Bath and Beyond. Restaurants include Armadillo Willy's, Red Robin, BJ's Restaurant and Brewhouse, and Mimi's Cafe. The Bridgepoint Shopping Center is proposing to expand their retail square footage on-site. This project is currently in the entitlements process.

A mix of single-family houses and multi-family apartments and condominiums constitute approximately 26% of the privately developed land, while about 15% consists of storage and warehousing facilities. A new 76-unit condominium development called Tidelands is near completion within the Shoreline Project Area near the southwestern corner of Mariner's Island Boulevard and East Third Avenue.



## Assessed Valuation

The following table sets forth the taxable assessed valuations for the Project Areas and the tax increment revenues for the last ten Fiscal Years.

**Table 1**  
**Assessed Valuations and Tax Revenues**  
**(Fiscal Years 2004-05 to 2014-15)**

Fiscal Year	Assessed Value	Homeowners Property Tax Relief Exemption	Less: Base Year Value	Value Over Base Year	Tax Increment <sup>(1)</sup>
2005-06	\$1,122,927,519	\$3,402,000	\$109,788,272	\$1,016,541,247	\$10,313,382
2006-07	1,213,180,390	3,514,000	109,788,272	1,106,906,118	11,217,031
2007-08	1,323,334,696	3,549,000	109,788,272	1,217,095,424	12,318,924
2008-09	1,404,177,715	3,476,200	109,788,272	1,297,865,643	13,126,626
2009-10	1,380,712,637	3,435,600	109,788,272	1,274,359,965	12,891,570
2010-11	1,368,516,327	3,403,400	109,788,272	1,262,131,455	12,769,285
2011-12	1,375,528,812	3,364,200	109,788,272	1,269,104,740	12,839,017
2012-13	1,403,424,755	3,357,200	109,788,272	1,296,993,683	13,117,907
2013-14	1,485,040,444	3,406,200	109,788,272	1,378,658,372	13,934,554
2014-15	1,633,855,202	3,406,200	109,788,272	1,527,473,130	15,427,268

<sup>(1)</sup> Calculated as one percent of the Value Over Base Year plus an estimated \$147,970 in unitary revenue. Tax Increment for 2014-15 includes a \$4,567 positive adjustment by the Controller restoring negative tax increment; while this adjustment was also made in prior years the prior-year amounts are not available and are not included here. Tax Increment does not reflect revenue from supplemental assessments and interest earnings, and does not reflect deductions for appeal-related adjustments and the property tax administration fee.

Sources: San Mateo County Assessor; Urban Analytics.

For projections of growth in incremental assessed valuation and Tax Revenue, see “Projected Tax Revenues and Debt Service Coverage” below.

## Land Use Types

As shown in Table 2 below, the Project Areas are predominately commercial with 68% of Fiscal Year 2014-15 valuation in office and retail properties in the Shoreline Project Area and other retail and commercial buildings in the Downtown Project Area. Condominiums accounted for 21% of Fiscal Year 2014-15 assessed valuation, primarily from residential buildings in the Downtown Project Area.

**Table 2**  
**Land Use in the Project Areas, Fiscal Year 2014-15**

Land Use	Secured AV	Percent of AV	Number of Parcels	Percent of Parcels	Acres	Percent of Acres
Commercial	\$ 987,300,745	67.8%	285	25.5%	92	10.6%
Industrial	22,796,574	1.6	32	2.9	4	0.5
Single Family Residential	1,479,949	0.1	6	0.5	-	0.0
Condominiums	308,029,141	21.2	710	63.4	-	0.0
Other Residential	80,877,824	5.6	10	0.9	1	0.1
Vacant	13,055,645	0.9	40	3.6	607	69.9
Other	42,051,005	2.9	36	3.2	165	18.9
<b>Total</b>	<b>\$1,455,590,883</b>	<b>100.0%</b>	<b>1,119</b>	<b>100.0%</b>	<b>869</b>	<b>100.0%</b>

Notes:

Valuations include homeowner's exemptions, restored by the Auditor prior to the calculation of tax increment. Acreage is estimated using tax roll data and information provided by the Successor Agency.

Sources: San Mateo County Assessor; Urban Analytics.

**Tax Increment Revenues**

The breakdown for secured, unsecured, state board assessed, total and incremental valuation for the last five Fiscal Years is shown in the table below. Tax increment revenues from the Project Areas shown in this Official Statement are based on information contained in County assessment rolls as verified in the Fiscal Consultant's Report (see Appendix C). Actual levels of future tax increment revenues derived from the Project Areas will depend upon the growth in tax increment resulting from new development, change of ownership, inflation, and changes in tax rates.

**Table 3  
Total and Incremental Assessed Valuation for Last Five Fiscal Years**

Roll	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13	Fiscal Year 2013-14	Fiscal Year 2014-15
Secured					
- Land	481,396,562	483,110,727	491,005,114	519,046,026	536,374,014
- Improvements	843,289,014	842,449,466	876,192,832	933,441,151	998,590,725
- Personal Property	13,573,992	12,269,125	13,058,875	8,243,752	9,883,225
- Exemptions	-94,416,494	-95,093,178	-91,513,518	-91,712,033	-89,257,081
Secured Total	1,243,843,074	1,242,736,140	1,288,743,303	1,369,018,896	1,455,590,883
Unsecured					
- Land	623,500	1,710,000	663,500	578,510	879,336
- Improvements	101,070,327	109,104,473	98,655,994	105,693,748	145,570,296
- Personal Property	79,433,134	97,058,446	79,242,642	78,105,493	98,736,137
- Exemptions	-56,454,469	-75,081,193	-63,881,638	-68,357,143	-66,922,342
Unsecured Total	124,672,492	132,791,726	114,680,498	116,020,608	178,263,427
Utility					
- Land	0	0	0	0	0
- Improvements	761	946	954	940	892
- Personal Property	0	0	0	0	0
- Exemptions	0	0	0	0	0
Utility Total	761	946	954	940	892
<b>Totals:</b>	<b>1,368,516,327</b>	<b>1,375,528,812</b>	<b>1,403,424,755</b>	<b>1,485,040,444</b>	<b>1,633,855,202</b>
Percent Change	-0.88%	0.51%	2.03%	5.82%	10.02%
Plus: HOPTR AV *	3,403,400	3,364,200	3,357,200	3,406,200	3,406,200
Less Base AV:	109,788,272	109,788,272	109,788,272	109,788,272	109,788,272
Incremental AV:	1,262,131,455	1,269,104,740	1,296,993,683	1,378,658,372	1,527,473,130

\* The Homeowner's Property Tax Relief exemption, reimbursed by the state.  
Sources: Urban Analytics; County of San Mateo, the Successor Agency.

The secured roll accounted for 89% of the total valuation in the Project Areas in Fiscal Year 2014-15, with the unsecured roll comprising 11%. Non-unitary utility roll valuation accounted for a minimal amount of the Project Areas' valuation (the unitary utility roll is based on countywide assessments and is not reported by project area).

### Major Property Owners

The ten largest assessees in the Project Areas are shown in Table 4 for Fiscal Year 2014-15. The table includes the total valuations for the top twenty property owners and the total valuations for the area as a whole (valuations include deductions for homeowner's exemptions). The percentage of total valuation accounted for by each owner is calculated by dividing the owner's valuation into the total valuation for the Project Areas.

Sobrato Interests owns three office buildings on Bridgepointe Parkway in the Shoreline Project Area, while DW Bridgepointe LLC owns a shopping center and other commercial properties on

Bridgepointe Parkway also in the Shoreline Project Area. Equity Office Properties owns four parcels on Mariners Island Boulevard and a fifth parcel on Baker Way, all in the Shoreline Project Area. Sobrato Companies is the owner of the Bridgepointe Apartments on Bridgepointe Parkway in the Shoreline Project Area, while CREF, Century Center Investors and Bridgepointe Office Park Associates own office buildings on Mariners Island Boulevard and Fashion Island Boulevard in the Shoreline Project Area. Sony Computer Entertainment is a lessor in one of the office buildings on Bridgepointe Parkway owned by Sobrato Interests. Park Village Associates owns a retail building on 4th Avenue in the Downtown Project Area, and Heart of San Mateo LLC owns several commercial retail buildings on 3rd and 4th Avenues, also in the Downtown Project Area.

As noted below under “Assessment Appeals”, a property owned by CREF 777 LLC has a pending assessment appeal.

The ten largest property owners in the Project Areas for Fiscal Year 2014-15 are shown in the following table.

**Table 4  
Largest Property Owners in the Project Areas, Fiscal Year 2014-15**

<b>Property Owner</b>	<b>Secured and Utility</b>	<b>Unsecured</b>	<b>Total</b>	<b>% of Total</b>	<b>Project Area</b>	<b>Principal Land Use</b>
Sobrato Interests III Lessee	\$ 154,644,275	\$ --	\$ 154,644,275	9.46%	Shoreline	Office
DW Bridgepointe LLC et al *	98,299,639	--	98,299,639	6.02	Shoreline	Shopping Center
Equity Office Properties *	96,178,493	--	96,178,493	5.89	Shoreline	Office
Sobrato Companies	74,272,947	--	74,272,947	4.55	Shoreline	Apartments
CREF 777 LLC	66,989,505	--	66,989,505	4.10	Shoreline	Office
Century Centre Investors LLC	64,307,539	--	64,307,539	3.94	Shoreline	Office
Sony Computer Entertainment	--	51,813,829	51,813,829	3.17	Shoreline	Business
Park Village Assoc LLC	33,000,000	--	33,000,000	2.02	Shoreline	Property Shopping Center
Bridgepointe Office Park Associates	29,263,455	--	29,263,455	1.79	Shoreline	Office
Heart of San Mateo LLC	26,846,406	--	26,846,406	1.64	Downtown	Retail
Total, Top Ten:	\$ 643,802,259	\$ 51,813,829	\$ 695,616,088	42.58		
Total, Top Twenty:	823,652,665	51,813,829	875,466,494	53.58		
Totals for the Area:	\$1,455,591,775	\$178,263,427	\$1,633,855,202	100.00%		

\* Owner has appeals pending.

Source: San Mateo County Office of the Assessor, Urban Analytics.

### Assessment Appeals

Appeals of assessments by property owners in the project area can result in reductions in assessed valuations that could potentially affect the Successor Agency. Reductions in prior-year assessed valuations do not currently affect the Successor Agency’s allocation of regular tax increment revenue due to the County Auditor-Controller’s practice of deducting taxpayer refunds from supplemental revenue payments to the Successor Agency and not from the regular tax increment apportionment. However, as described below, the Assessor can reduce annual assessed valuations on specific properties, which can affect the Successor Agency.

The most common type of appeal filed is known as a Proposition 8 appeal, in which the property owner seeks a reduction in a particular year's assessment based on the current economic value of the property. The assessor may also adjust valuations based on Proposition 8 criteria. Reductions in valuation made under Proposition 8 are temporary, with valuations restored to their full assessments once the economic reason for the reduction no longer applies. Such reductions can affect the Successor Agency's tax increment while they are in effect.

Property owners may also appeal the Proposition 13 base assessment of a property. Although less frequently filed, such appeals, if successful, can permanently reduce the enrolled valuation of a property and consequently affect the Successor Agency's annual revenue.

As noted, the County Auditor-Controller's office applies tax refunds due to successful property tax appeals to the Successor Agency's total tax increment, including supplemental assessments.

Assessment appeals can result in reductions of assessed valuations that can affect the Successor Agency's tax increment revenue. Based on information provided by the County Assessor's office on June 18, 2015 for appeals filed through Fiscal Year 2014-15, there is one appeal pending in the Project Areas, as shown in Table 5 below and in Table 3 of the Fiscal Consultant's Report. The amount of assessed valuation in dispute (the original County valuation less the applicant's opinion of value) for this pending appeal is \$3.6 million. The disputed amounts will be resolved in the appeals process and some portion of this amount may be adjusted. To provide some indication of the proportion of valuation upheld on appeal, Table 5 below and in Table 3 of the Fiscal Consultant's Report provides information on resolved appeals filed in previous years in the Project Areas. Overall, the 232 appeals settled in the Project Areas during the Fiscal Year 2005-06 to Fiscal Year 2014-15 period resulted in reductions in valuation of \$148.1 million out of \$2.67 billion in enrolled valuation subject to appeals, or approximately 6%. The overall retention rate has thus been approximately 94% of the original valuation.

An indicator of the potential exposure of Successor Agency tax increment revenue to appeals – were the County Auditor-Controller either to change its policy of deducting appeal-related tax refunds solely from supplemental revenue and not from regular tax increment or were the Assessor to continue Proposition 8 reductions on future rolls for properties granted prior-year reductions – may be seen by applying the retention rate to the amount of valuation in dispute in the pending appeal.

Applying the 94% retention rate for resolved appeals to the \$44.7 million in total valuation for the parcel with an appeal pending indicates a potential valuation reduction of \$2.5 million or approximately \$25,000 in tax revenue. As this includes a property with appeals in multiple years it does not necessarily indicate an equivalent reduction in future revenue. If the full amount of disputed valuation were granted, the reduction in valuation would be \$3.6 million or approximately \$36,000 in tax revenue; this also includes a multi-year appeal and does not necessarily indicate an equivalent reduction in future revenue. As noted below under "Projected Tax Revenues and Debt Service Coverage" and in APPENDIX C – "FISCAL CONSULTANT'S REPORT" under the captions "Tax Increment Revenue Estimates" and "Tax Increment Projection," no assumptions are made regarding any potential future appeal-related adjustments to valuation of the Project Areas in the projections prepared for this Official Statement and the Fiscal Consultant's Report.

No assumptions are made regarding any potential future appeal-related adjustments to Project Areas valuation in the projections prepared and included in the Fiscal Consultant's Report attached as Appendix C.

**Table 5**  
**Assessment Appeals in the Project Areas**

<b>Roll Year</b>	<b>Status</b>	<b>Number of Appeals</b>	<b>County Valuation</b>	<b>Applicant Opinion of Value</b>	<b>Valuation After Appeal</b>	<b>Retention Rate</b>
2014-15	Resolved	17	\$ 137,918,277	\$ 71,501,974	\$ 137,396,792	100%
2014-15	Pending	1	44,689,505	41,100,000	-	TBD
2013-14	Resolved	26	256,948,482	193,967,032	256,448,334	100%
2013-14	Pending	-	-	-	-	-
2012-13	Resolved	24	347,284,189	252,463,000	343,288,001	99%
2012-13	Pending	-	-	-	-	-
2011-12	Resolved	43	460,234,222	316,826,068	415,379,558	90%
2011-12	Pending	-	-	-	-	-
2010-11	Resolved	31	344,133,874	224,474,000	307,917,425	89%
2010-11	Pending	-	-	-	-	-
2009-10	Resolved	18	148,643,339	103,484,815	131,316,705	88%
2009-10	Pending	-	-	-	-	-
2008-09	Resolved	21	227,414,267	188,738,846	217,903,067	96%
2008-09	Pending	-	-	-	-	-
2007-08	Resolved	10	120,826,587	97,241,000	112,526,587	93%
2007-08	Pending	-	-	-	-	-
2006-07	Resolved	19	345,188,900	267,084,891	330,602,441	96%
2006-07	Pending	-	-	-	-	-
2005-06	Resolved	23	284,505,532	174,311,499	272,243,509	96%
2005-06	Pending	-	-	-	-	-
All Years	Resolved	232	2,673,097,669	1,890,093,125	2,525,022,419	94%
All Years	Pending	1	\$ 44,689,505	41,100,000	TBD	TBD

\* Retention Rate is the proportion of value retained after resolution of an appeal. The rate is calculated by dividing the 'Valuation After Appeal' into the 'County Valuation'. For withdrawn and denied appeals, the 'Valuation After Appeal' is the original County valuation.

Data is current as of June 18, 2015.

Sources: San Mateo County Assessor; Urban Analytics.

The Fiscal Consultant's Report attached as Appendix C reviews, as one indicator of the potential exposure of tax increment revenue to appeals, a retention rate to the amount of valuation in dispute in the one currently pending appeal. See APPENDIX C – "FISCAL CONSULTANT'S REPORT." Applying the 94% retention rate for resolved appeals to the \$44.7 million in total valuation for the parcel with an appeal pending indicates a potential valuation reduction of \$2.5 million or approximately \$25,000 in tax revenue (with the notation that this includes properties with appeals in multiple years and does not necessarily indicate an equivalent reduction in future revenue).

As described in the Fiscal Consultant's Report, there is a single pending appeal filed by a large property owner in the Project Areas, as shown in Table 6 below and shown on Table 4 of the Fiscal Consultant's Report. CREF 777 LLC has an appeal pending on a commercial property in the Shoreline Project Area. Previously, a Fiscal Year 2013-14 appeal on the same property was resolved with no change in valuation. DW Bridgepointe LLC, owner of a shopping center and commercial buildings in the Shoreline Project Area, SKP-San Mateo Baycenter LLC (owned by Equity Office Properties) and Sobrato Interests have had reductions in valuation on appeals filed in prior years, while the appeals filed by these owners in the past two (for DW Bridgepointe) or three years have not resulted in changes in valuation.

**Table 6**  
**Assessment Appeals by Large Owners in the Project Areas**

<b>Roll Year</b>	<b>Owner Name</b>	<b>Status</b>	<b>County Valuation</b>	<b>Applicant Opinion of Value</b>	<b>Valuation After Appeal</b>
2014-15	CREF 777 LLC	1 Pending	\$ 44,689,505	\$41,100,000	TBD
2014-15	DW Bridgepointe LLC et al	11 Resolved	101,270,936	50,649,816	\$101,270,936
2013-14	CREF 777 LLC	1 Resolved	22,300,000	21,000,000	22,300,000
2013-14	DW Bridgepointe LLC et al	11 Resolved	100,813,268	76,024,856	100,813,268
2013-14	SPK-San Mateo Baycenter LLC	5 Resolved	95,743,821	71,140,000	95,743,821
2012-13	DW Bridgepointe LLC et al	11 Resolved	98,836,556	49,165,000	95,548,357
2012-13	Sobrato Interests III Lessee	3 Resolved	143,800,000	115,900,000	143,800,000
2012-13	SPK-San Mateo Baycenter LLC	5 Resolved	77,687,198	71,140,000	77,687,198
2011-12	DW Bridgepointe LLC et al	21 Resolved	190,954,196	127,915,000	181,898,606
2011-12	Sobrato Interests III Lessee	3 Resolved	130,500,000	85,300,000	121,100,000
2011-12	SPK-San Mateo Baycenter LLC	5 Resolved	72,326,712	57,700,000	70,326,712
2010-11	DW Bridgepointe LLC et al	11 Resolved	96,174,433	62,910,000	84,821,770
2010-11	Heart of San Mateo LLC	3 Resolved	9,228,077	4,400,000	5,700,000
2010-11	Sobrato Interests III Lessee	3 Resolved	130,500,000	85,300,000	117,500,000
2010-11	SPK-San Mateo Baycenter LLC	5 Resolved	71,400,000	58,000,000	64,700,000

Data obtained from the San Mateo County Assessor as of June 18, 2015.  
Sources: San Mateo County Assessor; Urban Analytics.

The Successor Agency is unable to predict the outcome of current or future assessment appeals. As noted above and in the Fiscal Consultant’s Report, if the full amount of disputed valuation were granted, the reduction in valuation would be \$56.2 million or approximately \$562,000 in tax revenue, which amount includes multi-year appeals and does not necessarily indicate an equivalent reduction in future revenue. No assumptions are made in this Official Statement or in the Fiscal Consultant’s Report regarding any potential future appeal-related adjustments to valuation of the Project Areas. If any such appeals are successful to the degree that the amount of Tax Revenues is materially reduced, such a result would have a material adverse effect on the owners of the 2015 Bonds. See “SPECIAL RISK FACTORS – Assessment Appeals.”

### **Property Tax Collection Procedures**

**Classifications.** In California, property that is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” The secured classification includes property on which any property tax levied by a county becomes a lien on that property. Every tax that becomes a lien on secured property has priority over all other liens arising pursuant to State law on the secured property, regardless of the time of the creation of the other liens. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on certain other property owned by the taxpayer.

Generally, *ad valorem* taxes are collected by a county (the “Taxing Authority”) for the benefit of the various entities (e.g. cities, schools districts and special districts) that share in the *ad valorem* tax with the county (each a “taxing entity”) and redevelopment agencies eligible to receive tax increment revenues.

**Collections.** The method of collecting delinquent taxes is substantially different for the two classifications of property.

The Taxing Authority has three ways of collecting unsecured personal property taxes in the absence of timely payment by the taxpayer: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; and (3) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes that are delinquent.

**Penalty.** A 10% penalty is added to delinquent taxes that have been levied with respect to property on the secured roll. In addition, on or about June 30 of each fiscal year, property on the secured roll on which taxes are delinquent is declared in default by operation of law and declaration of the tax collector. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption premium of 1 and 1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the county tax collector. A 10% penalty also applies to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month accrues with respect to such taxes beginning on varying dates based on the tax bill mailing date. It is the County's practice to retain all such penalties and interest.

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

As of November 9, 2014, the delinquency rate on Fiscal Year 2013-14 secured property taxes in the Project Areas was 0.1%. For Fiscal Year 2012-13 secured property taxes the delinquency rate had also been 0.1% on November 3, 2013 while Fiscal Year 2011-12 secured property taxes posted a delinquency rate of 0.2% as of September 24, 2012. The Successor Agency's tax increments are paid under the Teeter Plan and are consequently not affected by tax delinquencies.

**Teeter Plan.** The Board of Supervisors of the County, on October 12, 1993, adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Generally, the Teeter Plan provides for a tax distribution procedure in which secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest. Pursuant to the Teeter Plan, the County establishes a tax losses reserve fund and a tax resources account and each entity levying or entitled to receipt of property taxes in the County may draw on the amount of uncollected taxes and assessments credited to that entity's fund, in the same manner as if the amount credited had been collected.

The County is responsible for determining the amount of the tax levy on each parcel which is entered onto the secured real property tax roll. Upon completion of the secured real property tax roll, the County's Auditor-Controller determines the total amount of taxes and assessments actually extended on the roll for each fund for which a tax levy has been included, and apportions 100% of the tax and assessment levies to that fund's credit. Such moneys may thereafter be drawn against by the taxing agency in the same manner as if the amount credited had been collected. The County determines which moneys in the County treasury (including those credited to the tax losses reserve fund) will be available to be drawn on to the extent of the amount of uncollected taxes credited to each fund for which a levy has



been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax defaulted property, Teeter Plan moneys are distributed to the apportioned tax resources accounts.

So long as the Teeter Plan is in place, the Successor Agency is expected to be credited with 100% of its annual apportionment of tax increment allocable to the secured roll, regardless of any delinquencies in payment of secured taxes. However, the Board of Supervisors of the County may discontinue the Teeter Plan at any time and there is no assurance that the County will continue to maintain the Teeter Plan.

***Supplemental Assessments.*** Senate Bill 813 (Chapter 498, Statutes of 1983) provides for the supplemental assessment and taxation of property upon the occurrence of a change in ownership or completion of new construction. Collection of taxes based on supplemental assessments will occur throughout the year. Previously, statutes enabled the assessment of such changes only as of the next tax lien date following the change and thus delayed the realization of increased property taxes from the new assessments. Chapter 498 provided increased revenue to redevelopment agencies to the extent that supplemental assessments as a result of new construction or changes of ownership occur within the boundaries of redevelopment projects subsequent to the January 1 lien date. To the extent such supplemental assessments occur within the Project Areas, Tax Revenues may increase.

### **Financial Limitations**

***Plan Limits.*** The Successor Agency cannot receive tax increment or repay indebtedness beyond certain dates, shown in Table 7 below. Under redevelopment law, all pre-1994 plans (including those for the Project Areas) were assigned a time limit on redevelopment plan activities (a plan termination date) of forty years after the adoption date of the plan. The Successor Agency is permitted to collect tax increment to repay indebtedness for an additional ten years after the plan termination date. Under the plans for the Project Areas, the last date on which tax increment may be collected in each project area is July 8, 2034.

The two Project Areas account for different proportions of the Project Areas' tax increment, as shown in Table 7 below. The volatility ratio, the proportion of total assessed valuation accounted for by the base year valuation, reflects the degree of exposure of tax increment to changes in total valuation. A high volatility ratio indicates that a small percentage change in overall assessed valuation would cause a disproportionately large percentage change in tax increment, while a low volatility ratio suggests that a percentage change in overall assessed valuation would cause a similar percentage change in tax increment. Long-established redevelopment areas such as the Project Areas generally have a low volatility ratio as assessed valuation grows in relation to the base year valuation, while newly-formed redevelopment areas tend to have a high volatility ratio as their total assessed valuation remains close to the base year valuation.

**Table 7  
The Project Areas**

Project Area	Date of Adoption	Ordinance Number	Last Date to Repay Indebtedness	Tax Increment Limit (Millions)	Acreage	Tax Increment as Percent of Total	Volatility Ratio	Cumulative Tax Increment Received to Date (Millions)
Downtown	7/8/1981	25	7/8/2034	\$500	166	42.1%	0.12	\$ 95.5
Shoreline	7/8/1981	24	7/8/2034	330	703	57.9	0.03	156.2
Total					869	100.0%	0.12	

Note: The Successor Agency has extended by three years the Termination of Plan Activities and the Last Date to Repay Indebtedness as permitted by California Health and Safety Code Section 33333 (C) and (D); dates reflect this extension. The volatility ratio is calculated by dividing the base year assessed valuation by the current year assessed valuation.

Sources: The Successor Agency, Urban Analytics.

**Tax Increment Caps.** Under the provisions of the redevelopment plan and redevelopment law in effect prior to January 1, 1994, redevelopment project areas generally contained a tax increment cap, or a limitation on the total amount of tax increment that may be collected within that redevelopment project area over the area's life. As shown in Table 7 above, each of the Project Areas has a tax increment cap. A tax increment limit of \$500 million applies with respect to the Downtown Project Area and \$330 million applies with respect to the Shoreline Project Area. Table 7 shows cumulative tax increment received through the end of Fiscal Year 2014-15. Such revenue amounts are based on actual receipts through FY 2010-11 and estimates using annual assessed valuation for FY 2011-12 through FY 2014-15.

The tax increment cap is incorporated into the projections used in preparing the Fiscal Consultant's Report. Tax increment collected to date was estimated based on Successor Agency records and current-year tax increment. Annual tax increment is added to this figure to obtain a cumulative total of tax increment collected throughout the life of the redevelopment plan. The Shoreline Project Area is expected to reach its tax increment cap in Fiscal Year 2031-32 prior to reaching its Fiscal Year 2033-34 plan limit on tax increment receipts under the two percent growth assumption used in projecting tax increment for the Fiscal Consultant's Report. Under a moderately high rate of five percent annual assessed valuation growth, the Shoreline Project Area is expected to reach its tax increment cap by Fiscal Year 2028-29 while under a high rate of eight percent annual assessed valuation growth the Shoreline Project Area is expected to reach its cap by Fiscal Year 2026-27. The Downtown Project Area is not expected to reach its tax increment cap prior to its Fiscal Year 2033-34 plan limit under either a moderately high or high rate of growth in assessed valuation.

Qualifying ERAF payments have been deducted from the revenues that count against the tax increment cap, as permitted under redevelopment law and described further under Plan Limits above.

The DOF has indicated that it considers that tax increment caps not reached prior to the dissolution of redevelopment agencies in 2012 should not be used to prevent payment of enforceable obligations, and that they advise county auditor-controllers to not apply tax increment caps in cases where doing so would prevent payment of enforceable obligations. In addition, in connection with the 2016 Proposed Budget, the Department of Finance published proposed budget trailer bill language, which was revised in March 2015, addressing the redevelopment agency dissolution process. The proposed legislation provides that solely for the purpose of approved enforceable obligations, redevelopment plan time limits and tax increment caps do not apply. It is not clear whether the DOF's advice will be

followed by county auditor-controllers or that it would withstand legal challenge, or that the Governor's proposed legislation will become law. For the purposes of the Fiscal Consultant's Report it is assumed that tax increment caps will remain in effect.

### **Projected Tax Revenues and Debt Service Coverage**

The Successor Agency has retained Urban Analytics, LLC, San Francisco, California to provide projections of taxable valuation and Tax Revenues from developments in the Project Areas. Tax increment is projected over the duration of the plans in the Project Areas, as shown in Table 8 set forth in APPENDIX C – "FISCAL CONSULTANT'S REPORT."

Tax increment is projected over the duration of the plans in the Project Areas, as shown in Table 8 to the Fiscal Consultant's Report, and Table 8 below. Debt service from the Prior Tax-Exempt Bonds is shown for Fiscal Year 2014-15, but will be refunded by the 2015 Bonds in 2015-16, and debt service on the 2007 Bonds is shown as a senior obligation to the 2015 Bonds. See APPENDIX C – "FISCAL CONSULTANT'S REPORT" under the captions "Tax Increment Revenue Estimates" and "Tax Increment Projection." The projection incorporates the Proposition 13 adjustment of 2% for real property from Fiscal Year 2015-16 forward. The projection does not take into consideration any changes in assessed valuation due to new construction, property sales, Proposition 8 reductions, assessment appeals or other factors. The actual growth rate may be less than the projected rate in the Project Areas. Secured personal property and unsecured valuations are assumed to remain constant throughout.

**Table 8  
Tax Increment Projection**

<b>Fiscal Year</b>	<b>Gross Tax Increment</b>	<b>County Administration Fee</b>	<b>Senior Debt Service (2007 Bonds)<sup>(1)</sup></b>	<b>Senior Debt Service (2005 Bonds)<sup>(1)(2)</sup></b>	<b>Available Tax Increment (RPTTF)</b>	<b>2015 Bonds Debt Service<sup>(1)</sup></b>	<b>2015 Bonds Debt Service Coverage</b>
2014-15	\$ 15,427,268	\$ 203,675	\$ 3,807,589	\$2,953,569	\$ 8,462,435	\$ --	--
2015-16	15,717,091	207,501	3,812,124	--	11,697,466	2,732,418	4.3x
2016-17	16,012,710	211,404	3,810,124	--	11,991,182	2,725,541	4.4x
2017-18	16,314,242	215,385	3,810,186	--	12,288,671	2,730,853	4.5x
2018-19	16,621,804	219,445	3,813,043	--	12,589,317	2,726,434	4.6x
2019-20	16,935,518	223,587	3,808,043	--	12,903,889	2,724,768	4.7x
2020-21	17,255,505	227,811	3,808,643	--	13,219,052	2,728,815	4.8x
2021-22	17,581,893	232,120	3,811,338	--	13,538,436	2,726,155	5.0x
2022-23	17,914,808	236,516	3,807,894	--	13,870,398	2,717,850	5.1x
2023-24	18,254,382	240,999	3,804,088	--	14,209,296	2,727,250	5.2x
2024-25	18,600,747	245,572	3,810,338	--	14,544,838	2,724,250	5.3x
2025-26	18,954,039	250,236	--	--	18,703,803	5,134,250	3.6x
2026-27	19,314,397	254,993	--	--	19,059,404	5,127,250	3.7x
2027-28	19,681,963	259,846	--	--	19,422,117	4,311,000	4.5x
2028-29	20,056,879	264,796	--	--	19,792,083	4,310,500	4.6x
2029-30	20,439,294	269,845	--	--	20,169,449	4,311,500	4.7x
2030-31	20,829,358	274,994	--	--	20,554,364	4,313,500	4.8x
2031-32	8,750,336	115,524	--	--	8,634,812	4,316,000	2.0x
2032-33	8,789,231	116,038	--	--	8,673,193	--	--
2033-34	8,966,689	118,380	--	--	8,848,309	--	--
2034-35	--	--	--	--	--	--	--
<b>Total</b>	<b>\$332,418,154</b>	<b>\$4,388,667</b>	<b>\$41,903,406</b>	<b>\$2,953,569</b>	<b>\$283,172,512</b>	<b>\$59,088,333</b>	

(1) Represents debt service that will be funded with property tax distributions occurring within each Fiscal Year.

(2) Refunded by 2015 Bonds.

Source: Urban Analytics.

The projections reflect the existing redevelopment plan limitations for the Project Areas described under the caption “THE PROJECT AREAS” over the life of the Project Areas, incorporate the Successor Agency’s obligations toward other taxing jurisdictions and project assessed valuation at a two percent growth rate through the maturity of the 2015 Bonds. No assumptions are made regarding potential future appeal-related adjustments to valuation of the Project Areas in the projections; and no payments are assumed to be payable under the single Section 33401 fiscal agreement that the Successor Agency has with the San Mateo-Foster City School District. Payments made under the AB 1290 statutory provisions are deemed subordinate to the 2015 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS – Pledge of Tax Revenues.”

The Successor Agency believes that the assumptions above, and as set forth in Table 8 to the Fiscal Consultant’s Report and its footnotes, upon which these projections are based are reasonable; however, some assumptions may not materialize and unanticipated events and circumstances may occur. Therefore, the actual Tax Revenues received during the forecast period may vary from the projections and the variations may be material. A summary of the projected total taxable valuation and Tax Revenues for both Project Areas is set forth under the captions “THE PROJECT AREAS – Tax Increment Revenues” and “- Projected Tax Revenues and Debt Service Coverage” and in APPENDIX C – “FISCAL

CONSULTANT’S REPORT” under the captions “Tax Increment Revenue Estimates” and “Tax Increment Projection.”

## LIMITATIONS ON TAX REVENUES

### Property Tax and Spending Limitations

*Article XIII A of the California Constitution.* Section 1(a) of Article XIII A of the California Constitution limits the maximum *ad valorem* tax on real property to one percent of full cash value, to be collected by the counties and apportioned according to law. Section 2 of Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the 1975/76 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.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the California Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above.

In the general elections of 1986, 1988, and 1990, the voters of the State approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the full cash value of other real property between parents and children, do not constitute a “purchase” or “change of ownership” triggering reassessment under Article XIII A. This amendment will reduce the tax increment of the Successor Agency. Other amendments permitted the Legislature to allow persons over 55 who sell their residence and on or after November 5, 1986, to buy or build another of equal or lesser value within two years in the same county, to transfer the old residence’s assessed value to the new residence, and permitted the Legislature to authorize each county under certain circumstances to adopt an ordinance making such transfers or assessed value applicable to situations in which the replacement dwelling purchased or constructed after November 8, 1988, is located within that county and the original property is located in another county within California.

In the June 1990 election, the voters of the State approved additional amendments to Article XIII A permitting the State Legislature to extend the replacement dwelling provisions applicable to persons over 55 to severely disabled homeowners for replacement dwellings purchased or newly constructed on or after June 5, 1990, and to exclude from the definition of “new construction” triggering reassessment improvements to certain dwellings for the purpose of making the dwelling more accessible to severely disabled persons. In the November 1990 election, the voters approved the amendment of Article XIII A to permit the State Legislature to exclude from the definition of “new construction” seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Both the California Supreme Court and the United States Supreme Court have upheld the constitutionality of Article XIII A.

*Article XIII B of the California Constitution.* On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIII B to the California Constitution. The principal effect of Article XIII B is to limit the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the

prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the government entity.

Appropriations subject to Article XIII B include generally the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds.

Effective September 30, 1980, the California Legislature added Section 33678 to the Law which provides that the allocation of taxes to a redevelopment agency for the purpose of paying principal of, or interest on, loans, advances, or indebtedness will not be deemed the receipt by the agency of proceeds of taxes levied by or on behalf of the agency within the meaning of Article XIII B or any statutory provision enacted in implementation thereof, including Section 33678 of the Law. The constitutionality of Section 33678 has been upheld by the Second and Fourth District Courts of Appeal in two decisions: *Bell Community Redevelopment Agency v. Woosely* and *Brown v. Community Redevelopment Agency of the City of Santa Ana*. On the basis of these decisions, the Successor Agency has not adopted an appropriations limit.

*Proposition 218*. On November 5, 1996, the voters of the State approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the public agencies to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C removes limitations on the initiative power in matters of local taxes, special taxes, assessments, fees and charges. While the matter is not free from doubt, it is likely that a court would hold that the initiative power cannot be used to reduce or repeal the levy of property taxes or to materially affect the collection and pledge of Tax Revenues.

The interpretation and application of the initiative provisions of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and while it is not possible at this time to predict with certainty the outcome of such determination, the Successor Agency does not believe that Proposition 218 will materially affect its ability to pay the principal of or interest on the 2015 Bonds.

### **Implementing Legislation**

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement and in the Fiscal Consultant's Report appearing in Appendix C is shown at 100% of assessed value and all general tax rates reflect the \$1.00 per \$100 of taxable value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The Successor Agency is not able to predict the nature or magnitude of future revenue sources which may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

## **Redevelopment Plan Limits**

The Project Areas are subject to certain dates for the termination of the Redevelopment Plan or the deadline for the receipt of tax increment for the repayment of debt that may be relevant to the payment of debt service on the 2015 Bonds. The expiration date of the Redevelopment Plan is as described under the caption “THE PROJECT AREAS – Financial Limitations.” For purposes of the projections in this Official Statement (with respect to debt service coverage) and in the Fiscal Consultant’s Report appearing in Appendix C, it is assumed that all Redevelopment Plan limits will be enforced.

There is a question on the applicability of tax increment limits as to time and amounts established under redevelopment plans after the adoption of AB 26 and AB 1484. In connection with the 2016 Proposed Budget, the Department of Finance published proposed budget trailer bill language, which was revised in March 2015, addressing the redevelopment agency dissolution process. The proposed legislation provides that solely for the purpose of approved enforceable obligations, redevelopment plan time limits and tax increment caps do not apply. The terms of the budget trailer bill have not yet been approved by the Governor or enacted into law. Likewise, the DOF, in a letter dated April 2, 2014, has expressed its view to certain successor agencies that tax increment limits are no longer applicable. However, currently, such matters remain subject to further guidance from the DOF, legislation and interpretation by the courts. If the cumulative tax increment limit is deemed to no longer be applicable, covenants with respect to such limitations under the Indenture will be terminated as inapplicable.

If the plan limits are enforced, Tax Revenues will be limited. The Shoreline Project Area is expected to reach its tax increment cap in Fiscal Year 2031-32 prior to reaching its Fiscal Year 2033-34 plan limit on tax increment receipts under the two percent growth assumption used in projecting tax increment for the Fiscal Consultant’s Report attached as Appendix C. Under a moderately high rate of five percent annual assessed valuation growth, the Shoreline Project Area is expected to reach its tax increment cap by Fiscal Year 2028-29 while under a high rate of eight percent annual assessed valuation growth the Shoreline Project Area is expected to reach its cap by Fiscal Year 2026-27. The Downtown Project Area is not expected to reach its tax increment cap prior to its Fiscal Year 2033-34 plan limit under either a moderately high or high rate of growth in assessed valuation.

See “SPECIAL RISK FACTORS – State Budget” for a discussion of the Governor’s proposal to eliminate plan limits.

## **Unitary Property**

Assembly Bill 2890 (Statutes of 1986, Chapter 1457), which added Section 98.9 to the California Revenue and Taxation Code, provided that, commencing with the Fiscal Year 1988-89, assessed value derived from State-assessed unitary property (consisting mostly of operational property owned by utility companies) was to be allocated county-wide as follows: (i) each tax rate area will receive the same amount from each assessed utility received in the previous fiscal year unless the applicable county-wide values are insufficient to do so, in which case values will be allocated to each tax rate area on a pro rata basis; and (ii) if values to be allocated are greater than in the previous fiscal year, each tax rate area will receive a pro rata share of the increase from each assessed utility according to a specified formula. Additionally, the lien date on State-assessed property was changed from March 1 to January 1.

Assembly Bill 454 (Statutes of 1987, Chapter 921) further modified the distribution of tax revenues derived from property assessed by the State Board of Equalization. Chapter 921 provided for the consolidation of all State-assessed property, except for regulated railroad property, into a single tax rate area in each county. Chapter 921 further provided for a new method of establishing tax rates on State-assessed property and distribution of property tax revenues derived from State-assessed property to

taxing jurisdictions within each county as follows: for revenues generated from the 1% tax rate, each jurisdiction, including redevelopment project areas, will receive a percentage up to 102% of its prior year State-assessed unitary revenue; and if county-wide revenues generated for unitary property are greater than 102% of the previous year's unitary revenues, each jurisdiction will receive a percentage share of the excess unitary revenue generated from the application of the debt service tax rate to county-wide unitary taxable value, further, each jurisdiction will receive a percentage share of revenue based on the jurisdiction's annual debt service requirements and the percentage of property taxes received by each jurisdiction from unitary property taxes in accordance with a new formula. Railroads will continue to be assessed and revenues allocated to all tax rate areas where railroad property is sited.

The intent of Chapters 1457 and 921 was to provide redevelopment agencies with their appropriate share of revenue generated from the property assessed by the State Board of Equalization.

The Successor Agency has projected the amount of unitary revenues to be allocated for Fiscal Year 2014-15 within the Project Areas. Unitary revenue is reported to the Successor Agency on an agency-wide basis, and the Project Areas are estimated to receive approximately \$148,000 in unitary revenue annually from the one percent levy. The State Board of Equalization separately assesses railroad, pipeline and other utility properties with tax revenue apportioned through the local apportionment process. The Successor Agency receives less than \$100 in tax increment revenue from state-assessed utility properties located in the Project Areas. The Successor Agency cannot predict the effect of any future litigation or settlement agreements on the amount of unitary tax revenues received or to be received nor the impact on unitary property tax revenues of any transfer of electrical transmission lines to tax-exempt agencies.

### **Assessed Value Appeals and Proposition 8 Adjustments**

Pursuant to State law, property owners may apply for a reduction of their property tax assessment by filing a written appeal. After the applicant and the assessor have presented their arguments, the applicable local appeals board makes a final decision on the proper assessed value. The appeals board may rule in the assessor's favor, rule in the applicant's favor, or set its own opinion of the proper assessed value, which may be more or less than either the assessor's opinion or the applicant's opinion. Any reduction in the assessment ultimately granted applies to the year for which the application is made and may also affect the values in subsequent years. Refunds for taxpayer overpayment of property taxes may include refunds for overpayment of taxes in years after that which was appealed. Current year values may also be adjusted as a result of a successful appeal of prior year values. Any taxpayer payment of property taxes that is based on a value that is subsequently adjusted downward will require a refund for overpayment.

Appeals for reduction in the "base year" value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date. A base year assessment appeal has significant future revenue impacts because a reduced base year assessment will then reduce the compounded value of the property prospectively. Except for the two percent inflation factor, the value of the property cannot be increased until a change of ownership occurs or additional improvements are added.

Section 51 of the Revenue and Taxation Code permits a reduction (a "Proposition 8 Adjustment") in the assessed value if the full cash value of the property has been reduced by damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. Reductions made under this code section may be initiated by the County Assessor or requested by the property owner.



During the recent real estate market downturn which started in 2006 and appears to have ended in the past four years, the County Assessor's Office initiated proactive reviews of single family homes, condominiums, townhomes, multifamily and commercial and industrial properties, which result in Proposition 8 Adjustments for many properties in the County.

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

The taxable value of unitary property may be contested by utility companies and railroads to the State Board of Equalization. Generally, the impact of utility appeals is on the statewide value of a utility determined by the State Board of Equalization. As a result, the successful appeal of a utility may not impact the taxable value of a project area but could impact a project area's allocation of unitary property tax revenues.

Any assessment appeal that is pending or which may be filed in the future, if successful, will result in a reduction of the assessed value of the subject property. A reduction of assessed valuation due to appeals, if significant, and the resulting property tax refunds could adversely impact the amount of Tax Revenues available to pay debt. See additional discussion on assessment appeals under the caption "THE PROJECT AREAS – Assessment Appeals" and in the Fiscal Consultant's Report appearing in Appendix C.

#### **Additional Limitation on Tax Revenues**

On November 8, 1988 the voters of the State approved Proposition 87, which amended Article XVI, Section 16 of the California Constitution to provide that property tax revenue attributable to the imposition of taxes on property within a redevelopment project area for the purpose of paying debt service on bonded indebtedness approved by the voters of the taxing entity after January 1, 1989 will be allocated to the taxing entity and not to the redevelopment agency. The Successor Agency does not project the receipt of any tax increment revenues as a result of general obligation bonds which may be approved on or after January 1, 1989.

#### **SPECIAL RISK FACTORS**

*The following discussion sets forth some of the events which could prevent the Successor Agency from receiving a sufficient amount of tax increment revenues to enable it to pay the principal of and interest on the 2015 Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the 2015 Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the 2015 Bonds. There can be no assurance that other risk factors will not become material in the future.*

#### **Tax Revenues**

Tax Revenues, which secure the 2015 Bonds, are determined by the incremental assessed value of taxable property in the Project Areas, the current rate or rates at which property in the Project Areas is taxed, and the percentage of taxes collected in the Project Areas. Several types of events which are

beyond the control of the Successor Agency could occur and cause a reduction in available gross tax increment revenues and, accordingly, Tax Revenues. A reduction of taxable values of property in the Project Areas or a reduction of the rate of increase in taxable values of property in the Project Areas caused by economic or other factors beyond the Successor Agency's control (such as successful appeals by property owners for a reduction in a property's assessed value, a reduction in the rate of transfers of property, construction activity or other events that permit reassessment of property at lower values, or the destruction of property caused by natural or other disasters, including earthquakes) could occur, thereby causing a reduction in Tax Revenues. This risk increases in proportion to the percent of total assessed value attributable to any single assessee in the Project Areas and in relation to the concentration of property in such Project Areas in terms of size or land use (see "THE PROJECT AREAS — General" in this Official Statement). Any reduction in Tax Revenues from the Project Areas could have an adverse effect on the Successor Agency's ability to meet its obligations under the Indenture and the Successor Agency's ability to pay the principal of and interest on the 2015 Bonds.

Any reduction in assessed value in the Project Areas, reduction in tax rates or reduction in taxes collected would reduce the Tax Revenues available to pay debt service on the 2015 Bonds. See "SPECIAL RISK FACTORS." See also "THE PROJECT AREAS" hereto for a summary of historical assessed valuation of property in the project area, current assessment appeals and historical delinquencies.

Many issues involved in the dissolution of redevelopment agencies have yet to be resolved including the continuation of plan limits, override revenues and the treatment of ERAF. Additionally approximately 100 lawsuits have been filed on various aspects of AB 26 and AB 1484 which could impact the dissolution of redevelopment agencies. The projections in this Official Statement, including Appendix C could be impacted as a result of future court decisions.

### **Projected Tax Revenues**

The Fiscal Consultant has based its projections on certain assumptions with regard to the Project Areas, growth in assessed values and Tax Revenue growth. These projections assume the Proposition 13 adjustment of 2% for real property from Fiscal Year 2015-16 forward. The projection does not take into consideration any changes in assessed valuation due to new construction, property sales, Proposition 8 reductions, assessment appeals or other factors. The actual growth rate may be less than the projected rate in the Project Areas. Secured personal property and unsecured valuations are assumed to remain constant throughout. There can be no assurance that assessed values will increase as projected, if at all. See "THE PROJECT AREAS" for a discussion of these assumptions.

Any reduction in assessed values in the Project Areas, reduction in tax rates or reduction in taxes collected would reduce the Tax Revenues available to pay debt service on the 2015 Bonds. See "SPECIAL RISK FACTORS" and "LIMITATIONS ON TAX REVENUES" in this Official Statement. See also "THE PROJECT AREAS" for a summary of historical assessed valuation of property in the Project Areas, current assessment appeals and historical delinquencies and recent transactions involving the top five property owners that could affect assessed values in the Project Areas.

### **Senior, Parity and Subordinate Debt**

The Indenture provides that the Successor Agency may not issue additional bonds or incur additional obligations that are payable from moneys deposited in the RPTTF on a senior basis to the 2015 Bonds and any Parity Debt. The Indenture permits the issuance by the Successor Agency of certain refunding indebtedness which may have a lien upon the Tax Revenues on parity with the lien of the 2015 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS — Issuance of Parity Debt" in this Official Statement for a description of the conditions precedent to issuance of such

additional obligations. The Indenture does not limit the issuance of tax allocation bonds or other indebtedness secured by a pledge of tax increment revenues subordinate to the pledge of Tax Revenues securing the 2015 Bonds.

### **Concentration of Ownership**

The ten largest property taxpayers in the Project Areas, based upon the Fiscal Year 2014-15 locally assessed tax roll reported by the County Assessor, owned approximately 42.6% of the total Project Areas value and approximately 45.5% of the total incremental assessed value within the Project Areas. The twenty largest property taxpayers in the Project Areas, based upon the Fiscal Year 2014-15 locally assessed tax roll reported by the County Assessor, owned approximately 53.6% of the total Project Areas value and approximately 57.3% of the total incremental assessed value within the Project Areas. Concentration of ownership presents a risk in that if one or more of the largest property owners were to default on their taxes, or were to successfully appeal the tax assessments on property within the Project Areas, a substantial decline in Tax Revenues could result. See “THE PROJECT AREAS — Major Property Owners” in this Official Statement and in that portion of the Fiscal Consultant’s Report appearing in Appendix C for more information (including recent transactions) about these ten largest property taxpayers and see “THE PROJECT AREAS — Assessment Appeals” for information as to pending appeals of tax assessments.

### **Successor Agency Powers and Resources Are Limited**

The Successor Agency was created pursuant to the Dissolution Act to wind down the affairs of the Former Agency. Its powers are limited to those granted under the Dissolution Act. It has no power to levy and collect property taxes. It does not have any legal authority to participate in redevelopment activities, except to complete work related to enforceable obligations, as defined in the Dissolution Act. Many Successor Agency actions are subject to the review or the directions of its Oversight Board and the DOF and, in some cases, the County Auditor-Controller and the State Controller. California Health and Safety Code Section 34173(e) states that the liability of the Successor Agency, acting pursuant to the powers granted under the Dissolution Act, is limited to the extent of the total sum of property tax revenues it receives pursuant to the Dissolution Act and the value of assets transferred to it as a Successor Agency for the Former Agency.

Prior to dissolution, each redevelopment agency retained funds on hand, accumulated from prior years, that were available for use if short-term cash flow issues arose. In the event of a delay in the receipt of tax increment in any given year, such agency could (though it was not obligated to) use such other available funds to make payments on debt obligations when due. Under the Dissolution Act, a successor agency is required to seek prior approval from its oversight board (and, therefore, the DOF because all oversight board actions are subject to DOF’s review) in order to pay an enforceable obligation from a source of funds that is different than the one identified on the ROPS. As the result of procedures already completed under the Dissolution Act, such as the due diligence reviews (see “TAX REVENUES AND PROCEDURES – Due Diligence Reviews”), the Successor Agency has no alternative resources available to make payment on enforceable obligations if there is a significant delay with respect to scheduled RPTTF disbursements or if the amount from RPTTF disbursements is not sufficient for the required payment on the enforceable obligations.

The Dissolution Act expressly provides that a successor agency’s original sponsoring city and that successor agency are separate public entities. The liabilities of the successor agency are not transferred to any respective agency’s original sponsoring city by the virtue of its election to serve as the successor agency. The liabilities of the Successor Agency are not the liabilities of the City of San Mateo, the Successor Agency’s original sponsoring city.

## **2015 Bonds Are Limited Obligations**

Neither the faith and credit nor the taxing power of the Successor Agency (except to the limited extent set forth in the Indenture), the City, the State or any political subdivision thereof is pledged to the payment of the 2015 Bonds. The 2015 Bonds are special obligations of the Successor Agency; and, except as provided in the Indenture, they are payable solely from Tax Revenues. Tax Revenues could be insufficient to pay debt service on the 2015 Bonds and any Parity Debt as a result of a substantial decline in the amount of Tax Revenues available with respect to the Project Areas, delinquencies in the payment of property taxes or the insufficiency of proceeds derived from the sale of land within the Successor Agency following a delinquency in the payment of the applicable property taxes. The Successor Agency has no obligation to pay debt service on the 2015 Bonds in the event of insufficient Tax Revenues, except to the extent that money is available for such purpose in the Redevelopment Obligation Retirement Fund and the Debt Service Fund.

## **Natural Disasters; Seismic Hazards**

Natural disasters, including floods and earthquakes and other events of *force majeure*, such as damaging storms, fires and explosions, strikes, sabotage, riots and spills of hazardous substances, among other events, could damage improvements and/or property in the Project Areas, or impair the ability of landowners within the Project Areas to develop their properties or to pay property taxes. The Successor Agency cannot predict what force majeure events may occur in the future.

The City is located within two miles of the San Andreas Fault which experienced an earthquake of 7.1 magnitude in 1989 on the Loma Prieta area of the fault. Property in the Project Areas received no substantial damage as a result of the Loma Prieta earthquake. The occurrence of severe seismic activity in the City could result in substantial damage to property located in the Project Areas, and could lead to successful appeals for reduction of assessed values of such property. Such a reduction of assessed valuations could result in a reduction of the Tax Revenues that secure the 2015 Bonds.

The Federal Emergency Management Agency (“FEMA”) as part of ITS National Flood Insurance Program (“NFIP”), prepared a Flood Insurance Study (“FIS”) for the City beginning in 1996. The FIS modified the City’s Flood Insurance Rate Map (“FIRM”) and corresponding base flood elevations (“BFEs”), which are flood elevations that, according to methodology used by FEMA, have a 1% probability (100-year storm or tide) of occurring in any given year. A revised FIRM that includes a portion of the City in Zone AE, a designated special flood hazard area, became effective on October 19, 2001. Properties within Zone AE that have federally insured mortgages (virtually all institutional lenders are federally insured) are required to purchase flood insurance.

According to the FIRM, a portion of the property in the Project Areas is within Zone AE. Damage from flooding could adversely affect assessed valuation and, therefore, the Tax Revenues available to pay debt service on the 2015 Bonds. During its February 10, 2015 goal session, the San Mateo City Council reaffirmed that removal of this property from the FEMA flood maps was a high priority, and directed City staff to identify \$23.5 million in capital funding for this purpose. The Adopted 2015-2020 Capital Needs Assessment includes two projects towards this effort, the North Bayfront Levee Improvement project costing \$7.5 million and the replacement of two pump stations at Coyote Point and Popular Avenue combined costing \$16 million. While the source of the \$23.5 million for construction costs has not yet been identified, funds for preliminary design were previously approved.

## **Climate Change**

In May 2009, the California Climate Change Center released a final paper, for informational purposes only, which was funded by the California Energy Commission, the California Environmental Protection Agency, the Metropolitan Transportation Commission, the California Department of Transportation and the California Ocean Protection Council. The title of the paper is “The Impacts of Sea-Level Rise on the California Coast.” The paper posits that increases in sea level will be a significant consequence of climate change over the next century. The paper evaluated the population, infrastructure, and property at risk from projected sea-level rise if no actions are taken to protect the coast. The paper concluded that significant property in the State is at risk of flooding from 100-year flood events as a result of a 1.4 meter sea level rise. The paper further estimates that the replacement value of this property totals nearly \$100 billion (in 2000 dollars). Approximately one-quarter of the value of this at-risk property is concentrated in the County, indicating that the County is particularly vulnerable to impacts associated with sea-level rise due to extensive development on its coastline. A wide range of critical infrastructure, such as roads, airports, hospitals, schools, emergency facilities, wastewater treatment plants, power plants, and wetlands is also vulnerable. Continued development in vulnerable areas will put additional assets at risk and raise protection costs.

It has been projected that within 40 to 60 years, coastal floods will affect as many as 90,000 residents in the County, the most vulnerable county in California, with current uses on land less than 3 feet above the high tide line along San Francisco Bay, and rising sea levels resulting from global warming are likely to make previously unprecedented floods an annual event along the bay shore.

The Successor Agency is unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur, and if any such events occur, whether they will have a material adverse effect on the Project Areas, the business operations or financial condition of the County and the local economy. There can be no assurance that such assurance that such risks will not become material in the future.

## **Drought and Emergency Drought Response**

On March 27, 2015, Governor Brown signed emergency legislation (AB 91 and 92) that will mandate reductions in residential use and expedite \$1 billion for drought and water infrastructure projects, including emergency food aid, drinking water, water recycling, conservation awareness, and flood protection. The action comes as the Sierra Nevada snowpack, which Californians rely on heavily during the summer for their water needs, is near a record low. Previously, on January 17, 2014, Governor Brown proclaimed a state of emergency due to the severe drought conditions faced by the State. Legislation was enacted in February which provided \$687.4 million to support drought relief. The 2014-15 State Budget includes additional one-time resources to continue immediate drought-related efforts started in 2014, such as an increase of \$53.8 million general fund and \$12.2 million other funds for firefighting efforts, and an increase of \$18.1 million general fund to aid in assessing water conditions and provide public outreach regarding water conservation.

The Governor’s May Revision to the proposed 2015-16 State Budget additionally addresses the current drought. The State of California has experienced four consecutive years of below average rain and snow, and is currently facing severe drought conditions in all 58 counties. The most recent surveys recorded the statewide average snowpack, which is the source for one third of the state’s water, at just 2 percent of the normal average. Since the Governor first declared a state of emergency in January 2014, the Administration has worked with the Legislature to appropriate approximately \$1.9 billion to assist drought impacted communities and provide additional resources for critical water infrastructure projects. The state’s emergency drought response accelerates several of the key actions in the California Water

Action Plan. The May Revision includes an additional \$2.2 billion of one time resources to continue the state's response to drought impacts. The funds will protect and expand local water supplies, conserve water and respond to emergency conditions.

The City's water supply is provided by Cal Water, a private water supplier that provides water to 21 districts in California. Cal Water is responsible for developing and enforcing the compliance plan to meet the State regulations. Cal Water filed its draft Schedule 14.1 with the California Public Utilities Commission (CPUC) on April 28, 2015. Cal Water's Schedule 14.1, which goes into effect on June 1, 2015, provides for household and business water budgets and associated enforcement measures to reduce water use in its districts.

The Cal Water Bayshore District, which includes the City, must achieve a 16% reduction in water use, as set by the State. Savings achieved in 2014 are subtracted from the reduction requirement to determine the savings that still need to be achieved. The Bayshore District had previously achieved an 11% reduction and as a result will need to conserve an additional 5% to meet the State mandate.

Hydrology in the western United States and the quantity of groundwater supplies are subject to cyclical changes, changes in climate and rainfall and levels of use. The Successor Agency cannot make any assurance as to the reliability or adequacy of future supplies to meet future demands.

### **Hazardous Substances**

An additional environmental condition that may result in the reduction in the assessed value of parcels would be the discovery of a hazardous substance that would limit the beneficial use of the property. In general, the owners and operators of an assessed parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as CERCLA or the Superfund Act, is the most well-known and widely applicable of these laws but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the assessed parcels be affected by a hazardous substance would be to reduce the marketability and value of the parcel by the costs of remedying the condition, since the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

### **Subordinate Lien Risks**

The 2015 Bonds are payable from tax increment revenues on a basis junior and subordinate to the 2007 Bonds with respect to that portion of tax increment revenue pledged under the 2007 Indenture to make payments on the 2007 Bonds, but only to the extent required to make such payments. In the event of default or insufficiency of that tax increment revenue pledged under the 2007 Indenture that affects payment under the 2007 Bonds, the municipal bond insurers and/or owners of such bonds will have the right to direct rights and remedies including acceleration of the principal amount of such bonds, which would adversely affect the availability of Tax Revenues to the 2015 Bonds.

Additionally, the 2007 Indenture contains a covenant requiring the escrow of Tax Revenues from the Merged Project Area (the Project Areas herein) in the event certain thresholds are met. Because of the possibility of reaching these tax increment caps, the Former Agency covenanted in the 2007 Indenture that it will annually review (i) the total amount of Pledged Tax Revenues (as defined in the 2007 Indenture) remaining available to be received by the Former Agency under the Redevelopment Plan's

cumulative tax increment limitation; and (ii) future cumulative annual debt service (as defined in the 2007 Indenture).

As provided in the 2007 Indenture, once the Successor Agency has determined that during the next succeeding Bond Year, the total amount of Pledged Tax Revenues (as such term is defined in the 2007 Indenture) remaining available to be received by the Successor Agency under the Redevelopment Plan's cumulative tax increment limitation is expected to equal at least 90% of the Redevelopment Plan's cumulative tax increment limitation for either Project Area, then the Successor Agency shall either (1) deposit all future Pledged Tax Revenues from the applicable Project Area into a special escrow account exclusively for the payment of interest on and principal of and redemption premiums, if any, on the 2007 Bonds or (2) adopt a plan approved by an Independent Financial Consultant or Independent Redevelopment Consultant (as such terms are defined in the 2007 Indenture) which demonstrates the Successor Agency's continuing ability to pay debt service on the 2007 Bonds. In determining the amount to be deposited into such a special escrow account, the Successor Agency may take into account reasonable projected interest earnings on the amounts so deposited.

The successor covenants in the Indenture, as long as the Plan Limits apply to the Successor Agency under the Law and any 2015 Bonds are outstanding, to comply with its obligations under the 2007 Indenture regarding Plan Limits as described above but, in doing so, shall take all actions necessary to ensure that it can adopt a plan approved by an Independent Financial Consultant or Independent Redevelopment Consultant (as such terms are defined in the 2007 Indenture) which demonstrates the Successor Agency's continuing ability to pay debt service on the 2007 Bonds rather than the option under the 2007 Indenture to deposit all future Pledged Tax Revenues (as such term is defined in the 2007 Indenture) from the applicable Project Area into a special escrow account exclusively for the payment of interest on and principal of and redemption premiums, if any, on the 2007 Bonds. In furtherance of the covenant in the preceding sentence, if the Successor Agency ever determines that during the next succeeding Bond Year, the total amount of property tax revenues available to be deposited into the RPTTF under the Plan Limits is expected to equal at least 80% of the Plan Limit for either Project Area, then the Successor Agency shall either (i) adopt a plan approved by an Independent Redevelopment Consultant that demonstrates the Successor Agency's continuing ability to pay debt service, first, on the 2007 Bonds and, second, pro rata on the 2015 Bonds and any Parity Debt, or (ii) claim all property tax revenues deposited in the RPTTF not needed to pay current or any past due debt service on any Successor Agency obligations on each ROPS for so long as the 80% threshold set forth above is met and deposit such amounts when received into a Trustee-held escrow account (the "Escrow Account") and invested in Defeasance Obligations. Moneys in the Escrow Account must be used only to pay debt service, first, on the 2007 Bonds and, second, pro rata on the 2015 Bonds and any Parity Debt, or to redeem 2015 Bonds and any Parity Debt that does not constitute Bonds.

### **Risks of Real Estate Secured Investments Generally**

The Owners and Beneficial Owners of the 2015 Bonds will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (a) adverse changes in local market conditions, such as changes in the market value of real property within and in the vicinity of the Project Areas, the supply of or demand for competitive properties in the Project Areas, and the market value of competitive properties in the event of sale or foreclosure, (b) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies, and (c) natural disasters (including, without limitation, earthquakes, fires, droughts and floods), which may result in uninsured losses.

### **Reduction in Inflationary Rate**

As described in greater detail in this Official Statement, Article XIII A of the California Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. Such measure is computed on a calendar year basis. See “LIMITATIONS ON TAX REVENUES” for a discussion of how this measure or other initiative measures adopted by the California electorate could reduce Tax Revenues under the Indenture.

Such a reduction could lower the tax increment revenues available to the Successor Agency for payment of the 2015 Bonds.

### **Reduction in Taxable Value**

Tax increment revenues allocated to the Successor Agency are determined by the amount of incremental taxable value in the Project Areas and the current rate or rates at which property in the Project Areas is taxed. See “THE PROJECT AREAS.” The reduction of taxable values of property in the Project Areas caused by economic factors beyond the Successor Agency’s control, such as relocation out of the Project Areas by one or more major property owners, sale of property to a non-profit corporation exempt from property taxation, or the complete or partial destruction of such property caused by, among other calamities, earthquake or other natural disaster, could cause a reduction in the tax increment revenues and, in turn, the Tax Revenues that secure the 2015 Bonds. Such reduction of Tax Revenues could have an adverse effect on the Successor Agency’s ability to make timely payments of principal of and interest on the 2015 Bonds. See also “LIMITATIONS ON TAX REVENUES – Property Tax and Spending Limitations – Article XIII A of the California Constitution.” In addition, if there is a decline in the general economy of the Project Areas, the owners of property within the Project Areas may be less able or less willing to make timely payments of property taxes or petition to reduce assessed valuation causing a delay or reduction in tax increment revenues received by the Successor Agency from the Project Areas and, accordingly, could have an adverse effect on the ability of the Successor Agency to pay debt service on the 2015 Bonds.

### **Levy and Collection of Taxes**

The Successor Agency has no independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the Tax Revenues, and accordingly, could have an adverse impact on the ability of the Successor Agency to pay debt service on the 2015 Bonds. Likewise, delinquencies in the payment of property taxes and the impact of bankruptcy proceedings on the legal ability of the County to collect property taxes could have an adverse effect on the Successor Agency’s ability to make timely debt service payments. However, it is current County policy to allocate to the Successor Agency 100% of its proportionate share of property taxes collected within the Project Areas, regardless of delinquencies. Notwithstanding the foregoing, the County in its discretion could discontinue such practice. See “Property Tax Collection Procedures” below.

### **Property Tax Collection Procedures**

In California, property which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” The “secured roll” is that part of the assessment roll containing state-assessed public utilities’ property and property the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become



a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured properties are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. Collections are the responsibility of the County Treasurer and Tax Collector.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition property on the secured roll with respect to which taxes are due is delinquent on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector.

Historically, property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB 813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A ten percent (10%) penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1.5% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer, (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer, (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer, and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes to the State for the amount of taxes which are delinquent.

The County has not implemented a Teeter Plan with respect to the collection and distribution of taxes. See "THE PROJECT AREAS" hereto for a summary of historical assessed valuation of property in the Project Areas, current assessment appeals and historical delinquencies.

### **Assessment Appeals**

Pursuant to California law, a County property owner desiring to reduce the assessed value of such owner's property in any one year must submit an application to the San Mateo County Assessment Appeals Board (the "Appeals Board"). Following a review of the application by the County Assessor's Office, the County Assessor may offer to stipulate to a reduced assessment or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which written application is filed. The assessed value increases to its pre-reduction level for fiscal years following the year for which the reduction application is filed, with certain exceptions. The Assessor may

reassert the pre-appeal level of assessed value depending on the County Assessor's determination of current value. See APPENDIX C – "FISCAL CONSULTANT'S REPORT."

Property taxable values may be reduced as a result of a successful appeal of the taxable value determined by the County Assessor. An appeal may result in a reduction to the Assessor's original taxable value and a tax refund to the applicant property owner. A reduction in taxable values within the Project Areas and the refund of taxes which may arise out of successful appeals by property owners will affect the amount of Tax Revenues. The Successor Agency has in the past experienced reductions in Tax Revenues as a result of assessment appeals. The actual impact to tax increment is dependent upon the actual revised value of assessments resulting from values determined by the County Assessment Appeals Board or through litigation and the ultimate timing of successful appeals. See "THE PROJECT AREAS – Assessment Appeals" for a discussion of historical assessment appeals in the Project Areas.

### **Economic Risks**

The Successor Agency's ability to make payments on the 2015 Bonds will be partially dependent upon the economic strength of the Project Areas. If there is a decline in the general economy of the Project Areas, the owners of property may be less able or less willing to make timely payments of property taxes causing a delay or stoppage of tax increment revenues. In the event of decreased values, Tax Revenues may decline as a result.

### **State Budget**

AB 26 and AB 1484 were enacted by the State Legislature and Governor as trailer bills necessary to implement provisions of the State's budget acts for its Fiscal Years 2011-12 and 2012-13, respectively, as efforts to address structural deficits in the State general fund budget. In general terms, these bills implemented a framework to transfer cash assets previously held by redevelopment agencies to cities, counties, and special districts to fund core public services, with assets transferred to schools offsetting State general fund costs (then projected savings of \$1.5 billion). There can be no assurance that additional legislation will not be enacted in the future to additionally implement provisions relating to the State budget or otherwise that may affect successor agencies or tax increment revenues, including Tax Revenues.

On January 9, 2015, the Governor announced his proposed budget for Fiscal Year 2015-16 (the "Proposed Budget"). As part of the Proposed Budget, the Governor has proposed legislation which is contained in a proposed budget trailer bill, which was revised in March 2015, addressing the redevelopment agency dissolution process which, among other things would:

(i) Transition all successor agencies from a biannual ROPS process to an annual ROPS process beginning January 1, 2016 when the successor agencies transition to a countywide oversight board.

(ii) Establish a "Last and Final" ROPS process beginning September 2015. The Last and Final ROPS will be available only to successor agencies that have a Finding of Completion, are in agreement with the DOF on what items qualify for payment, and meet other specified conditions. If approved by the DOF, the Last and Final ROPS will be binding on all parties and the successor agency will no longer submit a ROPS to the DOF or the oversight board. The county auditor-controller will remit the authorized funds to the successor agency in accordance with the approved Last and Final ROPS until each remaining enforceable obligation has been fully paid.

(iii) Clarify that former tax increment caps and plan limits do not apply for the purposes of paying approved enforceable obligations.

The full text of each Assembly Bill cited above may be obtained from the “Official California Legislative Information” website maintained by the Legislative Counsel of the State of California pursuant to State law, at the following web link: <http://www.leginfo.ca.gov/bilinfo.html>.

On May 13, 2015, the Governor released the May revision to the Proposed Budget (the “May Revision”). The May Revision proposes additional changes to the wind-down process for redevelopment agencies set forth in the Dissolution Act. The May Revision includes the following provisions not addressed in the Proposed Budget:

- Allows successor agencies that enter into a written payment agreement with the DOF to remit their unencumbered cash assets of redevelopment agencies to the county auditor-controller to receive a finding of completion.
- Provides that successor agencies with a finding of completion may expend a portion of these stranded proceeds, with the unused portions to be used to defease outstanding bonds.
- Clarifies that any pension or State Water Project override revenues pledged to debt service must be used for that purpose, with certain limitations.
- Allows agreements between the former redevelopment agencies and its sponsoring entity that relate to state highway infrastructure improvements to be an enforceable obligation.
- Clarifies that a sponsoring entity can loan money to a successor agency for litigation expenses associated with challenging dissolution decisions and those loaned amounts may be repaid as an enforceable obligation if the litigation is successful.
- Clarifies, as a result of a final court decision, that reentered agreements entered into after the passage of AB 1484 (Committee on Budget), Chapter 26, Statutes of 2012, are unauthorized and unenforceable, unless they were for the purpose of providing administrative support activities.

The Successor Agency does not anticipate that the proposed amendments to the Dissolution Act in the Proposed Budget (as revised by the May Revision) will adversely affect the ability of the Successor Agency to pay debt service on the 2015 Bonds.

On June 19, 2015, the State Legislature passed the 2015-16 budget bill and certain related legislation not including the additional changes to the wind-down process for redevelopment agencies discussed above. The budget agreement relies on the administration’s May 2015 estimates of (1) General Fund revenues, (2) the Proposition 98 minimum guarantee for schools and community colleges, and (3) budget reserve and debt payment requirements under Proposition 2. School and community college funding is the centerpiece of the agreement, as administration estimates of the Proposition 98 minimum guarantee have increased substantially over June 2014 levels. The terms of the budget trailer bill have not yet been approved by the Governor or enacted into law.

Information about the State budget and State spending is available at various State maintained websites. Text of the Proposed Budget, the May Revision and other documents related to the State

budget may be found at the website of the DOF, [www.dof.ca.gov](http://www.dof.ca.gov). A nonpartisan analysis of the budget is posted by the Legislative Analyst's Office at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State official statements, many of which contain a summary of the current and past State budgets may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov).

Information on these websites has not been reviewed or verified by the Successor Agency and is not incorporated by reference in this Official Statement. They are cited for informational purposes only. The Successor Agency can make no representation whatsoever as to the accuracy or completeness of any of the information on such websites.

Certain litigation is challenging some of the terms of the Dissolution Act, and it is anticipated that there will be additional future legislation in this area. The Successor Agency cannot predict what measures may be proposed or implemented for the current fiscal year or in the future.

### **Direct and Overlapping Indebtedness**

The ability of land owners within the Project Areas to pay property tax installments as they come due could be affected by the existence of other taxes and assessments, imposed upon the land. In addition, other public agencies whose boundaries overlap those of the Project Areas could, without consent of the Successor Agency, and in certain cases without the consent of the owners of the land within the Project Areas, impose additional taxes or assessment liens on the property to finance public improvements. See "Bankruptcy and Foreclosure" below.

### **Bankruptcy and Foreclosure**

The payment of the tax increment revenues and the ability of the County to foreclose the lien of a delinquent unpaid tax may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. The various legal opinions to be delivered concurrently with the delivery of the 2015 Bonds (including Bond Counsel's approving legal opinions) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the liens to become extinguished, bankruptcy of a property owner could result in a delay in prosecuting superior court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of the principal of and interest on the 2015 Bonds and the possibility of delinquent tax installments not being paid in full.

### **Future Legislation and Initiatives**

In addition to the other limitations on Tax Revenues, the California electorate or Legislature could adopt a constitutional or legislative property tax decrease with the effect of reducing Tax Revenues payable to the Successor Agency. There can be no assurance that the California electorate will not at some future time adopt an initiative or that the State Legislature will not enact legislation that will amend the Law or other State laws or the California Constitution resulting in a reduction of either Tax Revenues and, consequently, having an adverse effect on the Successor Agency's ability to pay debt service on the 2015 Bonds.

Article XIII A, Article XIII B and Proposition 218 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the Successor Agency or the Successor Agency's ability to

expend revenues. In addition, there are currently a number of proposed legislative changes to the Dissolution Act which, if adopted, would also affect revenues of the Successor Agency or the Successor Agency's ability to expend revenues. The nature and impact of these measures cannot currently be anticipated.

## **NO LITIGATION**

There is no litigation, action, suit, proceeding or investigation (or any basis therefor) at law or in equity before or by any court, governmental agency or body, pending by way of a summons served against the Successor Agency or, to its knowledge, threatened against the Successor Agency, challenging the creation, organization or existence of the Successor Agency, or the validity of the Indenture, the Escrow Agreement, the Disclosure Certificate or the Bond Purchase Agreement or seeking to restrain or enjoin any of the transactions referred to therein or contemplated thereby or contesting the authority of the Successor Agency to enter into or perform its obligations under the Supplemented Indenture, the Escrow Agreement, the Disclosure Certificate or the Bond Purchase Agreement, or under which a determination adverse to the Successor Agency would have a material adverse effect upon the availability of Tax Revenues, or which, in any manner, questions the right of the Successor Agency to enter into, and perform under, the Supplemented Indenture, the Escrow Agreement, the Disclosure Certificate or this Bond Purchase Agreement. Further, there is no litigation pending, or to the knowledge of officials of the Successor Agency, threatened against or affecting the Successor Agency, which will materially adversely affect the financial position or results of operations of the Successor Agency.

With respect to California successor agencies and the Dissolution Act in general, on August 1, 2012, Syncora Guarantee Inc. and Syncora Capital Assurance Inc. (collectively, "Syncora") filed a lawsuit against the State, the State Controller, the State Director of Finance, and the Auditor-Controller of San Bernardino County on his own behalf and as the representative of all other county auditors in the State (Superior Court of the State of California, County of Sacramento, Case No. 34-2012-80001215) (the "Syncora Lawsuit") challenging the terms of the Dissolution Act. Syncora are monoline financial guaranty insurers domiciled in the State of New York, and as such, provide credit enhancement on bonds issued by state and local governments and do not sell other kinds of insurance such as life, health, or property insurance. Syncora provided bond insurance and other related insurance policies for bonds issued by former California redevelopment agencies, including a surety policy for the 2007 Bonds.

The Syncora Lawsuit was brought as a petition for writ of mandate, complaint for declaratory relief, inverse condemnation and injunctive relief. The injunctive relief sought included an injunction enjoining the respondents from implementing enforcing, and/or carrying out the Redistribution Provisions, ordering respondents to immediately return all money remitted by successor agencies to local taxing entities pursuant to the Redistribution Provisions, and ordering respondents to hold all future tax increment revenues in the RPTTF, or a similar fund, for the exclusive benefit of, and distribution to, the bondholders, until such a time when the bondholders are completely repaid. In August 2013, the court ordered Syncora's claims dismissed, without prejudice to refile, as premature claims for impairment of contract and an unconstitutional taking. The court noted that no redevelopment agency bonds are in default.

The original complaint alleged that the Dissolution Act, and specifically the "Redistribution Provisions" thereof (i.e., California Health and Safety Code Sections 34172(d), 34174, 34177(d), 34183(a)(4), and 34188) violate the "contract clauses" of the United States and California Constitutions (U.S. Const. art. 1, § 10, cl.1; Cal. Const. art. 1, § 9) because they unconstitutionally impair the contracts among the former redevelopment agencies, bondholders and Syncora. The complaint also alleged that the Redistribution Provisions violate the "Takings Clauses" of the United States and California Constitutions (U.S. Const. amend. V; Cal Const. art. 1 § 19) because they unconstitutionally take and appropriate

bondholders' and Syncora's contractual right to critical security mechanisms without just compensation. Specifically, the complaint alleges that the security mechanism created by the irrevocable pledge of tax increment revenues to repay the redevelopment agency debts was a critical feature of the redevelopment bonds' marketability. No assurance can be made that Syncora will not re-file its claim at a later date.

## TAX MATTERS

### 2015A Bonds

*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 2015A 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 this paragraph are subject to the condition that the Successor Agency comply with all requirements of the Internal Revenue Code of 1986 (the "Tax Code") that must be satisfied subsequent to the issuance of the 2015A Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Successor Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2015A Bonds.

*California Tax Status.* In the opinion of Bond Counsel, interest on the 2015A Bonds is exempt from California personal income taxes.

*Tax Treatment of Original Issue Discount and Premium.* If the initial offering price to the public (excluding bond houses and brokers) at which a 2015A Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each 2015A 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 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 2015A Bonds on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2015A Bond to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2015A Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2015A Bonds who purchase the 2015A Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2015A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2015A 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 2015A 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 2015A Bond (said term being the shorter of the 2015A 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 2015A Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2015A Bond is amortized each year over the term to maturity of the 2015A 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 2015A Bond premium is not deductible for federal income tax purposes. Owners of Premium 2015A 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 2015A Bonds.

*Form of Bond Counsel Opinions.* At the time of issuance of the 2015 Bonds, Bond Counsel expects to deliver an opinion for the 2015A Bonds in substantially the form set forth in Appendix C.

Owners of the 2015A Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2015 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the ownership, sale or disposition of the 2015A Bonds, or the amount, accrual or receipt of interest on the 2015A Bonds.

To ensure compliance with the requirements imposed by the Internal Revenue Service, purchasers and Owners of the 2015A Bonds should be aware that any federal income tax advice contained in this Official Statement (including the Appendices hereto) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Tax Code, or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.

## **2015B Bonds**

The interest on the 2015B Bonds is not intended by the Successor Agency to be excluded from gross income for federal income tax purposes. However, in the opinion of Bond Counsel, interest on the 2015B Bonds is exempt from California personal income taxes. The proposed form of opinion of Bond Counsel with respect to the 2015B Bonds to be delivered on the date of issuance of the 2015B Bonds is set forth in Appendix E.

Owners of the 2015B Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2015B Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the ownership, sale or disposition of the 2015B Bonds, or the amount, accrual or receipt of interest on the 2015B Bonds.

## **RATING**

Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") has assigned its municipal bond rating of "A" to the 2015 Bonds. Such rating reflects only the views of S&P, and any explanation of the significance of such rating should be obtained from S&P. There is no assurance that such rating will continue for any given period of time or will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P circumstances so warrant. The Successor Agency undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2015 Bonds.

## **CONTINUING DISCLOSURE**

The Successor Agency has covenanted to provide certain financial information and operating data by not later than 270 days following the end of the Successor Agency's Fiscal Year (presently June 30) in each year commencing with its report for the 2014-15 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 Successor Agency with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (the "EMMA System"), for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the U.S. Securities and Exchange Commission ("SEC"). These covenants have been made in order to assist the Underwriter in complying with the Rule. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events by the Successor Agency is summarized in APPENDIX F – "FORM OF CONTINUING DISCLOSURE Agreement."

The City Council acts as the legislative body of the Successor Agency, the City's joint powers financing authority and community facilities districts. The City has not failed to comply, in any material respect, with an undertaking under the Rule in the past five years, except as follows:

(a) With respect to the City's 2011 annual report filing, the City sent a continuing disclosure report that consolidated all required continuing disclosure for its general obligation bonds, joint powers financing authority revenue bonds, sewer revenue bonds and redevelopment bonds together with its Comprehensive Annual Financial Report to its dissemination agent for filing. While the dissemination agent filed this Official Statement and the Fiscal Consultant's Report properly for the City's general obligation bonds, joint powers financing authority revenue bonds, and sewer revenue bonds, the report was not filed or uploaded to the EMMA portal in connection with the Former Agency's tax allocation bonds.

(b) Various notices of rating changes for several City bond issues, constituting material events, were not timely filed.

All the required filings have now been made to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access web site, which can be found on the Internet at [emma.msrb.org](http://emma.msrb.org). Reference to that web site is made for convenience only; its contents are not incorporated by reference into this Official Statement.

The City and Successor Agency have taken steps to implement procedures to better meet its obligation under the Rule. City staff members have participated in training on recent changes to the Rule and are developing a continuing disclosure policy to be presented for City Council consideration in the near future.

## **UNDERWRITING**

The Successor Agency has agreed to sell the 2015 Bonds to Raymond James & Associates, Inc. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the 2015A Bonds at a purchase price of \$34,216,955.23 (the principal amount of the 2015A Bonds, less an Underwriter' discount in the amount of \$92,831.47, plus net original issue premium of \$3,099,786.70 and to purchase the 2015B Bonds at a purchase price of \$7,371,167.14 (the principal amount of the 2015B Bonds, less an Underwriter' discount in the amount of \$13,832.86. The Bond Purchase Agreement provides that the Underwriter will purchase all of the 2015 Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel, and certain other conditions. The initial public offering prices of the 2015 Bonds set forth on the inside front cover hereof may be changed from



time to time by the Underwriter. The Underwriter may offer and sell the 2015 Bonds to certain dealers and others at prices lower than the public offering prices stated on the inside front cover hereof.

The Underwriter reserves the right to join with dealers and other underwriters in offering the 2015 Bonds to the public. The Underwriter may offer and sell such 2015 Bonds to certain dealers (including dealers depositing 2015 Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers.

#### **MUNICIPAL ADVISORS AND FISCAL CONSULTANT**

Kitahata & Company, San Francisco, California, and William Euphrat Municipal Finance, Inc., San Francisco, California, have served as municipal advisors to the Successor Agency on the issuance of the 2015 Bonds. Both firms are independent municipal advisors that are not engaged in the underwriting, sale or trading of municipal securities. The fees to be paid to the municipal advisors for services rendered with respect to the 2015 Bonds is contingent upon the sale and issuance of the 2015 Bonds.

Urban Analytics, LLC, San Francisco, California, serves as Fiscal Consultant to the Successor Agency on a continuing basis. The Fiscal Consultant's Report is contained in Appendix C to this Official Statement.

#### **LEGAL MATTERS**

The validity of the 2015 Bonds and certain other legal matters are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. A copy of the proposed form of Bond Counsel opinion with respect to the 2015 Bonds is contained in Appendix E hereto. Certain legal matters will be passed upon for the Successor Agency by Shawn Mason, Esq., City Attorney, acting as General Counsel to the Successor Agency. Certain legal matters will be passed upon for the Successor Agency by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Quint & Thimmig LLP, Larkspur, California. Bond Counsel, Disclosure Counsel and Underwriter's Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

**ADDITIONAL INFORMATION**

All the summaries contained herein of Indenture and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Successor Agency for further information in connection therewith.

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of the statements will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the Owners of 2015 Bonds.

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

SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF  
SAN MATEO

By: /s/ Kathleen Von Achen  
Interim Finance Director-Treasurer

## APPENDIX A

### CITY OF SAN MATEO ECONOMIC AND DEMOGRAPHIC INFORMATION

*The following information is presented as general background data. The 2015 Bonds are payable solely from Tax Revenues and moneys in the Debt Service Fund (including the Interest Account, the Principal Account and the Redemption Account) established and held by the Trustee under the Indenture as described in the Official Statement. The taxing power of the City, the State or any political subdivision thereof is not pledged to the payment of the 2015 Bonds. See the section of this Official Statement entitled "SECURITY AND SOURCES OF PAYMENT FOR THE 2015 BONDS."*

#### General

The City is located on the San Francisco Peninsula, some 20 miles south of San Francisco. Stanford University is located approximately 15 miles south of the City and just beyond Stanford University lies the electronics research and manufacturing center known as Silicon Valley. The City is at the northern end of Silicon Valley and the City of San Jose is at the southern end of Silicon Valley (approximately 30 miles south of San Mateo). San Mateo has long been recognized as a prime residential community conveniently located mid-way between major areas of employment to the north and the south. The City's strategic location at the crossroads of major freeways (Interstate 280, U.S. 101 and State Route 92) and its proximity to San Francisco International Airport (8 miles north) have also enhanced its reputation as the commercial, financial center and administrative headquarters of the Peninsula.

The City was incorporated in 1894. It is a California chartered city with a Council-Manager form of government, whereby the policies of the Council are administered by a City Manager, who is appointed by the Council. The Council consists of five members who are elected at large on a non-partisan basis for four-year staggered terms. The Mayor is selected annually by the Council.

The City, as the second most populous city in San Mateo County (the "County"), occupies 14.6 square miles on the Peninsula. The City's current population is approximately 101,429 as of January 1, 2015 according to the State Department of Finance. A portion of the northeastern boundary of the City fronts on San Francisco Bay and the Pacific Ocean is about 12 miles west of the City.

The County embraces the major portion of the San Francisco Peninsula. The County occupies 454 square miles with approximately 25 miles of San Francisco Bay frontage and 55 miles of Pacific Ocean coastline.

San Mateo County is home to 13 of the top 25 largest software companies in the San Francisco Bay Area. San Mateo County businesses added 16,200 jobs in the first quarter of 2015, with the highest number of new jobs attributed to software development companies. The Peninsula continues to attract high technology business, a dominant business sector user in the Peninsula market. The first quarter of 2015 continued to demonstrate heightened confidence in the Peninsula, and office space continues to lease and sell at record high prices.

One recent property acquisition is Hudson Pacific Properties approximate \$3.5 billion acquisition of the Equity Office Properties portfolio, which included 24 buildings totaling more than 2.7 million square feet of space, first announced in December 2014 and closed in April 2015.

Rental rates have been increasing in most Peninsula submarkets over the last few quarters with direct average monthly rental rates increasing to \$3.84/s.f., full service in the first quarter of 2015. The

year-on-year direct asking rental rates have increased 8% over the past 12 months. Vacancy in the Peninsula office market rose slightly quarter-over-quarter in the first quarter of 2015 to a new level of 9.5% market-wide. This represents the first increase in vacancy in six quarters.

## **Municipal Services**

***Police and Fire.*** The Police Department has 163 police personnel and officers and the Fire Department operates with 100 fire personnel and officers. Six fire stations are strategically located throughout the City which house a total of six engines, one aerial truck and one reserve engine. All first-line apparatus is diesel powered and equipped with the latest firefighting equipment.

***Parks and Recreation.*** The City's Park and Recreation Department offers a varied, year-round recreation program to all ages. The City has six community centers and two swim centers. The King Center, with a swimming pool and indoor gymnasium, is the largest recreation center in the City.

The City has 30 developed parks and playgrounds totaling 322 acres; 334 acres of undeveloped park land; an 18-hole municipal golf course with clubhouse facilities; a marina lagoon with two beaches and small craft launching facilities; tennis courts; baseball diamonds, athletic fields, picnic areas, trails, scenic and passive use areas.

The San Francisco Bay Area, including the City's Bayside, which offers an extensive yacht harbor, and the nearby Pacific Ocean, provide additional recreational opportunities.

***Library.*** The City operates a main library and two branch libraries. In addition, the Peninsula Library System consortium of San Mateo County libraries makes library services available to all library users of the seven municipal library systems, the County's 12 libraries and the three campuses of the San Mateo Community College District through a shared network and database access to over 2.6 million volumes and delivery service.

## **Population**

San Mateo is considered a fully developed community. The following table shows the City's population growth and income statistics for selected years.

**CITY OF SAN MATEO**  
**Demographic and Economic Statistics**  
**for the Fiscal Years 2005-2015**

<b>Fiscal Year</b>	<b>City Population Estimate <sup>(1)</sup></b>	<b>Personal Income <sup>(2)</sup></b>	<b>Per Capita Personal Income <sup>(2)</sup></b>	<b>Median Age</b>	<b>Public School Enrollment <sup>(3)</sup></b>	<b>County Population Estimate <sup>(1)</sup></b>
2005	93,050	5,509,769,650	59,213	39.2	11,360	700,350
2006	94,212	5,767,564,428	61,219	n/a	11,305	699,347
2007	94,315	4,003,294,490	42,446	38.4	11,073	701,838
2008	95,510	4,181,101,280	43,655	n/a	11,749	707,820
2009	95,776	4,212,343,104	43,981	40.1	11,859	713,818
2010	96,529	4,230,383,425	43,825	39.4	12,100	718,614
2011	97,966	4,180,503,118	42,673	38.6	11,995	722,373
2012	98,298	4,315,282,200	43,900	39.7	19,451	727,795
2013	99,061	4,429,908,859	44,719	37.3	19,700	736,647
2014	100,106	4,570,705,818	45,659	40.2	19,868	745,193
2015	101,429	-	-	-	20,179	753,123

Notes:

- (1) Population Projections are provided by the California Department of Finance Projections.
- (2) Income Data is provided by U.S. Census Bureau, 2010 American Community Survey.
- (3) Student Enrollment reflects the total number of students enrolled in the San Mateo Union High and San Mateo Foster City Unified School Districts provided by the California Department of Education.
- (4) Unemployment Data is provided by the EDD's Bureau of Labor Statistics Department.

Source: MuniServices, LLC. Excerpted from City of San Mateo Comprehensive Annual Financial Report for the Year Ended June 30, 2014.

**Building Activity**

The City is informed that there is currently approximately 2.1 million sq. ft. of development under construction in the Peninsula. Bay Meadows II in the City officially broke ground in early 2015, and is now the largest office development project under construction north of Redwood City.

The following table provides a summary of building permit valuation and the number of new dwelling units authorized in the County for the years 2010 through 2014.

**COUNTY OF SAN MATEO**  
**Building Permits Valuations**  
**for the Years 2010-2014**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Valuations</b>					
Multi-Family	\$ 10,792,185	\$ 92,678,235	\$ 102,013,185	\$ 151,019,526	\$ 168,859,462
Single Family	173,638,375	184,121,809	218,518,023	292,893,385	289,903,231
<b>Total</b>	<u>\$ 184,430,560</u>	<u>\$ 276,800,044</u>	<u>\$ 320,531,208</u>	<u>\$ 443,912,911</u>	<u>\$ 458,762,693</u>
<b>Number of construction permits by type</b>					
Single Family	193	213	229	350	315
Multiple Family	<u>47</u>	<u>506</u>	<u>591</u>	<u>840</u>	<u>1,302</u>
<b>Total all types</b>					
<b>Residential Construction permits</b>					
	<u>240</u>	<u>719</u>	<u>820</u>	<u>1,190</u>	<u>1,617</u>

\*Totals may not add due to independent rounding.

Source: Construction Industry Research Board.

## Employment

The civilian labor force in the City increased from an annual average of 55,300 in 2010 to the 2014 average of 60,800. As of 2014, the City's annual unemployment rate was reported at 4.1% which is significantly lower than the State unemployment rate of 7.5% for the same year. The following summarizes the labor force, employment and unemployment figures for the years 2010 through 2014 for the City, the State and the nation as a whole.

### City of San Mateo Labor Force, Employment and Unemployment Yearly Average for the Years 2010-2014

Year and Area	Civilian Labor Force	Civilian Employment	Unemployment	Unemployment Rate (%)
<b>2010</b>				
City of San Mateo	55,300	50,800	4,500	8.1%
California	18,336,300	16,091,900	2,244,300	12.2
United States	153,889,000	139,064,000	14,825,000	9.6
<b>2011</b>				
City of San Mateo	56,300	52,200	4,100	7.3%
California	18,419,500	16,260,100	2,159,400	11.7
United States	153,617,000	139,869,000	13,747,000	8.9
<b>2012</b>				
City of San Mateo	58,200	54,500	3,600	6.2%
California	18,554,800	16,630,100	1,924,700	10.4
United States	154,975,000	142,469,000	12,506,000	8.1
<b>2013</b>				
City of San Mateo	59,300	56,300	3,000	5.1%
California	18,671,600	17,002,900	1,668,700	8.9
United States	155,389,000	143,929,000	11,460,000	7.4
<b>2014</b>				
City of San Mateo	60,800	58,300	2,500	4.1%
California	18,811,400	17,397,100	1,414,300	7.5
United States	155,922,000	146,305,000	9,617,000	6.2

Sources: California Employment Development Department and U.S. Bureau of Labor Statistics.

The following table shows the City's principal employers for the Fiscal Year 2014.

**City of San Mateo  
Principal Employers for City of San Mateo  
for the Fiscal Year 2014**

<b>Company Name</b>	<b>Number of Employees</b>	<b>Percent of Total Employment</b>
County of San Mateo Medical Center <sup>(1)</sup>	1,241	2.33%
San Mateo-Foster City Unified School District	1,161	2.18
Franklin Templeton Investor	1,120	2.10
San Mateo Community College District <sup>(2)</sup>	1,072	2.01
City of San Mateo	949	1.78
San Mateo Union High School District	945	1.77
Fisher Investments	494	0.93
San Mateo County Behavioral Health	475	0.89
Mills Peninsula Health Services	458	0.86
Macy's Department Stores	351	0.66
Total Top 10 Employers	7,778	15.51%
Total Labor Force <sup>(3)</sup>	53,300	

Notes: Results based on direct correspondence with city's local businesses, other potential businesses which may qualify for this inclusion in this table could not be contacted for verification.

(1) Includes all employees, including outside clinic locations.

(2) Includes district location only, excluding Skyline College in San Bruno and Canada College in Redwood City.

(3) Total City Labor Force provided by EDD Labor Force Data.

Source: MuniServices, LLC. Excerpted from City of San Mateo, Comprehensive Annual Financial Report for the Year ended June 30, 2014.



**Retail Sales**

**City of San Mateo  
Taxable Transactions  
for the Years 2010-2013  
(in thousands of dollars)**

<b>Type of Business</b>	<b>2010 Taxable Transactions</b>	<b>2011 Taxable Transactions</b>	<b>2012 Taxable Transactions</b>	<b>2013<sup>(1)</sup> Taxable Transactions</b>
Retail and Food Services				
Motor Vehicle and Parts Dealers	\$ 84,440	\$ 83,506	\$ 90,494	\$ 88,501
Home Furnishing & Appliance Stores	81,463	75,456	85,840	95,459
Bldg. Material, Garden Equip. and Supplies	73,800	75,967	75,897	82,860
Food and Beverage Stores	82,097	86,504	90,694	94,200
Gasoline Stations	147,021	182,845	198,362	195,337
Clothing and Accessory Stores	169,211	180,891	199,600	200,833
General Merchandise Stores	153,540	159,784	161,739	164,216
Food Services and Drinking Places	183,963	205,170	227,010	240,605
Other Retail Group	174,942	180,481	192,727	197,078
<b>Total Retail and Food Services</b>	<b>\$1,150,478</b>	<b>\$1,230,604</b>	<b>\$1,322,361</b>	<b>\$1,359,088</b>
All Other Outlets	\$174,025	\$248,170	\$282,517	\$232,578
<b>Total All Outlets</b>	<b>\$1,324,503</b>	<b>\$1,478,774</b>	<b>\$1,609,879</b>	<b>\$1,591,667</b>

(1) Most recent data available.

Source: California State Board of Equalization, Taxable Sales in California Reports 2010-2013.

## Assessed Valuations

The table that follows shows assessed valuations in the City for the applicable Fiscal Years.

### City of San Mateo Assessed Value and Estimated Actual Value of Taxable Property for the Fiscal Years 2004-2014 (in thousands of dollars)

Fiscal Year End	Residential Property <sup>(1)</sup>	Commercial Property <sup>(1)</sup>	Industrial Property <sup>(1)</sup>	Other Property <sup>(1)</sup>	Unsecured Property	Less Tax-Exempt Property	Taxable Assessed Property	Total Direct Tax Rate <sup>(2)</sup>	Estimated Actual Value <sup>(3)</sup>	Factor of Taxable Assessed Value <sup>(3)</sup>
2004	n/a	n/a	n/a	11,414,875	631,800	371,420	11,675,255	0.2515%	n/a	n/a
2005	n/a	n/a	n/a	12,164,159	621,721	411,532	12,374,348	0.2776	n/a	n/a
2006	n/a	n/a	n/a	13,002,371	587,741	422,313	13,167,799	0.3104	n/a	n/a
2007	n/a	n/a	n/a	14,255,402	551,774	494,189	14,312,987	0.3060	n/a	n/a
2008	12,260,293	2,571,883	161,498	436,943	513,757	447,993	15,496,381	0.1761	20,879,932	1.3474
2009	13,005,898	2,948,484	167,547	448,941	560,541	447,617	16,683,794	0.1761	22,513,112	1.3494
2010	12,894,324	2,879,860	171,214	523,642	569,599	458,346	16,580,293	0.1761	16,683,505	1.0062
2011	12,830,764	2,621,910	172,139	485,004	628,718	472,874	16,265,661	0.1761	16,436,938	1.0105
2012	12,976,523	2,696,014	174,929	460,901	640,569	517,189	16,431,747	0.1761	20,095,665	1.2230
2013	13,313,456	2,872,202	170,041	410,573	615,933	522,010	16,860,195	0.1761	24,094,905	1.4291
2014	14,242,602	3,067,403	178,139	432,072	630,440	510,141	18,040,515	0.1761	28,743,512	1.5933

Notes:

(1) Other property assessed value included residential, commercial and industrial property before 2008.

(2) Total direct tax rate is the city share of the 1% Proposition 13 tax only for TRA 12-001.

(3) Estimated Actual Value is derived from a series of calculations comparing median assessed values from 1940 to current median sale prices. Based on these calculations a multiplier value was extrapolated and applied to current assessed values. Information is not available before 2008.

Source: San Mateo County Assessor data, MuniServices, LLC.

Excerpted from the City of San Mateo, California Comprehensive Annual Financial Report for the Year Ended June 30, 2014.

## Largest Taxpayers

Principal Property Taxpayers in the City and their taxable valuations are as follows:

**City of San Mateo**  
**Principal Property Taxpayers for the Fiscal Year 2014**  
**(in thousands of dollars)**

<u>Taxpayer</u>	<u>Taxable Value</u>	<u>Rank</u>	<u>Percent of Total City Taxable Value</u>
Franklin Templeton Co LLC	250,339	1	1.39%
ASN Bay Meadows I LLC	244,199	2	1.35
Bohannon Development Co	184,713	3	1.02
Sobrato Interests Iii Lessee	153,945	4	0.85
Peninsula Office Park	130,723	5	0.72
EQR Townhouse Garden LLC	108,132	6	0.60
Essex Hillsdale Garden Apts	106,994	7	0.59
Park Place Realty Holding Co	102,800	8	0.57
DW Bridgepointe LLC	97,855	9	0.54
SPK San Mateo Baycenter	95,744	10	0.53
Total Top 10 Taxpayers	<u>1,475,444</u>		<u>8.10%</u>
Total Taxable Value	<u>18,039,767</u>		<u>100.00%</u>

Source: San Mateo County Assessor data, MuniServices, LLC. Excerpted from the City of San Mateo, California Comprehensive Annual Financial Report for the Year Ended June 30, 2014.

## Utilities

Gas and electricity are furnished by the Pacific Gas and Electric Company. Water is distributed through the facilities of the California Water Service Company.

## Education

The City is served by two school districts and one community college district. With nearly 11,000 students, the San Mateo-Foster City School District operates all but three of its 21 schools in the City. The San Mateo Union High School District has approximately 8,200 students, and three of its seven high schools are located in the City. The San Mateo County Community College District has an annual enrollment of 45,000 students in Redwood City, San Bruno and San Mateo and serves nearly all of the County with three accredited modern campuses. The three schools are the College of San Mateo, Cañada College and Skyline College.

More than twenty nearby accredited colleges include Stanford University, College of Notre Dame, University of California at Berkeley, University of Santa Clara, University of San Francisco and California State Universities at San Jose and San Francisco.

## **Transportation**

The City is traversed by three major north-south routes: U.S. 101 (Bayshore Freeway) and Interstate 280, which provide freeway transportation through the San Francisco Peninsula, and State Route 82 (El Camino Real) which also passes through the Peninsula. The City is also the western terminus of the nearly 7-mile long, 4-lane, high-level San Mateo-Hayward Bridge. The Bridge, which spans the San Francisco Bay, was completed in 1967 at a cost of \$70 million and connects the City with Alameda County and the east bay region of the Greater San Francisco Bay Area. State Route 92 connects the Bridge with Interstate 280 and U.S. 101.

The San Francisco International Airport is only 8 freeway miles from the City. Non-stop and direct service to major U.S. and international cities is available from San Francisco International Airport.

Commuter service is available via either the San Mateo County Transit System or CalTrain. The latter has a main line traversing the City, which connects San Francisco with San Jose. Served by both major freeways and rail facilities, San Francisco and Redwood City each have deep water port facilities.

**APPENDIX B**

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

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**City of San Mateo**  
**San Mateo, California**



Comprehensive  
Annual Financial Report  
For the Year Ended June 30, 2014





**CITY OF SAN MATEO  
SAN MATEO, CALIFORNIA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2014**

**Prepared by:**

**FINANCE DEPARTMENT**



**City of San Mateo**  
**Comprehensive Annual Financial Report**  
**For the year ended June 30, 2014**

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<http://www.cityofsanmateo.org>

November 21, 2014

Citizens of the City of San Mateo,  
Honorable Mayor, and  
Honorable Members of the City Council

State law requires that all general-purpose local governments publish within six months of the close of the fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. This report is prepared by the City of San Mateo, Department of Finance according to Section 5.26 of the City's Charter. Pursuant to the requirements, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the City for the fiscal year ended June 30, 2014.

This report consists of management's representations concerning the finances of the City and its blended component unit. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City. To provide a reasonable basis for making those representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with U.S. GAAP. The first note in the Notes to the Financial Statements provides a detail explanation of the City's significant accounting policies. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Badawi & Associates, a firm of licensed certified public accountants, has audited the City's financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City and blended component unit for the fiscal year ended June 30, 2014 are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion on the City's basic financial statements as of and for the year ended June 30, 2014. The independent auditors' report is presented as the first component of the financial section of this report.

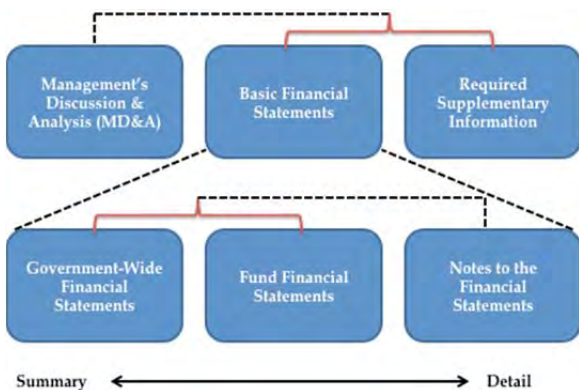
The analysis of the financial condition and the result of operations are in the Management's Discussion and Analysis (MD&A) section immediately following the auditor's report. This transmittal letter is designed to complement the MD&A and should be read in conjunction with the MD&A.

## THE REPORT

The CAFR is presented in three sections:

- The **Introduction** section includes this letter of transmittal, City Council introduction, the City’s organizational chart, and certificates of achievement.
- The **Financial** section includes the report of the independent auditors, Management’s Discussion and Analysis (MD&A), the basic financial statements, including the government-wide financial statements comprised of the Statement of Net Position and the Statement of Activities and the accompanying notes to the financial statements. The Financial Section also includes the fund financial statements including the governmental funds financial statements, the proprietary funds financial statements, the fiduciary funds financial statements, and the combining individual funds financial statements for the non-major governmental funds and the internal service funds. Required supplementary information other than the MD&A is also included in the financial section.
- The **Statistical** section includes selected financial and demographic information, on a multi-year basis.

Figure 1: CAFR Organization



This CAFR includes all funds of the City, and includes the City’s component unit, which is a legally separate organization and for which the City is financially accountable or whose relationship with the City is of a nature and significance that would cause the City’s financial statements to be incomplete were it not included.

In addition to the financial audit, the City undertakes a single audit in conformance with the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. The results of this single audit are available in the City’s single audit report, and include a schedule of expenditures of federal awards, and the independent auditors’ reports on the City’s internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards.

Figure 2: San Francisco Bay Area Map



## CITY PROFILE

The City of San Mateo is in San Mateo County in the San Francisco Bay Area high-tech enclave of Silicon Valley. The City is situated 19 miles south of San Francisco and 30 miles



north of San Jose, and covers an area of 14.6 square miles, including 3.87 square miles of tidelands from the Bay to the east and coastal mountains to the west. With its Mediterranean climate, citizens enjoy warm, sunny summers and mild damp winters, ideal for various recreational activities in the City's many neighborhood and regional parks, as well as mountain trails and sailing in the Bay.

San Mateo has a vibrant business and retail environment with national and international businesses, two major shopping centers and an active downtown. Downtown San Mateo is considered to be one of the larger, well-developed, more prominent suburban downtowns in the Bay Area with over 800 shops and restaurants, many of them in renovated historic buildings from the late 19<sup>th</sup> and early 20<sup>th</sup> centuries. The San Mateo Performing Arts Center hosts productions by numerous local, regional, and international artistic enterprises, including the Peninsula Ballet Theatre, the Peninsula Civic Light Opera, and the Peninsula Symphony. San Mateo has abundant shopping areas, including the Hillsdale Shopping Mall, the Bridgepointe Shopping Center, and Downtown San Mateo.

Figure 3: San Mateo County Map



One of the larger suburbs of the San Francisco Peninsula, San Mateo is bordered by the cities of Burlingame to the north, Foster City to the east, Belmont to the south, and Hillsborough

and San Mateo County to the west. The City of San Mateo has an estimated population of 100,106, compared to 745,193 residents in San Mateo County as projected by the California Department of Finance.

### CITY HISTORY

The first inhabitants of what is now the City of San Mateo were members a tribe of the Ohlone Indians (called Coastanoans by Spanish explorers). This Tribe lived in the area from South San Francisco to Belmont for at least 4,000 years before explorers first arrived on the Peninsula. In 1776, Spanish explorers came to today's San Mateo. During a scouting trip to locate a place to start a colony on the Peninsula, Lieutenant Colonel Juan Bautista de Anza, Padre Pedro Font, Lieutenant Jose Joaquin Moraga, and eleven soldiers set up camp in San Mateo. Father Font named the creek that they slept by "San Mateo Creek." In 1793, the mission fathers in San Francisco created an outpost of the mission on the Peninsula. The outpost was the first building built in San Mateo by non-natives.

In 1822, California received word of Mexico's independence from Spanish rule. The Mexican Land Grants (1835) would leave a few residents owning vast expansions of land in the area. These ranches were so large that what is now the City of San Mateo is comprised of only two land grants - Rancho San Mateo and Rancho de las Pulgas. The year 1889 saw many important events in the developing San Mateo community. Under head engineer, Herman Schussler, the Crystal Springs dam was completed. The completion of this project assured that the people of San Mateo would



Figure 4: Main Street, San Mateo, California, 1909

have quality drinking water, allowing for further growth in the area.

In the same year William Howard had part of his estate opened for subdivision, the first successful attempt at selling smaller plots of land. With this, the middle class moved to San Mateo. In this same year, Richard H. Jury and Charles N. Kirkbride established the “Leader”, San Mateo's first successful newspaper, and he was one of the earliest proponents of the incorporation of San Mateo. On September 3, 1894, with a vote of 150 in favor and 25 against incorporation, San Mateo became a town.

### CITY ORGANIZATION

The City was incorporated in 1894, and was originally chartered in 1922. The current charter was adopted in 1971 and revised in 2002. San Mateo has a Council-Manager form of government. Five Council members serve at-large for four-year terms. The Council selects a Mayor from among its members each December for a one-year term. The City Manager is appointed by the Council, and serves as chief executive officer responsible for the day-to-day administration of City affairs. The City Council also appoints a City Attorney. There are ten Advisory Boards and Commissions appointed by the City Council.

The City provides a full range of municipal services, including police and fire protection, public works, parks & recreation, library,

planning and zoning, building, sewer system, street maintenance, economic development, and general administrative services. The City offers 30 parks, six recreation centers, an 18-hole golf course, and three libraries including a state-of-the-art main library. California Water Service, a private company, provides water to City residents.

The City's management has adopted a set of "organizational principles" that reflect the City's management philosophy. These principles are:

- Service to the community is our purpose;
- We all work for one organization;
- Look at the long term;
- Seek constant improvement; and
- Lead by example.

These principles are intended to guide management actions throughout the City organization. The goals of City management are to see that necessary and desired services are provided in an efficient and effective manner and that planning and continued improvement take place to provide for the community's future.

The City operates on a two-year budget cycle (Business Plan). The two-year budget process requires that each department submit two one-year expenditure plans and revenue estimates to the City Council for approval. In each alternate year the department directors presented mid-cycle performance reports to the City Manager and City Council summarizing budget status to date and to gain approval for year-two funding. The City utilizes a five-year plan for capital improvements. The plan serves as a guide for allocation of future resources.

The City maintains budgetary controls that have the objective of ensuring compliance with legal provisions embodied in the annual appropriated budget submitted by the City Manager and adopted by the City Council. All activities of the General Fund and the debt

service funds are included in the annual appropriated operating budget, and most of the activities of the special revenue funds are also appropriated annually with the exception of capital project expenditures. The annual operating budget and the long-term capital improvement plan are adopted on or before June 30 by City Council and can only be amended by City Council. The two-year Business Plan for operations is adopted in June of every even-numbered year and is amended in the second year of the Business Plan as part of the annual budget process development.

Departmental operating budgets may be reallocated among programs within a department, but expenditures may not exceed annually budgeted appropriations at the department level without Council approval. Project-length budgets are adopted for the some special revenue funds and all capital project funds. Capital improvement expenditures may not exceed budgeted amounts without Council approval. Budgetary control (the level at which expenditures and encumbrances cannot legally exceed the appropriated amount) is established at the department level within individual funds, except for some special revenue and all capital project funds which are at the funded project level.

The City has an Audit Committee consisting of the Mayor and Deputy Mayor. The audit committee is responsible for the selection and management of the external auditor. The Audit Committee discusses with the external auditor any matters related to the audit, and also accepts the results of the annual financial audit.

### LOCAL AND REGIONAL ECONOMY

The information presented in the financial statements is perhaps best understood when it is considered from a broader perspective of the specific environment in which the City

operates. The City is one of the major centers of economic activity in San Mateo County, serving as a business, recreational, educational, and cultural hub. Employment in San Mateo is concentrated in three sectors: professional and financial services; retail; health, educational and recreational services.

The City boasts a diversity of over 8,000 businesses supporting its employment and retail base. Key examples include:

- Franklin Templeton Investments - world headquarters, a global investment firm;
- Macy's, Nordstrom, Sony PlayStation and Target - national retailers in both the high-end, electronic and value-oriented segments of the retail spectrum;
- Cafepress.com, NetSuite, and Keynote Systems - internet-related businesses;
- Solar City - a full service energy company; and
- GoPro - photographic equipment and software company.

The economy has recovered from the recent recession with most revenues increasing in fiscal year 2014. Most economic indicators show improvement. The local real estate market saw an increase in values over the year. San Mateo's net assessed value for 2014-15 is an estimated \$19.4 billion, a 7.4% increase over the 2013-14 assessed value.

The median price of single-family residential homes in the City in September 2014 increased 11.1% compared with December of last year, or from \$750,000 to \$800,000, which was slightly less than for in the County as a whole registering an 11.9% increase from \$875,000 to \$839,500.

From January 2011 to September 2014, the median sale price for a single-family home in San Mateo increased 48.7%.

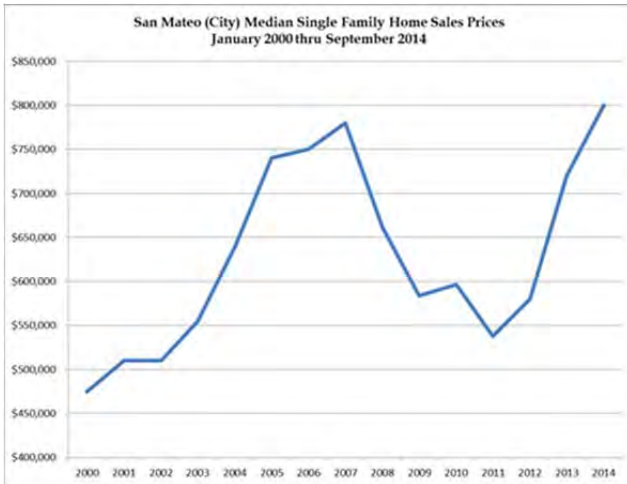


Figure 5: HdL Property Tax Division, September 2014

Regionally, economic conditions also appear to be strong. The job market within the City boundaries is stronger than in the County, and much stronger than California's. The Bureau of Labor Statistics unemployment data has, as of June 2014, California's rate at 7.3%, compared with 6.1% nationally.

Comparatively better, the unemployment rate for the City was 3.3%, down from annualized rate of 4.3% for 2013. The unemployment figure in San Mateo County was 4.2% in June 2014. A low rate of unemployment signals an economy that has recovered from the recent recession, with the City's rate having nearly dropped to its 2007 low point of 3.0%.

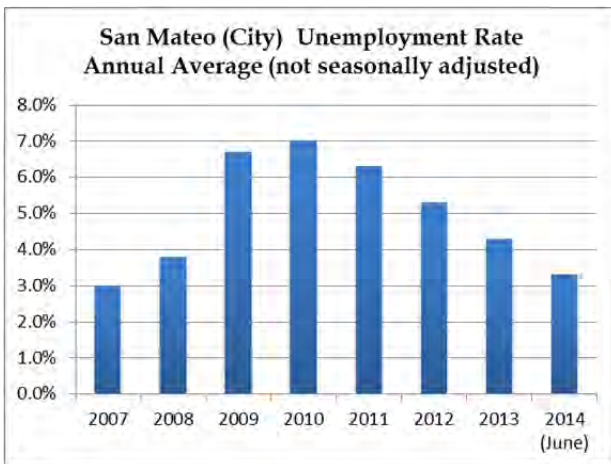


Figure 6: US Bureau of Labor Statistics, June 2014

The general economy continues to be challenged by forces such as high levels of private and public debt, tighter credit markets, and uncertainty related to the expectation of increasing interest rates and inflation. However positive trends in employment, strong manufacturing activity, sustained export growth, and the strong financial conditions of many businesses, demonstrate the economy's resiliency. Sustained economic vitality will provide more certainty for future financial forecasts.

## CITY FINANCIAL POLICIES & PLAN

The City, as with the rest of the nation and most of the world, experienced a significant recession in 2009, causing the largest decline in City revenues since the 1930's. Formal financial policies, as well as operating practices, enabled the City to maintain core services and minimize the impact to citizens and employees wherever possible. Formal policies exist in areas such as balanced budgets, revenue diversification and use of one-time and unpredictable revenues, operating expenditures, reserves, investments, and debt.

Following prudent financial policies and procedures builds community trust. In November 2009, San Mateo voters approved Measure L to allow the City to impose a ¼ cent general sales tax on purchases made in the City. This measure generated \$4.85 million in additional revenue for FY 2013-14 to support General Fund operations. This tax will expire April 2018.

## REVENUE ADMINISTRATION

The City's two main sources of revenue for operating expenditures are property and sales taxes, which make up 63.2% of total General Fund revenues. In addition, the City's revenue administration includes a review of all fees, fines, and charges for services to ensure the

charges are meeting cost recovery goals. One-time and unpredictable revenues are spent on one-time costs, such as equipment replacement, or transferred to capital improvement funds for repair and rehabilitation projects.

#### EXPENDITURE ADMINISTRATION

Both City departments and the Finance Department carefully review expenditure budgets. The department directors are responsible for containing expenditures within their Council approved budgeted appropriations. Careful attention is paid to ensure departments are meeting projected vacancy savings and that excess budget is not transferred to non-personnel line items. The City also maintains an encumbrance accounting system as an additional means of budgetary control. Encumbered amounts in the operating budget lapse one year after the end of the fiscal year. For 2014, continued control of salary and benefit costs, as well as controls in other spending areas, resulted in the General Fund's expenditures totaling below budget appropriations by year-end.

#### RESERVES

The City has two reserves in its General Fund to address budgetary shortfalls. The City Council's budget policy for the use of reserves varies depending on the reserve type but generally limits the use of reserves to respond to revenue shortfalls, unanticipated expenditures, severe economic downturns, or natural disasters. The policy further states that use of reserves should be combined with structural changes to bring the budget back into balance. The General Fund reserves adopted by City Council policy seek to reflect three months of General Fund budgeted operating expenditures, or 25%. These General Fund reserves are expected to meet the 25% of the future year's budgeted expenditure reserve target, estimate to total \$22.7 million.

There are additional reserves established in the City's other funds for vehicle and equipment replacement, workers' compensation and general liability, capital improvements, special revenue funds, and the City's sewer enterprise fund. The Sewer Enterprise Fund has an unrestricted net position of 82% of operating and debt interest expenditures, exceeding City enterprise reserve policy of four months of expenditures or 33%. The reserves have been built up to provide sufficient liquidity to the Sewer Fund as it begins its participation in the reimbursement process of the State's revolving loan program.

#### DEBT ADMINISTRATION

The City manages the issuance of new debt and proactively communicates with the investment community in the administration its outstanding debt. In doing so the City seeks to ensure that debt is issued prudently and affordably, and bondholders are provided all the information required by the Municipal Securities Rulemaking Board as governed by the Securities and Exchange Commission.

Proposition 13 amended the State Constitution by requiring California cities obtain voter approval prior to issuing general obligation bonds. State statutes further limits general obligation bonded debt to 15% of the actual value of taxable property within the City. At June 30, 2014, the City's general obligation bonded debt of \$28.85 million, subject to this restriction, amounted to 1.06% of the \$2.7 billion legal debt limit.

According to standard measures used by the primary credit rating agencies to assess debt (e.g. fund balance as a percent of operating expenses, debt-to-assessed ratios, debt per capita, etc.), the City's level of direct debt obligations are considered low in comparison with similarly sized cities. Rating agencies cite the City's strong financial management and prudent fiscal policies as credit strengths. As of June 30, 2014, the City is rated AA+ by the

two major credit rating agencies: Standard & Poor's and Moody's Investor Service. The City of San Mateo Joint Powers Public Financing Authority manages four bond issues totaling \$35.7 million.

### CASH MANAGEMENT

The State Government Code regulates the securities in which the City may invest its funds. Legally permissible investments are obligations of the United States Government, its agencies, and sponsored corporations, prime bankers' acceptances, prime commercial paper, certificates of deposit issued by banks and savings and loan institutions, highly rated municipal securities, money market funds that purchased only the types of securities specified herein, and other similar securities as authorized by Government Code.

The objectives of the City Council adopted investment policy, in order of priority, are to maintain principal, to ensure the availability of funds to meet obligations promptly, and to maximize yield on the investment portfolio. Bank deposits are either insured by federal deposit insurance or collateralized according to state law. Investments are held at a third-party bank in a safekeeping account in the City's name. The City had a total cash and investments portfolio of \$220.8 million at fiscal year 2013-14.

### LONG-TERM FINANCIAL PLANNING

The City of San Mateo has a long tradition of disciplined and prudent fiscal management. Following significant management actions reducing expenditures to meet declining revenues during the economic downturn in 2009, the City hoped that the citizens' passage of Measure L ¼ sales tax increase would provide sufficient resources to supplement City reserves. Despite the support of the community and City employees through labor concessions, the depth and length of the recession inhibited the City ability to attain its financial objectives. In the fall of 2010, the City

embarked on a Financial Sustainability Planning Process to provide a framework for the formal review of the General Fund's long-term structural imbalance between revenue and expenditure growth, and to move beyond previous "bridge" solutions towards permanent, sustainable solutions that sought to ensure consistent delivery of critical services to San Mateo residents. This planning process achieved various strategies for achieving financial sustainability that were adopted by the City Council that included both temporary and permanent measures to keep the General Fund budget in balance. Temporary measures included suspension of contributions to capital project funds, budget saving targets in each operating department, and employee labor concessions. Long-term measures included restructuring employee compensation to produce meaningful cost sharing with employees for pension and health benefits.

The financial sustainability strategies implemented over the past few years have successfully achieved not only a balanced General Fund budget, but also created a mechanism for the City to accumulate sufficient resources to grow itself out from under its formerly narrow reserve position. The FY 2013-14 General Fund unassigned fund balance was 41.3% of General Fund expenditures.

The City continued the Financial Sustainability Planning Process as part of its recently adopted 2014-2016 Business Plan. To this end, the City continually updates a long-term General Fund financial projection model designed to inform decision makers of the long-term impacts of near-term financial proposals. The City also maintains a five-year long-range capital planning process and capital improvement plan that is annually updated. This plan drives capital project funding decisions and periodic new bonded debt issuances for larger capital infrastructure investments. For operations, revenues are

forecasted out for eight years to account for expected changes to existing revenues, such as sun-setting revenues, and to project any future deficits between revenues and expenditures.

The funding challenges the City of San Mateo continues to face are common among local governments today given the extent of the recent economic downturn, its impact on revenues, and continued pressures brought on by rising personnel and pension costs.

## MAJOR DEVELOPMENT INITIATIVES

### BAY MEADOWS PHASE II DEVELOPMENT

Bay Meadows Phase II is a major transit-oriented mixed-use redevelopment at the former Bay Meadows Race Track demolished in 2008. Development plans on the 83 acre site include a significant amount of residential, commercial office, and retail space along the Caltrain commuter rail corridor. Bay Meadows Land Company, LLC currently has City approvals for 1,066 residential units, 770,000 square feet of commercial class A office space, 33,000 square feet of professional office space above ground floor retail, and 90,000 square feet of retail and restaurant space. Infrastructure construction started in 2009 and vertical construction started in 2012. .

In 2011 the City Council authorized bonded indebtedness not exceed \$92 million to finance public infrastructure for this project, which included 16 acres of public streets and approximately 15 acres of public park land. To date, the public streets are complete, and the parks known as Paddock Park (1.5 acres) and Bay Meadows Park (12 acres) were accepted by the City and opened to the public.

In January 2012, the City of San Mateo Bay Meadows Community Facilities District (CFD) issued \$31.8 million Special Tax Bonds, secured by the special taxes levied within the Bay Meadows Community Facilities District.

In January 2013 a second series of CFD bonds were issuance for \$26 million. A third series of CFD bonds were issued in January 2014 for an amount not to exceed \$28.475 million. All three of these bond issues were within the authorized \$92 million debt cap of the CFD project.

### NUEVA HIGH SCHOOL

Adjacent to Bay Meadows Park in the Bay Meadows Phase II project site is the Nueva High School project, a private high school with a maximum enrollment of 450 students. Nueva School (grades PreK-8<sup>th</sup> grade) located in the neighboring Town of Hillsborough is a nationally recognized school serving gifted students. The new high school opened in September 2014 and serves as a satellite campus. Total square footage of the school buildings is 134,000, in addition to a parking garage. A second phase of construction including a 425-seat performing arts theatre and a classroom building is anticipated to start in a few years.

### STATION PARK GREEN MIXED-USE PROJECT

Station Park Green, located on the site of a former Kmart site, is a 12-acre transit-oriented mixed-use redevelopment project near a Caltrain station and State Route 92. The project includes 599 residential units, 10-15,000 square feet of office space and 25-30,000 square feet of retail and restaurant space. Approximately 3.4 acres of parks and open space is also included. The original Station Park Green project including the Specific Plan and Design Guidelines were approved by the City Council in 2011. The City is currently reviewing discretionary planning applications for the site plans and building designs, as well as revisions to the Specific Plan and Design Guidelines. City approval is anticipated in early 2015 with construction commencing the same year.

### ELKHORN COURT APARTMENTS

The Elkhorn Court project consists of a mixed-use development on a 4-acre parcel containing both commercial office and multi-family residential uses at 220 West 20<sup>th</sup> Avenue and 1950 Elkhorn Court. The project includes two buildings: a residential building with 197 apartment units and a 126,000 square foot commercial office building, along with an associated parking garage and landscaping. Approved by the Planning Commission in May of 2011, construction of the residential portion of the project began in late 2012 with completion estimated in late 2014. A timeframe for construction of the office component has not yet been set.

### 800 & 888 N. SAN MATEO DR. APARTMENTS

The 800 & 888 North San Mateo Drive Apartments project includes the demolition of two commercial office buildings and the construction of 155 apartments with building floor area of approximately 205,700 square feet on a 3-acre site located on the southwest corner of Peninsula Avenue and North San Mateo Drive, near the Burlingame Caltrain station. The project was completed in 2014.

### 2090 S. DELAWARE STREET APARTMENTS

The 2090 Delaware Apartments project includes 111 apartment units on a 2.4-acre site located on the northwestern corner of S. Delaware Street and Pacific Blvd. Approved by the Planning Commission in July of 2012, construction of the project began in Spring of 2013 with completion estimated by the end of 2014.

### 1990 & 2000 S. DELAWARE STREET APARTMENTS

The City Council approved 120 apartment housing units on the 2.1 acre former Police Station site in May 2011. Construction is completed on the “north” building with 60 low to very low income units and construction is

currently underway for the “south” building with 60 moderate rate units.

### SEWER UTILITY INFRASTRUCTURE NEEDS

A major initiative involving the capital improvement plan for the sewer utility was put into action involving over \$800 million in improvements to the wastewater treatment and collection systems in compliance with the State of California Water Quality Control Board’s Cease and Desist Order. This program of capital projects will span 20 years and be funded with a combination of operating surpluses, regular sewer charge rate increases, capital contributions from the system’s sub-regional partners, bond financing and state revolving fund loans. Initial sewer revenue bonds were issued in 2011 for \$31.9 million. A second revenue bond issuance was undertaken in July of 2014 that included a current refunding of outstanding debt on the Series 2003 revenue bonds (balance at June 30, 2014 of \$16.3 million) and \$18 million in new financing for infrastructure needs. Long-range capital improvement plans and an updated Integrated Sewer Master Plan to meet the Order are being developed. Additional sewer utility revenue bonds needed to finance infrastructure upgrades required by the State are anticipated in the future ten years.

### REDEVELOPMENT SUCCESSOR AGENCY

California redevelopment agencies were dissolved on February 1, 2012 by the California legislator and governor. The Successor Agency to the Redevelopment Agency of the City of San Mateo received its Finding of Completion letter from the California Department of Finance (DOF) in April of 2013. The Successor Agency’s Long Range Property Management Plan was submitted to the DOF in October 2013 and is under review by the DOF.



AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the year ended June 30, 2013. The Certificate of Achievement is a national award recognizing conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized CAFR. This report must satisfy both US GAAP and applicable legal requirements. This was the twenty-fourth consecutive year that the City has received this award. A Certificate of Achievement is valid for one year only. We believe this FY 2013-14 CAFR continues to conform to the Certificate of

Achievement program requirements and will submit it to the GFOA to determine its eligibility for another certificate.

The preparation of this CAFR could not have been accomplished without the efficient and dedicated service of a highly qualified staff in the Finance Department. The dedication and cooperation of staff in all City departments in the administration of financial policies throughout the year is also appreciated. We also acknowledge the thorough and professional manner in which our independent auditors, Badawi & Associates, conducted their audit.

In closing, City staff wishes to express deep appreciation to the City Council for their leadership, support and responsiveness to the financial concerns of the City.

Respectfully submitted,



Larry A. Patterson  
City Manager



David P. Culver  
Finance Director



**City of San Mateo**  
**San Mateo, California**

**City Council - 2014**

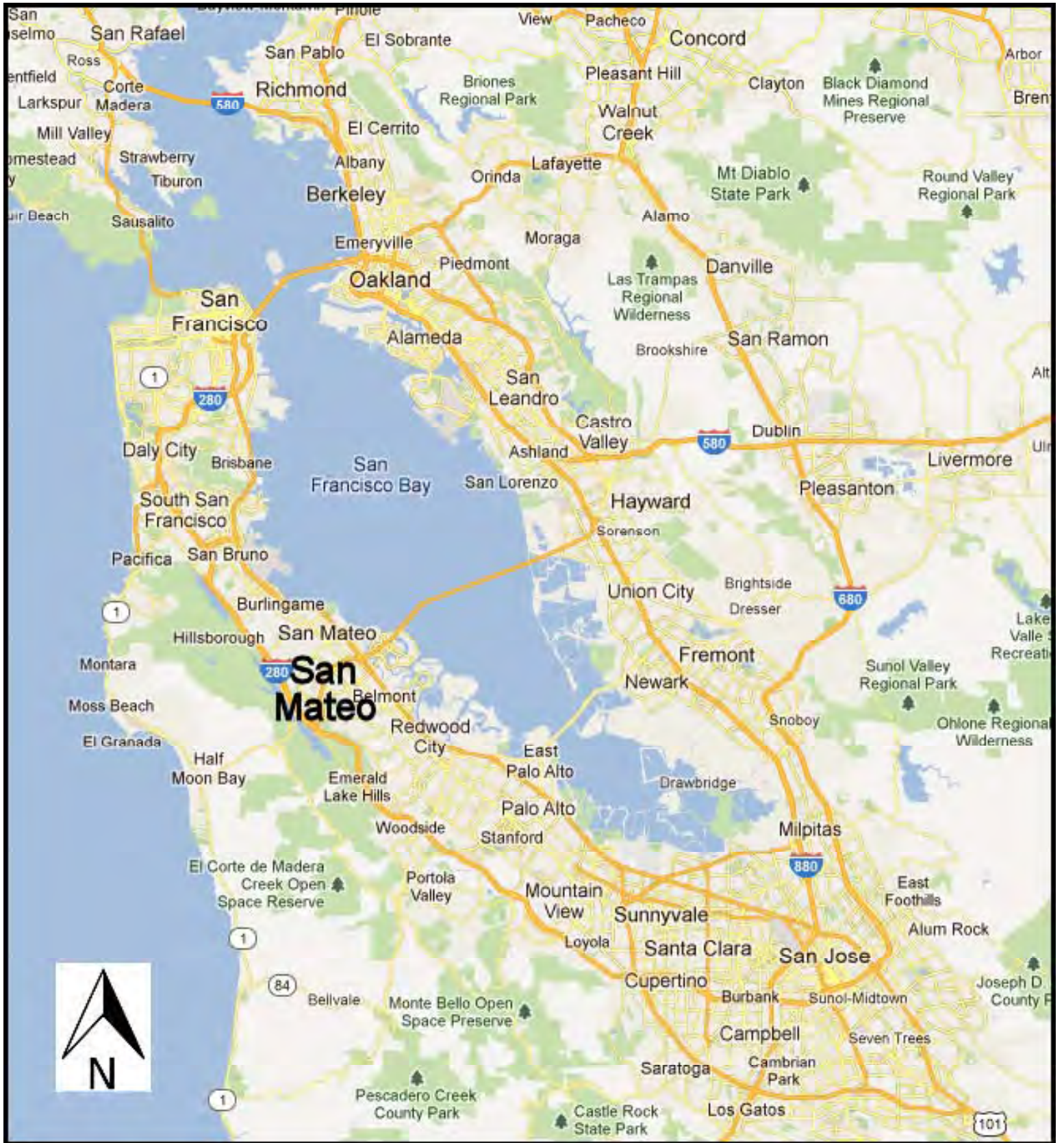
Robert Ross, Mayor

Maureen Freschet, Deputy Mayor

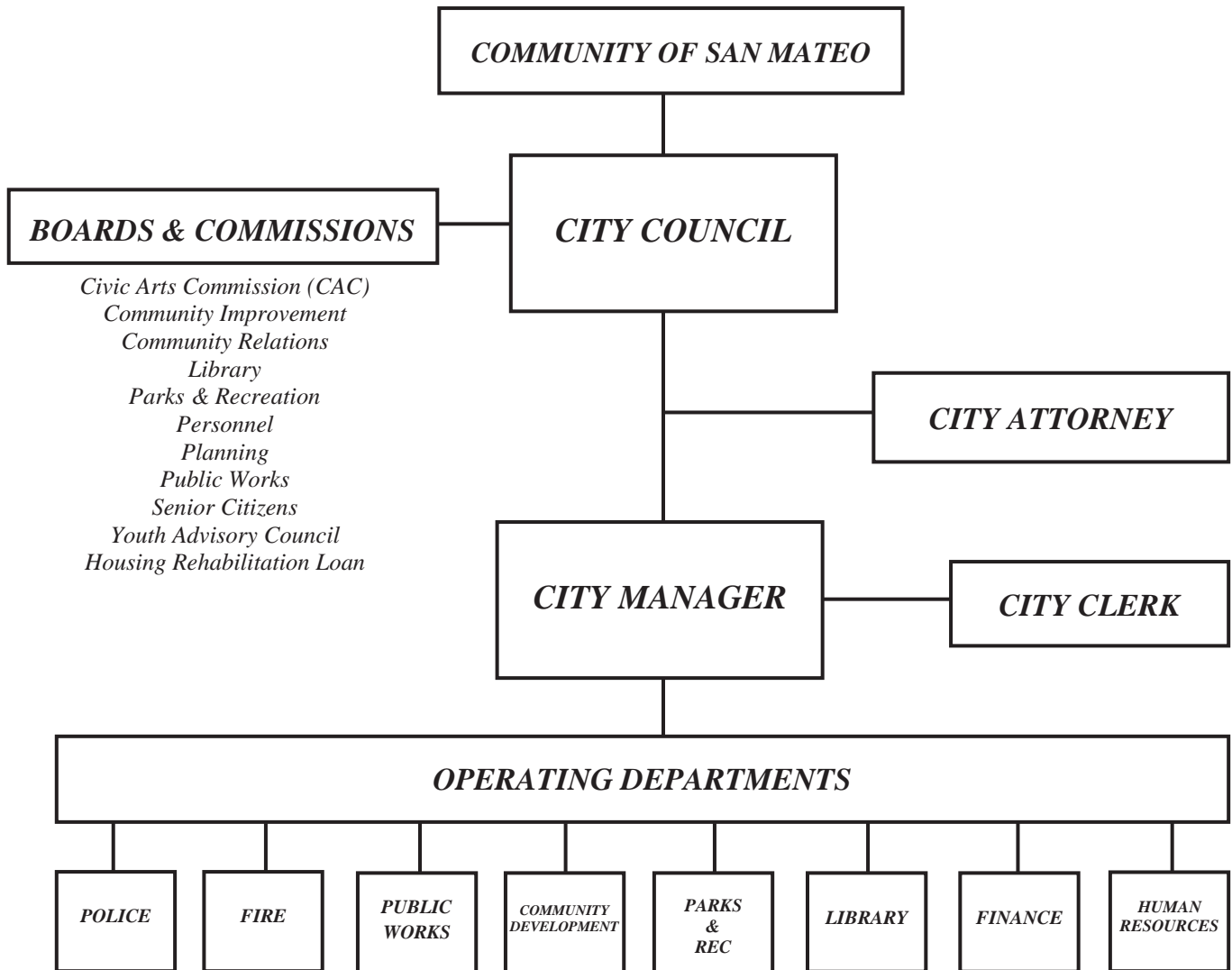
Joe Goethals, Council Member

David Lim, Council Member

Jack Matthews, Council Member



# ***CITY OF SAN MATEO ORGANIZATION***





Government Finance Officers Association

**Certificate of  
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Presented to

**City of San Mateo  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO





## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council  
of the City of San Mateo  
San Mateo, 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 San Mateo, 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 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.

To the Honorable Mayor and Members of the City Council  
of the City of San Mateo  
San Mateo, California  
Page 2

### ***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 on pages 5-19 and 113-116, and schedules of funding progress for defined benefit pension plans and other post employment benefits 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, combining and individual nonmajor fund financial statements, budgetary comparison schedules on pages 127 to 137, statistical section, and continuing annual disclosure, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and budgetary comparison schedules on pages 127 to 137 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

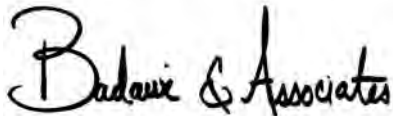


To the Honorable Mayor and Members of the City Council  
of the City of San Mateo  
San Mateo, California  
Page 3

The introductory section, statistical section, and continuing annual disclosure 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 November 21, 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 the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi and Associates  
Certified Public Accountants  
Oakland, California  
November 21, 2014



Management of the City of San Mateo (City) offers readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in our letter of transmittal. The focus of the information herein is on the primary government.

## FINANCIAL HIGHLIGHTS

- The City of San Mateo financial position is strong. The City's assets exceeded liabilities at the close of the fiscal year by \$604.8 million (net position). Of this amount, \$101.4 million (unrestricted net position) may be used to meet the City's ongoing obligations.
- The City's net position increased by \$34.5 million, or 6.0% over the prior fiscal year.
- At the close of the fiscal year, the City's governmental funds reported combined ending fund balance of \$110.3 million, an increase of \$22.2 million or 25.2% from the prior year. Approximately \$34.1 million (30.9%) of the fund balance is available for spending at the government's discretion (unassigned fund balance).
- The City's sewer enterprise utility net position increased by \$7.8 million during the fiscal year, or 8.2% over the prior year.
- At the end of the fiscal year, the unassigned fund balance of the General Fund was \$34.1 million, which represents 41.3% of total General Fund expenditure.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended as an introduction to the City's basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, also provided is required supplementary information.

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the City's financial position is improving or deteriorating.

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

The governmental activities reflect the City's basic services, including general government, community development, public safety, public works, parks and recreation, and library. Property and sales taxes finance the majority of these services.

The business-type activities reflect private-sector-type operations, such as Sewer and Golf, where fees for services typically cover all or most of the cost of operations, including depreciation.

The government-wide financial statements include not only the City itself (referred to as the primary government), but also other legally separated entities for which the City is financial accountable. Financial information for the City's one component unit is reported separately from the financial information presented for the primary government itself. The component unit, although legally separate, functions essentially as an agency of the City and therefore, is included as an integral part of the City. The government-wide financial statements can be found on pages 25-27 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 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided that reconciles the governmental fund financial statements to the government-wide statements explaining the relationship (or differences) between them.

The governmental funds comprise 16 individual funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances the general, capital projects, HOME, City housing and low-moderate income housing funds, each of which is considered to be a major fund. Data for the other 11 governmental funds are combined into a single aggregated presentation. Individual fund data for these non-major governmental funds is provided in the form of combining statements, beginning on page 122 of this report. The basic governmental fund financial statements can be found on pages 32-37 of this report.

The City adopts an annual appropriated budget for the General Fund and all other governmental funds. Budgetary comparison schedules, beginning on page 113, have been provided to demonstrate compliance with these budgets in accordance with U.S. GAAP.

The City maintains two types of **proprietary funds**: enterprise and internal service. Enterprise funds are used to report the same functions presented as business-type activities in the

government-wide financial statements. The City uses enterprise funds to account for its Sewer and Golf funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its general liability, fleet and building maintenance, vehicle and equipment replacement, workers compensation, dental, and other employee benefit programs. The internal service funds provide services that predominantly benefit governmental rather than business-type functions. They have been included within governmental activities to reflect the consolidation for internal services fund activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for Sewer and Golf. Data for the two enterprise funds and all of the internal service funds are combined into their respective single aggregated presentations. Individual fund data for the non-major internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 40-42 of this report.

**Fiduciary funds** are used to account for resources held on behalf of outside parties, including other governments. When these assets are held under the terms of formal trust agreement, a private-purpose trust is used. The City maintains a private-purpose trust fund for the Successor Agency of the City of San Mateo Redevelopment Agency (Successor Agency). Agency funds generally are used to account for assets that the City holds on behalf of others as their agent. Fiduciary funds are not reported in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 44-45 of this report.

**Notes to the Basic 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 basic financial statements can be found on pages 48-110 of this report.

**Other information** in addition to the basic financial statements and accompanying notes is presented in the form of certain required supplementary information concerning the City's budgetary comparison schedules for all major governmental funds and the City's progress in funding its obligation for the provision of pension and other post employment benefits to its employees. The combining statements supplementary information referred to earlier in connection with non-major funds and internal services funds are also presented in this section. Required supplementary information can be found on pages 112-118 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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As noted earlier, net position may serve over time as a useful indicator of a government's financial performance. In the case of the City, assets and deferred outflows exceeded liabilities by \$604.8 million at the close of the fiscal year. A portion of the City's net position, \$101.4 million (16.8%), is unrestricted and may be used to meet the City's ongoing financial obligations. This portion represents resources that are not restricted by external requirements nor invested in capital assets.

Net position of \$414.9 million (68.6%) reflect investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding (net invested in capital assets). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its 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.

Net positions of the City also totaled \$88.5 million (14.6%) in restricted net position. These are resources subject to external restrictions as to how they may be used, such as housing and economic development, capital projects, debt service and other purposes. At the end of the fiscal year 2013-14 the City is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its business-type activities.

**Table 1** reflects the City's net position as of June 30, 2014 and June 30, 2013:

**TABLE 1: CITY OF SAN MATEO NET POSITION**

Amounts expressed in millions

	Governmental		Business-Type		Total Primary Government	
	Activities		Activities			
	13-14	12-13	13-14	12-13	13-14	12-13
Current and other assets	\$205.7	\$182.5	\$32.1	\$28.0	\$237.8	\$210.5
Capital assets	394.2	391.1	127.0	121.9	521.2	513.0
<b>Total assets</b>	<b>599.9</b>	<b>573.6</b>	<b>159.1</b>	<b>149.9</b>	<b>759.0</b>	<b>723.5</b>
Deferred loss on refunding	1.2	-	0.9	-	2.1	-
<b>Total deferred outflows of resources</b>	<b>1.2</b>	<b>-</b>	<b>0.9</b>	<b>-</b>	<b>2.1</b>	<b>-</b>
Other liabilities	20.6	19.1	4.1	3.9	24.7	23.0
Non-current liabilities	75.8	76.0	55.8	52.7	131.6	128.7
<b>Total liabilities</b>	<b>96.4</b>	<b>95.1</b>	<b>59.9</b>	<b>56.6</b>	<b>156.3</b>	<b>151.7</b>
<b>Net position</b>	<b>338.4</b>	<b>333.7</b>	<b>76.4</b>	<b>70.2</b>	<b>414.9</b>	<b>403.9</b>
Net invested in capital assets						
Restricted	82.6	80.5	6.0	9.2	88.5	89.7
Unrestricted	83.7	64.3	17.7	13.9	101.4	78.2
<b>Total net position</b>	<b>\$504.7</b>	<b>\$478.5</b>	<b>\$100.1</b>	<b>\$93.3</b>	<b>\$604.8</b>	<b>\$571.8</b>

### GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net position by \$26.8 million (5.6%) for the fiscal year ended June 30, 2014. Key elements of the increase are as follows:

- Property and sales taxes totaled 72.5% of all tax revenues and 47.7% of all governmental activities' revenues.
- Property taxes, all recorded in the governmental funds, totaled \$42.5 million for an increase of \$4.3 million (11.3%). San Mateo County reassessed a significant number of parcels by recapturing previously reduced property value instituted by Proposition 8. The increase of property tax revenue is also due to \$849,000 in additional state distributions for property tax in lieu of vehicle license fees, commonly referred to as the VLF swap.
- Property transfer taxes revenue increased by \$3.2 million (50.2%) due to an acceleration of residential and commercial property sales activity during the period.
- Sales tax receipts decreased by \$201,000 (-0.8%) as retail sales kept pace with the prior year.
- Investment earnings increased by \$1.4 million due a restructuring of the portfolio from money market investments to medium-term instrumentalities and improved market value performance of the City's overall portfolio.
- Transient occupancy tax collections increased \$513,000 (8.0%) due to higher occupancy levels at the major hotels within the City.
- Business tax revenue increased by \$523,000 (10.6%) due to increased income levels of existing businesses and additional collections of past due business tax accounts.
- Capital grants and contributions revenue of \$12.3 million decreased from the prior year by \$9.8 million (-44.2%) due to a prior year one-time \$11.9 million donation of capital assets consistently of two parks from the Bay Meadows Phase II Development. Capital grants and contributions in the current fiscal year consisted of additional gas tax subventions and one-time contributions; the first contribution from the Successor Agency of \$3.3 million of former San Mateo Redevelopment Agency bond proceeds to augment funding for the construction of Fire Station #24, and the second totaling \$1.73 million in Bay Meadows Phase II donated public improvements.
- Total expenses increased by \$7.2 million (6.9%) reflecting increased costs to meet increasing operating service demands in all the governmental program functions.

**Table 2** on the following page reflects the City's net changes in net position for FY 2013-14 and FY 2012-13.

**TABLE 2: CITY OF SAN MATEO STATEMENT OF CHANGES IN NET POSITION**  
(Amount expressed in millions)

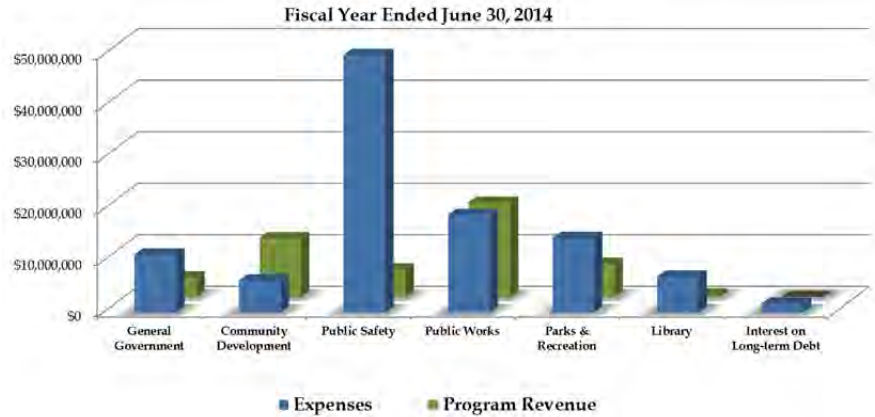
	Governmental Activities		Business-Type Activities		Total Primary Government	
	13-14	12-13	13-14	12-13	13-14	12-13
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$29.2	\$27.6	\$30.8	\$31.2	\$60.0	\$58.8
Operating grants & contributions	4.6	5.7	-	-	4.6	5.7
Capital grants & contributions	12.3	22.1	1.3	0.9	13.6	23.0
General revenues:						
Property taxes	42.5	38.2			42.5	38.2
Sales taxes	23.6	23.8			23.6	23.8
Property transfer taxes	9.5	6.3			9.5	6.3
Business, hotel & other taxes	12.6	11.5			12.6	11.5
Franchise fees	2.9	2.8			2.9	2.8
Motor vehicle in lieu fees	0.1	0.1			0.1	0.1
Investment earnings	1.4	-	0.3	-	1.7	-
<b>Total revenues</b>	<b>138.7</b>	<b>138.1</b>	<b>32.4</b>	<b>32.1</b>	<b>171.1</b>	<b>170.2</b>
<b>Expenses:</b>						
General government	11.3	10.1			11.3	10.2
Community development	6.2	5.4			6.2	5.4
Public safety	52.2	50.0			52.2	50.0
Public works	18.9	16.8			18.9	16.8
Parks and recreation	14.5	13.7			14.5	13.7
Library	7.0	6.5			7.0	6.5
Interest on long term debt	1.7	2.1			1.7	2.1
Sewer			22.2	23.2	22.2	23.2
Golf			2.7	2.5	2.7	2.5
<b>Total expenses</b>	<b>111.8</b>	<b>104.6</b>	<b>24.9</b>	<b>25.7</b>	<b>136.7</b>	<b>130.3</b>
<b>Change in net position</b>	<b>26.9</b>	<b>33.5</b>	<b>7.5</b>	<b>6.4</b>	<b>34.4</b>	<b>39.9</b>
Net position - Beginning of Year (as restated)	477.8	445.0	92.6	86.9	570.4	531.9
<b>Net position - End of year</b>	<b>\$ 504.7</b>	<b>\$ 478.5</b>	<b>\$ 100.1</b>	<b>\$ 93.3</b>	<b>\$ 604.8</b>	<b>\$ 571.8</b>

Total expenses of all governmental activities for the fiscal year were \$111.8 million. General government expenses in FY 2013-14 were \$11.3 million or 10.1% of total governmental activities expenses, reflecting an increase of 11.0%. Public safety (police and fire) expenses were \$52.2 million or 46.7% of total expenses, and increase of 4.4%. Public works' expenses were \$18.9 million or 16.9% of total expenses, and increase of 13.1%. Parks and recreation expenses were \$14.5 million or 13.0% of total expenses, and increase of 5.4%. Library expenses were \$7.0 million or 6.2% of total expenses, and increase of 7.7%.

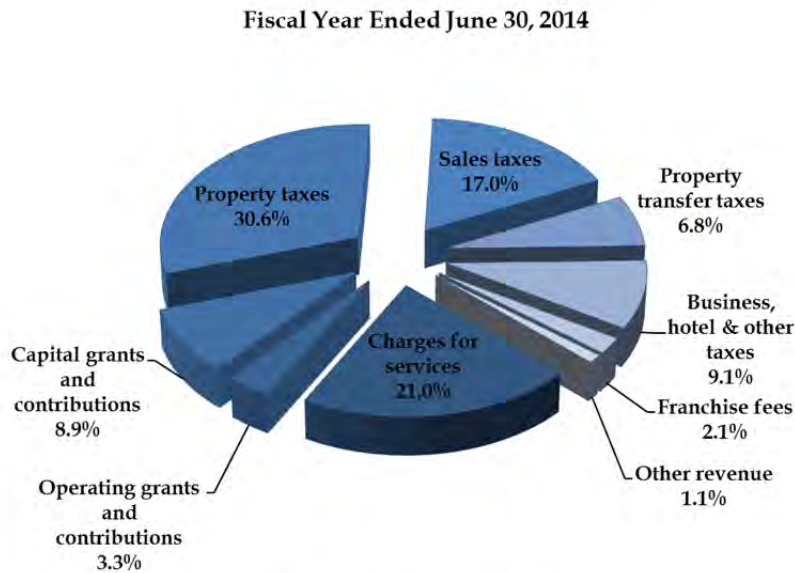


The remainder of the governmental activities expenses were community development expenses totaling \$6.2 million or 5.6% of total governmental expenses which increased by \$854,000, and interest on long-term debt of \$1.7 million or 1.5% of the total declined by \$393,000 or -18.7%.

**Figure 7: Expenses and Program Revenues  
Governmental Activities**



**Figure 8: Revenue by Sources  
Governmental Activities**



Total Governmental Activities Revenues: \$138.75 million

The cost of all governmental activities for fiscal year ended June 30, 2014 was \$111.8 million. However, as shown in the statement of activities, the amount that taxpayers ultimately financed was \$91.2 million because some of the costs were paid by those directly benefiting from the programs (\$29.2 million), or by other governments and organizations subsidized programs with operating grants and contributions (\$4.6 million) or capital grants and contributions (\$12.3 million). Overall, the City's governmental program revenues were \$46.1 million. The City paid for the remaining "public benefit" portion of governmental activities with \$91.2 million in taxes (some of which could only be used for certain programs) and investment earnings of \$1.4 million.

**BUSINESS-TYPE ACTIVITIES**

Business-type activities increased the City's net position by \$7.5 million for the fiscal year ended June 30, 2014. Key elements of this increase are as follows:

- Total program revenues of \$32.1 million were \$60,000 higher (0.2%) compared with the prior year. Program revenues were augmented by \$324,000 in investment earnings, which were \$255,000 higher than the prior fiscal year.
- Charges for services, the amount paid by users of the enterprises, totaled \$30.8 million or 96% of total program revenue. Charges for services were \$312,000 (-1.0%) lower than the prior year, comprised of a reduction of \$331,000 (-1.2%) in the Sewer Fund offset by an increase of \$19,000 (0.8%) in the Golf Fund.
- The reduction of \$331,000 in the Sewer Fund is comprised of lower sewer services charges of \$283,000, lower sewer connection fee collections of \$197,000, offset by increased sewer impact fees of \$149,000.
- Sewer enterprise capital grants and contributions were \$1.3 million, an increase of \$372,000 over the prior year (41.4%) due to higher capital contribution payments from the Sewer enterprise's regional partners.
- Golf enterprise program revenues were \$2.47 million, an increase of 0.8% from the prior fiscal year. Total expenses of \$2.72 million increased by \$207,000 (8.2%).

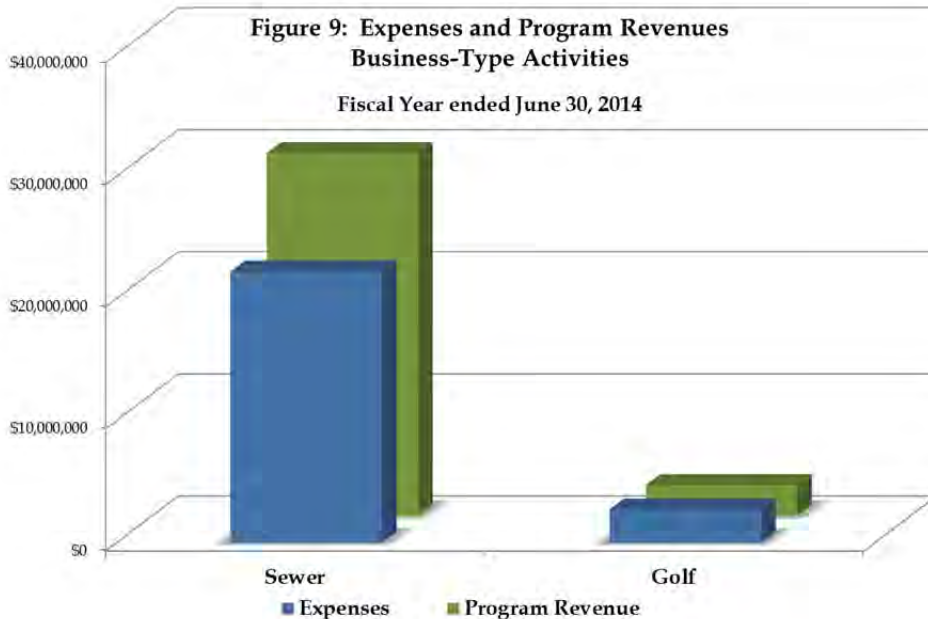
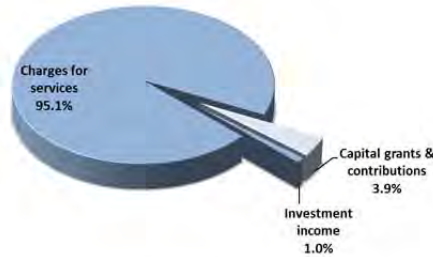


Figure 10: Revenue by Sources  
Business-Type Activities

Fiscal Year Ended June 30, 2014



Total expenses of all business-type activities for the fiscal year ended June 30, 2014 were \$24.9 million, a decreased of \$802,000 compared to the prior year. Of the total decline of expenses compared to the prior year, Sewer Fund expenses declined by \$1.0 million (-4.3%) and Golf Fund expenses increased by \$207,000 (8.2%).

Cash and investments of business-type activities totaled \$23.8 million and decreased slightly by \$369,000, while total restricted cash and investments of \$2.0 million increased by \$295,000 due to a lower level of draw-downs from the sewer bond proceeds' capital project accounts held by fiscal agent/trustee. Non-depreciable assets totaling \$20.0 million increased by \$4.2 million due to the addition of capital project assets for the sewer collection and treatment systems.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

### GOVERNMENTAL FUNDS

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

As of June 30, 2014, the City's governmental funds reported combined ending fund balances of \$110.3 million, an increase of \$22.2 million (25.2%) in comparison with the prior fiscal year. Approximately 30.9% or \$34.1 million of the total fund balance amount constitutes unassigned fund balance, which is available for spending at the City's discretion.

The General Fund is the chief operating fund of the City. As of June 30, 2014, unassigned fund balance of the General Fund was \$34.1 million while total fund balance was \$36.1 million. 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 41.3% of total General Fund expenditures of \$82.5 million, while total fund balance represents 43.7% of the same amount. The City Council policy goal is to have reserves of at least three months of budgeted operating expenditures, which for FY 2014-15 is projected to total \$22.7 million.

The total fund balance of the City's General Fund increased by \$10.6 million (41.8%) during the year ended June 30, 2014. This is a result of recovering property tax and property transfer tax revenue collections and operating cost savings measures previously implemented to reduce overall expenditures following the 2009 recession. Total General Fund expenditures of \$82.5 million were a modest 3.7% increase (\$2.9 million) over the prior year, while total revenues of \$97.9 million represented an increase of \$7.4 million (8.2%).

Certain revenues in the General Fund that increased between fiscal years 2014 to 2013 include:

- Property taxes were higher by \$4.5 million (12.7%) primarily due to improving property values. San Mateo County reassessed a significant number of parcels by recapturing previously reduced property value instituted by Proposition 8.
- Other taxes including franchise, business and property transfer tax revenue increased by \$4.3 million (21.7%) due to improved income receipts of firms doing business in San Mateo and increased sales and higher values of residential homes and commercial properties.
- Investment income totaled \$668,000, compared with no investment income in the prior year. This is due to a restructuring of the portfolio from money market investments to medium-term instrumentalities and improved market value performance.

Some revenues in the General Fund decreased from 2014 to 2013, including:

- Intergovernmental revenues totaling \$1.1 million declined by \$1.2 million (-54.2%) due to a one-time Successor Agency residual balance contribution of \$1.4 million recorded in the prior year.
- Sales tax revenues totaling \$21.5 million were flat compared to the prior year, dropping by \$279,000 (-1.3%).
- Charges for services revenues totaling \$6.5 million declined compared to the prior year, dropping by \$277,000 (-4.1%) due to a one-time reimbursement recorded in FY 2012-13 of \$268,000 for overcharges of property tax administration fees previously paid to San Mateo County.
- Other revenue of \$2.0 million decreased by \$146,000 due to a change in accounting treatment related to tenant rental payments.

Total General Fund expenditures increased by \$2.9 million to \$82.5 million, a modest increase of 3.7%. The net between revenue and expenditures was an additional \$15.4 million, of which \$2.2 million in transfers in further increased resources in the General Fund; from the Gas Tax Fund to support operational street maintenance needs and the Low and Moderate Income Housing Fund of which are reserved for future housing activities. These resources were reduced by transfers out

to other funds of \$6.95 million mostly to support the City's future capital improvement needs. The primary drivers of the modest expenditure increase are personnel cost increases, technology investments, and community and economic development initiatives.

The General Capital Project Fund had a total fund balance of \$33.9 million, increasing by \$3.2 million or 10.3%. The underlying reasons for the change include capital project expenses totaling \$19.5 million towards the completion of various capital projects, such as \$3.6 million in expenses for Fire Station #24, \$742,000 for permitting and business license software implementation costs, \$4.4 million for citywide sidewalk and bikeway repairs, \$1.3 million for park improvements, and \$6.1 million for street rehabilitation and reconstruction. These costs are offset by capital project revenues and transfers in totaling \$23.4 million.

The fund balance in the Non-Major Governmental Funds totaled \$37.1 million, increasing by \$8.9 million. Revenues totaling \$25.0 million increased by \$2.7 million (11.8%), while total expenditures of \$11.6 million decreased by \$1.1 million (-9.0%) and transfers out totaled \$4.9 million. Combined revenues of the Construction Services and Fire Protection funds of \$11.5 million amount to 45.9% of total non-major governmental funds revenue, and increased by \$2.0 million (20.6%) due to residential and commercial development activity. Expenditures of \$11.6 million decreased by \$1.1 million primarily in the General Obligation Bonds Debt Service Fund due to one-time operating expenses incurred in the prior year, including cost of issuance and other fiscal charges related to the refinancing in March of 2013 of the 2000 and 2004 GO General Obligation bond issues .

#### PROPRIETARY FUNDS

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

Total enterprise fund net position, which at year-end was comprised of the Sewer and Golf Enterprise Funds, increased \$7.5 million, or 8.1% from prior year.

The unrestricted net position of the Sewer Enterprise Fund at the end of the year was \$18.3 million or 17.9% of total net position, \$4.0 million higher than in the prior year. Operating revenues decreased \$331,000 primarily comprised of lower sewer services charge revenues of \$283,000, lower sewer connection fee collections of \$197,000, offset by increased sewer impact fees of \$149,000. Operating expenses decreased \$946,000 primarily in costs of sales and services. Operating income of \$8.2 million net of non-operating revenues/expenses and total transfers and contributions resulted in the \$7.8 million change in net position.

The unrestricted net position of the Golf Enterprise Fund at the end of the year was a deficit of \$580,000. Total operating revenues of \$2.47 million increased by \$19,000. Operating expenses increased \$142,000 primarily due to incurring maintenance costs that were previously deferred. Operating income of \$154,000 net of non-operating revenues/expenses and total transfers and contributions resulted in the deficit \$250,000 change in net position.

Total internal service funds net position of \$24.4 million decreased \$846,000, or -3.4% from prior year. The Vehicle & Equipment Replacement Fund net position comprises of 88.6% of the total internal service funds net position, followed by the Fleet & Building Maintenance Fund

comprising of 6.9% of the total. This decrease in net position of the internal service funds is primarily due to operating activity in the Fleet & Building Maintenance, Benefits, Workers' Compensation, and Comprehensive Liability Insurance funds.

The Fleet & Building Maintenance Fund net position of \$1.7 million declined by \$210,000 due to higher total operating expenses of \$3.6 million compared to \$2.9 million in the prior year. These costs were for the replacement of aged and depreciated assets necessary for continued City service delivery. Replacement costs are funded by revenue collections from the City's operating departments.

The Benefits Fund has a deficit net position of \$38,000 and a negative cash position of \$58,600. The fund's net position declined by \$460,000 (-109%) during the fiscal year due to unanticipated higher employee separation costs and decreased revenue collections from the City's operating departments. Operating revenues of \$16.5 million declined by \$450,000, and fell short of offsetting \$98,000 in increased operating expenses.

The Workers' Compensation Insurance Fund's claims and judgments payable and other liabilities increased from \$8.7 million to \$9.6 million. Modest increases in operating revenues fell short of a 46.7% increase in operating expenses including claims, with the decrease in net position diminished by the addition of \$111,000 in interest income resulting in a net loss of \$127,000 for the fiscal year.

The Comprehensive Liability Insurance Fund's claims and judgments payable and other liabilities decreased from \$1.5 million to \$1.3 million. Operating revenues and a higher level of transfers in offset a 30.3% increase in operating expenses including claims, resulting in a decrease in net position of \$101,000 for the fiscal year.

The remaining internal service funds reflected the following changes; Dental Self Insurance Fund increased net position by \$32,000 and the Vehicle & Equipment Replacement Fund increased net assets by \$20,000.

## GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund actual revenues exceeded the final budgeted estimate by \$11.4 million, and total actual expenditures were below the final budget by \$528,000, resulting in revenue exceeding expenditures by \$11.9 million. Transfers in totaled \$2.2 million and were received to support ongoing street maintenance costs and housing-related future costs. Transfers out totaled \$6.9 million and were made to the General Liability Insurance Fund (\$750,000) to maintain the fund balance to the actuarially determined minimum level required by City policy, to Capital Projects Fund (\$6.1 million) and the Fire Protection Fund (\$102,000). The net change in General Fund balance was to total \$36.1 million at the end of the fiscal year.

Final budget revenue estimates totaling \$86.48 million were \$108,932 higher than the original budget. Final budget expenditures totaling \$83.29 million were \$286,386 higher than the original budget. Final budget net other financing sources totaling \$4.726 million were \$456,185 higher than the original budget. All adjustments to the original budget were made to meet the needs of the operating departments and were approved by the City Council.

CAPITAL ASSETS AND BONDED DEBT ADMINISTRATION

CAPITAL ASSETS

The City investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$521.2 million, approximately \$8.2 million more than the prior year. This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, bridges, sewer and storm systems, and the golf course. Major capital asset activity during the current fiscal year included the City-wide sanitary sewer and storm improvements, construction of Fire Station #24, permitting and business license software implementation costs, citywide sidewalk and bikeway repairs, parks improvements, and street rehabilitation and reconstruction. Additional information on the City's capital assets can be found in Note 7 on pages 80-83 of this report.

**TABLE 3: CITY OF SAN MATEO CAPITAL ASSETS**  
Amounts in millions

	Governmental Activities		Business-Type Activities		Total Primary Government	
	13-14	12-13	13-14	12-13	13-14	12-13
Non-depreciable assets:						
Land	\$ 45.6	\$ 45.6	\$ 4.2	\$ 4.2	\$ 49.8	\$ 49.8
Construction in progress	6.2	6.8	15.8	11.6	22.0	18.4
Total non-depreciable assets	<u>51.8</u>	<u>52.4</u>	<u>20.0</u>	<u>15.8</u>	<u>71.8</u>	<u>68.2</u>
Depreciable assets (net of depreciation):						
Building and improvements	117.8	115.2	6.4	6.7	124.2	121.9
Treatment plant & transmission lines	-	-	99.9	98.7	99.9	98.7
Machinery and equipment	8.0	8.9	0.8	0.7	8.8	9.6
Infrastructure	216.5	214.6	-	-	216.5	214.6
Total depreciable assets (net)	<u>342.4</u>	<u>338.7</u>	<u>107.0</u>	<u>106.1</u>	<u>449.4</u>	<u>444.8</u>
<b>Total capital assets</b>	<u>\$ 394.2</u>	<u>\$ 391.1</u>	<u>\$ 127.0</u>	<u>\$ 121.9</u>	<u>\$ 521.2</u>	<u>\$ 513.0</u>

BONDED DEBT

At the end of the current fiscal year, the City had total bonded debt outstanding of \$113.6 million. Of this amount, \$28.8 million comprises debt backed by the full faith and credit of the City. The remainder of outstanding debt is composed of bonds secured by specified revenue sources; e.g., sewer charges.

**TABLE 4: CITY OF SAN MATEO OUTSTANDING DEBT**  
General Obligation and Revenue Bonds  
Amounts in millions

	Governmental Activities		Business-type Activities		Total	
	13-14	12-13	13-14	12-13	13-14	12-13
General Obligation Bonds	\$ 28.85	\$ 28.64	\$ 0.00	\$ 0.00	\$ 28.85	\$ 28.64
Revenue Bonds	28.15	28.78	56.64	53.45	84.79	82.23
<b>Total</b>	<b>\$ 57.00</b>	<b>\$ 57.42</b>	<b>\$ 56.64</b>	<b>\$ 53.45</b>	<b>\$ 113.64</b>	<b>\$ 110.87</b>

The increase of \$2.8 million in outstanding debt from revenue bonds is primarily due to annual debt service payments reducing outstanding principal and the addition of \$4.0 million in the Sewer Fund of a California State Water Resources Control Board Revolving Loans.

The City's rating for general obligation bonds is AA+ from Standard & Poor's and Aa1 from Moody's. Standard & Poor's affirmed and assigned an underlying rating of AA for the City's revenue bonds. The Redevelopment Successor Agency's underlying rating for its series 2005A and 2007A merged area and housing tax allocation bonds is A by Standard & Poor's.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15% of its total assessed valuation. The current debt limitation for the City is approximately \$2.7 billion and at June 30, 2014 the City was only at 1.1% of its legal debt limit. Additional information on the City of San Mateo's long-term debt can be found in Note 8 of this report.

On July 2, 2014, the City issued Sewer Revenue Bonds, Series 2014A totaling \$32.3 million for the purposes of refunding the outstanding 2003 Sewer Revenue bonds and to finance \$18.0 million in sanitary sewer capital construction costs.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Regionally, economic conditions also appear to be strong. The job market within the City boundaries is stronger than in the County, and much stronger than California's. The Bureau of Labor Statistics unemployment data has, as of June 2014, California's rate at 7.3%, compared with 6.1% nationally. Comparatively better, the unemployment rate for the City was 3.3%, down from annualized rate of 4.3% for 2013. The unemployment figure in San Mateo County was 4.2% in June 2014. A low rate of unemployment signals an economy that has recovered from the recent recession, with the City's rate having nearly dropped to its 2007 low point of 3.0%.

The amended 2014-15 General Fund budget reflects an excess of expenditures over revenues of \$1.6 million to support various one-time operating costs. Total revenues and transfers in are budgeted at \$96.4 million, while total expenditures and transfers out are budgeted at \$98.0 million, with an estimated total fund balance of \$34.5 million. The budgeted drawdown of available fund balance of \$1.6 million was approved to provide resources for various one-time expenditures. However, general tax revenues have performed better than estimated in the budget year to the extent that the City expects to end the year with an increase in fund balance. The City's fiscal discipline has assisted in achieving its financial objectives.



## REQUESTS FOR INFORMATION

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This financial report is designed to provide a general overview of the City of San Mateo's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 330 West 20<sup>th</sup> Avenue, San Mateo, California, 94403.



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# **BASIC FINANCIAL STATEMENTS**

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# GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**City of San Mateo**  
**Statement of Net Position**  
**June 30, 2014**

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 145,921,834	\$ 23,797,907	\$ 169,719,741
Accounts receivable	3,644,452	6,664,412	10,308,864
Interest receivable	405,922	-	405,922
Taxes receivable	5,170,548	-	5,170,548
Grant receivable	739,413	-	739,413
Prepays and supplies	438,650	77,799	516,449
Internal balances	529,143	(529,143)	-
Total current assets	156,849,962	30,010,975	186,860,937
Noncurrent assets:			
Restricted cash and investments with fiscal agents	1,295,806	2,039,113	3,334,919
Loans and notes receivable, net	47,622,201	-	47,622,201
Capital assets:			
Non-depreciable	51,829,779	20,019,570	71,849,349
Depreciable, net	342,353,333	107,000,154	449,353,487
Total capital asset	394,183,112	127,019,724	521,202,836
Total noncurrent assets	443,101,119	129,058,837	572,159,956
<b>Total assets</b>	<b>599,951,081</b>	<b>159,069,812</b>	<b>759,020,893</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred loss on refunding	1,262,672	907,011	2,169,683
<b>Total deferred outflows of resources</b>	<b>1,262,672</b>	<b>907,011</b>	<b>2,169,683</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	7,223,406	611,901	7,835,307
Interest payable	627,595	1,222,816	1,850,411
Retentions payable	580,227	-	580,227
Accrued salaries and wages payable	1,788,294	-	1,788,294
Deposits payable	5,000,950	337,911	5,338,861
Unearned revenue	1,189,293	-	1,189,293
Claims and judgments payable - due within one year	1,500,000	-	1,500,000
Landfill postclosure cost payable - due within one year	125,000	-	125,000
Compensated leave payable - due within one year	772,555	89,638	862,193
Bonds payable - due within one year	1,790,000	1,860,000	3,650,000
Total current liabilities	20,597,320	4,122,266	24,719,586
Noncurrent liabilities:			
Claims and judgments payable - due in more than one year	9,158,000	-	9,158,000
Landfill postclosure costs payable - due in more than one year	2,625,000	-	2,625,000
Compensated leave payable - due in more than one year	6,250,680	725,251	6,975,931
Net OPEB Obligation	2,614,497	246,431	2,860,928
Loans payable - due in more than one year	-	4,000,000	4,000,000
Bonds payable - due in more than one year, net	55,208,863	50,780,921	105,989,784
Total noncurrent liabilities	75,857,040	55,752,603	131,609,643
<b>Total liabilities</b>	<b>96,454,360</b>	<b>59,874,869</b>	<b>156,329,229</b>
<b>NET POSITION</b>			
Net investment in capital assets	338,446,921	76,417,915	414,864,836
Restricted for:			
Housing and economic development	50,345,838	-	50,345,838
Capital projects	23,596,472	5,553,127	29,149,599
Debt service	3,256,195	-	3,256,195
Other purposes	5,400,544	429,151	5,829,695
Total restricted	82,599,049	5,982,278	88,581,327
Unrestricted	83,713,423	17,701,761	101,415,184
<b>Total net position</b>	<b>\$ 504,759,393</b>	<b>\$ 100,101,954</b>	<b>\$ 604,861,347</b>

See accompanying Notes to Basic Financial Statements.

**City of San Mateo**  
**Statement of Activities**  
**For the year ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<b>Governmental activities:</b>					
General government	\$ 11,250,111	\$ 3,796,035	\$ -	\$ 51,899	\$ 3,847,934
Community development	6,219,895	10,524,597	882,058	1,223	11,407,878
Public safety	52,241,250	5,032,066	290,736	45,713	5,368,515
Public works	18,936,651	5,798,006	3,125,844	9,537,452	18,461,302
Parks and recreation	14,485,575	3,640,528	183,586	2,668,454	6,492,568
Library	6,963,743	396,619	139,396	-	536,015
Interest on long-term debt	1,712,704	-	-	-	-
Total governmental activities	111,809,929	29,187,851	4,621,620	12,304,741	46,114,212
<b>Business-type activities:</b>					
Sewer	22,208,673	28,381,469	-	1,269,568	29,651,037
Golf	2,719,709	2,470,030	-	-	2,470,030
Total business-type activities	24,928,382	30,851,499	-	1,269,568	32,121,067
<b>Total primary government</b>	<b>\$ 136,738,311</b>	<b>\$ 60,039,350</b>	<b>\$ 4,621,620</b>	<b>\$ 13,574,309</b>	<b>\$ 78,235,279</b>

**General Revenues:**

Taxes:

- Property taxes
- Sales taxes
- Property transfer taxes
- Transient occupancy taxes
- Business license taxes
- Franchise taxes
- Other taxes
- Motor vehicle taxes

Total taxes

Investment earnings

**Total general revenues**

**Change in net position**

**Net position - beginning of year (as restated)**

**Net position - end of year**



Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (7,402,177)	\$ -	\$ (7,402,177)
5,187,983	-	5,187,983
(46,872,735)	-	(46,872,735)
(475,349)	-	(475,349)
(7,993,007)	-	(7,993,007)
(6,427,728)	-	(6,427,728)
(1,712,704)	-	(1,712,704)
(65,695,717)	-	(65,695,717)
-	7,442,364	7,442,364
-	(249,679)	(249,679)
-	7,192,685	7,192,685
(65,695,717)	7,192,685	(58,503,032)
42,485,569	-	42,485,569
23,621,580	-	23,621,580
9,476,086	-	9,476,086
6,903,245	-	6,903,245
5,473,405	-	5,473,405
2,967,823	-	2,967,823
205,383	-	205,383
68,688	-	68,688
91,201,779	-	91,201,779
1,430,926	324,021	1,754,947
92,632,705	324,021	92,956,726
26,936,988	7,516,706	34,453,694
477,822,405	92,585,248	570,407,653
\$ 504,759,393	\$ 100,101,954	\$ 604,861,347



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# FUND FINANCIAL STATEMENTS

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*Governmental Fund Financial Statements*

*Proprietary Fund Financial Statements*

*Fiduciary Fund Financial Statements*



## GOVERNMENTAL FUND FINANCIAL STATEMENTS

*General Fund* accounts for resources traditionally associated with governmental which are not required legally or by sound financial management to be accounted for in another fund.

*General Projects Capital Projects Fund* accounts for the expenditures for capital improvements for the City, including equipment, acquisition and construction of parks, recreation areas, public safety facilities or other public works. The primary sources of funding are intergovernmental revenues, Measure A (half cent sales tax), developer impact fees and transfers from other governmental funds.

*HOME Special Revenue Fund* accounts for revenue and expenditures of the Federal HOME grant program.

*City Housing Special Revenue Fund* accounts for revenues from a former Federal Rental Rehabilitation program and loan payments from the First Time Homebuyer program.

*Low and Moderate Income Housing Special Revenue Fund* accounts for revenues and expenditures of the former Redevelopment Agency Special Revenue Fund.

*Non-Major Governmental Funds* is the aggregate of all the non-major governmental funds.

**City of San Mateo**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	Major Funds			
	General	General Capital Projects	HOME Special Revenue	City Housing Special Revenue
<b>ASSETS</b>				
Cash and investments	\$ 39,476,702	\$ 35,613,934	\$ 120,774	\$ 281,685
Restricted cash and investments held by fiscal agents	-	785,298	-	-
Accounts receivable	667,724	2,188,022	-	-
Interest receivable	383,022	11,000	-	-
Taxes receivable	4,560,950	-	-	-
Due from other funds	1,114,138	-	-	-
Prepays and supplies	165,313	-	-	-
Grant receivable	-	268,803	-	-
Loans and notes receivable	-	4,464,855	8,526,227	8,700,278
<b>Total assets</b>	<b>\$ 46,367,849</b>	<b>\$ 43,331,912</b>	<b>\$ 8,647,001</b>	<b>\$ 8,981,963</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 2,403,795	\$ 3,567,462	\$ 2,520	\$ -
Retention payable	46,662	533,565	-	-
Accrued salaries and wages payable	1,788,294	-	-	-
Due to other funds	-	-	-	-
Deposits payable	4,955,488	-	-	-
Unearned revenue	1,071,039	-	118,254	-
<b>Total liabilities</b>	<b>10,265,278</b>	<b>4,101,027</b>	<b>120,774</b>	<b>-</b>
<b>Deferred inflows of resources:</b>				
Unavailable revenues	\$ -	\$ 5,333,658	\$ 8,526,227	\$ 8,700,278
<b>Fund Balances: (Note 9)</b>				
Nonspendable	165,313	-	-	-
Restricted	-	20,180,111	-	281,685
Committed	-	13,717,116	-	-
Assigned	1,849,458	-	-	-
Unassigned	34,087,800	-	-	-
<b>Total fund balances</b>	<b>36,102,571</b>	<b>33,897,227</b>	<b>-</b>	<b>281,685</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 46,367,849</b>	<b>\$ 43,331,912</b>	<b>\$ 8,647,001</b>	<b>\$ 8,981,963</b>

See accompanying Notes to Basic Financial Statements.

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Major Funds		
Low Moderate Income Housing Special Revenue	Non-Major Governmental Funds	Total Governmental Funds
<hr/>	<hr/>	<hr/>
\$ 2,945,087	\$ 35,640,525	\$ 114,078,707
-	510,508	1,295,806
-	732,368	3,588,114
-	11,900	405,922
-	609,598	5,170,548
-	-	1,114,138
-	-	165,313
-	470,610	739,413
31,301,753	2,100,280	55,093,393
<hr/>	<hr/>	<hr/>
\$ 34,246,840	\$ 40,075,789	\$ 181,651,354
<hr/>	<hr/>	<hr/>
\$ 47,560	\$ 281,414	\$ 6,302,751
-	-	580,227
-	-	1,788,294
-	526,415	526,415
-	35,575	4,991,063
-	-	1,189,293
<hr/>	<hr/>	<hr/>
47,560	843,404	15,378,043
<hr/>	<hr/>	<hr/>
\$ 31,301,753	\$ 2,100,280	\$ 55,962,196
<hr/>	<hr/>	<hr/>
-	-	165,313
2,897,527	9,093,610	32,452,933
-	28,042,494	41,759,610
-	-	1,849,458
-	(3,999)	34,083,801
<hr/>	<hr/>	<hr/>
2,897,527	37,132,105	110,311,115
<hr/>	<hr/>	<hr/>
\$ 34,246,840	\$ 40,075,789	\$ 181,651,354
<hr/>	<hr/>	<hr/>





**City of San Mateo**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Position**  
**June 30, 2014**

**Total Fund Balances - Total Governmental Funds** **\$ 110,311,115**

Amounts reported for governmental activities in the Statement of Net Position were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. Except for the internal service funds reported below, the capital assets were adjusted as follows:

	Government- Wide Statement of Net Position	Internal Service Funds	Total
Non-depreciable	\$ 51,829,779	\$ -	\$ 51,829,779
Depreciable, net	342,353,333	(3,414,236)	338,939,097
<b>Total capital assets</b>	<b>\$ 394,183,112</b>	<b>\$ (3,414,236)</b>	<b>390,768,876</b>

Unavailable revenue recorded in the fund financial statements resulting from activities in which revenues were earned but funds were not available are reclassified as revenues in the Government-Wide Financial Statements. 55,962,196

Loans and notes receivable were recorded at gross amounts in the governmental funds. However, in the Government-Wide Financial Statement an estimated amount for allowance for potential forgiveness has been expensed. The following amount represents the current year balance for allowance for potential forgiveness. (7,926,767)

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet. (627,595)

Internal service funds were used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the Internal service funds were included in governmental activities in the Government-Wide Statement of Net Position. 24,395,491

Deferred amounts related to the refunding of long-term debt were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. This amount is to be amortized over the life of the long-term debt. 1,262,672

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

	Government- Wide Statement of Net Position	Internal Service Funds	Total
Claims and judgments payable - due within one year	\$ (1,500,000)	\$ 1,500,000	\$ -
Landfill closure and postclosure cost payable - due within one year	(125,000)	-	(125,000)
Compensated leave payable - due within one year	(772,555)	-	(772,555)
Bonds payable - due within one year	(1,790,000)	-	(1,790,000)
Long term liabilities - due in more than one year	(75,857,040)	9,158,000	(66,699,040)
<b>Total long-term liabilities</b>	<b>\$ (80,044,595)</b>	<b>\$ 10,658,000</b>	<b>(69,386,595)</b>

**Net Position of Governmental Activities** **\$ 504,759,393**

See accompanying Notes to Basic Financial Statements.

**City of San Mateo**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2014**

	Major Funds			
	General	General Capital Projects	HOME Special Revenue	City Housing Special Revenue
<b>REVENUES:</b>				
Property taxes	\$ 40,320,917	\$ -	\$ -	\$ -
Sales taxes	21,542,712	2,078,868	-	-
Other taxes	23,933,861	-	-	-
Licenses, building and other permits	58,362	-	-	-
Fines, forfeitures and penalties	1,782,411	45,713	-	-
Intergovernmental	1,093,913	4,958,460	23,389	-
Charges for services	6,511,598	299,525	-	-
Investment income	668,023	36,099	-	-
Assessments and garbage collection surcharge	-	2,715,451	-	-
Parking meter and lease revenue	-	295,674	-	-
Impact fees	-	2,552,388	-	-
Other revenues	1,992,586	302,985	56,517	115,390
<b>Total revenues</b>	<b>97,904,383</b>	<b>13,285,163</b>	<b>79,906</b>	<b>115,390</b>
<b>EXPENDITURES:</b>				
Current:				
General government:				
City Council	496,331	-	-	-
City Manager	750,930	-	-	-
City Clerk	560,893	-	-	-
City Attorney	1,119,165	-	-	-
Business services	2,556,059	-	-	-
Information technology	3,074,876	-	-	-
Human resources	1,389,129	-	-	-
Community development	2,059,808	-	78,677	47,008
Public safety:				
Police	28,909,841	-	-	-
Fire	18,038,722	-	-	-
Public works	4,838,080	-	-	-
Parks and recreation	12,298,322	-	-	-
Library	5,160,200	-	-	-
Non-departmental	1,280,000	-	-	-
Capital outlay	-	19,524,506	-	-
Debt service:				
Principal	-	220,000	-	-
Interest, and fiscal charges	-	265,974	-	-
<b>Total expenditures</b>	<b>82,532,356</b>	<b>20,010,480</b>	<b>78,677</b>	<b>47,008</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>15,372,027</b>	<b>(6,725,317)</b>	<b>1,229</b>	<b>68,382</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	2,223,975	10,095,765	-	-
Transfers out	(6,949,770)	(191,885)	(1,229)	-
<b>Total other financing sources (uses)</b>	<b>(4,725,795)</b>	<b>9,903,880</b>	<b>(1,229)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>10,646,232</b>	<b>3,178,563</b>	<b>-</b>	<b>68,382</b>
<b>FUND BALANCES:</b>				
Beginning of year	25,456,339	30,718,664	-	213,303
End of year	\$ 36,102,571	\$ 33,897,227	\$ -	\$ 281,685

See accompanying Notes to Basic Financial Statements.

<u>Major Funds</u>		
<u>Low Moderate Income Housing Special Revenue</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 2,164,652	\$ 42,485,569
-	-	23,621,580
-	1,150,771	25,084,632
-	10,150,048	10,208,410
-	-	1,828,124
-	4,347,110	10,422,872
192,676	2,422,853	9,426,652
41,960	375,597	1,121,679
-	1,870,953	4,586,404
-	2,357,504	2,653,178
-	-	2,552,388
-	225,430	2,692,908
<u>234,636</u>	<u>25,064,918</u>	<u>136,684,396</u>
-	-	496,331
-	-	750,930
-	-	560,893
-	-	1,119,165
-	-	2,556,059
-	-	3,074,876
-	-	1,389,129
107,275	3,933,432	6,226,200
-	1,045,422	29,955,263
-	1,560,110	19,598,832
-	2,264,623	7,102,703
-	-	12,298,322
-	-	5,160,200
-	-	1,280,000
-	-	19,524,506
-	1,390,000	1,610,000
-	1,395,831	1,661,805
<u>107,275</u>	<u>11,589,418</u>	<u>114,365,214</u>
<u>127,361</u>	<u>13,475,500</u>	<u>22,319,182</u>
-	304,094	12,623,834
<u>(721,446)</u>	<u>(4,842,553)</u>	<u>(12,706,883)</u>
<u>(721,446)</u>	<u>(4,538,459)</u>	<u>(83,049)</u>
(594,085)	8,937,041	22,236,133
<u>3,491,612</u>	<u>28,195,064</u>	<u>88,074,982</u>
<u>\$ 2,897,527</u>	<u>\$ 37,132,105</u>	<u>\$ 110,311,115</u>

# City of San Mateo

## Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities

For the year ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 22,236,133

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

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period, net of Internal Service Funds of \$759,943.	16,476,596
Donated capital assets are reflected in the Government-Wide Statement of Activities as capital contributions. However capital contributions related to donated capital assets are not reported in governmental funds as capital assets are not considered current financial resources.	1,731,177
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the governmental funds, net of Internal Service Funds of \$746,642.	(15,143,408)
In the statement of activities, only the gain or (loss) on the sale of capital assets is reported, whereas in the governmental funds proceeds from sales increases financial resources. The difference between proceeds and the loss on disposal of capital assets:	(23,377)
Accrued compensated leave payable was an expenditure in governmental funds, but the accrued payable increased compensated leave liabilities in the Government-Wide Statement of Net Position.	(25,880)
OPEB expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	15,974
Payment of landfill closure and postclosure cost payable was an expenditure in governmental funds, but the payment reduced landfill closure and postclosure cost liabilities in the Government-Wide Statement of Net Position.	125,000
Bond proceeds provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Position. Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position. Long-term debt repayments	1,610,000
Note and loan revenues that did not meet the revenue recognition criteria in the governmental funds but were recognized as revenue in the Government-Wide Financial Statements.	1,126,258
Loans and notes receivable were recorded at gross amounts in the governmental funds. However, in the Government-Wide Financial Statement an estimated amount for allowance for potential forgiveness has been expensed. The following amount represents the current year amount for allowance for potential forgiveness.	(294,103)
Deferred amounts related to the refunding of long-term debt were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. This amount is to be amortized over the life of the long-term debt. - This amount is the current year amortization expense	(78,508)
Long-term debt premium and discount was recorded as an other financing source or (use) in the governmental funds, but the payment was treated as an increase(decrease) in long-term liabilities and will be amortized over the life of the bonds in the Government-Wide Statement of Net Position. - This amount is the current year amortization expense	151,691
Interest expense on long-term debt is reported on the accrual basis on the Government-Wide Statements, but expenditures on long-term debt in the governmental funds statements are recorded when paid. The following amount represents the change in accrued interest from the prior year.	(124,082)
Internal service funds were used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net revenue of the internal service funds was reported with governmental activities.	(846,483)

Change in Net Position of Governmental Activities \$ 26,936,988

See accompanying Notes to Basic Financial Statements.

## PROPRIETARY FUND FINANCIAL STATEMENTS

*Sewer Fund* accounts for the activities of the wastewater collection and treatment system, which provides service to the residents of the City and some neighboring cities.

*Golf Fund* accounts for the activities of the Poplar Creek Golf Course, which provides recreational facilities to the public.

*Internal Service Funds* are used to account for the financing of goods and services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

**City of San Mateo**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2014**

	Enterprise Funds			Governmental
	Sewer	Golf	Total	Activities Internal Service Funds
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 23,797,907	\$ -	\$ 23,797,907	\$ 31,843,127
Accounts receivable	6,603,070	61,342	6,664,412	56,338
Prepays and supplies	6,966	70,833	77,799	273,337
Total current assets	30,407,943	132,175	30,540,118	32,172,802
Noncurrent assets:				
Restricted cash and investments with fiscal agents	2,039,112	1	2,039,113	-
Loans and notes receivable	-	-	-	455,575
Capital assets:				
Non-depreciable	19,854,570	165,000	20,019,570	-
Depreciable, net	100,576,967	6,423,187	107,000,154	3,414,236
Total capital assets	120,431,537	6,588,187	127,019,724	3,414,236
Total noncurrent assets	122,470,649	6,588,188	129,058,837	3,869,811
<b>Total assets</b>	<b>152,878,592</b>	<b>6,720,363</b>	<b>159,598,955</b>	<b>36,042,613</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred loss on refunding	702,065	204,946	907,011	-
<b>Total deferred outflows of resources</b>	<b>702,065</b>	<b>204,946</b>	<b>907,011</b>	<b>-</b>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	522,952	88,949	611,901	920,655
Interest payable	1,088,007	134,809	1,222,816	-
Deposits payable	337,911	-	337,911	9,887
Due to other fund	-	529,143	529,143	58,580
Claims and judgments payable - due within one year	-	-	-	1,500,000
Compensated leave payable - due within one year	74,276	15,362	89,638	-
Bonds payable - due within one year	1,500,000	360,000	1,860,000	-
Total current liabilities	3,523,146	1,128,263	4,651,409	2,489,122
Noncurrent liabilities:				
Claims and judgments payable - due in more than one year	-	-	-	9,158,000
Compensated leave payable - due in more than one year	600,956	124,295	725,251	-
OPEB liability	221,404	25,027	246,431	-
Loans payable - due in more than one year	4,000,000	-	4,000,000	-
Bonds payable - due in more than one year	43,315,921	7,465,000	50,780,921	-
Total noncurrent liabilities	48,138,281	7,614,322	55,752,603	9,158,000
<b>Total liabilities</b>	<b>51,661,427</b>	<b>8,742,585</b>	<b>60,404,012</b>	<b>11,647,122</b>
<b>NET POSITION</b>				
Net investment in capital assets	77,654,728	(1,236,813)	76,417,915	3,414,236
Restricted for:				
Capital projects	5,553,127	-	5,553,127	-
Other purposes	429,151	-	429,151	2,983,489
Unrestricted	18,282,224	(580,463)	17,701,761	17,997,766
<b>Total net position</b>	<b>\$ 101,919,230</b>	<b>\$ (1,817,276)</b>	<b>\$ 100,101,954</b>	<b>\$ 24,395,491</b>

See accompanying Notes to Basic Financial Statements.

**City of San Mateo**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the year ended June 30, 2014**

	Enterprise Funds			Governmental
	Sewer	Golf	Total	Activities Internal Service Funds
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 27,791,099	\$ 2,288,635	\$ 30,079,734	\$ 26,128,107
Connection fees	109,111	-	109,111	-
Impact fees	481,259	-	481,259	-
Other	-	181,395	181,395	832
<b>Total operating revenues</b>	<b>28,381,469</b>	<b>2,470,030</b>	<b>30,851,499</b>	<b>26,128,939</b>
<b>OPERATING EXPENSES:</b>				
Costs of sales and services	15,695,578	1,417,692	17,113,270	25,343,884
Administration	1,178,526	507,813	1,686,339	1,292,694
Depreciation and amortization	3,318,508	390,513	3,709,021	746,642
<b>Total operating expenses</b>	<b>20,192,612</b>	<b>2,316,018</b>	<b>22,508,630</b>	<b>27,383,220</b>
<b>OPERATING INCOME</b>	<b>8,188,857</b>	<b>154,012</b>	<b>8,342,869</b>	<b>(1,254,281)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Interest income	324,021	-	324,021	331,345
Loss on disposal of capital assets	-	(79,000)	(79,000)	(6,596)
Interest expense and fiscal charges	(2,016,061)	(324,691)	(2,340,752)	-
<b>Total nonoperating revenues (expenses)</b>	<b>(1,692,040)</b>	<b>(403,691)</b>	<b>(2,095,731)</b>	<b>324,749</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTION AND TRANSFERS</b>	<b>6,496,817</b>	<b>(249,679)</b>	<b>6,247,138</b>	<b>(929,532)</b>
Capital contributions	1,269,568	-	1,269,568	-
Transfers in	-	-	-	983,221
Transfers out	-	-	-	(900,172)
<b>Total transfers</b>	<b>1,269,568</b>	<b>-</b>	<b>1,269,568</b>	<b>83,049</b>
<b>Change in net position</b>	<b>7,766,385</b>	<b>(249,679)</b>	<b>7,516,706</b>	<b>(846,483)</b>
<b>NET POSITION</b>				
Beginning of year (as restated)	94,152,845	(1,567,597)	92,585,248	25,241,974
End of year	<u>\$ 101,919,230</u>	<u>\$ (1,817,276)</u>	<u>\$ 100,101,954</u>	<u>\$ 24,395,491</u>

See accompanying Notes to Basic Financial Statements.

**City of San Mateo**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the year ended June 30, 2014**

	Enterprise Funds			Governmental
	Sewer	Golf	Total	Activities Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 27,543,650	\$ 2,259,451	\$ 29,803,101	\$ -
Cash received from other funds	-	125,084	125,084	26,150,279
Cash payments to suppliers for goods and services	(9,584,907)	(895,563)	(10,480,470)	(23,076,820)
Cash paid to employees	(7,578,306)	(994,926)	(8,573,232)	(2,328,358)
Cash received from others	-	181,395	181,395	832
<b>Net cash provided by operating activities</b>	<b>10,380,437</b>	<b>675,441</b>	<b>11,055,878</b>	<b>543,933</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	-	-	-	983,221
Transfers out	-	-	-	(900,172)
<b>Net cash provided by noncapital financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>83,049</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Contributions	863,660	-	863,660	-
Acquisition of capital assets	(8,376,634)	-	(8,376,634)	(759,943)
Long-term debt repayment	(1,455,000)	(345,000)	(1,800,000)	-
Interest paid and fiscal charges	(1,809,927)	(330,441)	(2,140,368)	-
<b>Net cash (used in) capital and related financing activities</b>	<b>(10,777,901)</b>	<b>(675,441)</b>	<b>(11,453,342)</b>	<b>(759,943)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Investment income received	324,021	-	324,021	331,345
<b>Net cash provided by investing activities</b>	<b>324,021</b>	<b>-</b>	<b>324,021</b>	<b>331,345</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(73,443)</b>	<b>-</b>	<b>(73,443)</b>	<b>198,384</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b>25,910,462</b>	<b>1</b>	<b>25,910,463</b>	<b>31,644,743</b>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b>\$ 25,837,019</b>	<b>\$ 1</b>	<b>\$ 25,837,020</b>	<b>\$ 31,843,127</b>
<b>FINANCIAL STATEMENT PRESENTATION:</b>				
Cash and investments	\$ 23,797,907	\$ -	\$ 23,797,907	\$ 31,843,127
Restricted cash and investments with fiscal agents	2,039,112	1	2,039,113	-
<b>Total</b>	<b>\$ 25,837,019</b>	<b>\$ 1</b>	<b>\$ 25,837,020</b>	<b>\$ 31,843,127</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income	\$ 8,188,857	\$ 154,012	\$ 8,342,869	\$ (1,254,281)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	3,318,508	390,513	3,709,021	746,642
Changes in assets and liabilities:				
Accounts receivable	(951,215)	(29,184)	(980,399)	22,172
Prepays and supplies	(6,966)	3,572	(3,394)	(43,337)
Accounts payable	(171,265)	20,232	(151,033)	468,157
Accrued salaries and wages payable	-	-	-	-
Deposits payable	113,396	-	113,396	-
Due to other fund	-	125,084	125,084	58,580
Claims and judgments payable	-	-	-	546,000
Compensated leave payable	(93,012)	13,194	(79,818)	-
OPEB liability	(17,866)	(1,982)	(19,848)	-
<b>Total adjustments</b>	<b>2,191,580</b>	<b>521,429</b>	<b>2,713,009</b>	<b>1,798,214</b>
<b>Net cash provided by operating activities</b>	<b>\$ 10,380,437</b>	<b>\$ 675,441</b>	<b>\$ 11,055,878</b>	<b>\$ 543,933</b>
<b>NONCASH ITEMS</b>				
Capital contributions	\$ 405,908	\$ -	\$ 405,908	\$ -
<b>Total noncash items</b>	<b>\$ 405,908</b>	<b>\$ -</b>	<b>\$ 405,908</b>	<b>\$ -</b>

See accompanying Notes to Basic Financial Statements.



## FIDUCIARY FUND FINANCIAL STATEMENTS

### **Agency Fund**

*Community Facilities District No. 2008-01 Agency Fund* accounts for assets that the City is holding for the Community Facilities District No. 2008-01 for which the City is acting as an agent.

### **Private Purpose Trust Funds**

*Successor Agency Trust Fund* accounts for assets and liabilities transferred from the City to the Successor Agency Trust Fund.

**City of San Mateo**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2014**

	Community Facilities	
	District 2008-1 Agency Fund	Successor Agency Trust Fund
<b>ASSETS</b>		
Current assets		
Cash and investments	\$ 92,290	\$ 5,557,855
Accounts receivable	-	25,200
Interest receivable	-	3,175
Loans and notes receivable	-	261,563
Total current assets	92,290	5,847,793
Noncurrent assets		
Restricted cash and investments	40,675,842	1,311,386
Capital assets - land	-	7,274,984
Total noncurrent assets	40,675,842	8,586,370
<b>Total assets</b>	<b>\$ 40,768,132</b>	<b>\$ 14,434,163</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refunding	-	1,516,596
<b>Total deferred outflows of resources</b>	<b>-</b>	<b>1,516,596</b>
<b>LIABILITIES</b>		
<b>Liabilities:</b>		
Current liabilities		
Accounts payable	-	1,420,681
Bonds payable - due in one year	-	3,350,000
Total current liabilities	-	4,770,681
Noncurrent liabilities		
Due to bondholders	40,768,132	-
Bonds payable	-	75,552,937
Total noncurrent liabilities	40,768,132	75,552,937
<b>Total liabilities</b>	<b>\$ 40,768,132</b>	<b>80,323,618</b>
<b>NET POSITION</b>		
Held in trust for dissolution of RDA		(64,372,859)
<b>Total net position</b>		<b>\$ (64,372,859)</b>

See accompanying Notes to Basic Financial Statements.

**City of San Mateo**  
**Statement of Changes in Fiduciary Net Position**  
**All Fiduciary Funds - Private Purpose Trust Funds**  
**For the year ended June 30, 2014**

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	Successor Agency Trust Fund
	<u>                    </u>
<b>ADDITIONS:</b>	
Investment income	\$ 26,268
RDA property tax trust fund distribution	4,876,103
Other	<u>168,910</u>
<b>Total additions</b>	<u>5,071,281</u>
<b>DEDUCTIONS:</b>	
Administration	3,562,646
Amortization expense	133,552
Interest expense	<u>3,450,869</u>
<b>Total Deductions</b>	<u>7,147,067</u>
<b>Change in net position</b>	(2,075,786)
<b>NET POSITION:</b>	
Beginning of year (as restated)	<u>(62,297,073)</u>
End of year	<u>\$ (64,372,859)</u>

See accompanying Notes to Basic Financial Statements.



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# NOTES TO BASIC FINANCIAL STATEMENTS

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**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the City of San Mateo, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

**A. Financial Reporting Entity**

The City of San Mateo (City) was incorporated as a charter city on September 4, 1894; the current charter was adopted in 1971 and revised in 2002. The City operates under the Council-Manager form of government and provides the following services: public safety, including police and fire; building inspection; parks and streets; sanitation; leisure services; planning and zoning; general administration services; and redevelopment.

These basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. The City had no discretely presented component units. The blended component unit has a June 30 year-end. The following entity is reported as a blended component unit:

The San Mateo Joint Powers Financing Authority (Authority) was established solely to assist the City in the issuance of certain revenue bonds. It is controlled by and financially dependent on the City; its financial activities were accounted for as part of the respective funds.

Separate financial statements for the San Mateo Joint Powers Financing Authority are not available.

**B. Basis of Accounting and Measurement Focus**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**Government-Wide Financial Statements**

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***B. Basis of Accounting and Measurement Focus, Continued***

**Government-Wide Financial Statements, Continued**

These financial statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the City’s assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liabilities are incurred.

Certain types of transactions reported as program revenues for the City are reported in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made 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 and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

The City applies all applicable GASB pronouncements including all NCGA Statements and Interpretations currently in effect.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Governmental Fund Financial Statements**

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements. The City has presented all major funds that meet specific qualifications.

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

The City reports the following funds as major governmental funds of the City.

General Fund accounts for resources traditionally associated with governmental activities that are not required legally or by sound financial management to be accounted for in another fund.

General Capital Projects Fund accounts for the expenditures for capital improvements for the City, including equipment, acquisition and construction of parks, recreation areas, public safety facilities or other public works. The primary sources of funding are intergovernmental revenues, Measure A (half cent sales tax), developer impact fees and transfers from other governmental funds.

HOME Special Revenue Fund accounts for revenues and expenditures of the Federal HOME grant program.

City Housing Special Revenue Fund accounts for revenues from a former Federal Rental Rehabilitation program and loan payments from the First Time Homebuyer program.

Low Moderate Income Housing Special Revenue Fund accounts for revenues and expenditures of the former Redevelopment Agency Special Revenue Fund.



**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Governmental Fund Financial Statements, Continued**

The City reports the following governmental funds as non-major governmental funds of the City.

*Police Grants Special Revenue Fund* accounts for the revenues and expenditures of State and Federal grants such as State SLESF (Supplemental Law Enforcement Services Fund).

*Community Development Block Grant Special Revenue Fund (CDBG)* accounts for revenue and expenditures of CDBG funds awarded by the Department of Housing and Urban Development.

*Fire Protection Special Revenue Fund* accounts for the fees charged and expenditure for activities relating to fire inspections and permits.

*Gas Tax Special Revenue Fund* accounts for gasoline tax revenues as required by State law.

*Construction Services Special Revenue Fund* accounts for revenue and expenditures of activities relating to building permits.

*Advance Planning Special Revenue Fund* accounts for fees collected through building permits and expenditures for activities relating to long term planning, including the general plan update.

*Parking Special Revenue Fund* accounts for parking meter revenues and expenditures of the City's downtown parking facilities.

*Solid Waste Special Revenue Fund* accounts for garbage collection surcharge revenues. The use of funds is restricted by City ordinance to street cleaning and waste disposal.

*Landfill Bonds Debt Service Fund* accounts for debt service payments on landfill revenue bonds (to finance expenditures related to final closure of the former landfill site, and construction of related park improvements) and post-closure monitoring costs.

*General Obligation Bonds Debt Service Fund* accounts for voter approved property tax revenues and debt service payments on general obligation bonds.

*2% Hotel Tax Capital Projects Fund* accounts for the voter approved 2% hotel tax revenue Measure C, the related transfers to the capital improvement fund, and debt service on variable rate bonds.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Governmental Fund Financial Statements, Continued**

Revenues are recorded when received in cash, except that revenues subject to accrual (generally those received 45 to 90 days after year-end) are recognized when due. The primary revenue sources that have been treated as susceptible to accrual by the City are property taxes, taxpayer-assessed tax revenues (sales taxes, transient occupancy taxes, franchise taxes, etc.), grant revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided.

**Proprietary Fund Financial Statements**

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Change in Net Position, and a Statement of Cash Flows for all proprietary funds.

A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which a liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

The City reports the Sewer, Golf and Internal Service Funds as proprietary funds of the City.

*Sewer Fund* accounts for the activities of the wastewater collection and treatment system, which provides service to the residents of the City and some neighboring cities.

*Golf Fund* accounts for the activities of the Poplar Creek Golf Course, which provides recreational facilities to the public.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Proprietary Fund Financial Statements, Continued**

Internal service fund balances and activities have been combined with governmental activities in the Government-Wide Financial Statements, and are comprised of the following funds:

Workers' Compensation Insurance Fund accounts for all workers' compensation self-insurance activities.

Dental Self-Insurance Fund accounts for the City's self-insurance activities related to the dental plan it provides to its employees.

Benefits Fund accounts for charges for other funds and expenditures relating to employee benefits other than those accounted for in the Workers' Compensation and Dental Self-Insurance Funds.

Comprehensive Liability Insurance Fund accounts for general liability self-insurance transactions.

Vehicle and Equipment Replacement Fund accounts for charges to the City departments for funding and acquisition of vehicles and equipment.

Fleet and Building Maintenance Fund accounts for the charges to user departments and the expenses related to the maintenance of City vehicles and buildings.

**Fiduciary Fund Financial Statements**

Fiduciary fund financial statements consist of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The City has two types of fiduciary funds, an agency fund and a private-purpose trust fund. Agency funds are used to account for the assets held for distribution by the City as an agent for another entity for which the City has custodial responsibility and accounts for the flow of assets. Private-purpose trust funds account for resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments (i.e. unclaimed property/escheat property). Fiduciary funds are accounted for using the accrual basis of accounting. The City reports the following fiduciary funds:

Community Facilities District No. 2008-1 Agency Fund – accounts for assets held by the City for the Community Facilities District No. 2008-1 (Bay Meadows).

Successor Agency Private Purpose Trust Fund – accounts for assets and liabilities transferred in fiscal year 2012 from the Redevelopment Agency of the City of San Mateo to the Successor Agency Trust Fund.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*C. Cash, Cash Equivalents and Investments*

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 entitled 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.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*D. Restricted Cash and Investments*

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt, for acquisition and construction of capital projects, and to meet bond indenture debt reserve requirements. Cash and investments are also restricted for deposits held for others within the enterprise funds.

*E. Prepaids and Supplies*

Certain payments to vendors reflect costs applicable to future accounting periods. Supplies are valued at cost on a first-in first-out basis. Supplies in the General Fund consist of expendable supplies held for consumption by all departments of the City. The cost is recorded as an expenditure at the time individual inventory items are withdrawn for use (consumption method). The General Fund supplies amount is equally offset by nonspendable fund balance, which indicates that it does not constitute expendable available financial resources. Supplies in the enterprise funds consist principally of materials and supplies for utility operations and are expensed as consumed.

*F. Capital Assets*

Capital assets, which include land, buildings, improvements, equipment, furniture, and infrastructure assets (e.g. roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated.

City policy has set the capitalization threshold for reporting capital assets at the following:

General Capital Assets	\$10,000
Infrastructure Capital Assets	\$100,000
Intangible Assets associated with Real Property	\$1,000,000

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*F. Capital Assets, Continued*

For capital assets, depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Sewer Treatment Plant and Transmission Lines	60 years
Buildings and Improvements	20 - 35 years
Machinery and Equipment	3 - 15 years
Infrastructure	25 - 50 years

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include:

- Street systems
- Site amenities such as parking and landscaped areas used by the City in the conduct of its business

Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. These subsystems were not delineated in the Basic Financial Statements. The appropriate operating department maintains information regarding the subsystems.

The City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City conducted a valuation of its infrastructure assets as of July 1, 2002. This valuation determined the original cost using one of the following methods:

- Use of historical records where available.
- Standard unit costs appropriate for the construction/acquisition date.
- Present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*F. Capital Assets, Continued*

Accumulated depreciation is defined as the total depreciation from the date of construction/acquisition to the current date on a straight line method using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

Interest accrued during capital assets construction, if any, is capitalized for the business-type activities as part of the asset cost.

*G. Interest Payable*

In the Government-Wide Financial Statements, interest payable on long-term debt is recognized as the liability is incurred for governmental fund types and proprietary fund types.

In the Fund Financial Statements, proprietary fund types recognize the interest payable when the liability is incurred.

*H. Unearned revenue*

Unearned revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues in the Government-Wide Financial Statements are prepaid charges for services.

*I. Claims and Judgments*

The short-term and long-term workers' compensation claims liability is reported in the Workers' Compensation Insurance Internal Service Fund. The short-term and long-term general claims liability is reported in the Comprehensive Liability Insurance Internal Service Fund. The short-term liability which will be liquidated with current financial resources is the amount of settlement reached, but unpaid, related to claims and judgments entered.

*J. Long-Term Debt*

Government-Wide Financial Statements – Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bonds payable is reported net of the applicable bond premium or discount. Bond issuance costs are reported as an asset and amortized over the term of the related debt.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**J. Long-Term Debt, Continued**

Fund Financial Statements – The governmental fund financial statements do not present long-term debt. As such, long-term debt is shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

Bond premiums and discounts, as well as issuance costs, are recognized during the current period as other financing sources or uses. Bond proceeds are reported as other financing sources.

Proprietary Fund Financial Statements use the same principles as those used in the Government-Wide Financial Statements.

**K. Property Taxes**

San Mateo County (County) assesses properties and it bills, collects, and distributes property taxes to all taxing entities within its jurisdiction including the City. Under State law, known as the Teeter Plan, the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1. Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are levied, provided they become available as defined above.

**L. 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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding debt reported in the government-wide statement of net position. A deferred charge on refunding results 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 refunding debt.



**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**L. *Deferred Outflows/Inflows of Resources, Continued***

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**M. *Net Position***

**Government-Wide Financial Statements**

In the Government-Wide Financial Statements, net position are classified in the following categories:

Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of governments.

Unrestricted - This amount is all net position that do not meet the definition of "net investment in capital assets" or "restricted net position" as defined above.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

**N. *Fund Balances***

**Fund Financial Statements**

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). The new classifications of fund balances are listed on the following page:

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*N. Fund Balances, Continued*

**Nonspendable Fund Balances**

These include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact, e.g., the principal of an endowment fund. Examples of “not in spendable form” include inventory, prepaid amounts, long-term notes and loans, property held for resale and other items not expected to be converted to cash. However, if the proceeds from the eventual sale or liquidation of the items would be considered restricted, committed or assigned (as defined further on) then these amounts would be included in the restricted, committed or assigned instead of the nonspendable classification. A debt service reserve fund held by a trustee is an example of fund balance in nonspendable form that is classified as restricted instead of nonspendable since the reserve is eventually liquidated to make the final debt service principal payment.

**Restricted Fund Balances**

Restricted fund balances have externally enforceable limitations on use. The limitations on use can be imposed by creditors, grantors, or contributors as well as by constitutional provisions, City charter, enabling legislation, laws and government regulations. Examples of funds subject to limitation by grantors include Federal American Recovery and Reinvestment Act (ARRA) grants for street rehabilitation, FEMA assistance to firefighters grants for safety equipment, the Office of Traffic Safety grant for the Selective Traffic Enforcement Program, the Community Block Development Grant and the portion of the fund balance in the City Housing Fund remaining from a former Federal Rental Rehabilitation program and loan payments from the First Time Homebuyer Program.

Taxes and assessments collected under voter-approved indebtedness, revenues pledged by indenture to secure debt repayment, debt service reserve funds and the unspent fund balances from these revenues are examples of fund balances subject to limitations imposed by creditors. Developer impact fees, Measure A sales tax, the gas tax, the ½ cent public safety sales tax, the Measure C 2% Transient Occupancy Tax (TOT), and the Redevelopment tax increment are examples of revenue enabled by legislation or government regulation for which the unspent balance would be classified as restricted in the fund within which they are accounted.

**Committed Fund Balances**

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (Resolution) of the City Council are classified as committed fund balances. In the City of San Mateo, this category generally is comprised of amounts committed to specific projects in Capital Improvement Program and the special revenue funds for Solid Waste, Fire Protection and Life Safety, Advanced Planning, Construction Services and Parking.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*N. Fund Balances, Continued*

**Committed Fund Balances, Continued**

The General Fund transfers to specific projects in the Capital Improvement Fund are committed once approved by the City Council and under the City Charter cannot be used for any purpose other than specified without subsequent Council action.

The special revenue funds Solid Waste, Fire Protection and Life Safety, Advanced Planning, Construction Services and Parking have been established by the City Council to account for and report specified revenue that is committed to fund expenditures for specified purposes. A substantial portion of the revenue in each of these funds is generated from fees charged to provide the services and conduct the activities related to the funds' stated purposes. The fees are established in the Comprehensive Fee Schedule that the City Council approves annually after holding public hearings.

**Assigned Fund Balances**

Fund balance amounts for which the City Council has expressed intent for use but not taken formal action to commit are reported as assigned under GASB 54. These include funds encumbered by purchase order in the General Fund for which the authorization has not lapsed, amounts held in petty cash accounts in the General Fund, interest accrued to restricted or committed fund balances when such interest is not required to be classified as restricted or committed and the operating budget contingency. The operating budget contingency is budgeted annually in the General Fund as a nondepartmental line item expenditure to cover unexpected expenditures or revenue shortfalls. Its use requires the approval of the City Council. In any year, the extent that the operating budget contingency requires the use of the prior-year ending fund balance, the amount needed to balance the budget is assigned. The City Council has not delegated the authority to assign fund balance to management.

**Unassigned Fund Balance**

The residual classification for the general fund, collectively comprised of the General Fund, the Reserves Fund and Recreational Services Fund, is unassigned fund balance. The general fund is the only fund that may report a positive unassigned balance. An example of residual revenue which would comprise the Unassigned Fund Balance in the General Fund is the unspent portion of the additional ¼% sales tax and 2% Transient Occupancy Tax approved by voters as Measure L and M to fund the City's general operating services.

Although the Reserves Fund is included in the unassigned fund balance classification, it is used to account for amounts set aside by City Council action as Reserves for Contingency pursuant to the City Charter. The balance in the Reserves Fund is not available for appropriation unless the Council takes action to transfer amounts to another fund for appropriation to proposed expenditures it deems consistent with the purpose of the reserves.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*N. Fund Balances, Continued*

**Hierarchy of Expenditures to Classify Fund Balance Amounts**

To determine the composition of ending fund balances, the Council established the order in which restricted and unrestricted (committed, assigned and unassigned) funds are to be expended. To this purpose, for expenditures made in any governmental fund, the restricted amounts will be reduced first, followed by committed amounts, assigned amounts, and then unassigned amounts.

The City uses encumbrance accounting throughout the fiscal year to encumber appropriations based upon purchase orders issued to the City’s vendors. Encumbrances outstanding at year-end are reported as expenditures in the budgetary financial statements reported in the Required Supplementary Information and the Supplementary Information. General fund encumbrances not lapsed at year-end are reported as assigned amounts. For all other funds, encumbrances not lapsed at year-end are reported as part of the funds’ restricted or committed balances according to the original source of funds.

At year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

<u>Fund</u>	<u>Fund Balance Classification</u>	<u>Amount</u>
Major funds:		
General Fund	Assigned	\$ 228,629
Low Moderate Income Housing	Restricted	5,456
General Capital Projects Fund	Restricted	<u>11,119,274</u>
Total Major Funds		<u>\$ 11,353,359</u>
Nonmajor governmental funds	Committed	<u>\$ 243,399</u>

*O. Compensated Leave Payable*

For governmental funds, compensated leave payable is recorded as current and noncurrent liabilities and as expenses only on the Government-Wide Financial Statements. For proprietary funds, current and non-current liabilities for compensated leave payable are recorded as expenses in both the Government-Wide Financial Statement and the Fund Financial Statement.

*P. Use of Estimates*

The preparation of the Basic Financial Statements in conformity with GAAP 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.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*Q. New Pronouncements*

In 2014, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* - This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City restated beginning net position as part of implementation of this standard.
- GASB Statement No. 66, *Technical Corrections - 2012 - An Amendment of GASB Statements No. 10 and No. 62* - The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. There was no effect on net position as part of implementation of this standard.
- GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25* - The objective of this statement is to improve financial reporting by state and local governmental pension plans. There was no effect on net position as part of implementation of this standard.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* - The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. There was no effect on net position as part of implementation of this standard.

**2. CASH AND INVESTMENTS**

The City maintains a cash and investment pool for all funds. Certain restricted funds that are held and invested by independent outside custodians through contractual agreements are not pooled. These restricted funds include cash and investment held by trustees.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**2. CASH AND INVESTMENTS, Continued**

*A. Summary of Cash and Investments*

The following is a summary of cash and investments at June 30, 2014:

<u>Government-Wide Statement of Net Position</u>				
	<u>Governmental</u>	<u>Business-Type</u>	<u>Fiduciary</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Funds</u>	<u>Total</u>
Deposits and investments	\$ 145,921,834	\$ 23,797,907	\$ 5,650,145	\$ 175,369,886
Restricted cash and investments	1,295,806	2,039,113	41,987,228	45,322,147
<b>Total cash and investments</b>	<b>\$ 147,217,640</b>	<b>\$ 25,837,020</b>	<b>\$ 47,637,373</b>	<b>\$ 220,692,033</b>

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	\$ 27,399
Deposits with financial institution	2,761,939
<b>Total cash on hand and deposits</b>	<b>2,789,338</b>
Local Agency Investment funds	24,734,254
San Mateo County Pool	48,697,275
Investments	99,149,019
<b>Total investments</b>	<b>172,580,548</b>
<b>Total City Treasury</b>	<b>175,369,886</b>
Cash with fiscal agent	45,322,147
<b>Total cash and investments</b>	<b>\$ 220,692,033</b>

*B. Deposits*

The carrying amount of the City's cash deposit was \$2,761,939 at June 30, 2014. Bank balances before reconciling items were a positive amount of \$3,520,118 at June 30, 2014. The City has waived the collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The remaining amount was collateralized with securities held by the pledging financial institutions in the City's name.

The California Government Code (Code) requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. 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 deposits is considered to be held in the City's name.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**2. CASH AND INVESTMENTS, CONTINUED**

**B. Deposits, Continued**

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

**C. Investments**

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Securities issued by the U.S. Treasury	5 years	No limit	No limit
U.S. Agency Securities and Instrumentalies	5 years	70%	35% of portfolio
Banker's acceptances	180 days	30%	5% of portfolio
Repurchase agreements	90 days	10%	5% of portfolio
Local Agency Investment Fund	N/A	65%	65% of portfolio
San Mateo County Pool	N/A	30%	30% of portfolio
Money Market/Mutual Funds	N/A	20%	5% of portfolio
Prime Commercial Paper	270 days	15%	2% of portfolio
Medium-term Corporate Notes	5 years	10%	2% of portfolio
Non-negotiable Certificates of Deposit	3 years	30%	5% of portfolio

Investments are stated at fair value using the aggregate method in all funds, resulting in the following investment income in all funds:

Interest income	\$ 1,252,627
Unrealized gain in changes in fair value of investments	<u>502,320</u>
<b>Total investment income</b>	<u><u>\$ 1,754,947</u></u>

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**2. CASH AND INVESTMENTS, Continued**

*C. Investments, Continued*

The City's portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates rise, the portfolio value will decline. If interest rates fall, the portfolio value will rise. The portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. Generally the City's practice is to buy and hold investments until maturity dates. Consequently, the City's investments are carried at fair value.

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's investments with LAIF at June 30, 2014, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments 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 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 \$24,734,254 invested in LAIF, which had invested 1.86% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 1.96% in the previous year. The LAIF fair value factor of 1.000298750 was used to calculate the fair value of the investments in LAIF.

The City is also a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the County. The City reports its investment in the County Pool at the fair value amount provided by the County. Included in the County Pool's 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. The fair value factor of 0.99643 was used to calculate the fair value of the investments in the County Pool.

*D. Risk Disclosures*

*Interest Risk:* Interest rate risk is the market value fluctuation due to overall changes in the interest rates. It is mitigated by limiting the average maturity of the City's portfolio not to exceed three years.



**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**2. CASH AND INVESTMENTS, Continued**

*D. Risk Disclosures, Continued*

Investments held in the City Treasury grouped by maturity date at June 30, 2014, are shown below:

Investment Type	Fair Value	Investment Maturities (in years)				
		1 year or Less	2 years	3 years	4 years	5 years
Securities of U.S. Government						
Treasury and Agencies:						
Federal Farm Credit Bank Bonds (FFCB)	\$ 17,003,935	\$ 1,012,846	\$ 6,016,943	\$ 3,007,062	\$ 6,967,084	\$ -
Federal Home Loan Bank Bonds (FHLB)	12,434,264	1,025,454	997,134	5,028,872	5,382,804	-
Federal Home Loan Mortg. Corp. Notes (FHLMC)	11,989,416	1,001,423	1,999,713	3,511,565	5,476,715	-
Federal National Mortg. Assn. Notes (FNMA)	24,542,640	1,001,841	1,000,782	8,570,028	13,969,989	-
US Treasuries	14,986,640	1,014,062	-	7,059,453	6,913,125	-
Barclay's Commercial Paper	499,915	499,915	-	-	-	-
Berkshire Hathaway Corporate Note	1,024,752	1,024,752	-	-	-	-
GE Capital Corporate Note	2,030,062	-	2,030,062	-	-	-
IBM Corporate Note	1,026,141	-	1,026,141	-	-	-
Microsoft Corporate Note	516,498	-	516,498	-	-	-
Toyota Motor Credit Corporate Note	1,005,435	-	1,005,435	-	-	-
Money Market	3,246,352	3,246,352	-	-	-	-
Time Deposits	8,842,970	4,850,000	3,992,970	-	-	-
Subtotal	99,149,019	14,676,645	18,585,678	27,176,980	38,709,717	-
City Local Agency Investment Fund	24,734,254	24,734,254	-	-	-	-
San Mateo County Pool	48,697,275	48,697,275	-	-	-	-
<b>Total</b>	<b>\$ 172,580,548</b>	<b>\$ 88,108,174</b>	<b>\$ 18,585,678</b>	<b>\$ 27,176,980</b>	<b>\$ 38,709,717</b>	<b>\$ -</b>

*Liquidity Standard:* As a means of maintaining liquidity, the City's investment policy limits are as follows:

Maturity	% of Portfolio
Up to six months	25% (Minimum)
Six months to five years	75% (Maximum)

*Credit Risk:* Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. According to the City's investment policy, no more than 5% of the total portfolio (2% for commercial paper and medium term notes) may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities, San Mateo County Pool and LAIF. If a security is downgraded by either Moody's or S&P to a level below the minimum quality required by the City, it shall be the City's policy to sell that security as soon as practicable. The City's policy primarily requires all AAA ratings, except for Banker's Acceptance (A1); Commercial Paper (A1) and Medium-term Corporate Notes (A).

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**2. CASH AND INVESTMENTS, Continued**

*D. Risk Disclosures, Continued*

At June 30, 2014, the City's deposits and investments were rated as follows:

	Credit Quality Ratings	
	Moody's	S&P
Deposits	P-1	A1
Investments:		
Time Deposit of Certificates	B	
Securities of U.S. Government Agencies:		
Federal Farm Credit Bank Bonds (FFCB)	Aaa	AA+
Federal Home Loan Bank Bonds (FHLB)	Aaa	AA+
Federal Home Loan Mortg. Corp. Notes (FHLMC)	Aaa	AA+
Federal National Mortg. Assn. Notes (FNMA)	Aaa	AA+
US Treasuries	Aaa	AA+
Berkshire Hathaway	Aa2	AA
GE Capital	A1	AA+
IBM	Aa3	AA-
Microsoft	Aaa	AAA
Toyota	Aa3	AA-
Local Agency Investment Funds	Not Rated	
San Mateo County Pool	Not Rated	
Money Market Funds	Aaa	AAA

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, 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. None of the City's investments were subject to custodial credit risk.

**3. INTERFUND TRANSACTIONS**

*A. Due To/From Other Funds*

At June 30, 2014, the City had the following due to/from other funds:

<u>Due To General Fund</u>	<u>Due From Other Funds</u>
Non-Major Governmental Fund	\$ 526,415
Golf Enterprise Fund	529,143
Internal Service Funds	58,580
Total	<u>\$ 1,114,138</u>

The amounts due to the General Fund from other funds represent reclassified temporary negative cash balances pending grant reimbursements or other receivables. Current interfund balances arise in the normal course of operations and are expected to be repaid shortly after the end of the fiscal year.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**3. INTERFUND TRANSACTIONS, Continued**

**B. Transfers**

At June 30, 2014, the City had the following transfers in/out which arise in the normal course of operations.

Transfers Out	Transfers In				Total
	General	General Capital Projects	Non-Major Governmental Funds	Internal Service Funds	
Major Funds					
General Fund	\$ -	\$ 6,097,660	\$ 102,110	\$ 750,000	\$ 6,949,770
General Capital Projects	-	-	-	191,885	191,885
Home Special Revenue	-	1,229	-	-	1,229
Low & Moderate Income Housing Asset Fund	706,475	14,971	-	-	721,446
Non-major Govtl Funds	1,517,500	3,081,733	201,984	41,336	4,842,553
Total Govt Funds	2,223,975	9,195,593	304,094	983,221	12,706,883
Internal Service Funds	-	900,172	-	-	900,172
Total	\$ 2,223,975	\$ 10,095,765	\$ 304,094	\$ 983,221	\$ 13,607,055

Transfers to the General Fund from non-major funds primarily originated from gas taxes and were used for street repairs and maintenance. Transfers from General Fund were made to: 1) the General Capital Projects Fund for budgeted projects related to street and sidewalks repair and rehabilitation, bikeway and pedestrian path improvements and citywide building components replacement; 2) the Comprehensive Liability Insurance Liability Fund to restore the fund balance to the actuarially-determined, marginally-acceptable level in accordance with City financial policy; and, 3) the Fire Protection and Life Safety Fund to offset the costs of performing fire scene investigations, coordinating community outreach and providing fire safety education to public, private and business sectors.

Transfers to the General Capital Projects Fund were made from: 1) gas taxes for street resurfacing and rehabilitation; 2) CDBG funds for low and moderate income housing activities and sidewalk repairs; and, 3) the 2% Hotel Tax fund for the design and construction of Fire Station 24.

**4. LOANS AND NOTES RECEIVABLE**

**A. Government-Wide Financial Statements**

At June 30, 2014, the City's loans and notes receivable consisted of the following:

Loans and notes receivable	\$ 55,548,968
Allowances for potential forgiveness	(7,926,767)
<b>Loans and notes receivable, net</b>	<b>\$ 47,622,201</b>

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**4. LOANS AND NOTES RECEIVABLE, Continued**

**B. Fund Financial Statements**

The City acting as the successor agency of the former redevelopment agency engages in programs designed to encourage construction or improvement in low-to-moderate income housing or other projects. Under these programs, loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's terms. In the governmental fund financial statements, these loans have been offset by deferred inflows of resources as they are not expected to be repaid immediately.

Loans and notes receivable, including accrued interest and related unearned and unavailable revenue, comprised balances from the following programs, all of which are discussed below:

Description	Year Due	Balance June 30, 2014	Balance June 30, 2013
<b>Governmental Funds:</b>			
First-Time Homebuyer Loans	Various	\$ 19,730,096	\$ 19,410,940
Home Rehabilitation Loans	Various	1,595,755	1,704,310
106 N. Eldorado	2036	450,000	450,000
Darcy Building	2040	1,439,332	1,447,313
Edgewater Isle Senior Apartments	2048	4,056,024	3,974,265
Belmont Building	2032	800,000	800,000
St. Matthew Hotel	2036	2,524,110	2,492,889
Rotary Hacienda	2058	4,404,366	4,369,069
Turning Point	2018	1,006,520	1,102,297
12 N. Idaho Street	2034	100,000	100,000
200 S. Delaware Street	2049	1,816,425	1,778,445
232 S. Humboldt Street	2021	700,178	685,178
11 S. Delaware Street	2032	1,111,591	1,086,699
El Camino Family Housing	2042	4,513,094	4,411,514
Swanson - 349 North Claremont	2025	333,806	322,029
Lesley Foundation	2020	59,592	67,637
MP San Mateo Transit Associates	2062	7,795,056	7,686,186
MP Delaware Pacific Associates LP	2067	1,281,074	1,245,074
Gateway Commons Assessment Loan	Various	765,759	811,952
Cal Home Loans	Various	610,615	683,748
Total governmental funds		55,093,393	54,629,545
<b>Internal Service Funds:</b>			
Employee Loan	Open	455,575	455,575
<b>Total Primary Government</b>		\$ 55,548,968	\$ 55,085,120
<b>Fiduciary Fund- Successor Agency Private Purpose Trust Fund</b>			
Business Development Loans	2029	261,562	255,109
<b>Total Fiduciary Funds</b>		\$ 261,562	\$ 255,109

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**4. LOANS AND NOTES RECEIVABLE, Continued**

***B. Fund Financial Statements, Continued***

**First-Time Homebuyer Loans**

The City has provided various loan programs for first time homebuyers since 1989. In general they provide secondary financing for low and moderate buyers in the City of San Mateo that have deferred payments in order to allow the buyer to maximize their purchasing capacity. The various loan terms are described below:

Gateway Commons Original Buyers - Second loans accrue interest that compounds annually. Payment of principal and interest is paid upon sale of property. Units are sold at market value and at that time the City also receives as payment a share of the appreciation based on the percentage of the City loan to original purchase price. The City has first right of refusal to purchase unit to roll over to new eligible buyer.

First Time Buyer Resale Program - Subsequent buyers at Gateway Commons and other first time buyer complexes have different loan terms: Second loans up to \$60,000 accrue interest that is compounded annually. The resale price is restricted by applying the percentage increase in median income from the time of the purchase date to the sale date, to the initial sales price. The City has the first right of refusal to roll unit to a new eligible buyer at the restricted sales price. The principal is repaid, but payment of the accrued interest is waived. If the City does not exercise the option to purchase, the unit can be sold at fair market value to a non-eligible buyer. In this case the principal, interest and appreciation share payment is paid to the City.

Neighborhood Purchase Program - A second loan of up to 20% of the purchase price, or maximum of \$60,000, accrues simple interest of 3% per year. This is an amortized loan where monthly payments are deferred for five years and then repaid over 25 years. This program is no longer active. There are no resale price restrictions.

CASA Program - Secondary funds of up to 20% of the purchase price, or maximum of \$60,000 are available from a partnership between the City and the program lender, City National Bank. Buyers obtain a first loan with the bank. The Bank and the City each provide half of the secondary funds in second and third position respectively. Loan repayment is deferred until sale or refinance, at which time the original loan, plus a percentage of the appreciation is distributed to the City and the bank. This program is no longer active. There are no resale price restrictions.

Countywide Home Investment Partnership (CHIP) Program - This program provides a second loan of up to 20% of the purchase price, or maximum of \$60,000. No interest and no payments are due for 10 years. Then payments are amortized at 4% for 25 years. Upon sale of the property or refinance, an appreciation share payment is due to the City. This program is designed to partner with other local secondary loan programs, such as the Community College District program that provides the same loan terms, except that the interest and payments are deferred for five years. There are no resale price restrictions.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**4. LOANS AND NOTES RECEIVABLE, Continued**

***B. Fund Financial Statements, Continued***

**First-Time Homebuyer Loans, Continued**

Meadow Court Program - This program provides first-time homebuyers down payment assistance for the purchase of units at Meadow Court. The loans are secured by a second deed of trust to eligible homebuyers who obtain a conventional mortgage from a private lender. The original term of the loan is 40 years with an interest rate varying between 4% and 10%. At year 31, provided that the property has not been sold or transferred, 10% of principal and interest will be forgiven each year until year 40, at which time the entire note is forgiven.

**Home Rehabilitation Loans**

The City has administered various housing rehabilitation loan programs using Community Development Block Grant funds, former Redevelopment Agency Housing Set-Aside funds and City Housing funds. Under these Programs, individuals with incomes below a certain level are eligible to receive low interest, variable term loans, secured by deeds of trust for rehabilitation work on their homes. The maximum loan limit is \$85,000 and \$100,000 for historic properties. The loan repayments may be amortized over the life of the loans, deferred or a combination of both.

**106 N. Eldorado**

The City loaned \$450,000 to Housing Association for the Needy and Dispossessed, Inc. (HAND), a non-profit organization, to acquire and rehabilitate six apartment units at 106 N. Eldorado for low-income housing. The loan bears no interest and is due in 40 years. If the property has not been sold or transferred, beginning in 2027, ten percent of the principal will be forgiven annually until 2036, at which time the entire loan principal will be forgiven.

**Darcy Building**

On June 30, 2000, the City and the former Redevelopment Agency made four loans, the proceeds of which were used to conduct substantial rehabilitation and residential conversion of the Darcy Building for low income households. The loans carry interest at rates that vary from 0% to 5% with a term of 30 years. If the property remains in the developer's hands, two of the loans allow partial forgiveness beginning in year 30, with full forgiveness in year 40.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**4. LOANS AND NOTES RECEIVABLE, Continued**

**B. Fund Financial Statements, Continued**

**Edgewater Isle Senior Apartments**

On June 30, 2000, the City and the former Redevelopment Agency made a loan to the Human Investment Project for the purchase and minor rehabilitation of ninety-two low and moderate income senior rental units at Edgewater Isle. Payments of principal and 3% interest are deferred until 2048 or the sale or transfer of the property, whichever comes first.

**Belmont Building**

On June 30, 2000, the City and the former Redevelopment Agency made two loans, the proceeds of which were used to convert this building into six one-bedroom units for very low income families. The loans bear no interest and are for a term of 40 years. If the property remains in the developer's hands, beginning in year 2023, ten percent of the principal will be forgiven annually until year 2032, at which time the entire loan principal will have been forgiven.

**St. Matthew Hotel**

On June 30, 2000, the City and the former Redevelopment Agency made a loan to a developer, who used these funds to rehabilitate this hotel into a single room occupancy development for very low-income households. Interest is at 0% to 3%; principal and interest are due in 2036. Annual payments on the 3% loan are based on available cash flow, if any.

**Rotary Hacienda**

In 1988, the former Redevelopment Agency entered into a Development and Disposition Agreement with Rotary Hacienda Inc. for the construction and operation of an 82-unit senior rental housing project. The Agreement includes a promissory note in the amount of \$968,383, which bears simple interest at a rate of 8.75% compounded annually, and is due on December 30, 2028. In 2004, the loan was recast for \$968,000 with 0% interest, a 40-year term and no prepayment penalty.

In 2003, the former Redevelopment Agency entered into two Predevelopment Loan Agreements with Rotary Hacienda Inc. for the purchase of land and predevelopment of the Rotary Floritas Apartments project. The Agreement includes two promissory notes in the amount of \$1,800,000 and \$1,200,000, which bear a simple interest at 3.00% compounded annually, respectively. Both agreements are due on October 30, 2058.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**4. LOANS AND NOTES RECEIVABLE, Continued**

***B. Fund Financial Statements, Continued***

**Turning Point**

On June 26, 1988, the former Redevelopment Agency and the Mid-Peninsula Coalition Belle Haven, Inc., entered into an agreement, which provided loans of \$69,262 in City funds and \$305,000 in Agency funds to assist with the acquisition and development of an emergency housing shelter called Turning Point. The loan bears no interest and is due in 2018; however, repayment is not required as long as the facility remains a shelter.

**12 N. Idaho Street**

In 1994, HAND, Inc., a non-profit organization, received loans of \$100,000 from the former Redevelopment Agency and \$10,436 from the City to assist in the purchase of a six-unit apartment building located at 12 N. Idaho Street to be used as an affordable housing complex. The Agency loan carries an interest rate of 10% and is for a period of 40 years and the City loan carries no interest and is for a period of 15 years. Principal payments on both loans are deferred until the earlier of sale or transfer of the property or the maturity date.

**200 S. Delaware Street**

On October 6, 1999, the City and the former Redevelopment Agency loaned \$1,266,000 to HAND to acquire and rehabilitate sixteen units at 200 S. Delaware Street for low-income housing. The loan bears an interest rate of 3%. Principal and interest are due in 2049. However, HAND has an option of renewing the loan agreement for another fifty years.

**232 S. Humboldt Street**

On February 9, 2001, the City and the former Redevelopment Agency loaned \$500,000 to Mateo Lodge, Inc., to rehabilitate nine units at 232 S. Humboldt Street for low-income housing. The loan bears an interest rate of 3%. Principal and interest are due in 2021. However, Mateo Lodge, Inc. has an option of renewing the loan agreement for another twenty years.

**11 S. Delaware Street**

On June 17, 2002, the City loaned \$660,000 to HAND to acquire and rehabilitate eleven units at 11 S. Delaware Street for affordable housing. The loan bears an interest rate of 3%. Principal and interest are due in 2032. However, HAND has an option of renewing the loan agreement for another thirty years.



**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**4. LOANS AND NOTES RECEIVABLE, Continued**

***B. Fund Financial Statements, Continued***

**El Camino Family Housing**

In December 2002, El Camino Family Housing, L.P., received a loan of \$3,386,000 from the former Redevelopment Agency to develop the Santa Inez Apartments which is to be used as an affordable housing complex. The Agency loan carries an interest rate of 3% and is for a period of 40 years. Annual payments of principal and interest in the amount of \$140,688 from the borrower's "available cash flow" will be required annually. In the event the "available cash flow" is inadequate to remain current, the loan shall nevertheless be due and payable in 40 years.

**Droese Loan - Steiners Jewelry**

On July 28, 2004, the City entered into a loan agreement with Michael and Shawna Droese. The agreement includes two promissory notes in the amount of \$100,000 and \$85,000, with each bearing 5.5% interest rate. Payment shall be made in 300 equal payments of principal and interest at the rate of \$614.09 due on the first day of every month starting October 1, 2004. Both notes are due on October 1, 2029.

**Swanson Loan**

On January 1, 2005, the City loaned \$7,500 to Angelina Swanson for architectural services and structural engineering test at 349 North Claremont Street. Additional loans for reconstruction were made during the next 3 years, bringing the total principal to \$235,552. The loan bears an interest rate of 5%. Principal and interest payments are deferred for 20 years or until sale or transfer of the property.

**Lesley Foundation**

On June 14, 2005, the City entered into a promissory note with the Lesley Foundation. The note bears an interest rate of 3%. Payment shall be made in 180 equal payments of principal and interest at the rate of \$828.70 due on the first day of every month starting October 1, 2005 until the principal is paid in full. The full amount of the loan agreement was for \$120,000.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**4. LOANS AND NOTES RECEIVABLE, Continued**

***B. Fund Financial Statements, Continued***

**MP San Mateo Transit Associates Loan**

In November 2006, the City and the former Redevelopment Agency entered into a loan agreement with the Mid-Peninsula Housing Coalition. The agreement includes three promissory notes in the amounts of \$1,230,000 (City funds), \$1,200,000, and \$2,870,000 (Agency funds), which bear 3% interest. The payment of principal and interest is due on the maturity date or the sale or transfer of the property except for a sale or transfer to an affiliate nonprofit public benefit corporation or to a limited partnership in which an affiliate is the general partner. The maturity date shall occur fifty-five (55) years from the date of the receipt of the final certificate of occupancy. Beginning with borrower's first fiscal year following the first year after receipt of the certificate of occupancy, borrower shall make annual payments of principal and interest to the City only from "Available Cash Flow" which is defined from borrower's preceding fiscal year.

In October 2009, the City received Infill Infrastructure Grant funds from the State of California in the amount of \$3,854,240, which was passed on to the Mid Peninsula Housing Coalition in the form of a deferred zero interest loan which is due at maturity, which is 55 years from receipt of the final certificate of occupancy.

**Gateway Commons Assessment Loan**

In February 2011, the City and the former Redevelopment Agency entered into a loan agreement with the Gateway Commons Owners Association. It has been determined that major repairs and rehabilitation of the condominium property are needed. This agreement provides eligible owners of the affordable units loans in the range of \$10,000 to \$30,000 as one-time lump sum special assessment to Gateway Commons. The original term of the loan is 15 years with an interest rate varying between 0% and 3%. The loan repayment may be amortized over the life of the loans, deferred or a combination of both.

**Cal Home Loans**

In June 2009, the City entered into a program agreement with the California Department of Housing and Community Development to receive \$750,000 in grant funds from the CalHOME program for its Owner Occupancy Rehabilitation Program. These funds are used for home repair loans up to \$60,000 to low and moderate income households at 3% interest, payments deferred for 30 years. Loan repayments will go into a revolving loan fund to be used for future housing rehabilitation loans.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**4. LOANS AND NOTES RECEIVABLE, Continued**

*B. Fund Financial Statements, Continued*

**MP Delaware Pacific Associates L.P.**

In April 2012, the City and the Successor Agency entered into a loan agreement with the Mid-Peninsula Delaware Pacific Associates, LP. The agreement includes two promissory notes in the amounts of \$880,000 (HOME Grant funds) and \$320,000 (Successor Agency Funds), which bear 3% interest. Beginning with borrower's first fiscal year following the first year after receipt of the certificate of occupancy, borrower shall make annual payments of principal and interest to the City only from "Available Cash Flow" which is defined from borrower's preceding fiscal year. The payment of remaining principal and interest is due on the maturity date or the sale or transfer of the property except for a sale or transfer to an affiliate nonprofit public benefit corporation or to a limited partnership in which an affiliate is the general partner. The maturity date shall occur fifty-five (55) years from the date of the receipt of the final certificate of occupancy.

**Employee Loan - Related Party Transaction**

In March 2003, a newly appointed City Attorney (Employee) received a loan of \$455,575 from the City to assist with obtaining suitable housing. The City and the employee agreed to hold title to the property purchased as an investment and for use as a personal residence by Employee and his family. The agreement will terminate upon whichever of the following events first occur: (1) termination of the employment relationship between the City and the employee by either party, (2) the death of the employee, (3) the failure by the employee to occupy said property as his principal place of residence for a period of ninety consecutive days. The City and the employee will share in the profits and losses of the property at 52.6% and 47.4%, respectively.

**Successor Agency to former RDA - Business Development Loans**

Low simple interest business development loans were issued by the former Redevelopment Agency for the purpose of stimulating economic growth in the blighted redevelopment area. On February 1, 2012, unpaid loan balances were transferred to the Successor Agency to the former RDA due to the dissolution of the former Redevelopment Agency (See Note 18).

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**5. UNEARNED REVENUE**

Unearned revenues in the Government-Wide and Fund Financial Statements represent amounts for which revenues have not been earned. At June 30, 2014, unearned revenues were as follows:

	Unearned Revenues
Prepaid summer course registration	\$ 1,002,085
Prepaid recreation classes	68,954
Unearned grant revenues	118,254
<b>Total</b>	<b>\$ 1,189,293</b>

**6. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES**

**A. Deferred Inflows of Resources**

At June 30, 2014, the following unavailable revenues were recorded and classified as deferred inflows of resources in the Fund Financial Statements, because the revenues were not available to finance expenditures of the current period:

**Governmental Funds:**

	General Capital Projects	HOME	City Housing	Low Moderate Income Housing	Non-Major Funds	Total
Long-Term Notes Receivable Principal	\$ 4,423,666	\$ 7,205,210	\$ 2,969,524	\$ 21,775,916	\$ 1,489,987	\$ 37,864,303
Interest Accruals:						
1st Time Home Buyer Loan	-	-	5,689,936	5,371,696	364,870	11,426,502
Home Rehabilitation Loan	-	-	40,818	226,264	209,693	476,775
11 S. Delaware Loan	-	281,841	-	-	-	281,841
200 S. Delaware Loan	-	339,060	-	211,365	-	550,425
Darcy Building	-	-	-	468	-	468
Edgewater Isle Senior Apt Loan	-	240,611	-	1,090,143	-	1,330,754
St. Matthew Hotel Loan	-	-	-	524,110	-	524,110
El Camino Family Hsg Loan	-	-	-	1,127,094	-	1,127,094
Turning Point Loan	-	1,617	-	154,296	35,730	191,643
Humboldt House Loan	-	146,130	-	54,048	-	200,178
Rotary Floritas Loan	-	-	-	557,366	-	557,366
Gateway Commons Assessment Loan	-	27,078	-	2,408	-	29,486
Swanson Loan	-	98,254	-	-	-	98,254
Lesley Foundation	-	127	-	-	-	127
MP San Mateo Transit Associates	-	126,845	-	184,959	-	311,804
MP Delaware Pacific Assoc LP	-	59,454	-	21,620	-	81,074
Cal Home Loan	41,189	-	-	-	-	41,189
Unbilled grant revenues and other revenues to be collected after 90 days from year-end	868,803	-	-	-	-	868,803
<b>Total</b>	<b>\$ 5,333,658</b>	<b>\$ 8,526,227</b>	<b>\$ 8,700,278</b>	<b>\$ 31,301,753</b>	<b>\$ 2,100,280</b>	<b>\$ 55,962,196</b>

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**6. DEFERRED INFLOWS/OUTFLOWS OF RESOURCES, Continued**

*B. Deferred Outflows of Resources*

The City recorded the following items as deferred outflows of resources as of June 30, 2014.

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
<u><i>Government-Wide Financial Statements</i></u>				
<u><i>Governmental Activities</i></u>				
2013 General Obligation				
Bonds Deferred Loss on Refunding	\$ 1,341,180	\$ -	\$ (78,508)	\$ 1,262,672
<u><i>Business Type Activities</i></u>				
Deferred loss on refunding, 2007				
Golf Course and 2011 Sewer Bonds	\$ 1,024,789	\$ -	\$ (117,778)	\$ 907,011
<u><i>Fund Financial Statements</i></u>				
<u><i>Sewer Enterprise Fund</i></u>				
2011 Series Sewer Revenue				
Bonds Deferred Loss on Refunding	\$ 806,180	\$ -	\$ (104,115)	\$ 702,065
<u><i>Golf Course Enterprise Fund</i></u>				
2007 Golf Course Revenue				
Bonds Deferred Loss on Refunding	\$ 218,609	\$ -	\$ (13,663)	\$ 204,946
<u><i>Fiduciary Funds</i></u>				
2007 Series A Refunding Tax Allocation				
Bonds Deferred Loss on Refunding	\$ 1,654,468	\$ -	\$ (137,872)	\$ 1,516,596

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**7. CAPITAL ASSETS**

**A. Government-Wide Financial Statements**

At June 30, 2014, the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-depreciable assets:			
Land	\$ 45,586,765	\$ 4,217,298	\$ 49,804,063
Construction in progress	6,243,014	15,802,272	22,045,286
Total non-depreciable assets	<u>51,829,779</u>	<u>20,019,570</u>	<u>71,849,349</u>
Depreciable assets:			
Buildings and improvements	152,099,816	11,790,969	163,890,785
Treatment plant & transmission lines	-	176,997,726	176,997,726
Machinery and equipment	32,183,566	3,280,147	35,463,713
Infrastructure	430,635,745	-	430,635,745
	<u>614,919,127</u>	<u>192,068,842</u>	<u>806,987,969</u>
Less accumulated depreciation:			
Buildings and improvements	34,291,636	5,428,960	39,720,596
Treatment plant & transmission lines	-	77,137,678	77,137,678
Machinery and equipment	24,177,887	2,502,050	26,679,937
Infrastructure	214,096,271	-	214,096,271
Total accumulated depreciation	<u>272,565,794</u>	<u>85,068,688</u>	<u>357,634,482</u>
Total depreciable assets	<u>342,353,333</u>	<u>107,000,154</u>	<u>449,353,487</u>
<b>Total capital assets</b>	<u><u>\$ 394,183,112</u></u>	<u><u>\$ 127,019,724</u></u>	<u><u>\$ 521,202,836</u></u>

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**7. CAPITAL ASSETS, Continued**

**A. Government-Wide Financial Statements, Continued**

The following is a summary of changes in the capital assets for the governmental activities during the fiscal year:

	Balance June 30, 2013	Additions	Retirements	Reclassification	Balance June 30, 2014
Non-depreciable assets:					
Land	\$ 45,586,765	\$ -	\$ -	\$ -	\$ 45,586,765
Construction in progress	6,826,976	16,416,985	-	(17,000,947)	6,243,014
Total non-depreciable assets	<u>52,413,741</u>	<u>16,416,985</u>	<u>-</u>	<u>(17,000,947)</u>	<u>51,829,779</u>
Depreciable assets:					
Building and improvements	145,778,343	-	-	6,321,473	152,099,816
Machinery and equipment	31,714,702	819,554	(350,690)	-	32,183,566
Infrastructure	418,225,094	1,731,177	-	10,679,474	430,635,745
	<u>595,718,139</u>	<u>2,550,731</u>	<u>(350,690)</u>	<u>17,000,947</u>	<u>614,919,127</u>
Less accumulated depreciation:					
Building and improvements	30,592,289	3,699,347	-	-	34,291,636
Machinery and equipment	22,817,624	1,680,980	(320,717)	-	24,177,887
Infrastructure	203,586,548	10,509,723	-	-	214,096,271
Total accumulated depreciation	<u>256,996,461</u>	<u>15,890,050</u>	<u>(320,717)</u>	<u>-</u>	<u>272,565,794</u>
Total depreciable assets, net	<u>338,721,678</u>	<u>(13,339,319)</u>	<u>(29,973)</u>	<u>17,000,947</u>	<u>342,353,333</u>
<b>Total capital assets</b>	<b><u>\$ 391,135,419</u></b>	<b><u>\$ 3,077,666</u></b>	<b><u>\$ (29,973)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 394,183,112</u></b>

Depreciation expense by program for capital assets for the year ended June 30, 2014 was as follows:

General government	\$ 375,067
Community development	85,640
Public safety	2,281,824
Public works	9,537,138
Parks and recreation	1,832,220
Library	1,778,161
<b>Total depreciation expense</b>	<b><u>\$ 15,890,050</u></b>

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**7. CAPITAL ASSETS, Continued**

**A. Government-Wide Financial Statements, Continued**

The following is a summary of changes in the capital assets for business-type activities during the fiscal year:

	Balance July 1, 2013	Additions	Retirements	Reclassification	Balance June 30, 2014
Non-depreciable assets:					
Land	\$ 4,217,298	\$ -	\$ -	\$ -	\$ 4,217,298
Construction in progress	11,595,953	8,527,555	(79,000)	(4,242,236)	15,802,272
Total non-depreciable assets	15,813,251	8,527,555	(79,000)	(4,242,236)	20,019,570
Depreciable assets:					
Golf building and improvements	11,790,969	-	-	-	11,790,969
Sewer treatment plant and transmission lines	172,697,018	58,472	-	4,242,236	176,997,726
Machinery and equipment	3,111,891	196,515	(28,259)	-	3,280,147
Total depreciable assets	187,599,878	254,987	(28,259)	4,242,236	192,068,842
Less accumulated depreciation:					
Golf building and improvements	5,060,320	368,640	-	-	5,428,960
Sewer treatment plant and transmission lines	73,990,134	3,147,544	-	-	77,137,678
Machinery and equipment	2,423,549	106,760	(28,259)	-	2,502,050
Total accumulated depreciation	81,474,003	3,622,944	(28,259)	-	85,068,688
Total depreciable assets, net	106,125,875	(3,367,957)	-	4,242,236	107,000,154
<b>Total capital assets</b>	<b>\$ 121,939,126</b>	<b>\$ 5,159,598</b>	<b>\$ (79,000)</b>	<b>\$ -</b>	<b>\$ 127,019,724</b>

Depreciation expense for the year ended June 30, 2014 was as follows:

Sewer	\$ 3,246,093
Golf	376,850
<b>Total depreciation expense</b>	<b>\$ 3,622,943</b>

**B. Governmental Fund Financial Statements**

The governmental fund financial statements do not present general government capital assets but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.



**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**7. CAPITAL ASSETS, Continued**

**C. Fiduciary Financial Statements**

The following is a summary of changes in the capital assets for fiduciary funds during the fiscal year:

Successor Agency Private Purpose Trust Funds

	Balance July 1, 2013	Additions	Retirements	Reclassification	Balance June 30, 2014
Non-depreciable assets:					
Land	\$ 7,274,984	\$ -	\$ -	\$ -	\$ 7,274,984
<b>Total land held for resale</b>	<b>\$ 7,274,984</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,274,984</b>

Land held by the Successor Agency includes land that was previously held for resale by the Former Redevelopment Agency Capital Project Fund and Land held by the Former Redevelopment Agency.

**8. LONG-TERM DEBT**

**A. Governmental Activities**

The following is a summary of long-term debt transactions including amortization for the year ended June 30, 2014:

	Original Issue Amount	Balance June 30, 2013	Additions	Deletions	Bond Discount/ Premium	Balance June 30, 2014	Due Within One Year
Governmental Activities:							
Bonds Payable:							
General Obligation Bonds:							
Series 2013, Refunding	\$ 27,295,000	\$ 29,978,949	\$ -	\$ (970,000)	\$ (157,109)	\$ 28,851,840	\$ 1,115,000
Revenue Bonds, Series 2003	7,900,000	6,690,000	-	(180,000)	-	6,510,000	190,000
Lease Revenue Bonds, Series 2007 A	17,400,000	16,655,000	-	(240,000)	-	16,415,000	260,000
S. Bayfront Flood Ctrl, Series 2011A	5,745,000	5,436,605	-	(220,000)	5,418	5,222,023	225,000
<b>Total long-term debt</b>	<b>\$ 58,340,000</b>	<b>\$ 58,760,554</b>	<b>\$ -</b>	<b>\$ (1,610,000)</b>	<b>\$ (151,691)</b>	<b>\$ 56,998,863</b>	<b>\$ 1,790,000</b>

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**8. LONG-TERM DEBT, Continued**

*A. Governmental Activities, Continued*

**General Obligation Refunding Bonds (Library Improvement Project), Series 2013 - Original Issue \$27,295,000**

On March 21, 2013, the City of San Mateo issued \$27,295,000 principal amount General Obligation Refunding Bonds (Library Improvement Project), Series 2013 (2013 Refunding Bonds). The proceeds of the 2013 Refunding Bonds were used to refund the 2000 and 2004A General Obligation Bonds, and to pay the costs of issuance of the 2013 Refunding Bonds. The 2000 and 2004A General Obligation Bonds were used to finance the construction, acquisition and improvement of a new main library and the improvement of the City's branch libraries.

The General Obligation Refunding Bonds mature annually each August 1 through 2030, with installments ranging from \$970,000 to \$2,070,000. The interest on the Bonds is payable semi-annually on each February 1 and August 1, and range from 2.50% to 4.00%. The 2013 Refunding Bonds are secured by voter-approved, ad valorem property taxes: Series 2000 and Series 2004A. Annual principal and interest payments on the bonds are expected to require 100% percent of net revenues. The Bonds are subject to optional early redemption provisions. The outstanding principal balance net of bond premium was \$28,851,840 as of June 30, 2014 Total principal and interest remaining to be paid on the 2013 Refunding Bonds is \$34,945,075. For the current year, principal and interest paid on the 2013 Refunding Bonds was \$1,785,058 and ad valorem property tax net revenues were \$2,164,652.

The outstanding balance held in escrow of the refunded 2000 and 2004 General Obligation Bonds as of June 30, 2014 were \$0 and \$18,085,000 respectively. Under the Escrow Agreement, on August 1, 2014 the City will irrevocably direct the Escrow Agent to apply moneys in the 2004 Bonds Escrow Account to redeem all the 2004 Bonds.

The annual debt service requirements on the 2013 Refunding Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,115,000	\$ 919,625	\$ 2,034,625
2016	1,155,000	885,575	2,040,575
2017	1,190,000	844,450	2,034,450
2018	1,235,000	795,950	2,030,950
2019	1,285,000	745,550	2,030,550
2020-2024	7,315,000	2,892,350	10,207,350
2025-2029	8,955,000	1,413,350	10,368,350
2030-2031	4,075,000	123,225	4,198,225
Subtotal	26,325,000	\$ 8,620,075	\$ 34,945,075
Bond Premium	2,526,840		
<b>Total</b>	<b>\$ 28,851,840</b>		

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**8. LONG-TERM DEBT, Continued**

*A. Governmental Activities, Continued*

**Revenue Bonds (Landfill Closure Project), Series 2003 - Original Issue \$7,900,000**

On November 13, 2003, the City of San Mateo Joint Powers Financing Authority issued \$7,900,000 principal amount Revenue Bonds, Series 2003. The proceeds of the Revenue Bonds were used to finance expenditures related to the final closure of a former landfill site and construction of park improvements.

The Revenue Bonds mature annually each August 1 through 2034, with installments ranging from \$180,000 to \$485,000. The interest on the Revenue Bonds is payable semi-annually on each February 1 and August 1. The interest rate on the Revenue Bonds ranges from 4.20% to 5.00%. The Revenue Bonds are solely payable from revenues of the Authority, consisting of base rental payments pursuant to a facility lease and installment payments made by the City to the Authority. The Bonds are subject to optional and mandatory redemption provisions. Total principal and interest remaining to be paid on the Revenue Bonds is \$10,384,414. The outstanding principal balance of the Revenue Bonds was \$6,510,000 as of June 30, 2014.

The City funds the lease payments to the Authority from garbage collection surcharge fees. Annual principal and interest payments on the bonds are expected to require 51% of garbage collection surcharge net revenues. For the current year, principal and interest paid were \$493,335 and garbage collection surcharge net revenues were \$978,198.

The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	190,000	305,565	\$ 495,565
2016	195,000	297,480	492,480
2017	205,000	289,080	494,080
2018	215,000	280,153	495,153
2019	225,000	270,580	495,580
2020-2024	1,285,000	1,185,268	2,470,268
2025-2029	1,630,000	842,413	2,472,413
2030-2034	2,080,000	391,750	2,471,750
2035	485,000	12,125	497,125
<b>Total</b>	<b>\$ 6,510,000</b>	<b>\$ 3,874,414</b>	<b>\$ 10,384,414</b>

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**8. LONG-TERM DEBT, Continued**

*A. Governmental Activities, Continued*

**Variable Rate Demand Lease Revenue Bonds (Public Safety Project), Series 2007A - Original Issue \$17,400,000**

On April 19, 2007, the City of San Mateo Joint Powers Financing Authority issued \$17,400,000 principal amount Variable Rate Demand Lease Revenue Bonds (Public Safety Project), Series 2007A (2007A Variable Rate Bonds). The proceeds of the 2007A Variable Rate Bonds contributed to the construction of a new police administration facility with a total project cost of \$58,500,000. Other sources of funding for this project included transient occupancy tax (hotel tax), redevelopment agency funds, sale of the existing police facility site, and General Fund contributions.

The 2007A Variable Rate Bonds mature annually each April 1 through 2039 with installments ranging from \$240,000 to \$1,195,000. The outstanding principal balance was \$16,415,000 as of June 30, 2014. The interest on the Bonds is payable monthly from the lease revenue of the Authority from the City. The interest rate on the Bonds is determined based on the weekly variable rate set by the remarketing agent, which can be no greater than 12% per annum. Weekly rates during the fiscal year varied from a historic low 0.03% to a high of 0.13%, for an average weekly interest rate for the fiscal year of 0.063%. In addition to monthly debt service based on the weekly rate resets, the City also pays letter of credit (LOC) bank fees and remarketing agent fees on a quarterly basis. The remarketing agent is Stifel, Nicolaus & Co. (formerly Stone & Youngberg) and the annual remarketing fee has been .09% since 2007.

The City elected to issue variable rate debt for this project to diversify an otherwise fixed rate municipal debt portfolio. Variable rate debt requires credit enhancement and the City was able to obtain a 10-year LOC from DEPFA Bank in 2007 with an annual fee of 0.24% applied to the size of the LOC (outstanding par value plus 45 days interest at the 12% maximum). DEPFA was highly-rated in 2007, but unexpectedly fell to below investment-grade during the credit markets crisis in 2008. The City replaced DEPFA with a Wells Fargo LOC on February 5, 2009, for a term of three years and an annual fee of 1.50%, with the fee reflecting the state of the credit markets at that time. On January 12, 2012, the Wells Fargo LOC was renewed for another three years at an annual fee of .80%. The current LOC expires on April 5, 2015. The City must renew the LOC, replace the LOC, or refinance the 2007A Variable Rate Bonds by this date.

In 2007, the City noted over the past 17 years that variable rates averaged about 3.00%, compared to 30-year fixed rate debt at the time of about 4.60%. The City anticipated that the average cost of variable rate debt would be considerably less than issuing fixed rate debt and so the City could save on interest costs. Even with the 2008 financial crisis forcing variable rates higher and requiring the replacement of the low-cost DEPFA LOC with a higher-cost Wells Fargo LOC, the weekly rate reset went from 2.50% to 0.35% when the Wells Fargo LOC substitution occurred.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**8. LONG-TERM DEBT, Continued**

*A. Governmental Activities, Continued*

**Variable Rate Demand Lease Revenue Bonds (Public Safety Project), Series 2007A - Original Issue \$17,400,000, Continued**

For fiscal year 2013-14, the average weekly rate reset was 0.063%. From February 5, 2009 through June 30, 2014, the average weekly rate with the Wells Fargo LOC was 0.20%. From April 19, 2007 to February 5, 2009 under the DEPFA LOC, the average weekly rate was 3.38%. With an average LOC annual premium of 1.26% during this period of 4 years and 7 months under the Wells Fargo LOC and the annual remarketing fee at 0.09%, this means the average annual debt cost has been 1.55% adding together these three factors. Compared to an estimated fixed rate debt cost of 4.60% in 2007, the annual debt cost savings is estimated to be over \$500,000 since the Wells Fargo LOC has been in place, or a total of an estimated \$4,300,000 in net interest cost savings since the original issuance in April of 2007.

The City has elected to use the 2% transient occupancy tax (hotel tax) authorized by Measure C, backed by a General Fund lease, to pay the annual principal and interest payments on the bonds. For the current year, principal, interest and other debt expenses paid were \$412,089 and the 2% transient occupancy tax (hotel tax) net revenues were \$1,150,772. This annual debt service coverage of 3:1 and the accumulated surplus of hotel tax revenues not needed for debt service serve as a built-in hedge against interest rate volatility, although interest rate risk is not perfectly hedged. Variable rates have been at historic lows for years and are projected to rise. There is no guarantee that another financial markets crisis could occur similar to 2008, forcing variable rates to rise unexpectedly. There is also no guarantee that Wells Fargo Bank will continue to be highly rated or that the City can continue to renew its LOC for this debt at a reasonable fee. Variable rate debt requires that the City constantly monitor risk vs. return and consider whether to retain this debt structure.

The annual principal requirements on these bonds are as follows:

<b>Year Ending June 30,</b>	<b>Principal</b>
2015	\$ 260,000
2016	285,000
2017	310,000
2018	335,000
2019	360,000
2020-2024	2,240,000
2025-2029	3,090,000
2030-2034	4,130,000
2035-2039	5,405,000
<b>Total</b>	<b>\$ 16,415,000</b>

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**8. LONG-TERM DEBT, Continued**

*A. Governmental Activities, Continued*

**Revenue Bonds (South Bayfront Flood Control Project), Series 2011A – Original Issue \$5,745,000**

On February 9, 2011, the City of San Mateo Joint Powers Financing Authority issued \$5,745,000 principal amount Revenue Bonds (South Bayfront Flood Control Project), Series 2011A (Revenue Bonds). The proceeds of the Revenue Bonds were used to (i) finance certain levee and flood control improvements within the City of San Mateo, (ii) pay the costs of issuance of the bonds, and (iii) fund a reserve fund for the Bonds.

The Revenue Bonds mature annually each August 1 from through 2029, with installments ranging from \$220,000 to \$475,000. Interest on the Revenue Bonds is payable semi-annually on February 1 and August 1 commencing August 1, 2011. The interest rate of the Revenue Bonds ranges from 3.00% to 5.625%. The Revenue Bonds are solely payable from revenues consisting of Base Rental Payments pursuant to a Facility Lease and Installment Payments pursuant to an Installment Payment Contract made between the Authority and the City. The Bonds are subject to optional, mandatory and extraordinary early redemption provisions. Total principal and interest remaining to be paid on the Bonds is \$7,853,932. The outstanding principal balance net of bond discount of the Revenue Bonds was \$5,222,023 as of June 30, 2014.

Under the Facility Lease, payment of installment payments by the City satisfies the obligations of the City to pay base rental payments. The City funds installments to the Authority from all revenue received by the City from the levy and collection of assessments from the South Bayfront Levee and Flood Control Facilities Benefit Assessment District.

Annual principal and interest payments on the bonds are expected to require 90% of assessment net revenues. The current year principal and interest payments amounted to \$483,625 and the assessment net revenues were \$532,843.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**8. LONG-TERM DEBT, Continued**

*A. Governmental Activities, Continued*

**Revenue Bonds (South Bayfront Flood Control Project), Series 2011A - Original Issue \$5,745,000, Continued**

The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 225,000	\$ 256,950	\$ 481,950
2016	230,000	250,125	480,125
2017	240,000	241,875	481,875
2018	265,000	231,776	496,776
2019	275,000	220,975	495,975
2020-2024	1,575,000	895,847	2,470,847
2025-2029	2,030,000	428,025	2,458,025
2030	475,000	13,359	488,359
Subtotal	5,315,000	<u>\$ 2,538,932</u>	<u>\$ 7,853,932</u>
Bond Discount	(92,977)		
<b>Total</b>	<u>\$ 5,222,023</u>		

*B. Landfill Closure and Post-Closure Costs Payable*

The City is responsible for closing the East Third Avenue Waste Disposal and Landfill site in accordance with the California Code of Regulations under the jurisdiction of the California Integrated Waste Management Board. In fiscal year 1992, the City developed a Closure Plan that in management’s view will meet all regulatory requirements. As stated in the California Code of Regulations, Division 2 Title 27 Article 2 Section 21180, “a)...the landfill shall be maintained and monitored for a period of not less than thirty (30) years after the completion of closure of the entire solid waste landfill.” The landfill is at capacity and inactive, final closure occurred in FY 2005-06.

As of June 30, 2014, the estimated amount of \$2,750,000 has been recorded as Landfill Post-closure Costs Payable in the Government-Wide Financial Statements. The Landfill Post-closure costs payable is an estimate and subject to changes resulting from inflation/deflation, technology, or changes in applicable laws or regulations. The amount of the current year adjustments was \$125,000 deducted from the liability based on the estimated calculation of \$125,000 per year for the next 22 years for the Post-closure costs.

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
<b>Landfill Closure and Postclosure</b>					
Costs Payable	\$ 2,875,000	\$ -	\$ (125,000)	<u>\$ 2,750,000</u>	<u>\$ 125,000</u>

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**8. LONG-TERM DEBT, Continued**

**C. Compensated Leave Payable**

Employees accrue vacation, annual leave, earned time off, and holiday leave up to certain maximums, based on the employee's bargaining unit. Employees may elect to be paid a portion of these leaves at various times according to the applicable Memorandum of Understanding. Sick leave may be accumulated without limit. Sick leave may be paid upon retirement up to 50% of accumulated balance up to 960 hours with the maximum payout not to exceed 480 hours.

The City accrues the liability for compensated leave as it is earned by employees. The amount of compensated leave payable outstanding was \$7,786,364 as of June 30, 2014.

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
<b>Governmental Activities</b>					
Compensated Leave Payable	\$ 6,997,355	\$ 6,503,954	\$ (6,478,074)	\$ 7,023,235	\$ 772,555
<b>Business-Type Activities</b>					
Compensated Leave Payable	\$ 894,707	\$ 1,073,574	\$ (1,153,392)	\$ 814,889	\$ 89,638

The amount due within one year of \$772,555 for Governmental Activities and \$89,638 for Business-Type Activities represents the estimated amount for anticipated retirees.

**D. Business-Type Activities**

	Original Issue Amount	Balance July 1, 2013	Additions	Deletions	Bond Discount/Loss	Balance June 30, 2014	Due Within One Year
<b>Sewer Revenue Bonds:</b>							
Series 2003	\$ 16,300,000	\$ 16,300,000	\$ -	\$ -	\$ -	\$ 16,300,000	\$ -
Series 2011A	31,990,000	30,002,622	-	(1,455,000)	(31,701)	28,515,921	1,500,000
<b>Total sewer revenue bonds</b>	<b>48,290,000</b>	<b>46,302,622</b>	<b>-</b>	<b>(1,455,000)</b>	<b>(31,701)</b>	<b>44,815,921</b>	<b>1,500,000</b>
<b>San Mateo Joint Powers</b>							
<b>Financing Authority</b>							
Revenue Refunding Bonds, Series 2007 (Golf Course Project)	9,125,000	8,170,000	-	(345,000)	-	7,825,000	360,000
<b>Loans Payable</b>							
CSWRCB Loan-25th Ave Sewer	3,464,393	-	2,000,000	-	-	2,000,000	-
CSWRCB Loan-South Trunk	27,000,000	-	2,000,000	-	-	2,000,000	-
<b>Total loans payable</b>	<b>30,464,393</b>	<b>-</b>	<b>4,000,000</b>	<b>-</b>	<b>-</b>	<b>4,000,000</b>	<b>-</b>
<b>Total long-term debt</b>	<b>\$ 87,879,393</b>	<b>\$ 54,472,622</b>	<b>\$ 4,000,000</b>	<b>\$ (1,800,000)</b>	<b>\$ (31,701)</b>	<b>\$ 56,640,921</b>	<b>\$ 1,860,000</b>

**Sewer Revenue Bonds, Series 2003 – Original Issue \$16,300,000**

On December 3, 2003, the City of San Mateo issued Sewer Revenue Bonds, Series 2003 (Series 2003 Bonds) totaling \$16,300,000. The purpose was to finance capital improvements to the City's sewer enterprise.



**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**8. LONG-TERM DEBT, Continued**

*D. Business-Type Activities, Continued*

**Sewer Revenue Bonds, Series 2003 – Original Issue \$16,300,000, Continued**

The Series 2003 Bonds mature annually each August 1 of 2015 through 2028 with installments ranging from \$100,000 to \$1,860,000, beginning August 1, 2015. The interest on the Series 2003 Bonds is payable semi-annually on February 1 and August 1 of each year. The interest rates on the Series 2003 Bonds range from 3.75% to 4.625%. The Series 2003 Bonds are payable solely from net revenues of the City’s sewer enterprise. The Series 2003 Bonds are subject to early redemption provisions. The outstanding principal balance of the Series 2003 Bonds was \$16,300,000 at June 30, 2014. Total principal and interest remaining to be paid on the Bonds is \$23,592,273.

The annual debt service requirements on the Series 2003 Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ -	\$ 728,254	\$ 728,254
2016	100,000	726,379	826,379
2017	100,000	722,554	822,554
2018	105,000	718,504	823,504
2019	1,110,000	694,204	1,804,204
2020-2024	6,475,000	2,690,290	9,165,290
2025-2029	8,410,000	1,012,088	9,422,088
<b>Total</b>	<b>\$ 16,300,000</b>	<b>\$ 7,292,273</b>	<b>\$ 23,592,273</b>

**Sewer Revenue Bonds, Series 2011A – Original Issue \$31,990,000**

On May 11, 2011, the City of San Mateo issued Sewer Revenue Bonds, Series 2011A (Series 2011A Bonds), totaling \$31,990,000. The purpose was to (i) refund the City’s outstanding (a) Sewer Revenue Refunding Bonds, Series 1996A, (b) Sewer Revenue Bonds, Series 1998A, and (c) Sewer Revenue Refunding Bonds, Series 1998B; (ii) finance various improvements to the City’s municipal sewer enterprise; (iii) make a deposit into reserve fund for the Series 2011A Bonds and the 2003 Bonds; and (iv) pay a portion of the costs of issuance of the Series 2011A Bonds.

The Series 2011A Bonds mature annually each August 1 through 2041 with installments ranging from \$615,000 to \$1,565,000. The interest on the Series 2011A Bonds is payable semi-annually on February 1 and August 1 of each year. The interest rates on the Series 2011A Bonds range from 3.00% to 5.25%. The Series 2011A Bonds are payable solely from net revenues received by the City from the operation of the sewer enterprise and certain funds and accounts held under the Indenture. The Series 2011A Bonds are subject to optional and mandatory early redemption provisions. The outstanding principal balance net of bond premium Series 2011A Bonds was \$28,515,921 at June 30, 2014. Total principal and interest remaining to be paid on the Bonds is \$44,519,308.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**8. LONG-TERM DEBT, Continued**

*D. Business-Type Activities, Continued*

**Sewer Revenue Bonds, Series 2011A - Original Issue \$31,990,000, Continued**

The annual debt service requirements on the Series 2011A Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,500,000	\$ 1,260,458	\$ 2,760,458
2016	1,460,000	1,216,058	2,676,058
2017	1,515,000	1,171,433	2,686,433
2018	1,565,000	1,117,408	2,682,408
2019	615,000	1,073,808	1,688,808
2020-2024	3,515,000	4,910,238	8,425,238
2025-2029	4,490,000	3,934,043	8,424,043
2030-2034	4,010,000	2,853,813	6,863,813
2035-2039	5,175,000	1,696,938	6,871,938
2040-2042	3,815,000	307,519	4,122,519
Subtotal	27,660,000	<u>\$ 19,541,716</u>	<u>\$ 47,201,716</u>
Bond Premium	855,921		
Total	<u>\$ 28,515,921</u>		

There are two revenue bonds secured by revenues received from the operation of the Sewer Enterprise: Series 2003 and Series 2011A. Annual principal and interest payments on the two bonds are expected to require 13% of net revenues. The total principal and interest remaining to be paid on the Series 2003 and 2011A bonds are \$23,592,272 and \$47,201,716, respectively. For the current year, principal and interest paid on the Series 2003 was \$728,254 and on Series 2011A was \$2,767,058. Charges for sewer services net revenues were \$28,381,469.

**Revenue Bonds (Golf Course Project), Refunding Series 2007B - Original Issue \$9,125,000**

On October 25, 2007, the City of San Mateo Joint Powers Financing Authority issued \$9,125,000 in Revenue Refunding Bonds Series 2007B (2007B Revenue Bonds) to refinance the City of San Mateo Joint Powers Financing Authority Revenue Bonds, Series 1999, of which were issued to finance the construction and renovation of an 18-hole municipal golf course and appurtenant facilities. The refunding resulted in \$1,527,113 gross debt service (principal and interest) savings over 20 years, and an economic gain of \$494,316.

The 2007B Revenue Bonds mature annually each August 1 through 2029 with installments ranging from \$345,000 to \$655,000. The interest on the Bonds is payable semi-annually on each February 1 and August 1. The interest rates on the Bonds range from 3.70% to 4.375% annually. The 2007B Revenue Bonds are payable solely from golf course facility lease revenue of the Authority. The 2007B Revenue Bonds are subject to early redemption provisions. The outstanding principal balance of the 2007B Revenue Bonds was \$7,825,000 at June 30, 2014.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**8. LONG-TERM DEBT, Continued**

*D. Business-Type Activities, Continued*

**Revenue Bonds (Golf Course Project), Refunding Series 2007B - Original Issue \$9,125,000, Continued**

The City funds the lease payments to the Authority from Golf Enterprise Fund charges for services. Annual principal and interest payments on the bonds are expected to require 29% of net revenues. The total principal and interest remaining to be paid on the Bonds is \$10,072,712. Principal and interest paid for the current year and golf course facility lease net revenues were \$675,441 and \$2,288,645, respectively.

Year Ending June 30,	Principal	Interest	Total
2015	\$ 360,000	\$ 316,342	\$ 676,342
2016	370,000	301,741	671,741
2017	385,000	286,642	671,642
2018	405,000	271,348	676,348
2019	420,000	255,984	675,984
2020-2024	2,350,000	1,012,051	3,362,051
2025-2029	2,880,000	465,624	3,345,624
2030	655,000	14,328	669,328
<b>Total</b>	<b>\$ 7,825,000</b>	<b>\$ 2,924,060</b>	<b>\$ 10,749,060</b>

**Loans Payable - California State Resources Control Board Revolving Fund Loan - Original Issue \$27,000,000**

In May 1, 2014, the City entered into two installment sales agreements (loans) with the State of California's State Water Resources Control Board (CSWRCB) for the purpose of financing various sewer enterprise collection system construction projects. The first loan was for the South Trunk sewer capital project for total available funding of \$27,000,000. The second loan, as amended on June 20, 2014, was for the 25<sup>th</sup> Avenue sanitary sewer relief capital project for total available funding of \$3,464,393. Under the terms of the installment sales agreements, the City has agreed to repay the CSWRCB annual principal and interest payments on the two loans one year following completion of the respective projects. Interest rates on the two loans are 1.90% for the loan financing the South Truck sewer capital project and 2.10% for the loan financing the 25<sup>th</sup> Avenue sanitary sewer relief capital project. The amount of the repayments will be calculated based on the amounts drawdown from the authorized loan amounts. As of June 30, 2014, the City has not drawn funds from CSWRCB to reimburse for capital project costs related to the two installment sales agreements. The City expects to request reimbursement of \$4,000,000 for capital project costs incurred as of June 30, 2014, which is reflected in the Sewer Enterprise Fund as an accounts receivable and loans payable. The City's Sewer Enterprise Fund expects to utilize a significant portion of these available debt financing resources in the subsequent fiscal year.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**8. LONG-TERM DEBT, Continued**

**E. Fiduciary Funds - Private Purpose Trust Funds - Successor Agency to the Redevelopment Agency of the City of San Mateo**

The following is a summary of long-term debt transactions including amortization for the year ended June 30, 2014:

	Original Issue Amount	Balance July 1, 2013	Additions	Deletions	Bond Discount/ Premium	Balance June 30, 2014	Due Within One Year
Redevelopment Tax Allocation Bonds:							
Series 2005A	\$ 38,665,000	\$ 35,792,257	\$ -	\$ (555,000)	\$ (4,320)	\$ 35,232,937	\$ 575,000
Series 2005A, Housing Set-Aside	11,195,000	8,590,000	-	(405,000)	-	8,185,000	425,000
Series 2007A, Refunding	46,135,000	37,745,000	-	(2,260,000)	-	35,485,000	2,350,000
County CDBG Loan	500,000	538,750	-	(538,750)	-	-	-
<b>Total long term debt</b>	<b>\$ 96,495,000</b>	<b>\$ 82,666,007</b>	<b>\$ -</b>	<b>\$ (3,220,000)</b>	<b>\$ (4,320)</b>	<b>\$ 78,902,937</b>	<b>\$ 3,350,000</b>

**Merged Area Tax Allocation Bonds, Series 2005A - Original Issue \$38,665,000**

On June 15, 2005, the Redevelopment Agency of the City of San Mateo issued \$38,665,000 principal amount Merged Area Tax Allocation Bonds, Series 2005A (Series 2005A Bonds). The proceeds of the Series 2005A Bonds were used to (i) refund the Tax Allocation Bonds, Series 1997A, (ii) finance various redevelopment projects in the project area, and (iii) pay the costs of issuance of the Series 2005A bonds. These bonds are tax-exempt. As of February 1, 2012, future annual debt service requirements of the Series 2005A Bonds were assumed by the Successor Agency to the Redevelopment Agency of the City of San Mateo due to the dissolution of the Redevelopment Agency of the City of San Mateo per Assembly Bill AB 1X 26 and Assembly Bill AB1484 (See Note 18).

The Series 2005A Bonds mature annually each August 1 through 2032 in with installments ranging from \$555,000 to \$4,345,000. The interest of the Series 2005A Bonds is payable semi-annually on each February 1 and August 1. The interest rate on the Series 2005A Bonds ranges from 3.50% to 5.00%. The Series 2005A Bonds are subject to early redemption provisions. The outstanding principal balance with bond premium of the Series 2005A Bonds was \$35,232,937 at June 30, 2014. Total principal and interest remaining to be paid on the Bonds is \$56,535,205.

Assembly Bill AB 1X 26 provided that upon dissolution of the Redevelopment Agency, property tax increment revenues allocated to former redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**8. LONG-TERM DEBT, Continued**

*E. Fiduciary Funds - Private Purpose Trust Funds - Successor Agency, Continued*

**Merged Area Tax Allocation Bonds, Series 2005A - Original Issue \$38,665,000, Continued**

The annual debt service requirements the Series 2005A Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 575,000	\$ 1,546,634	\$ 2,121,634
2016	595,000	1,526,159	2,121,159
2017	615,000	1,504,599	2,119,599
2018	635,000	1,481,387	2,116,387
2019	660,000	1,456,535	2,116,535
2020-2024	3,725,000	6,853,653	10,578,653
2025-2029	12,100,000	5,498,613	17,598,613
2030-2033	16,250,000	1,512,625	17,762,625
Subtotal	35,155,000	\$ 21,380,205	\$ 56,535,205
Bond premium	77,937		
<b>Total</b>	<b>\$ 35,232,937</b>		

**Merged Area Housing Set-Aside Tax Allocation Bonds, Series 2005A (Taxable) - Original Issue \$11,195,000**

On June 15, 2005, the Redevelopment Agency of the City of San Mateo issued \$11,195,000 principal amount Merged Area Housing Set-Aside Tax Allocation Bonds, Series 2005A (2005A Housing Bonds). The proceeds of the Housing Bonds were used to (i) refund 1997 Housing Bond, (ii) pay the cost of increasing, improving, and preserving the supply of low and moderate income housing in the City, and (iii) pay the costs of issuance of the 2005A Housing Bonds. These Bonds are taxable. As of February 1, 2012, the future annual debt service requirements of the 2005A Housing Bonds were assumed by the Successor Agency to the Redevelopment Agency of the City of San Mateo due to the dissolution of the Redevelopment Agency of San Mateo per Assembly Bill AB 1X 26 and Assembly Bill AB1484 (See Note 18).

The 2005A Housing Bonds mature annually each August 1 through 2027 with installments ranging from \$405,000 to \$780,000. The interest on the 2005A Housing Bonds is payable semi-annually on each February 1 and August 1. The interest rate on the 2005A Housing Bonds ranges from 4.75% to 4.95%. The 2005A Housing Bonds are subject to early redemption provisions. The outstanding principal balance of the 2005A Housing Bonds was \$8,185,000 at June 30, 2014. Total principal and interest remaining to be paid on the Bonds is \$11,299,689.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**8. LONG-TERM DEBT, Continued**

*E. Fiduciary Funds - Private Purpose Trust Funds - Successor Agency, Continued*

**Merged Area Housing Set-Aside Tax Allocation Bonds, Series 2005A (Taxable) - Original Issue \$11,195,000, Continued**

Assembly Bill AB 1X 26 provided that upon dissolution of the Redevelopment Agency of the City of San Mateo, property tax increment revenue allocated to former redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency.

The annual debt service requirements on the 2005A Housing Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	425,000	386,560	\$ 811,560
2016	445,000	366,985	811,985
2017	465,000	345,929	810,929
2018	490,000	323,248	813,248
2019	515,000	299,379	814,379
2020-2024	2,930,000	1,095,216	4,025,216
2025-2028	2,915,000	297,372	3,212,372
Total	<u>\$ 8,185,000</u>	<u>\$ 3,114,689</u>	<u>\$ 11,299,689</u>

**Merged Area Tax Allocation Refunding Bonds, Series 2007A - Original Issue \$46,135,000**

On May 17, 2007, the Redevelopment Agency of the City of San Mateo issued \$46,135,000 principal amount Merged Area Tax Allocation Refunding Bonds, Series 2007A (2007A Refunding Bonds). The proceeds of the 2007A Refunding Bonds were used to (i) advance refund Series 2001A Bonds, (ii) pay the cost of various redevelopment projects in the City, and (iii) pay the costs of issuance of the 2007A Refunding Bonds. As of February 1, 2012, the future annual debt service requirements of the 2007A These Bonds are tax-exempt. The 2007A Refunding Bonds were assumed by the Successor Agency to the Redevelopment Agency of the City of San Mateo due to the dissolution of the Redevelopment Agency of the City of San Mateo per Assembly Bill AB 1X 26 and Assembly Bill AB1484 (See Note 18).

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**8. LONG-TERM DEBT, Continued**

*E. Fiduciary Funds – Private Purpose Trust Funds - Successor Agency, Continued*

**Merged Area Tax Allocation Refunding Bonds, Series 2007A – Original Issue \$46,135,000, Continued**

The 2007A Refunding Bonds mature annually each August 1 through 2025 with installments ranging from \$2,260,000 to \$3,655,000. The interest on the 2007A Refunding Bonds is payable semi-annually on each February 1 and August 1. The interest rate on the 2007A Refunding Bonds ranges from 4.0% to 5.0%. The 2007A Refunding Bonds are subject to early redemption provisions. The outstanding principal balance net of deferred costs of the 2007A Refunding Bonds was \$33,968,404 at June 30, 2014. Total principal and interest remaining to be paid on the Bonds is \$44,981,700.

Assembly Bill AB 1X 26 provided that upon dissolution of the Redevelopment Agency of the City of San Mateo, property tax increment revenues allocated to former redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency.

The annual debt service requirements on the 2007A Refunding Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 2,350,000	\$ 1,409,588	\$ 3,759,588
2016	2,445,000	1,317,356	3,762,356
2017	2,540,000	1,208,624	3,748,624
2018	2,665,000	1,095,155	3,760,155
2019-2023	14,965,000	3,785,104	18,750,104
2024-2026	10,520,000	680,873	11,200,873
<b>Total</b>	<b>\$ 35,485,000</b>	<b>\$ 9,496,700</b>	<b>\$ 44,981,700</b>

In connection with the issuance of the 2007A Refunding Bonds, the City recorded a deferral on refunding of debt which is reported as a deferred outflow of resources. This deferral was in connection with interest payments made to the escrow agent for future payments of interest. At June 30, 2014, the total amount deferred was \$1,516,596 which will be amortized over the remaining life of the Bonds.

There are three Redevelopment Agency Merged Area Tax Allocation Bonds secured by property tax revenues: Series 2005A, Series 2005A Housing Bonds, and Series 2007A. Annual principal and interest payments on the bonds are expected to require 60% of net revenues. The total principal and interest remaining to be paid on the Series 2005A, 2005A Housing, and 2007A bonds is \$56,535,205, \$11,299,689, and \$44,981,700 respectively. For the current year, principal and interest paid on the Series 2005A, 2005A Housing, and 2007A were \$2,120,409, \$809,982, and \$3,761,789, respectively and Redevelopment Agency Property Tax Trust Fund distributions were \$4,876,103.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**8. LONG-TERM DEBT, Continued**

*E. Fiduciary Funds – Private Purpose Trust Funds – Successor Agency, Continued*

**County CDBG Loan Payable**

On November 18, 2008, the Former Redevelopment Agency entered into a loan agreement with the County of San Mateo to borrow \$500,000. The purpose of the loan was to assist the former redevelopment agency with rehabilitation of the Vendome Hotel at 134 South Claremont St., San Mateo, which will be used as affordable housing for the homeless. Funding under this loan is from the Community Development Block Grant (CDBG) Program. The loan bears an interest rate of 3%, which will start on the first day of the month following the project completion. No principal or interest payment is due until the maturity of the note, which is fifty five years from the project completion. As of February 1, 2012, the CDBG Loan obligation was taken over by the Successor Agency to the Redevelopment Agency due to the dissolution of the San Mateo Redevelopment Agency per Assembly Bill AB 1X 26 and Assembly Bill AB1484 (See Note 18). The outstanding balance of the loan was \$0 as of June 30, 2014.

*F. Land Secured Debt Financing with No City Commitment*

The City of San Mateo has authorized the formation of the Bay Meadows Community Facilities District No. 2008-1 (Bay Meadows CFD), acting through its eligible landowner voters, and the issuance of bonds under the public improvement act (Mello-Roos Community Facilities Act of 1982) of the State of California to finance eligible public facilities necessary to serve developing commercial, industrial, residential and/or mixed use developments. The bonds are secured by annual special tax levies or liens placed on the property within the district.

The City of San Mateo is not liable for repayment and acts only as an agent for the property owners in collecting the special taxes or assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings when necessary. These bonds are payable solely from special taxes or assessments, specific reserves, and the proceeds from property foreclosures to be levied by the Bay Meadows CFD. The City is the collecting and paying agent for the debt, but has no direct or contingent liability for the payment of this debt. Accordingly, the special tax bonds are not reported as liabilities in the City's basic financial statements. As of June 30, 2014, there are three Bay Meadows CFD special tax bonds outstanding with principal amounts payable of \$31,800,000 for the Series 2012, \$26,000,000 for the Series 2013, and \$28,475,000 for the Series 2014. Total outstanding principal balance of the three Bay Meadows CFD special tax bonds was \$86,275,000 as June 30, 2014.



**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**9. CLASSIFICATION OF FUND BALANCES**

In the fund financial statements, fund balances are classified in the following categories:

	Major Governmental Funds						Non Major Government Funds	Total Government
	General	General Capital Projects	HOME	Housing Special Revenue	Low Moderate Income Housing Asset Fund			
Fund Balances								
<b>Nonspendable fund balance:</b>								
Prepays and Supplies	\$ 165,313	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	165,313
<b>Restricted fund balance for:</b>								
Debt Service	-	999,340	-	-	-	3,256,328	-	4,255,668
Infrastructure	-	3,103,820	-	-	-	-	-	3,103,820
Housing	-	-	-	281,685	2,532,071	-	-	2,813,756
Other Capital Projects	-	2,711,505	-	-	365,456	3,416,361	-	6,493,322
Public Streets and Related Facilities	-	5,213,622	-	-	-	2,420,921	-	7,634,543
Parks	-	7,757,300	-	-	-	-	-	7,757,300
Public Safety	-	394,524	-	-	-	-	-	394,524
	-	20,180,111	-	281,685	2,897,527	9,093,610	-	32,452,933
<b>Committed fund balance for:</b>								
Infrastructure	-	1,378,741	-	-	-	-	-	1,378,741
Other Capital Projects	-	2,489,983	-	-	-	460,225	-	2,950,208
Public Streets and Related Facilities	-	6,564,410	-	-	-	-	-	6,564,410
Parks	-	1,594,822	-	-	-	-	-	1,594,822
Public Safety	-	1,689,160	-	-	-	1,944,735	-	3,633,895
Other Purposes:								
Solid Waste	-	-	-	-	-	1,246,224	-	1,246,224
Advance Planning	-	-	-	-	-	1,353,306	-	1,353,306
Construction Services	-	-	-	-	-	13,849,970	-	13,849,970
Downtown Parking & Security	-	-	-	-	-	4,447,630	-	4,447,630
Landfill Post-Closure	-	-	-	-	-	4,740,404	-	4,740,404
	-	13,717,116	-	-	-	28,042,494	-	41,759,610
<b>Assigned fund balance for:</b>								
Public Streets and Related Facilities	34,898	-	-	-	-	-	-	34,898
Other Purposes	1,814,560	-	-	-	-	-	-	1,814,560
	1,849,458	-	-	-	-	-	-	1,849,458
<b>Unassigned fund balance</b>								
Future emergencies	18,245,914	-	-	-	-	-	-	18,245,914
Service Stability	4,461,234	-	-	-	-	-	-	4,461,234
Genetech Property Tax Refund	187,525	-	-	-	-	-	-	187,525
Housing Future Years' Expenditures	1,248,585	-	-	-	-	-	-	1,248,585
Future Years' Expenditures	930,000	-	-	-	-	-	-	930,000
Other Purposes	9,014,542	-	-	-	-	(3,999)	-	9,010,543
	34,087,800	-	-	-	-	(3,999)	-	34,083,801
<b>Total Fund Balances</b>	<b>\$ 36,102,571</b>	<b>\$ 33,897,227</b>	<b>\$ -</b>	<b>\$ 281,685</b>	<b>\$ 2,897,527</b>	<b>\$ 37,132,105</b>	<b>\$ -</b>	<b>110,311,115</b>

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**10. EXPENDITURES IN EXCESS OF APPROPRIATIONS**

The following funds had expenditures in excess of budget. Sufficient fund balances were available to fund these expenditures:

Fund	Appropriations	Expenditures	Excess
<b>General Fund:</b>			
City Council	\$ 469,502	\$ 500,420	\$ (30,918)
Business services	2,489,735	2,556,059	(66,324)
Human resources	1,339,752	1,396,564	(56,812)
Police	27,876,607	28,909,841	(1,033,234)
Public works	4,695,553	4,890,569	(195,016)
<b>Special Revenue Fund:</b>			
Low Moderate Income Housing Fund	\$ 803,377	\$ 828,721	\$ (25,344)
Police Grants Fund	253,560	285,931	(32,371)
Community Development Block Gran	965,832	967,519	(1,687)
Fire Protection	1,303,832	1,560,110	(256,278)
Gas Tax	2,517,500	2,641,922	(124,422)
<b>Capital Project Fund:</b>			
2% Hotel Tax Fund	\$ 488,900	\$ 786,476	\$ (297,576)

**11. DEFICIT FUND BALANCES/NET POSITION**

Major Funds

A deficit net position of \$1,817,276 exists for the Golf Enterprise Fund. The difference is due to the past years of operating deficits

Non major Governmental Funds

The Police Grants special revenue fund had negative fund balances of \$3,999 due to current year expenditures exceeding revenues.

Internal Service Fund

A deficit of net position of \$37,916 exists in the Benefits Fund. The deficit is due to the fund incurring more costs that charges to other funds.

**12. RISK MANAGEMENT**

**A. Coverage**

The City retains a level of risk for both general liability and workers' compensation. The City carries commercial insurance above this limit. The City maintains occurrence basis insurance coverage up to \$25 million in excess of its \$500,000 risk retention per occurrence for general liability, and \$25 million in excess of its \$1,000,000 risk retention for workers' compensation. The City has not had claims settlements exceeding insurance coverage for each of the past three fiscal years.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**12. RISK MANAGEMENT, Continued**

**B. Claims Activity**

The City's claims activity is recorded in its internal service funds. Estimated liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims that have been incurred but not reported (IBNRs) are also included in the liability estimates. A summary of the changes in claims liabilities for the past three fiscal years follows.

For the Years Ended June 30,	Claims Payable July 1	Fiscal Year Claims and Changes in Estimates	Claims Payments	Claims Payable June 30	Due Within One Year
<u>Workers' Compensation</u>					
2012	\$ 8,304,000	\$ 1,813,061	\$ (1,115,061)	\$ 9,002,000	\$ 1,000,000
2013	9,002,000	836,472	(1,130,472)	8,708,000	1,000,000
2014	8,708,000	1,653,117	(905,117)	9,456,000	1,000,000
<u>Dental</u>					
2012	-	729,667	(729,667)	-	-
2013	-	779,485	(779,485)	-	-
2014	-	769,105	(769,105)	-	-
<u>General Liability</u>					
2012	1,404,000	130,231	(130,231)	1,404,000	500,000
2013	1,404,000	106,250	(106,250)	1,404,000	500,000
2014	1,404,000	125,308	(327,308)	1,202,000	500,000

**13. EMPLOYEE RETIREMENT PLANS**

**A. Pension Plan**

All qualified permanent and probationary employees are eligible to participate in pension plans offered by the California Public Employees' Retirement System (PERS).

Plan Description – PERS is an agent for participating public entities within the State of California. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. State statutes and City resolution establish benefit provisions, which are reflected in a contract between the City and PERS. Copies of PERS' annual financial report may be obtained from CALPERS at P.O. Box 942709, Sacramento, California 94229-2709.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**13. EMPLOYEE RETIREMENT PLANS, Continued**

*A. Pension Plan, Continued*

Funding Policy - The Plan's provisions and benefits in effect at June 30, 2014, are summarized as follows:

	Safety	Miscellaneous
Benefit vesting schedule	5 years service	5 years service
Benefit payment	monthly for life	monthly for life
Earliest retirement age	50	50
Benefit factor for each year of service, as a % of annual salary	3% at age 50	2% at age 55
Required employee contribution rates	9%	7%
Required employer contribution rates	37.525%	14.666%
Actuarially required contribution:		
Employer	\$ 8,226,581	\$ 3,683,976
Employee	\$ 1,989,245	\$ 1,719,367

The Plans are funded by contributions from both the City and its employees. However, certain labor contracts require the City to also pay employee contributions. See the Required Supplementary Information for the Schedule of Funding Progress.

On January 1, 2013, the Public Employee Pension Reform Act (PEPRA) went into effect. This State law applies to employees hired after January 1, 2013 who are new to PERS. These employees are termed PEPRA members and employees that were enrolled in PERS (without significant separation) prior to January 1, 2013 are now referred to as classic members. PEPRA miscellaneous members will be enrolled in a 2% at 62 plan and PEPRA safety members will be enrolled in a 2.7% at 57 plan. PEPRA members will be required to pay half the normal cost of their plans.

Annual Pension Cost - For the fiscal year ending June 30, 2014, the City's annual pension cost of \$11,910,557 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.30% to 14.20% for miscellaneous employees and from 3.30% to 14.20 % for safety employees depending on age, service, and type of employment, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.75%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2011, was 25 years for miscellaneous and 32 years for safety employees for prior and current service unfunded liability.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**13. EMPLOYEE RETIREMENT PLANS, Continued**

*A. Pension Plan, Continued*

**Three-Year Trend Information For PERS**

Miscellaneous Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC	Net Pension Obligation
	Miscellaneous	Contributed	
6/30/2012	3,303,090	100%	-
6/30/2013	3,429,527	100%	-
6/30/2014	3,683,976	100%	-

Safety Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC	Net Pension Obligation
	Safety	Contributed	
6/30/2012	7,508,862	100%	-
6/30/2013	7,617,620	100%	-
6/30/2014	8,226,581	100%	-

Funding Status as of the Most Recent Actuarial Date

The City contributes to the California Public Employees' Retirement System (CalPERS), as an agent multiple-employer public employee defined benefit pension plan. The amounts reflected herein represent the City's portion as reported by CalPERS.

**Safety Plan**

Valuation Date	Actuarial Value of Assets	Entry Age Normal Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as Percentage of Covered Payroll
6/30/2013	\$ 195,260,150	\$ 305,718,515	\$ 110,458,365	63.9%	\$ 20,778,390	531.6%

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**13. EMPLOYEE RETIREMENT PLANS, Continued**

*A. Pension Plan, Continued*

Funding Status as of the Most Recent Actuarial Date, Continued

**Miscellaneous Plan**

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as Percentage of Covered Payroll</u>
6/30/2013	\$ 153,007,184	\$ 204,122,847	\$ 51,115,663	75.0%	\$ 24,798,678	206.1%

The Schedule of Funding Progress provided in the Required Supplementary Information shows that the actuarial value of the plan assets decreased relative to the actuarial accrued liability for benefits from June 30, 2011 to June 30, 2013.

*B. Social Security*

Total contributions to Social Security for all City employees during the year ended June 30, 2014 amounted to \$3,151,704 of which the City paid \$1,575,852.

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

The City's part-time, seasonal and temporary employees are covered under an alternative savings plan, which requires these employees and the City to each contribute 3.75% of the employees' pay for a total of 7.50%.

**14. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

**Plan Description**

The City administers a single-employer defined benefit post employment healthcare plan. Merit employees who retire directly from the City under CalPERS at the minimum age 50 with at least 5 years of CalPERS service (or disability) are eligible to receive \$160 per month for medical insurance premiums paid to CalPERS. This same benefit may continue to a surviving spouse depending on the retirement plan election. As of June 30, 2013 there are 382 retirees receiving post employment health care benefits from the City.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**14. OTHER POST EMPLOYMENT BENEFITS (OPEB), Continued**

**Funding Policy**

Beginning in the fiscal year 2012-13, the City pre-funds the Plan through CalPERS OPEB Trust (CERBT) by contributing the City's Annual Required Contribution (ARC) every year. For fiscal year 2013-14, the City contributed \$1,247,000, including \$747,000 in benefit payments and a \$500,000 deposit to CERBT.

As of June 30, 2014 the total market value of the funds set aside in the irrevocable plan trust was \$1,102,969.

CERBT is a tax qualified irrevocable trust, organized under Internal Revenue Code (IRC) Section 115, established to prefund OPEB as described in GASB Statement 45. The CERBT issues a publicly available financial report that included financial statements and required supplementary information for the City, not individualizing, but in aggregate with the other CERBT participants. That report may be obtained by contacting CalPERS.

**Annual OPEB Costs and Net OPEB Obligation**

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), 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 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 (NOO) for the year ended June 30, 2014 are as follows:

Annual required contribution	1,190,000
Interest on net OPEB obligation	210,000
Amortization of net OPEB obligation	(189,000)
Annual OPEB cost	1,211,000
Payments made	(1,246,822)
Decrease in net OPEB obligation	(35,822)
Net OPEB obligation - beginning of the year	2,896,750
Net OPEB obligation - ending of year	2,860,928

The following table presents the fund level allocation of the Net OPEB Obligation for the year ended June 30, 2014:

Fiscal Year	Annual OPEB Cost				Percentage of Annual OPEB Cost Contributed	Accumulative Net OPEB Obligation
	Governmental Activities		Business Type Activities			
	Safety	Miscellaneous	Sewer	Golf		
6/30/2012	691,256	636,956	174,703	19,086	48%	2,961,194
6/30/2013	514,438	510,493	139,290	15,241	106%	2,896,750
6/30/2014	528,639	526,476	140,294	15,591	105%	2,860,928

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**14. OTHER POST EMPLOYMENT BENEFITS (OPEB), Continued**

**Annual OPEB Costs and Net OPEB Obligation, Continued**

Funding Status as of the Most Recent Actuarial Date

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 closed 30 year basis, as a level percent of payroll with a remaining amortization period at June 30, 2014 of 24 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 7.25% interest rate, representing the long term expected rate of return on the City's pooled investments. Annual inflation assumed to increase at 3% per annum and Aggregate Payroll assumed to increase at 3.25% per annum. The study also used assumptions for the salary merit and longevity increases, and demographic assumptions such as mortality, withdrawal, and disability based on CalPERS 1997-2011 Experience Study. Retirement assumption was also based on CalPERS 1997-2011 Experience Study of the Miscellaneous Plan 2.0% at 55 years, and Public Safety 3% at 50 years for Tier 1 and 3% at 55 years for Tier 2. Non-classical employees hired on or after 1/1/2013 are based on the PEPRA Miscellaneous Plan 2% at 62 years and the PEPRA Safety Plan 2.7% at 57 years.

The amounts listed below represent the most recent actuarial valuation as of June 30, 2013:

Actuarial Valuation Date *	Actuarial Asset Value	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll **	Unfunded Actuarial Liability as Percentage of Covered Payroll
6/30/2013	\$ 502,000	\$ 12,035,000	4.2%	\$ 48,010,000	25.1%

\* Based on the most recent actuarial valuation available

\*\* Annual payroll of active employees covered by the plan



**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**14. OTHER POST EMPLOYMENT BENEFITS (OPEB), Continued**

**Annual OPEB Costs and Net OPEB Obligation, Continued**

Funding Status as of the Most Recent Actuarial Date, Continued

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. The City does not contract for a separate audit of its OPEB plan.

**15. COMMITMENTS AND CONTINGENCIES**

**A. *Lawsuits***

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

**B. *Federal and State Grant Programs***

The City participates in Federal and State grant programs. These programs are audited by the City's independent accountants in accordance with the provisions of the Federal Single Audit Act, as amended in 1996 and applicable State requirements. No cost disallowance is expected as a result of these audits; however, these programs are subject to further examination by the grantors. Expenditures which may be disallowed by the granting agencies, if any, cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**15. COMMITMENTS AND CONTINGENCIES, Continued**

*C. Commitments*

The following is a list of commitments at June 30, 2014:

\$12.4 million in sanitary sewer rehabilitation and improvement projects including wastewater treatment, wastewater collection system infrastructure improvement, construction program management, pump station upgrades and levee improvements.

\$4.5 million in streetscape improvements, bridges, traffic control upgrades, on-going citywide street rehabilitation, bikeway and pedestrian improvements funded by Gas tax, Measure A, Federal, State and regional agency grants and General Fund contributions.

**16. JOINT EXERCISE OF POWERS AGREEMENT**

The City and the Estero Municipal Improvement District (Estero), entered into a “Joint Exercise of Powers Agreement” in 1974 to construct, maintain, and operate a joint use wastewater treatment plant facility (Facility). The City and Estero jointly use and own the Facility. During the original construction phase, the City served as the lead agency. Currently, the day to day operations and maintenance of the treatment plant are managed by the City. Both parties continue to make capital contributions and pay for operational and maintenance costs. During the fiscal year ended June 30, 2014 the City paid \$16,874,104 for operations and maintenance of the wastewater treatment plant facility.

**17. SUBSEQUENT EVENT**

On July 2, 2014, the City of San Mateo issued Sewer Revenue Bonds, Series 2014A (Series 2014A Bonds), totaling \$32,255,000. The purpose was to (i) refund the City’s outstanding Sewer Revenue Bonds, Series 2003, (ii) finance \$18,000,000 in various improvements to the City’s municipal sewer enterprise; and (iii) pay a portion of the costs of issuance of the Series 2014A Bonds.

The Series 2014A Bonds mature annually each August 1 beginning in 2018 through 2036 with installments ranging from \$670,000 to \$1,570,000. The interest on the Series 2014A Bonds is payable semi-annually on February 1 and August 1 of each year. The interest rates on the Series 2014A Bonds range from 3.00% to 5.00%. The Series 2014A Bonds are payable solely from net revenues received by the City from the operation of the sewer enterprise. The Series 2014A Bonds are subject to optional and mandatory early redemption provisions.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

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**18. SUCCESSOR AGENCY PRIVATE PURPOSE TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY**

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of San Mateo that previously had reported the City’s Redevelopment Agency within the reporting entity as a blended component unit.

The Bill provided 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. On January 9, 2012, the City Council elected to become the Successor Agency for the former Redevelopment agency in accordance with the Bill as part of City Resolution No. 2 (2012).

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California were prohibited from entering into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets could 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).

In accordance with the Bill, the State Controller’s Office (SCO) of the State of California reviewed the propriety of any transfers of assets between the San Mateo Redevelopment Agency (RDA) and the City that occurred after January 1, 2011. On October 23, 2013, the SCO issued a report stating that there were no identified unallowable transfers of assets that occurred during the review period between the RDA, the City and/or any other public agencies.

In April 2013, the California Department of Finance (DOF) issued a Finding of Completion to the Successor Agency which allowed proceeds \$3.3M from the Merged Area Tax Allocation Bonds, Series 2005A and Series 2007A, to be used to reimburse the City of San Mateo for the construction costs of Fire Station 24 in accordance with the Cooperation Agreement between the City and the Successor Agency. Construction of Fire Station 24 was a use of the bond proceeds that is consistent with the stated purposes of the original bond covenants, and these bond proceeds were utilized in this manner during Fiscal Year 2013-14.

Once a Finding of Completion is issued by the DOF, State law (AB 1484) requires that successor agencies prepare a Long-Range Property Management Plan (LRPMP) for the disposition and use of the remaining assets of the former San Mateo Redevelopment Agency. The Successor Agency submitted the required LRPMP, as amended and approved by the Oversight Board, to the DOF on October 17, 2013. The LRPMP addressed the disposition of five properties that are currently under title with the Successor Agency. The Successor Agency received a formal response from the DOF on April 28, 2014 rejecting the LRPMP as submitted. The letter outlined that public parking was not considered a governmental use by the State and as a result, the City needed to examine other available disposition options for several other remaining properties. As required, the Successor Agency submitted to the DOF on October 1, 2014 a revised LRPMP that was approved by the Oversight Board. Although there is no set statutory deadline for this revised submittal, current State law requires that all LRPMPs must be approved by the DOF no later than January 1, 2016. The Successor Agency is awaiting a decision from the DOF regarding the revised LRPMP.

**City of San Mateo**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2014**

**18. SUCCESSOR AGENCY PRIVATE PURPOSE TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, Continued**

In future fiscal years, successor agencies will only be collecting 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. At the expiration of the Recognized Obligations Payment Schedule (ROPS) 14-15B for the period January 1, 2015 through June 30, 2015, the outstanding enforceable obligations will be amounts owed to holders of the Merged Area Set-Aside Tax Allocation Bonds Series 2005A, Merged Area Tax Allocation Bonds Series 2005A and Merged Area Tax Allocation Refunding Bonds Series 2007A.

**19. PRIOR PERIOD ADJUSTMENT**

The City recorded a prior period adjustments to expense costs of issuance related to previously issued debt as required by GASB 65.

Government-wide Statements

	Net Position, as Previously Reported	Prior Period Adjustment Bond Issuance Costs	Net Position, as Restated
Government-Wide Statements			
Governmental Activities	\$ 478,521,067	\$ (698,662)	\$ 477,822,405
Business-type Activities	\$ 93,263,979	\$ (678,731)	\$ 92,585,248

Fund Statements

	Net Position, as Previously Reported	Prior Period Adjustment Bond Issuance Costs	Net Position, as Restated
Fund Statements			
Sewer Enterprise Fund	\$ 94,602,214	\$ (449,369)	\$ 94,152,845
Golf Enterprise Fund	\$ (1,338,235)	\$ (229,362)	\$ (1,567,597)

**APPENDIX C**  
**FISCAL CONSULTANT'S REPORT**

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FISCAL CONSULTANT REPORT  
FOR THE  
SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY OF SAN MATEO  
TAX ALLOCATION REFUNDING BONDS  
2015 SERIES A (TAX-EXEMPT) AND SERIES B (TAXABLE)

JULY 8, 2015

F I N A L D R A F T

## **INTRODUCTION**

In preparation for the issuance of the Successor Agency to the Redevelopment Agency of the City of San Mateo Tax Allocation Refunding Bonds, 2015 Series A (Tax-Exempt) and Series B (Taxable) (the “Bonds”), the Successor Agency to the Redevelopment Agency of the City of San Mateo (the “Agency”) has retained Urban Analytics as fiscal consultant (the “Consultant”) to evaluate available tax revenue for the Agency’s Merged Downtown and Shoreline Project Areas (together, the “Project Areas”) and provide a Fiscal Consultant Report.

This Fiscal Consultant Report (the “Report”) is based in part on assessed valuation information provided by the County of San Mateo Assessor’s Office (the “Assessor”), on the assessment and apportionment practices of the County of San Mateo Auditor-Controller’s Office (the “ACO”), on base year assessed valuation for the Project Areas as reported by the ACO, and on information regarding pass-through agreements and redevelopment plan terms provided by Agency staff.

The Report provides a review of various matters affecting the Agency’s receipt of tax increment in the Project Areas. The Report also presents projections of tax increment available to the Agency over the life of the Project Areas, incorporating the Agency’s obligations toward other taxing jurisdictions and projecting assessed valuation at a two percent growth rate.

## **SUMMARY OF FINDINGS**

The Project Areas are expected to generate a total of \$8,462,436 in tax increment revenue in FY 2014-15. The Bonds will refund certain of the Agency’s outstanding tax allocation bonds and the Agency’s outstanding housing bonds. Following the refunding, the Agency will have outstanding bonds (the “2007 Bonds”) secured by a pledge of tax increment revenue senior to the pledge of the tax increment revenues securing the Bonds.

## **THE ALLOCATION OF TAX INCREMENT REVENUE TO THE AGENCY**

Under California redevelopment law, the County allocates to the Agency all locally assessed secured and unsecured property tax revenue and state-assessed utility revenue collected within the Project Areas above the Project Areas’ base year assessed valuation. The County also apportions to the Agency a share of state-assessed unitary revenue as well as revenue from supplemental assessments.

Tax revenue deriving from the base year assessed valuation is distributed to all other taxing jurisdictions within the tax rate areas comprising the Project Areas. The distribution of the base year tax revenue is accomplished using the same apportionment process used to allocate property tax revenue in non-redevelopment tax rate areas.

As described further under “*Redevelopment Dissolution*”, the Controller allocates tax revenue derived from assessed valuation in the Project Areas in excess of the base year assessed valuation annually to the Redevelopment Property Tax Trust Fund (the “RPTTF”). This allocation of tax increment is the maximum that the Agency may receive from the Project Areas in a fiscal year. This allocation includes tax increment from the annual secured, unsecured and utility tax rolls that is included in the projections used in this



Report as “Available Tax Increment” as well as tax increment from supplemental assessments, prior-year escape assessments, roll corrections and interest earnings.

The tax increment allocation from the Project Areas is applied, in order of priority, to administrative costs of the state’s Department of Finance, to the administrative costs of the County Auditor-Controller, to passthrough payments, to debt service and contractual obligations of the Agency, and to administrative costs of the Agency. To the extent the funds in the RPTTF are insufficient to pay debt service on bonded indebtedness, the Controller will withhold Agency administrative costs; if an insufficiency remains, subordinated passthrough payments would then be deferred. Senior and subordinated passthrough payments are discussed further under “*Fiscal Agreements*”.

Agency annual debt service and contractual obligations are identified on a Recognized Obligation Payment Schedule (ROPS) that is approved by the Agency’s Oversight Board and by the state Department of Finance. Redevelopment agencies prepare two ROPS each year, one covering payments due in the January to June period (referred to as ROPS “B”) and the other covering payments due in the July to December period (referred to as ROPS “A”). Under Section 34171(d)(1)(A) of the Health and Safety Code, a reserve may be held in the RPTTF when required by a bond indenture or when the next property tax allocation will be insufficient to pay all obligations due under the provisions of a bond indenture for the next payment due in the following half of the calendar year. It is the Agency’s practice to list all of its indebtedness for the calendar year on its ROPS “B” filing, retaining that portion of Tax Increment Allocation in excess of the amount needed for obligations due in the January to June period to be applied to obligations due in the July to December period of the same calendar year.

The Auditor-Controller deposits funds into the RPTTF twice each year, once on January 2 and again on June 1. Any amount remaining in the RPTTF after payment of administrative costs, passthrough payments and ROPS obligations (including any amounts retained for obligations due in the subsequent ROPS) is immediately distributed to other taxing entities.

The Auditor-Controller applies any tax refunds paid to property owners in the Project Areas against the Agency’s tax increment allocation. Should tax refunds exceed the portion of the tax increment allocation that is derived from sources other than the annual secured, unsecured and utility rolls, the tax increment revenue available for debt service could fall below the amount shown in this report as “Available Tax Increment”.

The Auditor-Controller removes negative tax increment revenue at the tax rate area code level in San Mateo County, rather than at the project area level as is done in most counties. Where the annual assessed valuation for any roll in a tax rate area code is less than the base year for that roll in that tax rate area code, that negative tax increment is disregarded and not deducted from an agency’s tax increment.

Unitary utility roll revenue is derived from utility properties including pipelines and other properties that are assessed on a countywide basis as a unit. Property taxes on these unitary assessments are distributed to jurisdictions in the county using an allocation formula similar to the regular apportionment mechanism. Unitary revenue is reported to the Agency on an Agency-wide basis; the Project Areas are estimated to receive approximately \$148,000 in unitary revenue annually from the one percent levy.

The State Board of Equalization separately assesses railroad, pipeline and other utility properties with tax revenue apportioned through the local apportionment process. The

Agency receives less than \$100 in tax increment revenue from state-assessed utility properties located in the Project Areas.

The County utilizes a mechanism for the distribution of tax increment revenue to redevelopment agencies that has a similar effect on the Agency's tax increment revenues as the device known as the Teeter Plan (Section 4701 et seq. of the California Revenue and Taxation Code). The Teeter Plan allows counties to distribute secured property tax revenue to participating jurisdictions without regard to delinquencies by maintaining a reserve fund to cover delinquencies and allocating revenue based on the original secured roll, retaining all delinquent tax payments and penalties. Under the mechanism used by the County to distribute tax increment revenue to former redevelopment agencies, the County pays one-half of the taxes from the secured incremental assessed valuation and all of the taxes from the unsecured incremental assessed valuation appearing on the equalized tax roll to each agency's RPTTF on January 2 and the other one-half of the taxes on the secured incremental assessed valuation on June 1. Delinquencies are not deducted from the RPTTF revenue, and delinquent tax payments and defaulted tax redemptions, penalties and interest are not added to RPTTF revenue. Consequently, the Agency is not affected by delinquent tax payments.

The County charges an administration fee to recover property tax administration costs from the Agency and other jurisdictions under the Revenue and Taxation Code, Section 95.3. The fee is based on County costs that vary from year to year so that the amount charged to each jurisdiction annually is variable. The administration fee amounts to approximately 1.32% of the tax increment revenue from the Project Areas.

Tax increment calculations made in this Report use revenue from the secured and unsecured rolls along with revenue from unitary assessments. Supplemental roll revenues are considered when calculating cumulative tax increment caps but are not otherwise included in tax increment calculations used in the Report.

### **HOUSING SET-ASIDE**

Prior to the Redevelopment Dissolution Law, California redevelopment law required agencies to maintain a low- and moderate-income housing fund, depositing into the fund 20% of gross tax increment revenues annually. As of August 2, 2015 the Agency had \$7.3 million in principal and interest outstanding on debt secured by the low- and moderate-income housing fund; the Bonds will refund this in full. Tax increment from the Project Areas formerly required to pay debt service on the low- and moderate-income housing bonds will be available to pay debt service on the Bonds.

### **THE REDEVELOPMENT PLANS AND THE PROJECT AREAS**

Redevelopment project areas are established through redevelopment plans, created when the project areas are adopted. The Project Areas were originally adopted July 8, 1981 under ordinances 1981-25 (for the Downtown Project Area) and 1981-24 (for the Shoreline Project Area). The plans were amended under ordinance 1994-1 on September 7, 1994 to bring them into conformance with the requirement of AB1290 that the plans contain time limits on the establishment of indebtedness.

On October 21, 1996, both project areas were amended to a) increase the tax increment caps; b) increase the limits on bonded indebtedness; c) extend time limits for the

incurrence of indebtedness; d) extend time limits of plan effectiveness; and e) to extend time limits on the receipt of tax increment. These amendments were made under ordinances 1996-21 (Downtown Project Area) and 1996-22 (Shoreline Project Area). Also on October 21, 1996, the two project areas were merged, allowing tax increment revenues to be combined for the two areas.

On May 16, 2005, both project areas were amended under ordinance 2005-11 to extend, by two years, the time limits on plan effectiveness and receipt of tax increment under HSC Sections 33333(C) and (D) for payments to the Educational Revenue Augmentation Fund (ERAF) in FY 2003-04 and FY 2004-05; an additional year was added under Ordinance 2007-9 for a payment to ERAF made in FY 2005-06.

Under redevelopment law, plan amendments that changed the fiscal component of a redevelopment plan – such as increasing a tax increment cap or changing the last date to incur debt – triggered statutory passthrough payments commencing in the year after the first changed fiscal component would have been reached for any taxing entity that did not already have a Section 33401 fiscal agreement in place. The October 21, 1996 plan amendment triggered statutory passthrough payments in the Shoreline Project Area commencing in FY 2000-01 after the original tax increment cap for that project area was reached in FY 1999-00. That plan amendment also triggered statutory passthrough payments in the Downtown Project Area commencing in FY 2004-05 after the original debt incurrence limit of January 1, 2004 was reached in that project area. All taxing entities except for the San Mateo-Foster City School District currently receive statutory passthrough payments; passthrough payments to the School District are governed by that District's Section 33401 fiscal agreement with the Agency as described further under *Fiscal Agreements*.

### **Plan Limits**

The Agency cannot receive tax increment or repay indebtedness beyond certain dates, shown in Table 1. Under redevelopment law, all pre-1994 plans (including those for the Project Areas) are assigned a time limit on redevelopment plan activities (a plan termination date) of forty years after the adoption date of the plan. The Agency is permitted to collect tax increment to repay indebtedness for an additional ten years after the plan termination date. As described below, the Agency extended the time limit on plan activities and on the repayment of indebtedness by three years in the Project Areas as permitted under ERAF-related legislation. The last date on which tax increment may be collected in each project area is July 8, 2034.

The two project areas account for different proportions of Project Areas' tax increment, as shown in Table 1. The volatility ratio, the proportion of total assessed valuation accounted for by the base year valuation, reflects the degree of exposure of tax increment to changes in total valuation. A high volatility ratio indicates that a small percentage change in overall assessed valuation would cause a disproportionately large percentage change in tax increment, while a low volatility ratio suggests that a percentage change in overall assessed valuation would cause a similar percentage change in tax increment. Long-established redevelopment areas such as the Project Areas generally have a low volatility ratio as assessed valuation grows in relation to the base year valuation, while newly-formed redevelopment areas tend to have a high volatility ratio as their total assessed valuation remains close to the base year valuation.

Table 1  
The Project Areas

Project Area	Date of Adoption	Ordinance Number	Last Date to Repay Indebtedness	Tax Increment Limit (Millions)	Acreage	Tax Increment As Percent of Total	Volatility Ratio
Downtown	7/8/1981	25	7/8/2034	\$500	166	42.1%	0.12
Shoreline	7/8/1981	24	7/8/2034	\$330	703	57.9%	0.03
Total					869	100%	0.12

Note: The Agency has extended by three years the Termination of Plan Activities and the Last Date to Repay Indebtedness as permitted HSC Section 33333 (C) and (D); dates reflect this extension. The volatility ratio is calculated by dividing the base year assessed valuation by the current year assessed valuation.

Source: the Agency, Urban Analytics

### **Tax Increment Caps**

Under the provisions of the redevelopment plan and redevelopment law in effect prior to January 1, 1994, redevelopment project areas generally contained a tax increment cap, or a limitation on the total amount of tax increment that may be collected within that redevelopment project area over the area’s life. As shown in Table 1, each of the two project areas has a tax increment cap.

The tax increment cap is incorporated into the projections used in preparing this report. Tax increment collected to date was estimated based on Agency records and current-year tax increment. Annual tax increment is added to this figure to obtain a cumulative total of tax increment collected throughout the life of the redevelopment plan. The Shoreline Project Area is expected to reach its tax increment cap in FY 2031-32 prior to reaching its FY 2033-34 plan limit on tax increment receipts under the two percent growth assumption used in projecting tax increment for this report. Under a moderately high rate of five percent annual assessed valuation growth, the Shoreline Project Area is expected to reach its tax increment cap by FY 2028-29 while under a high rate of eight percent annual assessed valuation growth the Shoreline Project Area is expected to reach its cap by FY 2026-27. The Downtown Project Area is not expected to reach its tax increment cap prior to its FY 2033-34 plan limit under either a moderately high or high rate of growth in assessed valuation.

Qualifying ERAF payments have been deducted from the revenues that count against the tax increment cap, as permitted under redevelopment law and described further under *Plan Limits*, below.

The state Department of Finance has indicated that it considers that tax increment caps not reached prior to the dissolution of redevelopment agencies in 2012 should not be used to prevent payment of enforceable obligations, and that they advise county auditor-controllers to not apply tax increment caps in cases where doing so would prevent payment of enforceable obligations. In addition, the Governor’s 2015 Budget contains legislation that would clarify that “[f]ormer tax increment caps and RDA plan expirations do not apply for the purposes of paying approved enforceable obligations”. It is not clear whether the state Department of Finance’s advice will be followed by county auditor-controllers or that it would withstand legal challenge, or that the Governor’s proposed legislation will become

law. For the purposes of this Report it is assumed that tax increment caps will remain in effect.

### **Fiscal Agreements**

Under redevelopment law existing at the time of the Agency's plan adoption, taxing jurisdictions that would experience a fiscal burden due to the existence of the redevelopment plan could enter into fiscal agreements with redevelopment agencies to alleviate that burden. Such agreements, known as Section 33401 fiscal, or pass-through, agreements, generally provide for redevelopment agencies to pay to a taxing entity some or all of that entity's share of the tax increment received by the agency. Taxing entities could separately receive their share of the growth in valuation due to inflation, known as Section 33676 or the 2% payments.

As described further below, the Agency has a Section 33401 fiscal agreement in effect with the San Mateo-Foster City School District. The County had a Section 33401 fiscal agreement with the Agency that was modified on October 26, 1996 such that the fiscal agreement terminated when the original project area tax increment caps were reached; the original tax increment cap was reached in the Shoreline Project Area in FY 1999-00 and in the Downtown Project Area in FY 2006-07. Consequently, the County receives statutory passthrough payments in the Project Areas. The Agency has no resolutions in effect with taxing entities under Section 33676.

All Section 33401 and statutory pass-through payments are calculated and made by the Auditor-Controller and not by the Agency.

Under the Section 33401 agreement with the San Mateo-Foster City School District, the District may submit documentation to the Agency of the amount of fiscal burden imposed by the existence of tax increment revenue allocations to the Agency; the Agency then determines whether the request is justified and pays some or all of the requested amount. Because the District falls below the per-student property tax revenue threshold established by the State, and because the State funds the difference between that threshold and the amount of property tax revenue the District receives, the District has not experienced a fiscal burden from redevelopment and has not requested payments under the fiscal agreement from the Agency. Consequently, the Agency makes no payments under its existing fiscal agreement with the District.

It is possible that the District may at a future date achieve a level of property tax funding in excess of the per-student revenue limit provided by the state, converting the District to 'basic-aid' funding status. In this event, the District might claim a fiscal burden under its agreement with the Agency. Any such burden would be for the District's share of property tax revenue (approximately 21% in the Project Area) above the future per-student revenue limit. While this is not expected to affect the Agency's current level of tax increment receipts, a future decrease in the per-student revenue limit below the District's current revenue per student with no change in the District's number of students or in its current property tax revenue, or a future decrease in the District's number of students with no change in the state per-student revenue limit or in the District's current property tax revenue could result in District revenue per student exceeding the state per-student revenue limit. This could cause the District to rely on property tax revenue funding for that portion of revenue above the state per-student revenue limit, and could result in the District claiming a fiscal burden under its agreement with the Agency for its share of that portion of the excess revenue derived from the Project Area.

The Agency contributed funds to the San Mateo Union High School District for school facilities prior to Dissolution. Under redevelopment law, facilities contributions to other taxing entities must be repaid; a portion of the annual passthrough payment to the district is credited by the Auditor-Controller to the Agency for the repayment of those facility payments.

Statutory passthrough payments are made to the San Mateo Union High School District, the San Mateo Community College District, the County Office of Education, the Peninsula Hospital District, the Bay Area Air Quality Management District, the Mosquito Abatement District, the City of San Mateo and the County Harbor District in the Downtown and Shoreline Project Areas; this has been the case since the year after the original time and fiscal limits in the plans were reached in, respectively, FY 2003-04 and FY 1999-00.

Statutory passthrough payments, specified in redevelopment law established by AB1290, provide taxing entities with their share of twenty-five percent of incremental tax revenues above certain thresholds, either the assessed valuation in the project area's base year (for plans adopted on or after January 1, 1994) or the assessed valuation in the year in which the original plan limit was reached (for plans adopted prior to that date). Tax increment above that amount is distributed to those taxing entities that do not have Section 33401 fiscal agreements in effect with the Agency. New thresholds are established ten and thirty years beyond the initial threshold date and a portion of tax increment above these new thresholds are also paid to taxing entities.

Under California redevelopment law and the Dissolution Act (described below) the agency may subordinate the statutory passthrough payments to the repayment of indebtedness. On May 20, 2015, the Agency notified the entities receiving statutory passthrough payments that it intends to subordinate the statutory passthrough payments to the repayment of bonds. After a 45-day period, and in the absence of any disapproval by a taxing entity based on substantial evidence that the Agency will not be able to pay its passthrough obligation and the debt service payments, the subordination request is deemed approved.

Projections used in this report incorporate the passthrough payments made under the AB1290 statutory provisions; as described above, no payments are assumed under the single Section 33401 fiscal agreement that the Agency has with the San Mateo-Foster City School District. All of the payments made under the AB1290 statutory provisions are subordinate to the Bonds.

### **Land Use**

As shown in Table 2, the Project Areas are predominately commercial with 68% of FY 2014-15 valuation in office and retail properties in the Shoreline Project Area and other retail and commercial buildings in the Downtown Project Area. Condominiums accounted for 21% of FY 2014-15 assessed valuation, primarily from residential buildings in the Downtown Project Area.

Table 2  
Land Use in the Project Areas, FY 2014-15

Land Use	Secured AV	Pct. of AV	Number of Parcels	Pct. of Parcels	Acres	Pct. of Acres
Commercial	987,300,745	67.8%	285	25.5%	92	10.6%
Industrial	22,796,574	1.6%	32	2.9%	4	0.5%
Single-Family Residential	1,479,949	0.1%	6	0.5%	-	0.0%
Condominiums	308,029,141	21.2%	710	63.4%	-	0.0%
Other Residential	80,877,824	5.6%	10	0.9%	1	0.1%
Vacant	13,055,645	0.9%	40	3.6%	607	69.9%
Other	42,051,005	2.9%	36	3.2%	165	18.9%
<b>Total</b>	<b>\$1,455,590,883</b>	<b>100.0%</b>	<b>1,119</b>	<b>100.0%</b>	<b>869</b>	<b>100.0%</b>

Notes:

Valuations include homeowner's exemptions, restored by the Auditor prior to the calculation of tax increment.

Acreage is estimated using tax roll data and information provided by the Agency.

Source: San Mateo County Assessor; Urban Analytics

## **LEGISLATION AND COURT ACTIONS**

### **Redevelopment Dissolution**

The state's redevelopment program was fundamentally changed as part of the 2011-12 budget package. Legislation dissolving redevelopment agencies and replacing them with successor agencies, AB1x26, took effect June 29, 2011, with the dissolution of all redevelopment agencies in the state effective as of February 1, 2012. Additional clarifying legislation, AB1484, became effective on June 28, 2012 and together with AB1x26, is referred to here as the Redevelopment Dissolution Law.

The legislation created successor agencies to pay off existing debt of the former redevelopment agencies and to wind down the former agency's operations. Successor agencies are governed by seven-member oversight boards representing the taxing entities that share in the property tax revenues of an agency (the city, county, schools, community college districts and special districts) as well as an employee representative of the former redevelopment agency. Successor agencies are subject to a number of proscriptions intended to limit the scope of their actions, including incurring new debt (as noted below, subsequent legislation added the ability to refund existing debt).

The dissolution bill did not change the constitutional basis for the collection of property tax increment revenue in California contained in Article 16, Section 16. Property tax increment revenue continues to be calculated and allocated to a special fund of the successor agency (now termed the Redevelopment Property Tax Trust Fund, or RPTTF).

The dissolution bill substantially changed the mechanism used to distribute tax increment revenue to the successor agencies. Successor agencies are now required to create a schedule of payments (Recognized Obligation Payment Schedule, or ROPS) that serves as the basis for the distribution of property tax increment revenue to the successor agencies. The obligations appearing on the ROPS are limited to items deemed to be "enforceable" under the legislation. These include debt service and contractual obligations entered into prior to June 29, 2011; it explicitly excludes contracts and agreements between the former redevelopment agency and its sponsoring city or county except those that were entered into prior to January 1, 2011 for purposes of securing debt obligations and those established in

the first two years of an agency's existence. The ROPS is prepared twice each year and covers obligations coming due in the January-June period and the July-December period.

The distribution of funds from the RPTTF is limited to the obligations listed on the ROPS for each period. Distributions of RPTTF property tax increment revenue are made twice each year, on January 2 and June 1, with the January distribution applied to obligations due in the January-June period and the June distribution applied to obligations due in the July-December period. As noted previously under *The Allocation of Tax Increment Revenue to the Agency*, the Agency reports all of its obligations on the January 2 ROPS, retaining sufficient revenue in the RPTTF to meet payments due in the July-December period.

Passthrough payments are now calculated and paid by the county auditor-controller rather than by the Agency. The dissolution bill established a hierarchy of payments to be made from the RPTTF in each six-month period, a mechanism informally referred to as "the waterfall".

The first payment from the RPTTF is made to the county controller to recover the cost of administering the Redevelopment Dissolution Law; this payment is not subordinated to the Agency's outstanding bonds. The second tier of payments is passthrough payments to taxing entities. The third payment tier is to the successor agency for the obligations on the ROPS for the payment period. A hierarchy of payments within the ROPS obligations is specified in the law, with debt service on tax allocation bonds first, revenue bonds second, and all other obligations third. The fourth payment is an administrative cost allowance for the successor agency, specified in the legislation as the greater of \$250,000 or three percent of the property tax revenue allocated to the successor agency. The fifth and final payment is a distribution of all remaining property tax increment revenue in the RPTTF to the local taxing entities. No funds are retained in the RPTTF.

In the event that there are insufficient funds available in the RPTTF to meet the successor agency's obligations for a given period, the legislation requires the controller to, first, reduce or eliminate the residual payments to taxing entities; second, reduce or eliminate the administrative cost allowance to the successor agency; and third, deduct from any subordinated passthrough payments, whether contractual or statutory, the debt service obligations to which they were made subordinate. If there is still an insufficiency, the legislation permits, but does not require, a loan to be made from the county treasury to the successor agency.

There is a complex system of oversight and approvals in the legislation. The oversight boards are charged with approving ROPS of the successor agency, which are then submitted to the county auditor-controller and state Department of Finance for review. The Department of Finance can reject some or all of the obligations on the ROPS, which then returns to the successor agency and the oversight board. Since the county controller cannot make a payment to the successor agency without an approved ROPS, this approval process is a critical element in the process. Additional oversight is provided by the state Controller, charged with overseeing the actions of the county auditor-controllers. The Redevelopment Dissolution Law provides for a single oversight board to operate in each county beginning July 1, 2016, replacing separate oversight boards for each successor agency.

On January 9, 2015, the Governor released the Proposed Budget for FY 2015-16 that included a proposal to establish an annual, rather than biannual, ROPS process, beginning in June 2016. In addition the Governor proposed establishing a "Last and Final" ROPS



process in September 2015 which would, for qualifying agencies, turn the ROPS process over to the county auditor-controller; the Governor also proposed clarifying through legislation that tax increment caps and plan limits would not apply for the purposes of paying enforceable obligations. Legislation implementing these proposals is currently under consideration by the legislature.

Prior to the passage of the Redevelopment Dissolution Law, a minimum of twenty percent of the tax increment revenue received by the Agency was required to be set aside and utilized to increase, improve and preserve the community's supply of very low-, low- and moderate-income housing (the "Low and Moderate Income Housing Fund" or "Housing Fund"). Although the Redevelopment Dissolution Law eliminated this requirement, tax increment revenue deposited into the Housing Fund was pledged to certain outstanding housing bonds of the Agency; tax increment now paid to the RPTTF will be applied to any outstanding housing bonds on a senior basis to the Bonds. These senior housing obligations are shown in Table 7 and Table 8.

Roll corrections include adjustments made to the roll after the equalized roll is released in July and before tax bills are generated in October. These corrections include Proposition 8 adjustments to the roll made by the Assessor as well as corrections to assessments including application of exemptions. Assessment appeal refunds are refunds paid to property owners who have had their assessed valuations reduced in the appeals process and are entitled to a refund of the property taxes paid on the amount reduced. As the appeals process can take two years to complete, the tax refunds paid in a given year may include taxes paid several years prior.

Prior to the Redevelopment Dissolution Law, the allocation of tax increment revenue to redevelopment agencies was dependent on each agency demonstrating that it requires the tax increment revenue to repay its indebtedness through an annual Statement of Indebtedness filed by all agencies with their County Controller. As described above, redevelopment agencies are now required to list all obligations payable from tax increment revenue on a Recognized Obligation Payment Schedule and may only receive in bi-annual payments the amount of tax increment revenue required to meet those listed obligations. The Agency had regularly filed the previously required Statement of Indebtedness showing sufficient debt to claim its full amount of tax increment revenue. Since passage of the Redevelopment Dissolution Law it has filed the required ROPS showing its obligations, including annual debt service on the Bonds, and expects to continue filing the ROPS so in a timely manner.

The County charges an administration fee to recover property tax administration costs from the Agency and other jurisdictions under the Revenue and Taxation Code Section 95.3. The fee is based on County costs that vary from year to year so that the amount charged to each jurisdiction annually is variable. This fee is in addition to the administration fee authorized under the Redevelopment Dissolution Law. The combined property tax and AB1x26 administration fees are estimated to amount to approximately \$202,000 in FY 2014-15, or approximately 1.32% of the tax increment revenue from the Project Areas.

Tax increment revenue calculations made in this Report use revenue from the secured, unsecured, utility and unitary rolls. As noted, supplemental roll revenues are considered when calculating cumulative increment receipts with respect to tax increment caps but are not included in the projections of tax increment revenues.

### **ERAF Legislation**

State budget legislation (ABX4-26) for 2009 required redevelopment agencies to make a contribution to the Supplemental Educational Revenue Augmentation Fund (SERAF) for the 2009-10 and 2010-11 fiscal years.

Agencies that did not make their SERAF payments were subject to sanctions including prohibitions on incurring additional debt and adding or expanding project areas, limitations on the encumbrance and expenditure of funds, and an increase in the percentage of tax increment required to be paid into the Housing Fund from 20% to 25% for the remaining life of the project areas. Agencies were permitted to borrow from their housing fund and apply those funds to the SERAF payment, provided that they repay those funds by June 30, 2015 (June 30, 2016 for the payment due May 10, 2011); agencies that do not repay housing funds by that date would be required, under the law in effect at the time, to increase their contribution to the Housing Fund through the remaining duration of the project area by 5% for non-repayment of the 2009-10 SERAF obligation by June 30, 2015 and an additional 5% for non-repayment of the 2010-11 SERAF obligation by June 30, 2016.

The Agency met its FY 2009-10 and FY 2010-11 SERAF obligations through available redevelopment funds and does not have a SERAF repayment obligation.

AB26x4 authorized agencies making a SERAF payment to extend the life of their project areas. Agencies financing the SERAF payment through a joint powers authority may deduct the payments made to the joint powers authority from a project area's tax increment cap; payments made from other sources do not apply against the cap. The projections used in this Report do not incorporate either the plan extension or tax increment cap credits from the 2009-10 and 2010-11 SERAF payments.

Previous legislation related to the state budget has required redevelopment agencies to make payments to ERAF in the 1993-94, 2002-03, 2003-04, 2004-05 and 2005-06 fiscal years (a payment initially required for 2008-09 was invalidated by the courts).

### **Santa Ana Section 33676 Decision**

For plans adopted between January 1, 1985 and December 31, 1993, all affected taxing entities could elect to receive a payment equal to the increase in tax increment revenue attributable to inflationary adjustments under Proposition 13. Under a 1993 Attorney General's opinion these payments are not considered tax increment and, where they occur, are deducted from redevelopment agency revenue prior to apportionment to the agency. The payments, established under language previously included in Section 33676, are sometimes referred to as 2% or 33676 payments and are generally distributed directly to taxing entities by the county controller.

A 2002 court decision in Santa Ana regarding statutory payments made to taxing entities under the pre-1994 and post-1984 Section 33676 of the Health and Safety Code found that school districts and community college districts that had failed to elect to receive payments under that section were entitled to collect them. Because the Project Areas were formed on July 1, 1981, prior to the period covered by the Santa Ana decision, the districts are not eligible for separate payments under Section 33676.

### **Orange County Reassessment Decision**

A court case regarding the proper method of reassessing properties once they received a temporary reduction in valuation (a Proposition 8 adjustment) was resolved on appeal in favor of the County of Orange. In that case, the assessor was found to have properly returned a property to its statutory base valuation adjusted for inflation once the Proposition 8 adjustment terminated. The assessment practice that was validated by the court is one used in San Mateo and most other counties in the state.

### **PROPOSITION 13 ADJUSTMENT AND 2014-15 ROLL VALUATIONS**

Under Section 51 of the Revenue and Taxation Code the annual increase in assessed valuation for real property is limited to the lesser of two percent or the October-to-October change in the California Consumer Price Index (CCPI) preceding the January 1 lien date. The State Board of Equalization reports the figure annually in late December. Since 1976-77 the CCPI has been above two percent in all but seven years, with the lowest CCPIs being a negative 0.237 percent for FY 2010-11. A positive 0.753% was applied in FY 2011-12. The factor applied to the FY 2012-13 and FY 2013-14 rolls was 2.00%. The factor for the FY 2014-15 rolls is 0.454% and the factor for the FY 2015-16 rolls will be 1.998%. This factor, referred to at times in this Analysis as the Proposition 13 inflation factor, is applied to land and improvements where the property has not been sold or, in the case of improvements, newly constructed. Properties whose valuations have been reduced under Proposition 8 continue to receive an inflationary adjustment under Proposition 13 on the reduced valuation.

### **TAX RATES**

The tax rate applicable to redevelopment incremental assessed valuation includes the basic one percent levy. In addition, redevelopment agencies receive tax revenue from debt service override levies except those that are imposed to repay indebtedness approved by voters on or after January 1, 1989. For the purposes of calculating the tax increment used in this report, only the one percent levy was used.

The Agency has no power to levy a property tax itself, has no control over the override levy, and may not receive tax revenue from any future levy for voter-approved indebtedness.

### **PROPOSITION 8 ASSESSMENT REDUCTIONS AND RESTORATIONS**

The Assessor annually reports on the number of residential assessments by city and unincorporated area subject to Proposition 8 reductions, and the amount of Proposition 8 reductions (these figures are reported by city rather than by redevelopment project area and include areas outside of the Project Areas). The Assessor reports 1,981 residential properties reduced through Proposition 8 in FY 2014-15 in the City of San Mateo, or 8% of the 24,816 residential parcels in the city. The Assessor does not indicate the reduction in assessed valuation associated with those residential properties subject to Proposition 8, and does not indicate on the rolls those parcels subject to Proposition 8.

## **ASSESSMENT APPEALS**

Appeals of assessments by property owners in the project area can result in reductions in assessed valuations that could potentially affect the Agency. Reductions in prior-year assessed valuations do not currently affect the Agency's allocation of regular tax increment revenue due to the Auditor-Controller's practice of deducting taxpayer refunds from supplemental revenue payments to the Agency and not from the regular tax increment apportionment. However, as described below, the Assessor can reduce annual assessed valuations on specific properties, which can affect the Agency.

The most common type of appeal filed is known as a Proposition 8 appeal, in which the property owner seeks a reduction in a particular year's assessment based on the current economic value of the property. The assessor may also adjust valuations based on Proposition 8 criteria. Reductions in valuation made under Proposition 8 are temporary, with valuations restored to their full assessments once the economic reason for the reduction no longer applies. Such reductions can affect the Agency's tax increment while they are in effect.

Property owners may also appeal the Proposition 13 base assessment of a property. Although less frequently filed, such appeals, if successful, can permanently reduce the enrolled valuation of a property and consequently affect the Agency's annual revenue.

As noted, the Auditor-Controller's office applies tax refunds due to successful property tax appeals to the Agency's total tax increment, including supplemental assessments.

Based on information provided by the County Assessor's office on June 18, 2015 for appeals filed through FY 2014-15, there is one appeal pending in the Project Areas, shown in Table 3. The amount of assessed valuation in dispute (the original county valuation less the applicant's opinion of value) for this pending appeal is \$3.6 million. The disputed amounts will be resolved in the appeals process and some portion of this amount may be adjusted. To provide some indication of the proportion of valuation upheld on appeal, Table 3 provides information on resolved appeals filed in previous years in the Project Areas. Overall, the 232 appeals settled in the Project Areas during the FY 2005-06 to FY 2014-15 period resulted in reductions in valuation of \$148.1 million out of \$2.67 billion in enrolled valuation subject to appeals, or around 6%. The overall retention rate has thus been approximately 94% of the original valuation.

An indicator of the potential exposure of Agency tax increment revenue to appeals – were the Auditor-Controller either to change its policy of deducting appeal-related tax refunds solely from supplemental revenue and not from regular tax increment or were the Assessor to continue Proposition 8 reductions on future rolls for properties granted prior-year reductions – may be seen by applying the retention rate to the amount of valuation in dispute in the pending appeal.

Applying the 94% retention rate for resolved appeals to the \$44.7 million in total valuation for the parcel with an appeal pending indicates a potential valuation reduction of \$2.5 million or approximately \$25,000 in tax revenue. As this includes a property with appeals in multiple years it does not necessarily indicate an equivalent reduction in future revenue. If the full amount of disputed valuation were granted, the reduction in valuation would be \$3.6 million or approximately \$36,000 in tax revenue; this also includes a multi-year appeal and does not necessarily indicate an equivalent reduction in future revenue. As noted below under "*Tax Increment Projection*", no assumptions are made regarding any

potential appeal-related adjustments to the Project Areas' valuation in the projections prepared for this Report.

Table 3  
Assessment Appeals in the Project Areas

Roll Year	Status	Number of Appeals	County Valuation	Applicant Opinion of Value	Valuation After Appeal	Retention Rate *
2014-15	Resolved	17	137,918,277	71,501,974	137,396,792	100%
2014-15	Pending	1	44,689,505	41,100,000	-	TBD
2013-14	Resolved	26	256,948,482	193,967,032	256,448,334	100%
2013-14	Pending	-	-	-	-	-
2012-13	Resolved	24	347,284,189	252,463,000	343,288,001	99%
2012-13	Pending	-	-	-	-	-
2011-12	Resolved	43	460,234,222	316,826,068	415,379,558	90%
2011-12	Pending	-	-	-	-	-
2010-11	Resolved	31	344,133,874	224,474,000	307,917,425	89%
2010-11	Pending	-	-	-	-	-
2009-10	Resolved	18	148,643,339	103,484,815	131,316,705	88%
2009-10	Pending	-	-	-	-	-
2008-09	Resolved	21	227,414,267	188,738,846	217,903,067	96%
2008-09	Pending	-	-	-	-	-
2007-08	Resolved	10	120,826,587	97,241,000	112,526,587	93%
2007-08	Pending	-	-	-	-	-
2006-07	Resolved	19	345,188,900	267,084,891	330,602,441	96%
2006-07	Pending	-	-	-	-	-
2005-06	Resolved	23	284,505,532	174,311,499	272,243,509	96%
2005-06	Pending	-	-	-	-	-
All Years	Resolved	232	2,673,097,669	1,890,093,125	2,525,022,419	94%
All Years	Pending	1	44,689,505	41,100,000	TBD	TBD

\* Retention Rate is the proportion of value retained after resolution of an appeal. The rate is calculated by dividing the 'Valuation After Appeal' into the 'County Valuation'. For withdrawn and denied appeals, the 'Valuation After Appeal' is the original County valuation.

Data is current as of June 18, 2015.

Source: San Mateo County Assessor; Urban Analytics

There is a single pending appeal filed by a large property owner in the Project Areas, shown on Table 4. CREF 777 LLC has an appeal pending on a commercial property in the Shoreline Project Area; an FY 2013-14 appeal on the same property was resolved with no change in valuation. DW Bridgepointe LLC, owner of a shopping center and commercial buildings in the Shoreline Project Area, SKP-San Mateo Baycenter LLC (owned by Equity Office Properties) and Sobrato Interests have had reductions in valuation on appeals filed in prior years, while the appeals filed by these owners in the past two (for DW Bridgepointe) or three years have not resulted in changes in valuation.

Table 4  
Assessment Appeals by Large Owners in the Project Areas

Roll Year	Owner Name	Status	County Valuation	Applicant Opinion of Value	Valuation After Appeal
2014-15	CREF 777 LLC	1 Pending	44,689,505	41,100,000	TBD
2014-15	DW BRIDGEPOINTE LLC ET AL	11 Resolved	101,270,936	50,649,816	101,270,936
2013-14	CREF 777 LLC	1 Resolved	22,300,000	21,000,000	22,300,000
2013-14	DW BRIDGEPOINTE LLC ET AL	11 Resolved	100,813,268	76,024,856	100,813,268
2013-14	SPK-SAN MATEO BAYCENTER LLC	5 Resolved	95,743,821	71,140,000	95,743,821
2012-13	DW BRIDGEPOINTE LLC ET AL	11 Resolved	98,836,556	49,165,000	95,548,357
2012-13	SOBRATO INTERESTS III LESSEE	3 Resolved	143,800,000	115,900,000	143,800,000
2012-13	SPK-SAN MATEO BAYCENTER LLC	5 Resolved	77,687,198	71,140,000	77,687,198
2011-12	DW BRIDGEPOINTE LLC ET AL	21 Resolved	190,954,196	127,915,000	181,898,606
2011-12	SOBRATO INTERESTS III LESSEE	3 Resolved	130,500,000	85,300,000	121,100,000
2011-12	SPK-SAN MATEO BAYCENTER LLC	5 Resolved	72,326,712	57,700,000	70,326,712
2010-11	DW BRIDGEPOINTE LLC ET AL	11 Resolved	96,174,433	62,910,000	84,821,770
2010-11	HEART OF SAN MATEO LLC	3 Resolved	9,228,077	4,400,000	5,700,000
2010-11	SOBRATO INTERESTS III LESSEE	3 Resolved	130,500,000	85,300,000	117,500,000
2010-11	SPK-SAN MATEO BAYCENTER LLC	5 Resolved	71,400,000	58,000,000	64,700,000

Data obtained from the San Mateo County Assessor as of June 18, 2015.  
Source: San Mateo County Office of the Assessor; Urban Analytics

### **PROPERTY TAX DELINQUENCIES**

As of November 9, 2014, the delinquency rate on FY 2013-14 secured property taxes in the Project Areas was 0.1%. For FY 2012-13 secured property taxes the delinquency rate had also been 0.1% on November 3, 2013 while FY 2011-12 secured property taxes posted a delinquency rate of 0.2% as of September 24, 2012. As noted previously, the Agency's tax increments are paid under the Teeter Plan and are consequently not affected by tax delinquencies.

### **HISTORICAL AND CURRENT ASSESSED VALUATION**

Based on assessment roll data provided by the County Assessor, the total assessed valuation in the Project Areas is \$1.63 billion in FY 2014-15, after deducting all exemptions (see Table 5). This represents an increase of 10.02% over FY 2013-14 valuation, and follows an increase of 5.82% in FY 2013-14, an increase of 2.03% in FY 2012-13, an increase of 0.51% in FY 2011-12 and a decrease of 0.88% for FY 2010-11.

The secured roll accounted for 89% of the total valuation in the Project Areas in FY 2014-15, with the unsecured roll comprising 11%. Non-unitary utility roll valuation accounted for a minimal amount of the Project Areas' valuation (the unitary utility roll is based on countywide assessments and is not reported by project area).

Table 5  
Historical Assessed Valuations in the Project Area

Roll	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Secured</b>					
- Land	400,467,443	425,127,170	453,129,657	480,847,749	489,527,749
- Improvements	724,815,139	796,395,719	883,796,286	913,776,147	891,008,844
- Personal Property	33,308,854	46,235,044	32,818,085	31,944,618	37,839,571
- Exemptions	-129,832,893	-141,872,388	-116,145,361	-120,938,125	-127,250,703
Secured Total	1,028,758,543	1,125,885,545	1,253,598,667	1,305,630,389	1,291,125,461
<b>Unsecured</b>					
- Land	24,000	45,000	69,000	582,000	541,000
- Improvements	47,313,124	51,442,684	48,276,213	65,767,166	65,644,097
- Personal Property	59,667,569	48,918,246	37,307,106	50,998,504	42,683,424
- Exemptions	-13,240,278	-13,443,100	-15,917,002	-18,801,044	-19,282,023
Unsecured Total	93,764,415	86,962,830	69,735,317	98,546,626	89,586,498
<b>Utility</b>					
- Land	184,765	151,910	0	0	0
- Improvements	140,386	114,816	712	700	678
- Personal Property	79,410	65,289	0	0	0
- Exemptions	0	0	0	0	0
Utility Total	404,561	332,015	712	700	678
Totals:	1,122,927,519	1,213,180,390	1,323,334,696	1,404,177,715	1,380,712,637
<i>Percent Change</i>	<i>1.33%</i>	<i>8.04%</i>	<i>9.08%</i>	<i>6.11%</i>	<i>-1.67%</i>
Plus: HOPTR AV *	3,402,000	3,514,000	3,549,000	3,476,200	3,435,600
Less: Base AV	109,788,272	109,788,272	109,788,272	109,788,272	109,788,272
Incremental AV:	1,016,541,247	1,106,906,118	1,217,095,424	1,297,865,643	1,274,359,965

Table 5 (Continued)  
Historical Assessed Valuations in the Project Areas

Roll	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Secured</b>					
- Land	481,396,562	483,110,727	491,005,114	519,046,026	536,374,014
- Improvements	843,289,014	842,449,466	876,192,832	933,441,151	998,590,725
- Personal Property	13,573,992	12,269,125	13,058,875	8,243,752	9,883,225
- Exemptions	-94,416,494	-95,093,178	-91,513,518	-91,712,033	-89,257,081
Secured Total	1,243,843,074	1,242,736,140	1,288,743,303	1,369,018,896	1,455,590,883
<b>Unsecured</b>					
- Land	623,500	1,710,000	663,500	578,510	879,336
- Improvements	101,070,327	109,104,473	98,655,994	105,693,748	145,570,296
- Personal Property	79,433,134	97,058,446	79,242,642	78,105,493	98,736,137
- Exemptions	-56,454,469	-75,081,193	-63,881,638	-68,357,143	-66,922,342
Unsecured Total	124,672,492	132,791,726	114,680,498	116,020,608	178,263,427
<b>Utility</b>					
- Land	0	0	0	0	0
- Improvements	761	946	954	940	892
- Personal Property	0	0	0	0	0
- Exemptions	0	0	0	0	0
Utility Total	761	946	954	940	892
Totals:	1,368,516,327	1,375,528,812	1,403,424,755	1,485,040,444	1,633,855,202
Percent Change	-0.88%	0.51%	2.03%	5.82%	10.02%
Plus: HOPTR AV *	3,403,400	3,364,200	3,357,200	3,406,200	3,406,200
Less: Base AV	109,788,272	109,788,272	109,788,272	109,788,272	109,788,272
Incremental AV:	1,262,131,455	1,269,104,740	1,296,993,683	1,378,658,372	1,527,473,130

\* The Homeowner's Property Tax Relief exemption, reimbursed by the state.

Source: Urban Analytics; County of San Mateo, the Agency

The \$148.8 million FY 2014-15 valuation increase was attributable to increases in secured commercial property valuations (42% of overall gain) and increases in unsecured business property valuations (also 42%); condominium properties contributed 10% to the overall valuation gain.

The secured commercial property increase was partially due the sale of 13 properties, contributing \$35.3 million of the \$62 million growth in that property type; approximately \$19 million in additional gains came from new construction on 15 commercial properties. Unsecured commercial property contributed \$62 million to total added valuation in FY 2014-15, with most of that increase coming from a new \$52 million Sony Computer Entertainment assessment at 2207 Bridgepointe Parkway that was added to the rolls in the Shoreline Project Area.



**TEN LARGEST ASSESSEES**

The ten largest assessees in the Project Areas are shown in Table 6 for FY 2014-15. The table includes the total valuations for the top twenty property owners and the total valuations for the area as a whole (valuations include deductions for homeowner's exemptions). The percentage of total valuation accounted for by each owner is calculated by dividing the owner's valuation into the total valuation for the Project Areas. Overall, the ten largest owners account for 42.6% of total assessed valuation in the Project Areas and 45.5% of incremental assessed valuation. The twenty largest owners account for 53.6% of total assessed valuation in the Project Areas and 57.3% of incremental assessed valuation.

Sobrato Interests owns three office buildings on Bridgepointe Parkway in the Shoreline Project Area, while DW Bridgepointe LLC owns a shopping center and other commercial properties on Bridgepointe Parkway also in the Shoreline Project Area. Equity Office Properties owns four parcels on Mariners Island Boulevard and a fifth parcel on Baker Way, all in the Shoreline Project Area. Sobrato Companies is the owner of the Bridgepointe Apartments on Bridgepointe Parkway in the Shoreline Project Area, while CREF, Century Center Investors and Bridgepointe Office Park Associates own office buildings on, Mariners Island Boulevard and Fashion Island Boulevard in the Shoreline Project Area. Sony Computer Entertainment is a lessor in one of the office buildings on Bridgepointe Parkway owned by Sobrato Interests. Park Village Associates owns a retail building on 4<sup>th</sup> Avenue in the Downtown Project Area, and Heart of San Mateo LLC owns several commercial retail buildings on 3<sup>rd</sup> and 4<sup>th</sup> Avenues, also in the Downtown Project Area.

As noted previously under "Assessment Appeals", certain properties owned by DW Bridgepointe LLC and SPK-San Mateo Baycenter (Equity Office Properties) have pending assessment appeals.

Table 6  
Largest Property Owners in the Project Areas, FY 2014-15

Property Owner	Secured and Utility	Unsecured	Total	Pct. of Total	Project Area	Principal Land Use
SOBRATO INTERESTS III LESSEE	\$154,644,275	\$-	\$154,644,275	9.46%	Shoreline	Office
DW BRIDGEPOINTE LLC ET AL	98,299,639	-	98,299,639	6.02%	Shoreline	Shopping Center
EQUITY OFFICE PROPERTIES	96,178,493	-	96,178,493	5.89%	Shoreline	Office
SOBRATO COMPANIES	74,272,947	-	74,272,947	4.55%	Shoreline	Apartments
CREF 777 LLC *	66,989,505	-	66,989,505	4.10%	Shoreline	Office
CENTURY CENTRE INVESTORS LLC	64,307,539	-	64,307,539	3.94%	Shoreline	Office
SONY COMPUTER ENTERTAINMENT	-	51,813,829	51,813,829	3.17%	Shoreline	Business Property
PARK VILLAGE ASSOC LLC	33,000,000	-	33,000,000	2.02%	Downtown	Shopping Center
BRIDGEPOINTE OFFICE PARK ASSOCIATES	29,263,455	-	29,263,455	1.79%	Shoreline	Office
HEART OF SAN MATEO LLC	26,846,406	-	26,846,406	1.64%	Downtown	Retail
Total, Top Ten:	\$643,802,259	\$51,813,829	\$695,616,088	42.58%		
Total, Top Twenty:	823,652,665	51,813,829	875,466,494	53.58%		
Totals for the Area:	1,455,591,775	178,263,427	1,633,855,202	100.00%		

\* Owner has appeals pending.

Source: San Mateo County Office of the Assessor; Urban Analytics

**TAX INCREMENT REVENUE ESTIMATES**

The tax increment revenue estimate for FY 2014-15 is shown in Table 7 for the Project Areas. As noted above, the gross tax increment includes revenue from secured and unsecured assessments after exemptions (other than the homeowner’s exemption), and after deduction of the base year valuations.

Table 7  
Tax Increment Estimate for the Project Areas, FY 2014-15

	2014/15
<b>Assessed Valuation</b>	
Secured and Utility	1,458,997,975
Unsecured	178,263,427
Total Assessed Valuation	1,637,261,402
Less: Base Year Assessed Valuation	(109,788,272)
Total Incremental Assessed Valuation	1,527,473,130
 <b>Tax Increment</b>	
One Percent Levy on Incremental AV	15,274,731
Adjustment for Negative TRA Increment	4,567
Unitary Tax Revenue	147,970
Total Tax Increment	15,427,268
Less: Property Tax Administration Fee:	(203,675)
Less: Housing Debt Service *:	(821,998)
Less: Senior Debt Service **:	(5,939,160)
Less: Senior Passthrough Payments:	-
	8,462,436

Available Tax Increment

\* Housing debt service is retired in 2015-16 by the Bonds.

\*\* Debt service on the 2005 Series A and 2007 Series A bonds; debt service on the 2005 Series A bonds is retired in 2015-16 by the Bonds.

Source: Urban Analytics; County of San Mateo

The County Auditor-Controller adjusts the Agency’s tax increment to remove negative increment at the tax rate area code level rather than at the project area level as is more commonly done. This results in a estimated gain of \$4,567 in tax increment for FY 2014-15. Net tax increment is calculated by adding in an estimate of \$140,970 in unitary revenue, based on prior-year amounts, and deducting estimates of the County’s property tax administration fee and the Agency’s debt service obligation on outstanding senior bonds. All passthrough payments have been subordinated to debt service on the Bonds; the amount of subordinated passthrough payments is estimated to be \$2,218,589 for FY 2014-15. Revenue from supplemental assessments, prior-year escape assessments, roll corrections and adjustments for appeal-related refunds are not included in the tax increment amount as they are highly variable revenue sources and not subject to precise

calculation. Supplemental revenues are separately estimated and factored into calculations regarding tax increment caps.

The 20% low- and moderate-income housing set-aside was eliminated with the Dissolution Act. Were the set-aside still in effect, the amount of tax increment deposited in the Low and Moderate Income Housing Fund would have been 20% of the Total Tax Increment shown, or \$3,085,454 in FY 2014-15.

### **TAX INCREMENT PROJECTION**

Tax increment is projected over the duration of the plans in the Project Areas, as shown in Table 8. Debt service from the 2005 Series A housing and non-housing bonds is shown for FY 2014-15; both will be refunded by the Bonds in 2015-16. Debt service on the 2007 Series A bonds will be a senior obligation to the Bonds and is shown as such here. The projection incorporates the Proposition 13 adjustment of 2% for real property from FY 2015-16 forward. The projection does not take into consideration any changes in assessed valuation due to new construction, property sales, Proposition 8 reductions, assessment appeals or other factors. The actual growth rate may be less than the projected rate in the Project Area. Secured personal property and unsecured valuations are assumed to remain constant throughout.

### **LIMITATIONS OF REPORT**

The calculation of assessed valuations and tax increment shown in this Report are based on information believed to be complete, current and reliable at the time of this Report. Projections of tax increment are based on reasonable assumptions and may not reflect actual future revenue received by the Agency. Information regarding the practices and methods used by the County in assessing and allocating property tax revenue has been obtained from County staff and analysis of County records, while information concerning the Project Areas, its constituent redevelopment plan, amendments and pass-through agreements has been obtained through discussions with Agency staff and through review of the plan documents made available to the Consultant.

While the Consultant has made reasonable efforts to verify the accuracy of the figures and information presented in this Report and presumes that the information relied upon is correct, the Consultant makes no warranty as to its accuracy.

Table 8  
Tax Increment Projection for the Project Areas

Fiscal Year	Gross Tax Increment	County Administration Fee	Senior Debt Service	Available Tax Increment
2014/15	15,427,268	203,675	6,761,158	8,462,436
2015/16	15,717,091	207,501	3,812,124	11,697,466
2016/17	16,012,710	211,404	3,810,124	11,991,183
2017/18	16,314,242	215,385	3,810,186	12,288,671
2018/19	16,621,804	219,445	3,813,043	12,589,316
2019/20	16,935,518	223,587	3,808,043	12,903,888
2020/21	17,255,505	227,811	3,808,643	13,219,051
2021/22	17,581,893	232,120	3,811,338	13,538,435
2022/23	17,914,808	236,516	3,807,894	13,870,399
2023/24	18,254,382	240,999	3,804,088	14,209,295
2024/25	18,600,747	245,572	3,810,338	14,544,838
2025/26	18,954,039	250,236	-	18,703,803
2026/27	19,314,397	254,993	-	19,059,404
2027/28	19,681,963	259,846	-	19,422,117
2028/29	20,056,879	264,796	-	19,792,083
2029/30	20,439,294	269,845	-	20,169,450
2030/31	20,829,358	274,994	-	20,554,363
2031/32	8,750,336	115,524	-	8,634,812
2032/33	8,789,231	116,038	-	8,673,194
2033/34	8,966,689	118,380	-	8,848,308
2034/35	-	-	-	-
<b>Total</b>	332,418,154	4,388,665	42,725,404	285,304,085

Tax increment revenue is projected at a 2% annual growth rate. Passthrough payments have been subordinated to the Bonds. Senior Debt Service includes 2005 Series A Housing and Non-Housing Bonds and 2007 Series A Bonds in FY 2014-15; 2007 Series A Bonds in FY 2015-16 and later.

Source: Urban Analytics

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture of Trust, as supplemented by the First Supplement to Indenture of Trust (as so supplemented, the “Indenture”) authorizing the 2015 Bonds that are not otherwise described in the text of this Official Statement. Such summary is not intended to be definitive, and reference is made to the actual Indenture (copies of which may be obtained from the Trustee) for the complete terms thereof.

“Additional Revenues” means, as the date of calculation, the amount of Tax Revenues which, as shown in a report of an Independent Redevelopment Consultant, are estimated to be receivable by the Successor Agency within the Fiscal Year following the Fiscal Year in which such calculation is made as a result of increases in the assessed valuation of taxable property in a Project Area due to either (a) construction which has been completed and for which a certificate of occupancy has been issued by the County or other appropriate governmental entity but which is not then reflected on the tax rolls, or (b) transfer of ownership or any other interest in real property which has been recorded but which is not then reflected on the tax rolls. For purposes of this definition, the term “increases in the assessed valuation” means the amount by which the assessed valuation of taxable property in a Project Area is estimated to increase above the assessed valuation of taxable property in the Project Area (as evidenced in the written records of the County) as of the date on which such calculation is made.

“Annual Debt Service” means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds and any other Parity Debt, and (b) the principal amount of the Outstanding Bonds and any other Parity Debt.

“Bond” or “Bonds” means the 2015A Bonds, the 2015B Bonds and any Parity Debt that is issued as bonds pursuant to a Supplemental Indenture.

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

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

“Bond Year” means, any twelve-month period beginning on August 2 in any year and ending on the next succeeding August 1, both dates inclusive, except that the first Bond Year shall begin on the Closing Date, and end on August 1, 2016.

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

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

“City” means the City of San Mateo, California, a municipal corporation and chartered city duly organized and existing under the laws of the State.

“Closing Date” means the date on which the 2015A Bonds and the 2015 B Bonds are delivered by the Successor Agency to the original purchaser thereof.

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

“Continuing Disclosure Certificate” means the Continuing Disclosure Certificate relating to the 2015A Bonds and 2015B Bonds executed by the Successor Agency dated as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Successor Agency relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to City and Successor Agency administrative staff costs, printing expenses, bond insurance and surety bond premiums, rating agency fees, filing and recording fees, initial fees and charges and first annual administrative fee of the Trustee and fees and expenses of its counsel, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

“County” means the County of San Mateo, a county duly organized and existing under the laws of the State.

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

“Defeasance Obligations” means (i) cash, (ii) Federal Securities and (iii) Permitted Investments listed under subsection (b) of the definition thereof excluding Permitted Investments listed under (b) (iv) and (b) (vi).

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

“Event of Default” means any of the events described in this summary under the heading “EVENTS OF DEFAULT AND REMEDIES OF OWNERS.”

“Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the



Department of the Treasury of the United States of America and CATS and TGRS), or obligations the payment of principal of and interest on which are unconditionally guaranteed by the United States of America.

“First Supplement” means the First Supplement to Indenture of Trust, dated as of August 1, 2015, by and between the Successor Agency and the Trustee.

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

“Former Agency” means the Redevelopment Agency of the City of San Mateo, a public body corporate and politic duly organized and existing under the Redevelopment Law and dissolved in accordance with the Dissolution Act.

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

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

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

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

- (a) is judged by the Successor Agency to have experience in matters relating to the collection of property tax revenues deposited into the Redevelopment Property Tax Trust Fund or otherwise with respect to the financing of redevelopment projects;
- (b) is in fact independent and not under domination of the Successor Agency;
- (c) does not have any substantial interest, direct or indirect, with the Successor Agency; and
- (d) is not connected with the Successor Agency as an officer or employee of the Successor Agency, but who may be regularly retained to make reports to the Successor Agency.

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

“Interest Payment Date” means February 1, 2016, and February 1 and August 1 in each year thereafter so long as any of the Bonds remain Outstanding under the Indenture.

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

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

“Moody's” means Moody's Investors Service and its successors.

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

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

(a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds paid or deemed to have been paid within the meaning of the Indenture; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the Successor Agency pursuant to the Indenture.

“Oversight Board” means the Oversight Board of the Successor Agency to the Redevelopment Agency of the City of San Mateo, duly constituted from time to time pursuant to Section 34179 of the California Health and Safety Code.

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

“Parity Debt” means the 2015B Bonds and any loan, bonds (including any bonds issued pursuant to a Supplemental Indenture), notes, advances or indebtedness payable from Tax Revenues on a parity with the 2015 Bonds as authorized by the provisions of the Indenture.

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

“Participating Underwriter” has the meaning ascribed thereto in the Continuing Disclosure Certificate.

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

(a) Federal Securities;

(b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) obligations of the Federal Financing Bank; (iv) debentures of the Federal Housing Administration; (v) participation certificates of the General Services Administration; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; (viii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development;

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

(d) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G”, “AAAm”, or “AAm”, and, if rated by Moody’s, rated Aaa, Aa1 or Aa2 including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee;

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

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

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

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

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

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

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

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

(ii) the written repurchase agreement contract must include the following: (A) securities acceptable for transfer, which may be direct U.S. government obligations, or federal agency obligations backed by the full faith and credit of the U.S. government; (B) the term of the repurchase agreement may be up to 30 days; (C) the collateral must be delivered to the Trustee or a third party acting as agent for the Trustee simultaneous with payment (perfection by possession of certificated securities); (D) the Trustee must have a perfected first priority security interest in the collateral; (E) the collateral must be free and clear of third-party liens and, in the case of a broker which falls under the jurisdiction

of the Securities Investors Protection Corporation, are not subject to a repurchase agreement or a reverse repurchase agreement; (F) failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate the collateral; (G) the securities must be valued weekly, marked-to-market at current market price plus accrued interest and the value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest (unless the securities used as collateral are obligations of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, in which case the collateral must be equal to 105% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest). If the value of securities held as collateral falls below 104% of the value of the cash transferred by the Trustee, then additional cash and/or acceptable securities must be transferred; and

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

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

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

“Plan Limits” means the limitation contained in a Redevelopment Plan on the number of dollars of taxes which may be divided and allocated to the Successor Agency pursuant to the Redevelopment Plan, as such limitation is prescribed by Section 33333.4 of the Redevelopment Law.

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

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

“Project Areas” has the meaning given that term in the Recitals of the Indenture.

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

“Record Date” means, with respect to any Interest Payment Date, the close of business on the 15th calendar day of the month preceding such Interest Payment Date, whether or not such 15th calendar day is a Business Day.

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

“Redevelopment Plans” has the meaning given that term in the Recitals of the Indenture.

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

“Refunded Prior Bonds” has the meaning given that term in the Recitals of the Indenture.

“Refunding Law” means Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State, and the acts amendatory thereof and supplemented thereto.

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

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

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

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

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

“S&P” means Standard & Poor's Ratings Services and its successors.

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

“State” means the State of California.

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

the provider of a letter of credit, surety bond or similar instrument for the debt service reserve account for any Parity Debt .

“Successor Agency” means the Successor Agency to the Redevelopment Agency of the City of San Mateo, a public entity, duly organized and existing under the Law.

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

“Tax Revenues” means, for each Fiscal Year, all moneys deposited in the Redevelopment Property Tax Trust Fund, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act, *excluding* (i) the amount of tax increment revenue pledged under the 2007 Indenture to make payments on the 2007 Bonds, but only to the extent required to make such payments, (ii) amounts payable under the Agreement Between Redevelopment Agency of the City of San Mateo and San Mateo City School District Pursuant to Health and Safety Code Section 33401, dated June 15, 1981, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds and (iii) amounts payable pursuant to Sections 33607.5, 33607.7 and 33676 of the Redevelopment Law, except and to the extent that any amounts so payable are payable on a basis subordinate to the payment of the Bonds.

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

“Trustee” means The Bank of New York Mellon Trust Company, N.A., as trustee under the Indenture, or any successor thereto appointed as trustee under the Indenture in accordance with the provisions of the Indenture.

“2007 Bonds” means the \$46,135,000 Redevelopment Agency of the City of San Mateo Merged Area Tax Allocation Refunding Bonds, 2007 Series A.

“2007 Indenture” means the Indenture of Trust, dated as of November 1, 1997, by and between the Successor Agency, as successor to the Former Agency, and The Bank of New York Mellon Trust Company, N.A., as successor in interest to BNY Western Trust Company, as trustee, as amended and supplemented from time to time in accordance with the terms thereof including, without limitation, as amended and supplemented by the Fourth Supplemental Indenture, dated as of May 1, 2007, by and between the Successor Agency, as successor to the Former Agency, and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A.

“2015 Bonds” means, collectively, the 2015A Bonds and the 2015B Bonds.

“2015A Bond” or “2015A Bonds” means the Successor Agency to the Redevelopment Agency of the City of San Mateo Tax Allocation Refunding Bonds, 2015 Series A (Tax-Exempt).

“2015A Bond Proceeds Account” means the account by that name within the Bond Proceeds Fund established and held by the Trustee pursuant to the Indenture.

“2015A Costs of Issuance Account” means the account by that name within the Bond Proceeds Fund established and held by the Trustee pursuant to the Indenture.

“2015B Bond” or “2015B Bonds” means the Successor Agency to the Redevelopment Agency of the City of San Mateo Tax Allocation Refunding Bonds, 2015 Series B (Federally Taxable).

“Written Request of the Successor Agency” or “Written Certificate of the Successor Agency” means a request or certificate, in writing signed by the Chair, Secretary, Chief Administrative Officer or Chief Financial Officer of the Successor Agency or by any other officer of the Successor Agency duly authorized by the Successor Agency for that purpose.

## PLEDGE OF TAX REVENUES

Security of Bonds; Equal Security. The Successor Agency may not issue additional bonds or incur additional obligations that are payable from moneys deposited in the Redevelopment Property Tax Trust Fund on a senior basis to the 2015 Bonds and any Parity Debt.

Pursuant to Section 34177.5(g) of the Dissolution Act, except as provided in the Indenture, the 2015 Bonds and any Parity Debt shall be equally secured by a pledge of, security interest in and lien on all of the Tax Revenues, including all of the Tax Revenues in the Redevelopment Obligation Retirement Fund and all of the moneys in the Debt Service Fund, the Interest Account and the Principal Account, without preference or priority for series, issue, number, dated date, sale date, date of execution or date of delivery. Except for the Tax Revenues and such moneys, no funds or properties of the Successor Agency shall be pledged to, or otherwise liable for, the payment of principal of or interest on the 2015 Bonds.

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

## ESTABLISHMENT OF FUNDS AND ACCOUNTS; FLOW OF FUNDS

Redevelopment Obligation Retirement Fund; Deposit of Tax Revenues. The Successor Agency has established the Redevelopment Obligation Retirement Fund pursuant to Section 34170.5(a) of the Dissolution Act and, so long as any of the Bonds are Outstanding, the Successor Agency shall continue to hold and maintain such fund as a separate fund in its treasury (which shall be a separate account from other accounts of the Successor Agency and the County into which no other moneys shall be deposited). The Successor Agency shall deposit all of the



Tax Revenues received with respect to any Semiannual Period into the Redevelopment Obligation Retirement Fund promptly upon receipt thereof by the Successor Agency.

All Tax Revenues received by the Successor Agency with respect to a Bond Year in excess of the amount required to pay debt service on the Bonds and any Parity Debt in such Bond Year, and except as may be provided to the contrary in the 2007 Indenture or Parity Debt Instrument, shall be released from the pledge and lien under the Indenture and shall be applied in accordance with the Law, including but not limited to the payment of any amounts due and owing to the United States of America pursuant to the Indenture. Prior to the payment in full of the principal of and interest and premium, if any, on the Bonds and the payment in full of all other amounts payable under the Indenture and under any Supplemental Indentures, the Successor Agency shall not have any beneficial right or interest in the moneys on deposit in the Redevelopment Obligation Retirement Fund, except as may be provided in the Indenture and in any Supplemental Indenture.

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

(a) Interest Account. On each January 27 and July 27, the Successor Agency shall withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee, for deposit in the Interest Account an amount which when added to the amount contained in the Interest Account on that date, will be equal to the aggregate amount of the interest becoming due and payable on the Outstanding Bonds on such Interest Payment Date. No such transfer and deposit need be made to the Interest Account if the amount contained therein is at least equal to the interest to become due on the next succeeding Interest Payment Date upon all of the Outstanding Bonds. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable.

(b) Principal Account. On each July 27, beginning July 27, 2016, the Successor Agency shall withdraw from the Redevelopment Obligation Retirement Fund and transfer to the Trustee for deposit in the Principal Account an amount which, when added to the amount then contained in the Principal Account, will be equal to the principal becoming due and payable on the Outstanding Bonds, including the aggregate principal amount of the Term Bonds required to be redeemed pursuant to a Supplemental Indenture, on the next August 1. No such transfer and deposit need be made to the Principal Account if the amount contained therein is at least equal to the principal to become due on the next August 1 on all of the Outstanding Bonds. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds, including the aggregate principal amount of the Term Bonds required to be redeemed pursuant to a Supplemental Indenture, as it shall become due and payable.

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

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

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

All moneys held by the Trustee shall be held in trust, but need not be segregated from other funds unless specifically required by the Indenture. Except as specifically provided in the Indenture, the Trustee shall not be liable to pay interest on any moneys received by it, but shall

be liable only to account to the Successor Agency for earnings derived from funds that have been invested.

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

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

**COVENANTS OF THE SUCCESSOR AGENCY**

Issuance of Parity Debt; Subordinate Debt; Senior Debt. In addition to the 2015 Bonds, the Successor Agency may issue or incur additional Parity Debt in such principal amount as shall be determined by the Successor Agency for refunding purposes only. The Successor Agency may issue and deliver any such Parity Debt subject to the following specific conditions that are made conditions precedent under the Indenture to the issuance and delivery of such Parity Debt issued under the Indenture:

- (a) The additional Parity Debt must have been issued in compliance with the refunding provisions of the Dissolution Act;
- (b) The Successor Agency shall certify that the aggregate principal of and interest on the 2015 Bonds, the 2007 Bonds, any Parity Debt (including the Parity Debt to be incurred) and Subordinate Debt coming due and payable will not exceed the maximum amount of Tax Revenues permitted under any Plan Limit to be allocated and paid to the Successor Agency with respect to the Project Areas after the issuance of such Parity Debt; and
- (c) The Successor Agency shall deliver to the Trustee a Written Certificate of the Successor Agency certifying that the conditions precedent to the issuance of such Parity Debt set forth above have been satisfied.

Any Parity Debt may provide for separate funds and accounts, including a debt service reserve account for such Parity Debt, under the Parity Instrument pursuant to which such is issued.

The Successor Agency may issue or incur Subordinate Debt in such principal amount as shall be determined by the Successor Agency. Any Subordinate Debt that is issued as bonds or incurred in the form of a loan shall be payable on the same dates as the 2015 Bonds.

In addition, from and after the Closing Date, the Successor Agency may not issue or incur any bonds, notes, loans, advances or other indebtedness that are secured by a pledge of moneys deposited in the Redevelopment Property Tax Trust Fund, as provided in paragraph (2) of subdivision (a) of Section 34183 of the Dissolution Act, on a basis senior or superior to the Bonds.

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

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

Books and Accounts; Financial Statements. The Successor Agency shall at all times keep, or cause to be kept, proper and current books and accounts in which accurate entries are made of the financial transactions and records of the Successor Agency. Within 180 days after the close of each Fiscal Year an Independent Certified Public Accountant shall prepare an audit of the financial transactions and records of the Successor Agency for such Fiscal Year. To the extent permitted by law, such audit may be included within the annual audited financial statements of the City. The Successor Agency shall furnish a copy of such financial statements to any Owner upon reasonable request of such Owner and at the expense of such Owner. The Trustee shall have no duty to review such audits.

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

Payments of Taxes and Other Charges. Except as otherwise provided in the Indenture, the Successor Agency will pay and discharge, or cause to be paid and discharged, all taxes,

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

Compliance with the Law; Recognized Obligation Payment Schedules; Notice of Insufficiency. The Successor Agency shall comply with all of the requirements of the Law. In addition, the Successor Agency shall take all actions required under the Law to:

(a) include in a Recognized Obligation Payment Schedule for the six month period from January 1 to June 30 so as to enable the San Mateo County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund for deposit in the Redevelopment Obligation Retirement Fund on each January 2 an amount equal to the debt service due on the 2007 Bonds for the period from January 1 to December 31; and

(b) include in a Recognized Obligation Payment Schedule for the six-month period from January 1 to June 30 an amount equal to scheduled annual debt service on the Bonds, so as to enable the San Mateo County Auditor-Controller to distribute from the Redevelopment Property Tax Trust Fund for deposit in the Redevelopment Obligation Retirement Fund on each January 2 amounts required to enable the Successor Agency to pay timely principal of, and interest on the Bonds coming due for the period from January 1 to December 31;

(c) in the event funds distributed from the Redevelopment Property Tax Trust Fund and deposited into the Redevelopment Obligation Retirement Fund during the January 1 to June 30 period are insufficient to pay debt service on the Bonds for the period January 1 to December 31, the Successor Agency shall include said shortfall in a Recognized Obligation Retirement Schedule submitted to the San Mateo County Auditor- Controller for the period July 1 to December 31; and

(d) in the event funds are transferred from a debt service reserve account for any Parity Debt issued as Bonds to pay debt service on such Parity Debt, the Successor Agency shall include the amount so transferred in the next Recognized Obligation Retirement Schedule submitted to the San Mateo County Auditor-Controller in order to replenish such debt service reserve account to the applicable reserve requirement.

The foregoing obligates the Successor Agency to place on the periodic Recognized Obligation Payment Schedule for approval by the Oversight Board and State Department of Finance, to the extent necessary, the amounts to be held by the Successor Agency as a reserve until the next six-month period, as contemplated by Section 34171(d)(1)(A) of the California Health and Safety Code, that are necessary to provide for the payment of principal and interest under the Indenture when the next property tax allocation is projected to be insufficient to pay all obligations due under the Indenture in the following six-month period, including the inclusion on the applicable Recognized Obligation Schedule the amounts set forth in the Recognized Obligation Debt Service Schedule attached as an exhibit to the Indenture. The Recognized

Obligation Debt Service Schedule shall not be amended except by Supplemental Indenture entered into pursuant to the Indenture.

Additionally, the Successor Agency covenants that it will, on or before December 1 of each year, file a Notice of Insufficiency with the San Mateo County Auditor-Controller if the amount of Tax Revenues available to the Successor Agency from the Redevelopment Property Tax Trust Fund on the upcoming January 2 is insufficient to pay debt service on the Bonds and to pay debt service on any Parity Debt.

In the event the provisions set forth in the Dissolution Act as of the Closing Date of the 2015 Bonds that relate to the filing of Recognized Obligation Payment Schedules are amended or modified in any manner, the Successor Agency agrees to take all such actions as are necessary to comply with such amended or modified provisions so as to ensure the timely payment of debt service on the Bonds and, if the timing of distributions of the Redevelopment Property Tax Trust Fund is changed, the receipt of (i) not less than all amounts required to pay debt service due during each Bond Year on all Outstanding Bonds prior to February 1 of such Bond Year, and (ii) in the event funds distributed from the Redevelopment Property Tax Trust Fund and deposited into the Redevelopment Obligation Retirement Fund during the January 1 to June 30 period are insufficient to pay debt service on the Bonds for the period January 1 to December 31, said shortfall prior to the next succeeding August 1.

Plan Limit. If and to the extent that the Plan Limits apply to the Successor Agency under the Law, the Successor Agency shall annually review the total amount of property tax revenues available to be deposited into the Redevelopment Property Tax Trust Fund under the Plan Limits, as well as future cumulative annual payments on the 2007 Bonds, the 2015 Bonds, any Parity Debt, any subordinate bonds payable from property tax revenues deposited into the Redevelopment Property Tax Trust Fund.

As long as the Plan Limits apply to the Successor Agency under the Law and any Bonds are outstanding, the Successor Agency shall comply with its obligations under Section 27.01 of the 2007 Indenture but, in doing so, shall take all actions necessary to ensure that it can act pursuant to the option identified in clause (a)(2) of Section 27.01 rather than the option identified in clause (a)(1) of Section 27.01. In furtherance of the covenant in the preceding sentence, if the Successor Agency ever determines that during the next succeeding Bond Year, the total amount of property tax revenues available to be deposited into the Redevelopment Property Tax Trust Fund under the Plan Limits is expected to equal at least 80% of the Plan Limit for either Project Area, then the Successor Agency shall either (i) adopt a plan approved by an Independent Redevelopment Consultant that demonstrates the Successor Agency's continuing ability to pay debt service, first, on the 2007 Bonds and, second, pro rata on the 2015 Bonds and any Parity Debt, or (ii) claim all property tax revenues deposited into the Redevelopment Property Tax Trust Fund not needed to pay current or any past due debt service on any Successor Agency obligations on each Recognized Obligation Payment Schedule for so long as the 80% threshold set forth above is met and deposit such amounts, when received, into a Trustee-held escrow account (the "Escrow Account") and invested in Defeasance Obligations. Moneys in the Escrow Account must be used only to pay debt service, first, on the 2007 Bonds and, second, pro rata on the 2015 Bonds and any Parity Debt, or to redeem Bonds and any Parity Debt that does not constitute Bonds.

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

Continuing Disclosure. The Successor Agency covenants and agrees under the Indenture that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate related to the Bonds. Notwithstanding any other provision of the Indenture, failure of the Successor Agency to comply with the Continuing Disclosure Certificate shall not be an Event of Default thereunder. However, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Successor Agency to comply with its obligations under the Indenture.

Further Assurances. The Successor Agency will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the 2015 Bonds and the rights and benefits provided in the Indenture.

## TAX COVENANTS

The Successor Agency shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the 2015A 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 2015A Bonds would have caused the 2015A Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code. The Successor Agency shall assure that the proceeds of the 2015A Bonds are not so used as to cause the 2015A Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code. The Successor Agency shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the 2015A Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code. The Successor Agency shall take any and all actions necessary to assure compliance with Section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds. The Successor Agency shall take all actions necessary to assure the exclusion of interest on the 2015A Bonds from the gross income

of the Owners of the 2015A 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 2015A Bonds.

The provisions the Indenture relating to the Code shall not apply to the 2015B Bonds, in that the Successor Agency determines under the Indenture, pursuant to Section 5903 of the California Government Code, that the interest payable on the 2015B Bonds will be subject to federal income taxation under the law in existence on the Closing Date.

**MODIFICATION OR AMENDMENT OF THE INDENTURE**

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

- (a) to add to the covenants and agreements of the Successor Agency in the Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or powers reserved under the Indenture to or conferred upon the Successor Agency; or
- (b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the Successor Agency may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not, in the reasonable determination of the Successor Agency, materially adversely affect the interests of the Owners; or
- (c) to amend any provision of the Indenture relating to the requirements of or compliance with the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exemption from federal income taxation of interest on any of the Bonds, in the opinion of Bond Counsel; or
- (d) to amend the Recognized Obligation Debt Service Payment Schedule set forth in Exhibit B to take into account the redemption of any Bond prior to its maturity; or
- (e) to provide for the issuance of Parity Debt pursuant to a Supplemental Indenture, as such issuance is authorized by the Indenture.

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



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

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

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

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

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

## EVENTS OF DEFAULT AND REMEDIES OF OWNERS

Events of Default Defined; Acceleration of Maturities. The following events constitute Events of Default under the Indenture:

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

(b) if default shall be made by the Successor Agency in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds or

any Parity Debt Instrument contained, other than a default described in the preceding clause (a), and such default shall have continued for a period of 30 days following receipt by the Successor Agency of written notice from the Trustee or any Owner of the occurrence of such default, provided that if in the reasonable opinion of the Successor Agency the failure stated in the notice can be corrected, but not within such 30 day period, such failure will not constitute an event of default if corrective action is instituted by the Successor Agency within such 30 day period and the Successor Agency thereafter diligently and in good faith cures such failure in a reasonable period of time; or

(c) if a default is made under the 2007 Indenture; or

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

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

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

This provision, however, is subject under the Indenture to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Successor Agency shall deposit with the Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all

the Bonds, with interest on such overdue installments of principal and interest (to the extent permitted by law), and the reasonable fees and expenses of the Trustee, (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall promptly give written notice of the foregoing to the Owners of all Bonds then Outstanding, and the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Successor Agency and to the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

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

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

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

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

the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Owner's Right to Sue. No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted under the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

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

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

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

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

Actions by Trustee as Attorney-in-Fact. Any suit, action or proceeding which any Owner shall have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners similarly situated and the Trustee is appointed under the Indenture (and the successive respective Owners by taking and holding the Bonds shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact, *provided, however*, the Trustee shall have no duty or obligation to exercise any such right or remedy unless it has been indemnified to its satisfaction from any loss, liability or expense (including fees and expenses of its outside counsel and the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel).

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

#### DEFEASANCE OF BONDS

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

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

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

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

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

then, at the election of the Successor Agency, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Tax Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Successor Agency under the Indenture shall cease and terminate with respect to all Outstanding Bonds or, if applicable, with respect to that portion of the Bonds which has been paid and discharged, except only (a) the covenants of the Successor Agency under the Indenture with respect to the Code, (b) the obligation of the Trustee to transfer and exchange Bonds under the Indenture, (c) the obligations of the Successor Agency under the Indenture, and (d) the obligation of the Successor Agency to pay or cause to be paid to the Owners, from the amounts so deposited with the Trustee, all sums due thereon and to pay the Trustee all fees, expenses and costs of the Trustee. In the event the Successor Agency shall, pursuant to the Indenture, pay and discharge any portion or all of the Bonds then Outstanding, the Trustee shall be authorized to take such actions and execute and deliver to the Successor Agency all such instruments as may be necessary or desirable to evidence such discharge, including, without limitation, selection by lot of Bonds of any maturity of the Bonds that the Successor Agency has determined to pay and discharge in part.

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

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

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

## APPENDIX E

### FORM OF OPINION OF BOND COUNSEL FOR THE 2015 BONDS

*Upon delivery of the 2015 Bonds, Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, proposes to render its final approving opinion with respect to the 2015 Bonds in substantially the following form:*

[Closing Date]

Successor Agency to the Redevelopment Agency of  
the City of San Mateo  
San Mateo, California

*OPINION:*       \$31,210,000 Successor Agency to the Redevelopment Agency of the City of San Mateo 2015 Tax Allocation Refunding Bonds, Series A; and  
\$7,385,000 Successor Agency to the Redevelopment Agency of the City of San Mateo 2015 Tax Allocation Refunding Bonds, Taxable Series B

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Members of the Successor Agency:

We have acted as bond counsel in connection with the issuance by the Successor Agency to the Redevelopment Agency of the City of San Mateo (the "Successor Agency"), of \$31,210,000 Successor Agency to the Redevelopment Agency of the City of San Mateo 2015 Tax Allocation Refunding Bonds, Series A (the "Series A Bonds") and of \$7,385,000 Successor Agency to the Redevelopment Agency of the City of San Mateo 2015 Tax Allocation Refunding Bonds, Taxable Series B (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds"), pursuant to the Community Redevelopment Law, constituting Part 1 (commencing with Section 33000) of Division 24 of the Health and Safety Code of the State of California (the "Law"), Part 1.85 (commencing with Section 34170) of Division 24 of the California Health and Safety Code (the "Dissolution Act"), and Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "Refunding Law"). The Series A Bonds are being issued pursuant to an Indenture of Trust, dated as of August 1, 2015 (the "Master Indenture"), by and between the Successor Agency and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Series B Bonds are being issued pursuant to the Master Indenture as supplemented by a First Supplement to Indenture of Trust, dated as of August 1, 2015, by and between the Successor Agency and the Trustee (the "First Supplement"; together with the Master Indenture, the "Indenture"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

1. The Successor Agency is duly created and validly existing as a public entity, with the power to enter into the Indenture, perform the agreements on its part contained therein, and issue the Bonds.

2. The Indenture has been duly approved by the Successor Agency, and constitutes a valid and binding obligation of the Successor Agency, enforceable against the Successor Agency in accordance with its terms.

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

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

5. The interest on the Series A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; although 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 Successor Agency comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Series A Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Successor Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series A Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series A Bonds. We express no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Series A Bonds, or the amount, accrual or receipt of interest on the Series A Bonds.

6. The interest on the Series B Bonds is not intended to be excluded from gross income for federal income tax purposes. We express no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Series B Bonds, or the amount, accrual or receipt of interest on the Series B Bonds.

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

The rights of the owners of the Bonds, and the enforceability of the Bonds and the Indenture, may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, and may also be subject to the exercise of judicial discretion in appropriate cases. 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 SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY OF SAN MATEO (the “Successor Agency”) in connection with the issuance of \$31,210,000 principal amount of Successor Agency to the Redevelopment Agency of the City of San Mateo Tax Allocation Refunding Bonds, 2015 Series A (Tax-Exempt) (the “2015A Bonds”) and \$7,385,000 principal amount of Successor Agency to the Redevelopment Agency of the City of San Mateo Tax Allocation Refunding Bonds, 2015 Series B (Federally Taxable) (the “2015B Bonds” and, together with the 2015A Bonds, the “2015 Bonds”). The 2015 Bonds are being issued under the provisions of the Community Redevelopment Law of the State of California, constituting Part 1 of Division 24 of the Health and Safety Code of the State (as amended, the “Redevelopment Law”) and Article 11 (commencing with Section 53580) of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code (the “Refunding Law”), the Indenture of Trust, dated as of August 1, 2015, as supplemented by a First Supplement to Indenture of Trust, dated as of August 1, 2015 (as supplemented, the “Indenture”) each by and between the Successor Agency and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), and a resolution adopted by the City Council as governing board of the Successor Agency. Pursuant to Sections 5.16 and 10.10 of the Indenture, the Successor 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*” means any Annual Report provided by the Successor Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Beneficial Owner*” means any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2015 Bonds (including persons holding 2015 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2015 Bonds for federal income tax purposes.

“*Dissemination Agent*” means The Bank of New York Mellon Trust Company, N.A., or any successor Dissemination Agent designated in writing by the Successor Agency and which has filed with the Successor Agency a written acceptance of such designation. In the absence of such a designation, the Successor Agency 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*” means 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*” means any original underwriter of the 2015 Bonds required to comply with the Rule in connection with offering of the 2015 Bonds.

“*Rule*” means 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 Successor Agency for the benefit of the owners and Beneficial Owners of the 2015 Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The Successor Agency shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the Successor Agency’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 Successor Agency 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 Successor Agency’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), 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 Successor Agency shall provide the Annual Report to the Dissemination Agent (if other than the Successor Agency). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the Successor Agency.

(d) *Report of Non-Compliance.* If the Successor Agency 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 Successor Agency shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the Successor Agency 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 Successor Agency, file a report with the Successor Agency 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 Successor Agency for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the Successor

Agency'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 Successor Agency, the Annual Report shall also include financial and operating data with respect to the Successor Agency for preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statement for the 2015 Bonds, as follows:

- (i) Principal amount of each series of Bonds and any Parity Debt outstanding;
- (ii) Taxable assessed values for the most recent fiscal year in substantially the format of Table 1 of the Official Statement;
- (iii) An update of the ten largest assessesees in substantially the format of Table 4 of the Official Statement for the most recent fiscal year;
- (iv) An update of Debt Service Coverage for the Bond Year ending on the immediately preceding August 1 in substantially the format of Table 8 of the Official Statement;
- (v) For such times as the County Teeter Plan is no longer in effect, a statement to such effect, together with the amount of the ad valorem tax levy, percentage of current year levy collected, percentage of current levy delinquent, total collections and total collections as a percentage of the most recent year's tax levy;
- (vi) Information related to Project Areas assessed valuation appeals.
- (vii) For such times as the Tax Increment Caps and Plan Limits are in effect under applicable law, a statement of cumulative tax increment received for each of the Project Areas through the end of the preceding fiscal year and, if applicable, evidence that the Successor Agency has performed the calculations necessary to determine whether the Successor Agency is in compliance with the requirements of Section 5.09 of the Indenture.
- (viii) In addition to any of the information expressly required to be provided under subsections (a) and (b) of this Section, the Successor Agency shall provide such further information, if any, as may be necessary to make the specifically required statements, in light of the circumstances under which they are made, not misleading.

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Successor Agency or related public entities, which are available to the public on EMMA. The Successor Agency shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the Successor Agency 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 Successor Agency shall, or shall cause the Dissemination Agent (if not the Successor Agency) to, give notice of the occurrence of any of the following events with respect to the 2015 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.

(b) *Material Reportable Events.* The Successor Agency shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2015 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 Successor Agency shall, or shall cause the Dissemination Agent (if not the Successor Agency) 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 2015 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 Successor Agency's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the 2015 Bonds. If such termination occurs prior to the final maturity of the 2015 Bonds, the Successor Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The Successor Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the Successor Agency, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Successor Agency 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 Successor Agency. 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 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 Successor Agency 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 Successor Agency.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid compensation by the Successor Agency for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the Successor Agency 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 Successor Agency, 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 Successor Agency 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 Successor Agency. 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 agrees, to provide a request to the Successor Agency 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 Successor Agency under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Successor Agency may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the Successor Agency 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 2015 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 2015 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 owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the Successor Agency 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 Successor Agency. 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 Successor Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Successor Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Successor Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the Successor Agency to comply with any provision of this Disclosure Certificate, any 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 Successor Agency to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the Successor Agency to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. 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 Successor Agency 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 Successor Agency under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the 2015 Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Successor Agency, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the 2015 Bonds, and shall create no rights in any other person or entity.

Date: August 5, 2015

SUCCESSOR AGENCY TO THE  
REDEVELOPMENT AGENCY OF THE CITY  
OF SAN MATEO

By \_\_\_\_\_  
Interim Finance Director-Treasurer

ACKNOWLEDGED:

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., as  
Dissemination Agent

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

**EXHIBIT A**

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

Name of Obligor: Successor Agency to the Redevelopment Agency of the City of San Mateo

Name of Issue: \$31,210,000 principal amount of Successor Agency to the Redevelopment Agency of the City of San Mateo Tax Allocation Refunding Bonds, 2015 Series A (Tax-Exempt) and  
\$7,385,000 principal amount of Successor Agency to the Redevelopment Agency of the City of San Mateo Tax Allocation Refunding Bonds, 2015 Series B (Federally Taxable)

Date of Issuance: August 5, 2015

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 August 5, 2015, furnished by the Obligor in connection with the Issue. The Obligor anticipates that the Annual Report will be filed by \_\_\_\_\_.

Date: \_\_\_\_\_

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., Dissemination Agent on behalf of Successor Agency to the Redevelopment Agency of the City of San Mateo

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



## APPENDIX G

### DTC AND BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix G concerning the procedures and recordkeeping with respect to beneficial ownership interests in the 2015 Bonds, payment of principal of and interest on the 2015 Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the 2015 Bonds, and other 2015 Bonds-related transactions by and between DTC, Participants and Beneficial Owners, is based on information furnished by DTC which the Successor Agency believes to be reliable, but the Successor Agency does not take responsibility for the completeness or accuracy thereof.*

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2015 Bonds. The 2015 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 for each maturity of the 2015 Bonds will be issued for the 2015 Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The information on such website is not incorporated herein by such reference or otherwise.

Purchases of 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2015 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 2015 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 2015 Bonds, except in the event that use of the book-entry system for the 2015 Bonds is discontinued.

To facilitate subsequent transfers, all 2015 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 2015 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 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2015 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 2015 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of 2015 Bonds may wish to ascertain that the nominee holding the 2015 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 2015 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2015 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Successor Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Successor Agency or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, the Trustee, or the Successor Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Successor Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2015 Bonds at any time by giving reasonable notice to the Successor Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2015 Bond certificates are required to be printed and delivered.





FOR ADDITIONAL BOOKS: [ELABRA.COM](http://ELABRA.COM) OR (888) 935-2272