

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 2014 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."



\$32,255,000
City of San Mateo
Sewer Revenue Bonds
2014 Series A

Dated: Date of Delivery

Due: August 1, as shown on inside front cover

The \$32,255,000 City of San Mateo Sewer Revenue Bonds, 2014 Series A (the "2014 Bonds") will bear interest at the rates shown below, payable semiannually on each February 1 and August 1, commencing February 1, 2015 (each an "Interest Payment Date"), and are issuable in fully registered form in the denomination of \$5,000 or any integral multiple thereof. The 2014 Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the 2014 Bonds will not receive certificates representing their interests therein.

The 2014 Bonds are being issued by the City of San Mateo (the "City") to (a) refund the City's outstanding City of San Mateo Sewer Revenue Bonds, Series 2003; (b) finance various improvements to the City's municipal sewer enterprise (the "Sewer Enterprise"); and (c) pay costs of issuance of the 2014 Bonds.

The principal of and premium, if any, on the 2014 Bonds will be payable upon presentation and surrender of such 2014 Bonds, when due, at the principal corporate trust office of The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). On each Interest Payment Date, the Trustee will pay interest by check mailed by first class mail to the person appearing on the applicable record date as the registered owner thereof, to the address shown on the registration books of the Trustee, or by wire transfer to any owner of \$1,000,000 or more in aggregate principal amount of the 2014 Bonds to a bank account in a state or national bank in the United States designated by such owner for such purpose prior to said record date. For so long as the 2014 Bonds are registered in the name of Cede & Co., the Trustee will make all payments of principal of and interest on the 2014 Bonds to DTC, which, in turn, is obligated to remit such principal and interest to DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners (as defined herein) of the 2014 Bonds.

The 2014 Bonds are being issued under the provisions of sections 3, 5 and 7 of Article XI of the California Constitution, sections 1.03, 5.23 and 9.06 of the City Charter of the City, City of San Mateo Ordinance No. 1989-23, a second amended and restated indenture of trust, dated as of July 1, 2014 (the "Master Indenture"), between the City and the Trustee, a second supplemental indenture, dated as of July 1, 2014 (the "Second Supplemental Indenture" and, with the Master Indenture, the "Indenture"), between the City and the Trustee, and a resolution adopted by the City Council of the City.

The 2014 Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

The 2014 Bonds are special obligations of the City and are payable solely from and secured by a pledge of net revenues (the "Net Revenues") of the Sewer Enterprise, derived primarily from charges and revenues received by the City from the operation of the Sewer Enterprise (less the costs of the operation and maintenance of the Sewer Enterprise), and certain funds and accounts held under the Indenture, as provided in the Indenture. The Indenture permits the City to incur additional indebtedness or obligations payable from Net Revenues, including additional indebtedness or obligations secured by a pledge and lien on Net Revenues, on a parity with, or subordinate to, the pledge and lien of the Indenture subject to the limitations of the Indenture. The City has previously incurred obligations secured by Net Revenues on a parity with the 2014 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Maturity Schedule
(See inside cover)

This cover page and the inside cover page hereof contain information for general reference only. They are not intended to be a summary of all factors relating to an investment in the 2014 Bonds. Investors should review the entire Official Statement before making any investment decision.

The 2014 Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the City, and subject to certain other conditions. Orrick, Herrington & Sutcliffe LLP is serving as Disclosure Counsel to the City. Certain legal matters will be passed upon for the City by the City Attorney. It is anticipated that the 2014 Bonds will be delivered in definitive form through the facilities of DTC in New York, New York, on or about July 2, 2014.

MATURITY SCHEDULE

**\$32,255,000
City of San Mateo
Sewer Revenue Bonds
2014 Series A**

CUSIP† Prefix: 799016

<u>Maturity (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP† Suffix</u>
2018	\$ 970,000	4.000%	1.00%	111.965	ES5
2019	1,010,000	5.000	1.30	118.132	ET3
2020	1,065,000	5.000	1.58	119.752	EU0
2021	1,120,000	5.000	1.85	120.813	EV8
2022	1,175,000	5.000	2.09	121.531	EW6
2023	1,235,000	5.000	2.30	122.010	EX4
2024	1,300,000	5.000	2.42	122.954	EY2
2025	1,365,000	5.000	2.56	121.556c	EZ9
2026	1,435,000	5.000	2.70	120.177c	FA3
2027	1,510,000	5.000	2.80	119.203c	FB1
2028	1,570,000	3.000	3.10	98.864	FC9
2029	670,000	3.125	3.20	99.106	FD7
2030	695,000	3.200	3.30	98.758	FE5
2031	715,000	3.250	3.40	98.066	FF2
2032	740,000	3.375	3.50	98.333	FG0
2033	765,000	3.500	3.60	98.626	FH8
2034	790,000	3.500	3.65	97.875	FJ4
2035	820,000	3.500	3.70	97.088	FK1
2036	850,000	3.750	3.75	100.000	FN5

\$2,750,000 3.750% Term Bonds due August 1, 2039 Yield: 3.900% Price: 97.611 CUSIP†: FL9

\$9,705,000 4.000% Term Bonds due August 1, 2044 Yield: 4.000% Price: 100.000 CUSIP†: FM7

† Copyright 2014, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc., and are provided for convenience of reference only. Neither the City nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

c Priced to first call date of August 1, 2024, at par.

CITY OF SAN MATEO

CITY COUNCIL

Robert Ross, *Mayor*
Maureen Freschet, *Deputy Mayor*
Joe Goethals, *Council Member*
David Lim, *Council Member*
Jack Matthews, *Council Member*

CITY OFFICIALS

Larry Patterson, *City Manager*
David Culver, *Finance Director*
Ray Towne, *Interim Director of Public Works*
Shawn Mason, Esq., *City Attorney*
Patrice Olds, *City Clerk*

SPECIAL SERVICES

CO-FINANCIAL ADVISORS

Kitahata & Company
San Francisco, California

William Euphrat Municipal Finance, Inc.
San Francisco, California

BOND COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

DISCLOSURE COUNSEL

Orrick, Herrington & Sutcliffe LLP

TRUSTEE

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

No dealer, broker, salesperson or other person has been authorized by the City to provide any information or to make any representations in connection with the offering or sale of the 2014 Bonds other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City. 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 2014 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 2014 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matter of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. This Official Statement is submitted in connection with the sale of the 2014 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 City.

The information set forth herein has been obtained from sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter or the City. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

THE 2014 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2014 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2014 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 UNDERWRITER MAY OFFER AND SELL THE 2014 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "THE SEWER ENTERPRISE." The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements

described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

The City maintains a website. Unless specifically indicated otherwise, the information presented on such website is *not* incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2014 Bonds.

(THIS PAGE INTENTIONALLY LEFT BLANK)

TABLE OF CONTENTS

	Page
INTRODUCTION.....	1
The City.....	1
The Sewer Enterprise.....	1
Authority for Issuance of the 2014 Bonds.....	2
Purpose of the 2014 Bonds.....	2
Security and Source of Repayment.....	3
Redemption of the 2014 Bonds.....	4
Continuing Disclosure.....	4
Book-Entry Form.....	4
Certain Risk Factors.....	4
Additional Information.....	4
FINANCING PLAN.....	5
Purposes of the 2014 Bonds.....	5
Estimated Sources and Uses of Funds.....	5
Annual Debt Service.....	6
THE 2014 BONDS.....	8
Authority for Issuance.....	8
General.....	8
Redemption.....	9
Book-Entry Only System.....	11
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.....	12
Pledge of Net Revenue; Flow of Funds.....	12
Rate Covenant.....	15
Rate Stabilization Fund.....	15
Issuance of Parity Obligations.....	15
Existing Parity Obligations.....	16
Subordinate Obligations.....	17
Consent to Amendment and Restatement of Indenture.....	17
THE CITY.....	17
THE SEWER ENTERPRISE.....	18
General.....	18
Employees and Management.....	18
Sewer Enterprise Facilities.....	19
Subregional Partners.....	21
Service Area Profile.....	23
Sewer Service Charges.....	25
Subregional Agreements.....	28
Sewer Service Charge Rates.....	28
Sewer Connection Charges and Impact Fee.....	31
Regulatory Compliance.....	34
Capital Improvement Program.....	37
Insurance.....	39
Pension Plans.....	40
Post Employment Healthcare Benefits.....	41
Financial Statements.....	42
Historical Operating Results.....	43
Projected Operating Results.....	44
CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES.....	46
Article XIII A.....	46
Article XIII B.....	46
Proposition 218.....	47
Effect of Proposition 218 on the City; Possible Limitations on Enforcement Remedies.....	49
Proposition 26.....	50
Future Initiatives.....	50
RISK FACTORS RELATING TO THE BONDS.....	51
Limited Obligations.....	51
Rate Covenant Not a Guarantee.....	51
Increased Costs.....	51
Statutory and Regulatory Impact.....	52
Impact of Water Conservation Measures.....	52
Commingling of Revenues.....	52
Effect of City Bankruptcy.....	53
Effect of Losses in City Investment Pool.....	54
Limited Recourse on Default.....	54
Limitations on Remedies.....	55
Initiatives.....	55
Tax Exemption.....	55
Additional Obligations.....	55
Seismic Considerations.....	56
Secondary Market.....	56
INVESTMENT OF CITY FUNDS.....	56
TAX MATTERS.....	57
CERTAIN LEGAL MATTERS.....	58
LITIGATION.....	58
RATINGS.....	59
CO-FINANCIAL ADVISORS.....	59
CONTINUING DISCLOSURE.....	59
UNDERWRITING.....	60
INDEPENDENT AUDITOR.....	60
MISCELLANEOUS.....	60
ADDITIONAL INFORMATION.....	62

TABLE OF CONTENTS
(continued)

APPENDIX A—CITY OF SAN MATEO ECONOMIC AND DEMOGRAPHIC INFORMATION

APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL
YEAR ENDED JUNE 30, 2013

APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX E—FORM OF BOND COUNSEL OPINION

APPENDIX F—CITY INVESTMENT POLICY

APPENDIX G—BOOK-ENTRY ONLY SYSTEM

SAN MATEO • CALIFORNIA



(THIS PAGE INTENTIONALLY LEFT BLANK)

OFFICIAL STATEMENT

\$32,255,000
City of San Mateo
Sewer Revenue Bonds
2014 Series A

This Official Statement, which includes the cover page and the inside cover page hereof and the appendices hereto (the “Official Statement”), is provided to furnish certain information concerning the City of San Mateo (the “City”), a municipal corporation and chartered city, the City’s municipal wastewater enterprise (the “Sewer Enterprise”), and the \$32,255,000 City of San Mateo Sewer Revenue Bonds, 2014 Series A (the “2014 Bonds”).

INTRODUCTION

This Introduction contains only a brief description of the 2014 Bonds and does not purport to be complete. This Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the 2014 Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. All capitalized terms used in this Official Statement, unless otherwise defined herein, shall have the same meaning as in the Indenture described herein. See APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.

The City

The City is situated in San Mateo County (the “County”), approximately 19 miles south of San Francisco and 30 miles north of San Jose. The City is approximately five miles south of the San Francisco International Airport and served by two major freeways, north-south U.S. 101 (Bayshore Freeway) and Interstate 280.

The City was incorporated in 1894. It is a California chartered city with a Council-Manager form of government, whereby the policies of the City Council (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.

Information with respect to the City, including financial information and certain economic and demographic information relating to the City is provided in APPENDIX A—CITY OF SAN MATEO ECONOMIC AND DEMOGRAPHIC INFORMATION. Also, see APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2013.

The Sewer Enterprise

The Sewer Enterprise is owned and operated by the City under the administration of the City Department of Public Works (the “Department”). The operations of the Sewer Enterprise are accounted for in an enterprise fund established and maintained by the City on its books (the

“Sewer Revenue Fund”). The Sewer Enterprise currently serves 27,532 customer accounts in the City. Additionally, approximately 10,291 customer accounts in the neighboring communities of Foster City, Hillsborough, Belmont, Crystal Springs County Sanitation District and some unincorporated areas of the County areas (collectively, the “Subregional Partners”) are provided wastewater treatment and disposal services through the San Mateo Wastewater Treatment Plant (the “WWTP”). Foster City is the major Subregional Partner with 7,146 customer accounts. The WWTP has a current average wastewater treatment demand of approximately 10.3 million gallons per day (“mgd”) (average dry weather flow).

Similar to many wastewater systems in the region, the City’s Sewer Enterprise facilities are aging and in need of significant rehabilitation. During significant rain events, groundwater and storm water enter the Sewer Enterprise facilities and overload the system. Based on a collection system study conducted by the City in 2009, the peak wet weather flow to the WWTP is expected to reach 88 mgd by the year 2020 which greatly exceeds the capacity of the existing sewer mainlines, pump stations, and WWTP (currently, 60 mgd for peak wet weather flow).

Moreover, regulatory requirements for wastewater treatment are continually evolving and becoming more stringent to protect water quality in the San Francisco Bay. For example, a permit the City received for the WWTP in 2013 requires that the capacity of the secondary treatment process at the WWTP be increased by 2020. As a result of this and other regulatory issues, extensive capital improvements are necessary to bring the Sewer Enterprise facilities into a state of good repair, provide increased wet weather capacity described in the prior paragraph, and meet current and future regulatory requirements.

See “THE SEWER ENTERPRISE” for a discussion of the service area, existing facilities, rates and charges, regulatory compliance, expected future capital improvements of the Sewer Enterprise and expected additional bonds and other borrowings of the City needed to fund such capital improvements.

Authority for Issuance of the 2014 Bonds

The 2014 Bonds are being issued under the provisions of sections 3, 5 and 7 of article XI of the California Constitution, sections 1.03, 5.23 and 9.06 of the City Charter of the City, City of San Mateo Ordinance No. 1989-23 (collectively, the “Bond Law”), a second amended and restated master indenture of trust, dated as of July 1, 2014 (the “Master Indenture”), between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), a second supplemental indenture, dated as of July 1, 2014 (the “Second Supplemental Indenture” and, with the Master Indenture, the “Indenture”), between the City and the Trustee, and a resolution adopted by the City Council of the City.

Purpose of the 2014 Bonds

The 2014 Bonds are being issued to (a) refund the City’s outstanding City of San Mateo Sewer Revenue Bonds, Series 2003 (the “2003 Bonds”), (b) finance various improvements to the Sewer Enterprise, and (c) pay costs of issuance of the 2014 Bonds. See “FINANCING PLAN.”

Security and Source of Repayment

Pledge of Net Revenues. The 2014 Bonds are special obligations of the City and are payable solely from and secured by a pledge of net revenues (the “Net Revenues”) of the Sewer Enterprise, derived primarily from charges and revenues received by the City from the operation of the Sewer Enterprise (less the costs of the operation and maintenance of the Sewer Enterprise), and certain funds and accounts held under the Indenture, as provided in the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Pledge of Net Revenues; Flow of Funds.”

Rate Covenant. The City has covenanted in the Indenture, to the maximum extent permitted by law, to set rates and charges for the service and facilities of the Sewer Enterprise sufficient to provide Net Revenues each Fiscal Year equal to at least 120% of the aggregate annual amount of principal of and interest due on all Parity Obligations for such Fiscal Year and sufficient to provide Net Revenues each Fiscal Year equal to at least 100% of the aggregate amount of principal of and interest due on all Parity Obligations and Subordinate Obligations for such Fiscal Year (as defined in the Indenture and described below). See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Covenant.”

Additional Parity Obligations. The Indenture permits the City to incur additional indebtedness or obligations secured by a pledge and lien on Net Revenues on a parity with the pledge and lien of the Indenture subject to the limitations of the Indenture. These obligations are referred to as “Parity Obligations” under the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Obligations.”

Existing Parity Obligations. The outstanding Parity Obligations are (1) the City’s outstanding City of San Mateo Sewer Revenue Bonds, Series 2011 (the “2011 Bonds,” and collectively with the 2014 Bonds and any additional bonds hereafter issued on a parity therewith, the “Bonds”), which are currently outstanding in the principal amount of \$29,115,000 and (2) two installment sale agreements entered into by the City on April 4, 2014, between the City and the California State Water Resources Control Board (the “SRF Obligations”) in the aggregate available principal amount of approximately \$32 million. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS— Existing Parity Obligations.”

Additional Subordinate Obligations. The Indenture permits the City to incur additional indebtedness or obligations secured by a pledge and lien on Net Revenues subordinate to the pledge and lien of the Indenture pursuant to and subject to the limitations of the Indenture. These obligations are referred to as “Subordinate Obligations” under the Indenture. The City has no outstanding Subordinate Obligations as of the date of delivery of the 2014 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Subordinate Obligations.”

No Bond Reserve Fund. No bond reserve fund will be established for the 2014 Bonds. A bond reserve fund was established for the 2011 Bonds (the “2011 Bond Reserve Fund”) and bond reserve funds may be established for other Parity Obligations or Subordinate Obligations. In addition, reserve funds were established for the SRF Obligations. **These reserve funds do not secure the 2014 Bonds and the holders of the 2014 Bonds have no rights in these reserve funds.**

THE OBLIGATION OF THE CITY TO MAKE PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE BONDS IS A SPECIAL OBLIGATION OF THE CITY AND IS PAYABLE SOLELY FROM THE NET REVENUES AND CERTAIN OTHER FUNDS AS PROVIDED IN THE INDENTURE, AND DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Redemption of the 2014 Bonds

The 2014 Bonds are subject to redemption prior to their stated maturity dates, as provided herein. See “THE 2014 BONDS—Redemption.”

Continuing Disclosure

The City has covenanted, for the benefit of the owners and beneficial owners of the 2014 Bonds, to provide certain financial information and operating data relating to the Sewer Enterprise by not later than March 31 after the end of each Fiscal Year (currently June 30), and to provide notices of the occurrence of certain enumerated events. See “CONTINUING DISCLOSURE” and APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

Book-Entry Form

The 2014 Bonds will be delivered in fully registered form only and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2014 Bonds. Ownership interests in the 2014 Bonds may be purchased in denominations of \$5,000 or any integral multiple thereof, in book-entry form only. Upon receipt of payments of principal, prepayment premium, if any, and interest with respect to the 2014 Bonds, DTC will in turn remit such principal, prepayment premium, if any, and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the 2014 Bonds. See “THE 2014 BONDS—Book-Entry Only System” below and APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

Certain Risk Factors

See “RISK FACTORS RELATING TO THE BONDS” for a description of certain risks associated with an investment in the 2014 Bonds.

Additional Information

Additional information regarding this Official Statement may be obtained by contacting David Culver, Finance Director, City of San Mateo, 330 West 20th Avenue, San Mateo, CA 94403, Telephone: (650) 522-7049; Fax: (650) 522-7101; E-mail: dculver@cityofsanmateo.org.

FINANCING PLAN

Purposes of the 2014 Bonds

The 2014 Bonds are being issued to (a) refund the 2003 Bonds, (b) finance various improvements to the Sewer Enterprise, and (c) pay costs of issuance of the 2014 Bonds.

Refunding of the 2003 Bonds. A portion of the proceeds of the 2014 Bonds, in the gross amount required to provide for the redemption of the 2003 Bonds in full, at a redemption price equal to 100% of the outstanding 2003 Bonds, plus accrued interest to such redemption date, will be deposited with the Trustee, as trustee for the 2003 Bonds, and will be applied, within five days of the delivery date of the 2014 Bonds, to the redemption of the 2003 Bonds.

Improvements to the Sewer Enterprise. A portion of the proceeds of the 2014 Bonds will be applied to make improvements to the Sewer Enterprise including improvements to the City's collection system, Dale Avenue Pump Station and wastewater treatment plant. See "THE SEWER ENTERPRISE—Capital Improvement Program" for more information on the projects the City is undertaking for the Sewer Enterprise.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds are as follows:

Sources

Principal Amount of 2014 Bonds	\$32,255,000.00
Less: Underwriter's Discount	(380,618.03)
Plus: Net Original Issue Premium	2,264,122.20
Plus: Released 2003 Bond Moneys	<u>698,356.65</u>
TOTAL SOURCES	<u>\$34,836,860.82</u>

Uses

Refunding of Series 2003 Bonds	\$16,607,484.92
Deposit to Capital Improvement Fund ¹	18,000,000.00
Deposit to Costs of Issuance Fund ²	<u>229,375.90</u>
TOTAL USES	<u>\$34,836,860.82</u>

¹ Amounts in the Capital Improvement Fund will be used to pay the costs of improvements to the Sewer Enterprise.

² Amounts in the Costs of Issuance Fund will be used to pay the costs of issuance of the 2014 Bonds, including financial advisory fees, legal fees, printing costs, rating agency fees and other miscellaneous expenses.

Annual Debt Service

Annual debt service on the 2014 Bonds (assuming no redemptions of the 2014 Bonds) is presented below.

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
2015	-	\$ 780,478.57	\$ 780,478.57
2016	-	1,344,365.00	1,344,365.00
2017	-	1,344,365.00	1,344,365.00
2018	-	1,344,365.00	1,344,365.00
2019	\$ 970,000	1,324,965.00	2,294,965.00
2020	1,010,000	1,280,315.00	2,290,315.00
2021	1,065,000	1,228,440.00	2,293,440.00
2022	1,120,000	1,173,815.00	2,293,815.00
2023	1,175,000	1,116,440.00	2,291,440.00
2024	1,235,000	1,056,190.00	2,291,190.00
2025	1,300,000	992,815.00	2,292,815.00
2026	1,365,000	926,190.00	2,291,190.00
2027	1,435,000	856,190.00	2,291,190.00
2028	1,510,000	782,565.00	2,292,565.00
2029	1,570,000	721,265.00	2,291,265.00
2030	670,000	687,246.25	1,357,246.25
2031	695,000	665,657.50	1,360,657.50
2032	715,000	642,918.75	1,357,918.75
2033	740,000	618,812.50	1,358,812.50
2034	765,000	592,937.50	1,357,937.50
2035	790,000	565,725.00	1,355,725.00
2036	820,000	537,550.00	1,357,550.00
2037	850,000	507,262.50	1,357,262.50
2038	885,000	474,731.25	1,359,731.25
2039	915,000	440,981.25	1,355,981.25
2040	950,000	406,012.50	1,356,012.50
2041	990,000	368,400.00	1,358,400.00
2042	1,030,000	328,000.00	1,358,000.00
2043	2,460,000	258,200.00	2,718,200.00
2044	2,560,000	157,800.00	2,717,800.00
2045	2,665,000	53,300.00	2,718,300.00
TOTALS	\$32,255,000	\$23,578,298.57	\$55,833,298.57

Set forth below is the combined annual debt service on the 2011 Bonds, the SRF Obligations¹ and the 2014 Bonds (assuming no optional redemption).²

Fiscal Year Ending June 30	2011 Bonds	SRF Obligations¹	2014 Bonds	Total
2014	\$ 2,767,057.50	–	–	\$2,767,057.50
2015	2,760,457.50	\$ 1,412,888.79	\$ 780,478.57	3,739,515.07
2016	2,676,057.50	1,412,888.79	1,344,365.00	5,433,311.29
2017	2,686,432.50	1,412,888.79	1,344,365.00	5,443,686.29
2018	2,682,407.50	1,412,888.79	1,344,365.00	5,439,661.29
2019	1,688,807.50	1,412,888.79	2,294,965.00	5,396,661.29
2020	1,688,707.50	1,412,888.79	2,290,315.00	5,391,911.29
2021	1,684,282.50	1,412,888.79	2,293,440.00	5,390,611.29
2022	1,685,157.50	1,412,888.79	2,293,815.00	5,391,861.29
2023	1,683,363.75	1,412,888.79	2,291,440.00	5,387,692.54
2024	1,683,726.25	1,412,888.79	2,291,190.00	5,387,805.04
2025	1,683,007.50	1,412,888.79	2,292,815.00	5,388,711.29
2026	1,684,891.25	1,412,888.79	2,291,190.00	5,388,970.04
2027	1,687,012.50	1,412,888.79	2,291,190.00	5,391,091.29
2028	1,682,331.25	1,412,888.79	2,292,565.00	5,387,785.04
2029	1,686,800.00	1,412,888.79	2,291,265.00	5,390,953.79
2030	1,371,912.50	1,412,888.79	1,357,246.25	4,142,047.54
2031	1,373,062.50	1,412,888.79	1,360,657.50	4,146,608.79
2032	1,372,112.50	1,412,888.79	1,357,918.75	4,142,920.04
2033	1,374,987.50	1,412,888.79	1,358,812.50	4,146,688.79
2034	1,371,737.50	1,412,888.79	1,357,937.50	4,142,563.79
2035	1,376,237.50	1,412,888.79	1,355,725.00	4,144,851.29
2036	1,373,362.50	1,412,888.79	1,357,550.00	4,143,801.29
2037	1,373,112.50	1,412,888.79	1,357,262.50	4,143,263.79
2038	1,373,881.25	1,412,888.79	1,359,731.25	4,146,501.29
2039	1,375,343.75	1,412,888.79	1,355,981.25	4,144,213.79
2040	1,373,656.25	1,412,888.79	1,356,012.50	4,142,557.54
2041	1,373,687.50	1,412,888.79	1,358,400.00	4,144,976.29
2042	1,375,175.00	1,412,888.79	1,358,000.00	4,146,063.79
2043	–	1,412,888.79	2,718,200.00	4,131,088.79
2044	–	1,412,888.79	2,717,800.00	4,130,688.79
2045	–	–	2,718,300.00	3,926,963.00
TOTALS	<u>\$49,968,768.75</u>	<u>\$42,386,663.74</u>	<u>\$55,833,298.57</u>	<u>\$148,183,084.23</u>

¹ The final principal amount and debt service on the SRF Obligations will be established after completion of the projects funded by these loans. These figures assume two SRF Obligations in the principal amount of \$27,549,338 and \$4,410,843 each, interest rates of 1.9% and 2.1% respectively, and 30-year level amortization.

² See footnote 5 to Table 15 for a description of additional Bond issues and SRF obligations that are contained within the City's projections for the Fiscal Years ending June 30, 2014-2018.

THE 2014 BONDS

Authority for Issuance

The 2014 Bonds are authorized pursuant to the Bond Law, the Indenture and resolutions adopted by the City Council of the City.

General

Repayment of the 2014 Bonds. The 2014 Bonds are issued under the Indenture as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The 2014 Bonds shall be dated as of the date of original delivery, and shall be registered on the date of registration noted on such 2014 Bond by the Trustee. Each 2014 Bond shall bear interest from the Interest Payment Date next preceding the date of registration thereof unless such date of registration is an Interest Payment Date, in which event it shall bear interest from the date of registration thereof, or unless it is registered on or before July 15, 2014, in which event it shall bear interest from the date of original delivery; *provided, however*, that if at the time of registration of any 2014 Bond interest is then in default on the Outstanding Bonds, such 2014 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding 2014 Bonds. The 2014 Bonds may be exchanged and transferred as provided in the Indenture, provided that no exchange or transfer need be made by the Trustee during the period beginning on fifteenth day of the month in which an Interest Payment Date occurs and ending on such Interest Payment Date.

The 2014 Bonds will initially be issued in book-entry only form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Purchasers of the 2014 Bonds will not receive certificates representing their interests therein, which will be held at DTC. See “THE 2014 BONDS—Book-Entry Only System” below and APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

The 2014 Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside cover page of this Official Statement.

Interest on the 2014 Bonds will be payable semiannually on each February 1 and August 1, commencing February 1, 2015, by check, mailed by the Trustee on each Interest Payment Date to the registered owners of record on the fifteenth day of the month preceding such Interest Payment Date, at their addresses as they appear on the Registration Books maintained by the Trustee; *provided, however*, that payment of interest will be made by wire transfer in immediately available funds to DTC, so long as the 2014 Bonds are held in book-entry only form, or to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to an account in a state or national bank in the United States of America to the Trustee before the applicable Record Date. Interest on the 2014 Bonds will be calculated based on a 360-day year of twelve 30-day months.

Principal of and premium, if any, on the 2014 Bonds is payable upon surrender of the 2014 Bonds to the Trustee at its Trust Office.

Transfer or Exchange of the 2014 Bonds. The 2014 Bonds may be transferred or exchanged at the principal office of the Trustee, to the extent and upon the conditions set forth in the Indenture. The Trustee may require the payment of a reasonable service charge by the owner of any 2014 Bond requesting exchange, and the Trustee will require payment of a sum sufficient to cover any tax or other governmental charge required to be paid with respect thereto. The Trustee may refuse to transfer or exchange any 2014 Bond during the period established for the selection of 2014 Bonds for redemption or the portion of any 2014 Bond selected for redemption.

If a 2014 Bond is mutilated, lost, stolen or destroyed, the Trustee, at the expense of the owner of such 2014 Bond, will authenticate, subject to the provisions of the Indenture, a new 2014 Bond of like tenor and amount. In the case of a lost, stolen or destroyed 2014 Bond, the Trustee may require that an indemnity be furnished and payment of an appropriate fee for each new 2014 Bond delivered in replacement of such 2014 Bond and may require payment of the expenses of the City and the Trustee incurred in connection therewith.

Redemption

Optional Redemption. The 2014 Bonds maturing on or before August 1, 2024, are not subject to optional redemption prior to maturity. The 2014 Bonds maturing on or after August 1, 2025 are subject to redemption prior to their respective maturity dates, at the option of the City, as a whole or in part (in such order of maturity as shall be selected by the Trustee upon direction by the City and by lot within a maturity) on any date on or after August 1, 2024, from any source of available funds, at a redemption price equal to the principal amount of the 2014 Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

Mandatory Sinking Fund Account Redemption. The 2014 Bonds maturing on August 1, 2039, are also subject to mandatory redemption, on August 1 in each year, commencing August 1, 2037, to and including August 1, 2039, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, from mandatory sinking fund account payments made by the City under the Indenture in the years and amounts as follows:

Sinking Fund Account Redemption Date <u>(August 1)</u>	Sinking Fund Installments Redeemed or Purchased <u>(August 1)</u>
2037	\$885,000
2038	915,000
2039†	950,000

†Maturity

The 2014 Bonds maturing on August 1, 2044, are also subject to mandatory redemption, on August 1 in each year, commencing August 1, 2040, to and including August 1, 2044, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, from mandatory sinking fund account payments made by the City under the Indenture in the years and amounts as follows:

Sinking Fund Account Redemption Date (August 1)	Sinking Fund Installments Redeemed or Purchased (August 1)
2040	\$ 990,000
2041	1,030,000
2042	2,460,000
2043	2,560,000
2044†	2,665,000

†Maturity

Selection of Redeemed 2014 Bonds. Whenever provision is made for the optional redemption of less than all of the 2014 Bonds, the Trustee shall select the 2014 Bonds for redemption among maturities at the direction of the City and by lot within a maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, the Trustee shall treat each 2014 Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate 2014 Bond.

Notice of Redemption. Unless waived by any Owner of 2014 Bonds to be redeemed, notice of redemption shall be given by mail, facsimile or electronic transmission, or overnight delivery service not less than 30 days nor more than 60 days prior to the redemption date, to the respective registered owners of any 2014 Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. Each notice of redemption shall state the redemption date, the place or places of redemption, the maturities, and, if less than all of any such maturity, the distinctive numbers of the 2014 Bonds of such maturity, to be redeemed and, in the case of 2014 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and shall also state that on said date there will become due and payable on each of said 2014 Bonds the principal thereof or of said specified portion of the principal thereof, in the case of the 2014 Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such 2014 Bonds be then surrendered.

At least 30 days before each redemption date, the Trustee shall also give notice of prepayment containing the aforementioned information by (i) registered or certified mail, postage prepaid, (ii) confirmed (by telephone or otherwise) facsimile or electronic transmission or (iii) posting it to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website.

Notice of redemption of 2014 Bonds shall be given by the Trustee for and on behalf of the City. Any failure of the Trustee to give notice of redemption of any 2014 Bond to any Bondholder or any defect in such notice shall not affect the validity of the proceedings for redemption of any other 2014 Bond. Any failure of the Trustee to post the notice required pursuant to the Indenture to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website, or the insufficiency of such notices, shall not affect the validity of the proceedings for redemption of any 2014 Bond.

The Trustee shall rescind any optional redemption by notice of rescission if directed to do so by the City prior to the date of redemption. The Trustee shall give notice of rescission by the same means as is provided for the giving of a notice of redemption. The redemption shall be deemed canceled once the Trustee has given notice of rescission. Neither the rescission nor the failure of funds being made available in part or in whole on or before a redemption date shall constitute an Event of Default.

Upon surrender of any 2014 Bond redeemed in part only, the City shall execute and the Trustee shall authenticate and deliver to the registered owner thereof at the expense of the City a new 2014 Bond or 2014 Bonds of the same maturity date and of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2014 Bond surrendered. Bonds shall be redeemed only in Authorized Denominations.

If notice of redemption has been duly given and money for the payment of the principal of and redemption premiums, if any, and interest to the redemption date on, the 2014 Bonds or portions thereof so called for redemption is held by the Trustee, then on the redemption date designated in such notice such 2014 Bonds or such portions thereof shall become due and payable, and from and after the date so designated interest on the 2014 Bonds or such portions thereof so called for redemption shall cease to accrue and the Owners of such 2014 Bonds shall have no rights in respect thereof except to receive payment of the principal or such portions thereof and the redemption premiums, if any, thereon and the interest accrued thereon to the redemption date.

Book-Entry Only System

The 2014 Bonds will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the 2014 Bonds so purchased. Individual purchases will be made in book-entry form. One fully registered 2014 Bond certificate will be issued for each series and maturity of the 2014 Bonds having the same interest rate, in the aggregate principal amount of such maturity and will be deposited with DTC. Purchasers will not receive a certificate representing their beneficial ownership interest in 2014 Bonds. So long as Cede & Co. is the registered owner of the 2014 Bonds, as nominee of DTC, references herein to the 2014 Bondowners or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the “Beneficial Owners” of the 2014 Bonds. In this Official Statement, the term “Beneficial Owner” shall mean the person for whom a DTC Participant acquires an interest in the 2014 Bonds. See APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

So long as Cede & Co. is the registered owner of the 2014 Bonds, principal of and interest on the 2014 Bonds are payable by wire transfer of same day funds by the Trustee to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to the DTC Participants for subsequent disbursement to the Beneficial Owners. See APPENDIX G—BOOK-ENTRY ONLY SYSTEM.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Net Revenue; Flow of Funds

Pledge of Net Revenues. All Net Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established hereunder (other than amounts on deposit in the Rebate Fund created pursuant to the Indenture) are irrevocably pledged to the payment of the interest on and principal of the Bonds, including the 2014 Bonds, as provided in the Indenture; *provided, however*, that out of the Net Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Indenture. This pledge shall constitute a pledge of and charge and lien upon the Net Revenues, which pledge and lien upon the Net Revenues is on a parity with any pledge and lien of Parity Obligations, and all other moneys on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund created pursuant to the Indenture) for the payment of the interest on and principal of the Bonds in accordance with the terms thereof and of the Indenture.

“Revenues” means all charges received for, and all other income and receipts derived by the City from the ownership and operation of the Sewer Enterprise or arising from the Sewer Enterprise, including the proceeds of any Federal Subsidy and all rates, fees, and user charges received by the City for Sewer Service and all connection charges, impact fees, standby charges or similar fees or charges relating to the Sewer Enterprise (including without limitation all charges received from other public agencies pursuant to contracts with the City for Sewer Services), together with any receipts derived from the sale of any property pertaining to the Sewer Enterprise or incidental to the operation of the Sewer Enterprise, together with all interest, profits and other income derived from the investment of moneys in any fund or account established hereunder (other than the Rebate Fund), but exclusive of any moneys derived from refundable deposits made to establish credit and advances, or contributions in aid of construction, or other payments of a similar nature.

“Maintenance and Operation Costs” means the reasonable and necessary costs of maintaining and operating the Sewer Enterprise, calculated in accordance with Generally Accepted Accounting Principles, including (without limitation) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Sewer Enterprise in good repair and working order, and reasonable amounts for administration, overhead, wages of employees, insurance, taxes (if any) and other similar costs or charges required to be paid by the City to comply with the law or terms of the Bonds or Parity Obligations or other Obligations, such as compensation of the trustee, and fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), and accountant and engineering fees, but excluding in all cases (a) depreciation and obsolescence charges or reserves therefor, amortization of intangibles, or other bookkeeping entries of a similar nature, (b) all costs paid from the proceeds of taxes received by the City, and (c) all interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the City, and all payments made pursuant to any Qualified Swap Agreement.

“Net Revenues” for any Fiscal Year means the sum of (i) Revenues for such Fiscal Year plus (ii) the amounts, if any, withdrawn from the Rate Stabilization Fund for treatment as Revenues for such Fiscal Year, less the sum of (iii) all Maintenance and Operation Costs for

such Fiscal Year and (iv) the amounts, if any, withdrawn by the City from Revenues during such Fiscal Year for deposit in the Rate Stabilization Fund.

“Sewer Enterprise” means the whole and each and every part of the existing sewer system of the City comprising all facilities for the collection, treatment and disposal of sewage, waste and storm water and the operation of a water quality control plant, together with all additions, betterments, extensions and improvements thereto or any part thereof hereafter acquired or constructed.

Receipt and Deposit of Revenues in the Sewer Revenue Fund. In order to carry out and effectuate the pledge, charge and lien contained in the Indenture, the City agrees and covenants that all Revenues received by it shall be deposited when and as received in the City of San Mateo Sewer Revenue Fund which fund the City agrees and covenants to maintain so long as Bonds shall be Outstanding, and all money on deposit in the Sewer Revenue Fund shall be applied and used only as provided in the Indenture, and shall be accounted for separate and apart from all other moneys, funds or other resources of the City. The City may, to the extent provided in the Indenture, transfer amounts in the Sewer Revenue Fund to the Rate Stabilization Fund or from the Rate Stabilization Fund to the Sewer Revenue Fund.

Establishment and Maintenance of Funds for Revenues. Money in the Sewer Revenue Fund, after paying as they become due and payable all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not immediately required), shall be transferred to the Trustee for deposit in the following respective special funds (each of which is created and each of which the Trustee hereby covenants and agrees to cause to be maintained) in the following order of priority, at the time specified in the Indenture:

- (a) Interest Fund,
- (b) Principal Fund, and
- (c) 2011 Bond Reserve Fund.

The City shall also, from moneys in the Sewer Revenue Fund, pay to the party entitled thereto or transfer or cause to be transferred to any applicable debt service or other payment fund or account and any debt service reserve account for any Parity Obligations, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, on the dates specified in the Issuing Instrument relating to such Parity Obligations, the sum or sums required to be paid or deposited in such debt service or other payment fund or account with respect to principal, premium, if any, and interest on Parity Obligations and any debt service reserve account in accordance with the terms of such Parity Obligations.

(a) **Interest Fund.** On or before the Business Day preceding each Interest Payment Date, the City shall, from amounts in the Sewer Revenue Fund, transfer to the Trustee for deposit in the Interest Fund an amount that, together with amounts contained therein, is equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

All money in the Interest Fund 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 (including accrued interest on any Bonds purchased or redeemed prior to maturity).

(b) **Principal Fund.** On or before the Business Day preceding each Principal Payment Date, the City shall, from amounts in the Sewer Revenue Fund, transfer to Trustee for deposit in the Principal Fund an amount which, together with amounts contained therein, is equal to the aggregate amount of all Sinking Fund Installments required to be made on such date into the respective Sinking Accounts for all Outstanding Term Bonds and the aggregate principal amount of all Outstanding Serial Bonds maturing on such date.

The Trustee shall establish and maintain within the Principal Fund a separate account for the Term Bonds of each series and maturity, designated as the Sinking Account (the "Sinking Account"), inserting therein the series and maturity (if more than one such account is established for such series) designation of such Bonds. With respect to each Sinking Account, on each Sinking Fund Installment Date established for such Sinking Account, the Trustee shall apply the Sinking Fund Installment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Indenture; *provided* that, at least sixty days prior to the scheduled Mandatory Sinking Fund Installment Date, the Trustee may upon the Written Request of the City, apply moneys in such Sinking Account to the purchase of Term Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund), as may be directed by the City, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Bonds upon redemption by application of such Mandatory Sinking Fund Installment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such series and maturity with moneys in such Sinking Account, such Bonds so purchased shall be applied, to the extent of the full principal amount thereof, to reduce said mandatory sinking account payment.

All money in the Principal Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they shall become due and payable, whether at maturity or redemption, except that any money in any sinking fund account shall be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such sinking fund account was created.

(c) **2011 Bond Reserve Fund.** The 2014 Bonds are not secured by any bond reserve fund. The Indenture provides that City shall use money in the Sewer Revenue Fund to replenish the 2011 Bond Reserve Fund or debt service reserve fund for any Parity Obligations after application of moneys in the Sewer Revenue Fund to the Interest Fund and the Principal Fund as described above. **These reserve funds do not secure the 2014 Bonds and the holders of the 2014 Bonds have no rights in these reserve funds.**

(d) **Surplus Funds.** All money on deposit in the Sewer Revenue Fund in excess of the sums required to be set aside prior to the immediately succeeding Interest Payment Date by

the provisions of the foregoing paragraphs (a), (b) and (c), inclusive, shall be available for any lawful purpose of the City.

Rate Covenant

The City will at all times fix, prescribe and collect rates and charges for the Sewer Service during each Fiscal Year which will be at least sufficient to yield: (a) Net Revenues for such Fiscal Year at least equal to 120% of Debt Service on Parity Obligations for such Fiscal Year, and (b) Net Revenues equal to 100% of Debt Service on all Parity Obligations plus debt service on all Subordinated Obligations for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Indenture. The City shall increase such rates, fees and charges whenever necessary to produce Net Revenues sufficient to meet the requirements of the Indenture and of any Supplemental Indenture.

Rate Stabilization Fund

The City shall maintain and hold a separate fund to be known as the “Rate Stabilization Fund” pursuant to the Indenture. From time to time the City may deposit in the Rate Stabilization Fund from Net Revenues such amounts as the City shall determine, provided that deposits for each Fiscal Year may be made until (but not after) 180 days following the end of such Fiscal Year. The City may withdraw amounts from the Rate Stabilization Fund only for transfer to the Sewer Revenue Fund for inclusion in Revenues for any Fiscal Year, such withdrawals to be made until (but not after) 180 days after the end of such Fiscal Year. All interest or other earnings upon deposits in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Revenues. As of the date of delivery of the 2014 Bonds, the City has no amounts on deposit in the Rate Stabilization Fund.

Issuance of Parity Obligations

The City may, at any time and from time to time, issue any Additional Parity Obligations, provided the City obtains or provides a certificate or certificates, prepared by the City or at the City’s option by a Consultant, showing that

(a) Net Revenues for the applicable Calculation Period shall have amounted to at least 1.20 times the Maximum Annual Debt Service on all Parity Obligations to be Outstanding immediately after the issuance of the proposed Additional Parity Obligations, or

(b) estimated Net Revenues for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of the proposed Additional Parity Obligations is at least equal to 1.20 times the Debt Service scheduled to be paid in each Fiscal Year on all Parity Obligations to be Outstanding immediately after the issuance of the proposed Additional Parity Obligations.

For purposes of calculating either of the coverage tests described above, the proceeds of the Federal Subsidy, if any, received by the City will not be included in Net Revenues and will be subtracted from the amount of interest payable in calculating Debt Service.

For purposes of preparing the certificate or certificates described above, the City and any Consultant may rely upon the books and records of the City or any financial statements prepared by the City which have not been subject to audit by an Independent Certified Public Accountant if audited financial statements for the particular Calculation Period selected by the City are not available.

For purposes of the computations to be made as described in subparagraph (b) above, the estimated Net Revenues:

(1) may take into account any increases in rates and charges which relate to the Sewer Enterprise and which have been approved by the City Council, and shall take into account any reduction in such rates and charges which have been approved by the City Council, which will be effective during the Fiscal Year for which such estimate is made; *provided* that an increase may only be taken into account if such increase takes effect during the Fiscal Years contemplated by subparagraph (b) above; and

(2) may take into account an allowance for any estimated increase in such Net Revenues from any revenue producing additions or improvements to or extensions of the Sewer Enterprise, to be made with the proceeds of such Additional Parity Obligations or with the proceeds of Parity Obligations previously issued, all in an amount equal to the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions during the Fiscal Years contemplated by subparagraph (b) above; and

(3) for the Fiscal Years contemplated by subparagraph (ii) above, Maintenance and Operation Costs shall initially be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such Additional Parity Obligations, but adjusted if deemed necessary by the City or a Consultant, as applicable, for any increased Maintenance and Operations Costs which are, in the judgment of the City or a Consultant, as applicable, essential to maintaining and operating the Sewer Enterprise and which will occur during the Fiscal Years contemplated by subparagraph (b) above.

Existing Parity Obligations

The 2011 Bonds are Parity Obligations under the Indenture. As of the date of delivery of the 2014 Bonds, the outstanding principal amount of the 2011 Bonds is \$29,115,000. The 2011 Bonds are fixed rate bonds and the annual debt service for the 2011 Bonds is shown in “FINANCING PLAN—Annual Debt Service.”

In addition, on April 4, 2014, the City incurred two SRF Obligations that are secured as Parity Obligations under the Indenture. The SRF Obligations allow the City to draw down funds as needed to pay costs of improvements. Debt service with respect to each of the SRF Obligations is payable annually, in equal installments, commencing one year after completion of construction of the respective capital improvements. The amount payable annually with respect to each SRF Obligation will be based on the total respective amounts drawn down, accrued

interest, and completion dates of the specific capital improvements financed. Payment in full on the SRF Obligations must be made by April 30, 2045. The SRF Obligations are fixed rate loans and the currently expected debt service on the SRF Obligations shown in “FINANCING PLAN—Annual Debt Service.” The SRF Obligations provide that all payments thereunder may be immediately due and payable in the event of material breach by the City (and failure to cure).

Subordinate Obligations

The City may, at any time or from time to time, issue Subordinated Obligations without satisfying the requirements for Additional Parity Obligations described above for any purpose in connection with the Sewer Enterprise, including, without limitation, the financing of a part of the cost of acquisition and construction of any additions to or improvements of the Sewer Enterprise or the refunding of any Subordinated Obligations or Outstanding Parity Obligations (or portions thereof). Such Subordinated Obligations shall be payable out of amounts in the Sewer Revenue Fund as may from time to time be available therefor, provided that any such payment shall be, and shall be expressed to be, subordinate and junior in all respects to the payment of such Parity Obligations as may be Outstanding from time to time, including Parity Obligations issued after the issuance of such Subordinated Obligations. The City has no outstanding Subordinate Obligations as of the date of delivery of the 2014 Bonds.

Consent to Amendment and Restatement of Indenture

Purchasers of the 2014 Bonds will, by their purchase and acceptance of the 2014 Bonds, be deemed to have consented to the second amendment and restatement of the Indenture without further act. The amendments to the Indenture generally relate to providing the City with the ability to issue Additional Bonds without a bond reserve fund. The amendment and restatement of the Indenture will be effective upon the date of delivery of the 2014 Bonds.

THE CITY

The City is situated in the County, approximately 19 miles south of San Francisco and 30 miles north of San Jose. The City is approximately five miles south of the San Francisco International Airport and served by two major freeways, north-south U.S. 101 (Bayshore Freeway) and Interstate 280.

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.

Information with respect to the City, including financial information and certain economic and demographic information relating to the City is provided in APPENDIX A—CITY OF SAN MATEO ECONOMIC AND DEMOGRAPHIC INFORMATION. Also, see APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2013.

THE SEWER ENTERPRISE

The Sewer Enterprise is owned and operated by the City under the administration of the City Department of Public Works (the “Department”). The operations of the Sewer Enterprise are accounted for in an enterprise fund established and maintained by the City on its books (the “Sewer Revenue Fund”).

General

The Sewer Enterprise currently consists of the sewer collection system for the residents of the City and the sewage treatment and disposal facilities (including the WWTP) serving the residents of the City, all of Foster City and portions of the neighboring communities of Hillsborough, Belmont, the Crystal Springs County Sanitation District (“CSCSD”) and certain unincorporated areas of the County. See “THE SEWER ENTERPRISE—Subregional Agreements.” Nearly all of the City is included within the area currently served by the Sewer Enterprise. The Sewer Enterprise currently serves approximately 27,532 customer accounts in the City alone, and additionally approximately 10,291 customer accounts of the Subregional Partners utilizing the WWTP.

Similar to many systems in the region, the City’s Sewer Enterprise facilities are aging and in need of significant rehabilitation. Moreover, regulatory requirements for wastewater treatment are continually evolving and becoming more stringent to protect water quality in the San Francisco Bay. For example, a permit the City received for the WWTP in 2013 requires that the capacity of the secondary treatment process at the WWTP be increased by 2020. As a result of this and other regulatory issues, extensive capital improvements are necessary to bring the Sewer Enterprise facilities into a state of good repair, provide increased wet weather capacity described below, and meet current and future regulatory requirements. See “Sewer Enterprise Facilities” below.

Employees and Management

Operations of the Sewer Enterprise are conducted under the general supervision of the City’s Director and Deputy Director of Public Works. Daily operations of the Sewer Enterprise are under the direct supervision of the WWTP manager.

Approximately 75.7 full-time equivalents (“FTE”) (including 1.2 who are unrepresented) are employed directly or indirectly to support the services provided by the Sewer Enterprise. Employees assigned to the Sewer Enterprise are represented by the following Bargaining Units with the following Memorandum of Understanding expiration:

Bargaining Unit TBD	Number of Employees	Expiration
San Mateo City Employees’ Association	19.3	May 21, 2016
San Mateo Management Association	15.7	April 8, 2017
SEIU Local 521 Maintenance Unit	39.5	March 12, 2016
Total:	<u>74.5</u>	

Sewer Enterprise Facilities

The City has an extensive sewage/wastewater collection, treatment and disposal system which includes the WWTP, an outfall pipeline to the San Francisco Bay (the “Bay”), the Dale Avenue pumping station and various administrative, maintenance and laboratory facilities.

Wastewater Treatment Plant (“WWTP”) and Outfall. The WWTP is located on a 20-acre site along East Third Avenue in the City, immediately to the west of Marina Lagoon, and is jointly owned by the City (75% ownership interest) and the Estero Municipal Improvement District (25% ownership interest), which is coterminous with the boundaries of Foster City. The site is bounded on the north by the Bay, and on the south by the Bayside Intermediate School grounds. The residential neighborhood of Shoreview Park lies to the west and is separated from the site by an undeveloped strip of City-owned property. Detroit Drive forms the eastern boundary. Vehicular access is provided via East Third Avenue and Foster City Boulevard from the Bayshore Freeway (US 101) and J. Arthur Younger Freeway (State Route 92), respectively.

The original structures at the WWTP were constructed in 1937 and have undergone periodic upgrades and expansions to improve treatment processes and increase capacity. The WWTP became a regional facility in the 1970’s when the Foster City wastewater treatment plant was taken out of service and all of its wastewater flows were diverted to the newly expanded WWTP. Since 1990, the WWTP has gone through two major expansion projects to accommodate higher flows and to increase treatment efficiency, the last of which was substantially complete in the spring of 2009. With these improvements the treatment capacity of the WWTP is as follows:

Design Average Dry Weather Flow	15.7 mgd
Maximum Secondary Treatment Capacity	40.0 mgd
Maximum Outfall Capacity	60.0 mgd

The following terminology is used to discuss the design and operation of the WWTP and outfall:

Average Dry Weather Flow (ADWF) is calculated as the average flow of wastewater into the WWTP during May 1 through September 30. ADWF for 2013 was 10.3 mgd. Average Wet Weather Flow (AWWF) is the average flow of wastewater into the WWTP during October 1 through April 30. AWWF for 2013 was 11.1 mgd.

Peak wet weather flow (PWWF) is the highest measured hourly flow rate into the WWTP during wet weather event. During wet weather events, the raw wastewater is diluted as a result of the storm and ground water inflow and infiltration. The maximum capacity of the secondary treatment portion of the WWTP under these diluted conditions is 40 mgd. See “—Regulatory Compliance” below for a description of the recent NPDES permit for the WWTP which requires increasing the capacity of the secondary treatment process at the WWTP by 2020. The maximum capacity of the WWTP outfall line described below is 60 mgd. The WWTP can process up to 60 mgd wet weather when a portion of the primary effluent is bypassed around the secondary treatment process and blended with the final effluent.

The PWWF for purposes of determining design capacity requirements is a calculated value based on the projected flows calculated by the sewer system hydraulic model using rainfall from a 5-year “design storm” hydrograph. The peak wet weather flow is estimated to reach 88 mgd for a 5-year storm by 2020 which greatly exceeds the capacity of the existing sewer mainlines, pump stations, and the WWTP.

The WWTP receives raw wastewater from the collection system, separates the solids from the liquids and treats them through two separate processes. The solids loading on the WWTP is relatively stable and increases with population growth because it is a function of the volume of solids deposited by the populace into the system. The hydraulic loading on the WWTP is significantly impacted by inflow and infiltration of ground water and storm water into the collection system and therefore can vary significantly between dry weather conditions and large storm events. The design treatment capacity of the WWTP for average dry weather flow (ADWF), including dry weather hydraulic and solids loading is 15.7 mgd.

The WWTP provides secondary (biological) treatment using the activated sludge process. In this process, the raw wastewater first flows into settling tanks (primary clarifiers), where the heavier solids settle and are removed, together with floatable materials which are skimmed off the surface. The clarified wastewater (primary effluent) then flows into aeration basins containing activated sludge, where air is injected to support the biological activity required to purify the wastewater. The activated sludge then flows into settling tanks (secondary clarifiers), where the biological solids settle and are removed, together with floatable materials. The clarified secondary effluent is then disinfected in chlorine contact tanks and dechlorinated prior to being discharged to the Bay pursuant to a permit approved by the State Water Resources Control Board (“SWRCB”) and United States Environmental Protection Agency (“USEPA”). See “Regulatory Compliance” below. A portion of the clarified secondary effluent is passed through sand filters prior to chlorination/dechlorination to achieve a higher level of treatment (advanced secondary) to ensure compliance with effluent limits contained in the permit. Treated wastewater is discharged to a deep-water channel of the Bay through a submerged outfall 3,700 feet off-shore, approximately 500 feet north of the San Mateo Bridge.

Solids removed from the primary and secondary clarifiers are treated using the process of anaerobic digestion. In this system, the solids are thickened before being pumped into anaerobic digesters. In the digesters, the sludge is heated, mixed, and ultimately transformed into water, methane and carbon dioxide gas, and a reduced-volume sludge. The methane gas is piped to a cogeneration system, or if not usable, is flared. The reduced-volume sludge is coagulated with the addition of polymer before it is dewatered using centrifuges. The resulting centrifuge cake is either land-applied or hauled to a landfill site. The sites include two land application sites in Merced and Yuma Counties, and one landfill site in Solano County.

The Collection System. The City is served by a sanitary sewer collection system, parts of which were built well over 100 years ago. The current collection system includes approximately 260 miles of pipelines ranging from 6 to 39 inches in diameter. There are 24 sanitary sewer pump/lift stations in the collection system in addition to the Dale Avenue Pump Station described below. Two stations are located in the hilly areas near the southwestern City boundary. The remaining 22 stations are located along or east of El Camino Real. A new pump

station and force main will be constructed in 2014 as part of the Bay Meadows development project. The City's collection system collects and conveys wastewater to the WWTP.

The Dale Avenue Pump Station. The Dale Avenue Pump Station is the primary station in the collection system which pumps flow from the northern, western, southern, and parts of the eastern areas of the City, to the WWTP. The majority of flow in the eastern area of the City is pumped through the Flint Pump Station and Mariner's Island series of six pump stations to the WWTP. The Dale Avenue Pump Station consists of two separate wet wells, operated at two different water surface elevations. Five pumps convey wastewater through two force mains to the influent junction box at the WWTP.

Needed Capital Improvements to Sewer Enterprise Facilities. Similar to many wastewater systems in the region, the City's Sewer Enterprise facilities are aging and in need of significant rehabilitation. The collection system of the Sewer Enterprise dates back to the early 1900's with the majority of sewer pipes installed in the 1940's through 1960's and the original structures at the WWTP were constructed in 1937. During significant rain events, groundwater and storm water enter the Sewer Enterprise facilities and overload the system. Based on a collection system study conducted by the City in 2009, the peak wet weather flow to the WWTP is expected to reach 88 mgd by the year 2020 which greatly exceeds the capacity of the existing sewer mainlines, pump stations, and WWTP (currently, 60 mgd for peak wet weather flow).

Moreover, regulatory requirements for wastewater treatment are continually evolving and becoming more stringent to protect water quality in the Bay. For example, a permit the City received for the WWTP in 2013 requires that the capacity of the secondary treatment process at the WWTP be increased by 2020.

As a result, extensive capital improvements are necessary to bring the Sewer Enterprise facilities into a state of good repair, provide increased wet weather capacity described in prior paragraph, and meet current and future regulatory requirements. See "Regulatory Compliance" below. Currently, the estimated cost (in 2013 dollars) of the capital improvement program is \$239 million for the collection system and \$220 million for the WWTP. When escalated over the 20 year planning horizon using a compound annual rate of escalation of 4%, the total program cost (including an estimated additional 15% of project costs for program management services) could reach around \$840 million (with the City's share expected to be around \$718 million). The City is currently in the process of consolidating the separate capital improvement programs for the collection system and the WWTP into a single overall plan. Accordingly, the projects contained in the current capital improvement plans, their cost, timing and other factors are subject to further change. See "Capital Improvement Program" below.

Subregional Partners

The Subregional Partners who are served by the treatment and disposal facilities of the Sewer Enterprise are the neighboring communities of Foster City, Hillsborough, Belmont, the CSCSD and certain unincorporated areas of the County. The Subregional Partners are required by the State Water Resources Control Board to coordinate their wastewater treatment needs and to participate in a single subregional facility for wastewater treatment (i.e. the wastewater treatment facility of the Sewer Enterprise).

Pursuant to the Subregional Agreements, the Subregional Partners pay only for their respective pro rata shares of the operation and maintenance expenses and capital expenditures associated with the WWTP, the Dale Avenue lift station and waste water source control. See “Subregional Agreements” herein. Foster City, the Subregional Partner with the largest share of these expenses, paid approximately 18% of the total WWTP waste water source control operation and maintenance expenses in fiscal year 2012-13. The balance of the Subregional Partners paid for approximately seven percent of these operation and maintenance expenses in fiscal year 2012-13. Subregional Partners do not pay for collection system expenses.

The City has entered into certain agreements with the Subregional Partners regarding the allocation of capacity at the treatment facilities of the Sewer Enterprise. See “Subregional Agreements” herein. In return for the use of this capacity the Subregional Partners have agreed to share the costs of the capital improvements and the operating expenditures of the treatment and disposal facilities of the Sewer Enterprise. The flow rates and the contributions for operations of the WWTP (including the Dale Avenue lift station and waste water source control) for the past five fiscal years are summarized in Table 1.

Table 1
WWTP FLOW RATES AND WWTP OPERATIONS COST ALLOCATIONS

Flow Rates (Share)⁽¹⁾:	2008-09	2009-10	2010-11	2011-12	2012-13
Foster City	19.25%	18.02%	16.92%	18.48%	18.44%
Hillsborough	2.62	2.86	4.56	6.02	4.55
CSCSD	3.47	3.89	3.60	2.22	2.21
San Mateo County	0.22	0.27	0.22	0.15	0.15
City of San Mateo	74.43	74.97	74.70	73.13	74.65
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Avg. Annual Flow Rate-Calendar Year (mgd)	13.11	14.00	13.10	12.40	10.87
Avg. Annual Flow Rate-Fiscal Year (mgd)	12.91	13.62	13.84	12.22	11.63
Share of Costs of Operations and Maintenance:					
Foster City	\$1,387,898	\$1,324,521	\$1,303,041	\$1,626,782	\$1,633,875
Hillsborough	240,754	271,203	448,912	662,687	511,141
CSCSD	319,547	369,433	354,060	243,912	248,242
Belmont	48,145	53,396	48,819	54,382	62,030
San Mateo County	20,584	25,499	22,078	17,038	16,488
City of San Mateo	6,847,110	7,120,125	7,351,855	8,044,610	8,384,363
Total	<u>\$8,864,038</u>	<u>\$9,164,176</u>	<u>\$9,528,764</u>	<u>\$10,649,411</u>	<u>\$10,856,140</u>

Source: City of San Mateo.

(1) City of Belmont’s flow rate share is included in City of San Mateo figure.

Service Area Profile

The present service area of the Sewer Enterprise includes San Mateo, Foster City, CSCSD and portions of the developed areas of the cities of Hillsborough, Belmont, and some unincorporated County area. The current population of the Sewer Enterprise's service area is estimated by the City to be approximately 160,000. The largest population component of the Sewer Enterprise's service area is the City with an estimated population of 99,061. Foster City's estimated population is 31,120.

Development within the Sewer Enterprise's service area is predominantly residential in character although the service area within the City includes some commercial and light industrial uses. Most of the service area of the Sewer Enterprise (with the exception of as yet undeveloped land within Foster City) is nearing maximum development. It is anticipated that future growth will be derived primarily from the development of small building sites and from redevelopment within the existing residential and commercial areas, and will not generate significant increases in demand for sewer services.

Table 1 below shows the number of gallons billed within the Sewer Enterprise's service area from fiscal year 2008-09 through fiscal year 2012-13. Tables 2 and 3 below provide certain data on the characteristics of the service area.

Table 2
SEWER ENTERPRISE SERVICE AREA
Major Subregional Partners
(million gallons billed)

Fiscal Year	Cities of San Mateo, Hillsborough, Belmont CSCSD & County Area	City of Foster City	Total
2008-09	3,794	905	4,699
2009-10	3,754	896	4,699
2010-11	4,194	854	5,048
2011-12	3,647	827	4,473
2012-13	3,475	783	4,248

Source: City of San Mateo.

Table 3
SEWER ENTERPRISE SERVICE AREA
Customer Accounts
Fiscal Year 2008-09 to Fiscal Year 2012-13

Fiscal Year	San Mateo		Foster City		Total Average Annual Treatment Flow (mgd)
	Customer Accounts ⁽¹⁾	Avg. Annual Treatment Flow (mgd)	Customer Accounts ⁽²⁾	Avg. Annual Treatment Flow	
2008-09	30,513	10.4	8,174	2.5	12.9
2009-10	30,647	11.2	7,132	2.5	13.6
2010-11	30,672	11.5	7,132	2.3	13.8
2011-12	30,670	9.9	7,137	2.3	12.2
2012-13	30,677	9.4	7,146	2.2	11.6

Sources: Cities of San Mateo and Foster City.

(1) Cities of San Mateo, Hillsborough, Belmont, CSCSD and County area.

(2) Customer accounts reported for fiscal year 2008-09 include both sewer and irrigation accounts. Customer accounts reported for fiscal year 2009-10 forward include only sewer accounts.

Table 4
SEWER ENTERPRISE SERVICE AREA
Average Flow and Accounts of the Subregional Partners
Fiscal Year 2012-13

	Average Annual Flow (mgd)	Customer Accounts
San Mateo	8.7	27,532
Foster City	2.1	7,146
CSCSD	0.3	1,421
Belmont ⁽¹⁾	-	139
Hillsborough	0.5	1,585
	11.6 mgd	37,823

Sources: Cities of San Mateo and Foster City.

(1) Insignificant average daily flow.

Unincorporated area of the County figures are insignificant and are not shown in the table above.

The City's staff reports that as of fiscal year 2012-13, there were 37,823 customer accounts served by the Sewer Enterprise. The distribution of these accounts by type of account for the City and Foster City, the two major Subregional Partners, is shown below. The accounts for the other Subregional Partners (1,421 for CSCSD, 139 for Belmont and 1,585 for Hillsborough) are mainly residential accounts.

Table 5
SEWER ENTERPRISE SERVICE AREA
Distribution of Customer Accounts by Type
Cities of San Mateo and Foster City
Fiscal Year 2012-13

Type of Unit	San Mateo	Foster City	Total	% of Total
Residential:				
Single Family	18,276	4,540	22,816	66%
Multiple Family	1,827	107	1,934	6%
Condominium/Townhouse	6,344	2,183	8,577	25%
Subtotal	26,447	6,830	33,277	96%
Commercial	1,085	214	1,299	4%
Industrial		62	62	0%
Institutional ⁽¹⁾		40	40	0%
Subtotal	1,085	316	1,401	4%
Total	27,532	7,146	34,678	100%

Sources: Cities of San Mateo and Foster City.

(1) San Mateo included Institutional count with Commercial.

Sewer Service Charges

Chapter 3.54 of the San Mateo Municipal Code provides for the establishment of sewer service charges and connection fees, collection procedures, penalties for delinquency, and use of the collected funds.

General Policy. The purpose of the sewer service charges, connection fees, and other charges is to provide revenue for the construction, reconstruction, maintenance, and operation of sanitation and sewerage facilities, including both direct and indirect costs, to repay principal and interest on bonds or other obligations issued for those purposes, and for accumulation of a depreciation reserve fund if deemed appropriate by the City.

Collection of Charges on the Tax Roll. Pursuant to California law, the City elected to have all sewer service charges for each year collected on the same tax roll as its real property taxes.

Establishment of Each Year's Charges. The City establishes a base sewer service charge rate for each customer class (base rate) each fiscal year. Each customer's monthly charge is based on that customer's average winter water consumption from November through March of the prior year multiplied by that customer's applicable base rate.

At its annual budget adoption in June of each year, the City Council establishes the budget for the following fiscal year for the City sewer service fund (i.e., the Sewer Revenue Fund). At the second regular scheduled meeting in June the Council holds a special Proposition 218 notice public hearing to determine if a written majority protest exists to the

proposed sewer rate increase. Council then reviews and adopts a base sewer service charge rate per -100 cubic foot of water usage by ordinance, if a written majority protest does not exist. The recommended rate is supported by a wastewater study and financing plan.

Sewer fees based on the final determination of the City Council are then sent to the County Tax Collector during the first part of August for inclusion in the annual real property tax bills.

The sewer service charge constitutes a lien against the real property against which the charge is levied effective as of the first Monday in March immediately preceding the date of levy. All laws applicable to the levy, collection, delinquency, and enforcement of general real property taxes are applicable to the City's sewer service charge, including those pertaining to cancellation, refund, and redemption.

The Tax Collector of San Mateo County includes the amount of the sewer service charge on bills for taxes levied against the respective lots and parcels of land. The first and second installment due on November 1 and February 1 of each year, respectively, become delinquent if not paid by December 10 and April 10 of each year, respectively.

With respect to those properties that are not subject to real property taxation through the County Tax Collector, Chapter 3.54 provides that individual agreements with the property owners shall be required. There are presently five such agreements, representing approximately \$60,000 of annual revenue.

Enforcement. In the event of the failure of any owner to pay any sewer service charge when due, the City may (i) allow the payments and penalties to be collected in the same manner as general real property taxes, (ii) institute action in a court of competent jurisdiction to collect any charges, penalties, and interest which may be due and payable in the same manner as any other statutory debts owing to the City, or (iii) take such other action as may be authorized by law and the City Council.

Teeter Plan. The County Board of Supervisors utilizes 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 and assessments are distributed to taxing agencies within the County on the basis of the tax and assessment levy, rather than on the basis of actual tax and assessment collections. The County then receives all future delinquent tax and assessment payments and penalties. Pursuant to the Teeter Plan, the County establishes a tax and assessment 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 its fund, in the same manner as if the amount credited had been collected.

The County is responsible for determining the amount of tax and assessment 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 percent 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 and assessment losses reserve fund) shall be available to be drawn on to the extent of the amount of uncollected taxes and assessments credited to each fund for which a levy had 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 funds.

California State law has authorized the Teeter Plan for over 40 years; however, until 1993, it had been implemented by only five counties. Legislation signed by the Governor on July 19, 1993 provided a financial inducement to utilize this simplified account method. So long as the Teeter Plan is in place, the City is expected to be, and has historically been, credited with 100 percent of its property taxes, regardless of any delinquencies in payment of the taxes. However, the County Board of Supervisors may discontinue the Teeter Plan at any time.

Billing of Service Charges to Subregional Partners. Service charges and capital charges are billed to Foster City on a quarterly basis. Service charges are based on operation and maintenance costs. The charge billed at such time equals one-quarter of Foster City's respective share of actual service charges for each fiscal year. Foster City's quarterly invoice for its share of capital charges includes only those actually incurred by the City up to such date, and is not based on capital improvements budgeted for such fiscal year. Foster City's share of actual service charges are calculated and billed in accordance with its proportionate share of quarterly metered flow. Foster City paid approximately 18 percent of most capital expenditures and service charges based on flows for fiscal year 2012-13. For further information, see the Foster City Agreement details in "Subregional Agreements," below.

Service charges are billed quarterly to the Town of Hillsborough, the CSCSD and the County of San Mateo based on each such Subregional Partner's proportionate flow of wastewater as measured pursuant to the agreement entered into with such Subregional Partners (see "Subregional Agreements," below). Capital charges are determined in accordance with the agreement and are also billed quarterly.

In 2006, CSCSD rate payers rejected a proposed rate increase as part of the Proposition 218 rate setting process. Since that time, the Department of Public Works has worked with rate payers to phase in rates that could cover all costs related to operations, sewage treatment and capital improvements to CSCSD's infrastructure and CSCSD's share of downstream agency capital improvement projects and sewage treatment plant capital improvements. CSCSD currently owes the City \$911,305. This amount continues to change as CSCSD makes payments and as additional charges are billed.

Service charges and capital charges for the City of Belmont are determined in accordance with the City's agreement with Belmont (see "Subregional Agreements," below) and are billed annually in July of each year.

With the exception of Foster City, all of the Subregional Partners collect service charges and capital charges on the secured tax roll as part of their respective rate structures in the same

manner as does the City. Connection fees and capacity fees are collected at the time building permits are issued. Foster City conducts its own utility billing and bills users within its jurisdiction bimonthly.

Subregional Agreements

The City and the Estero Municipal Improvement District (the “District,” which is coterminous with the boundaries of the City of Foster City) entered into an agreement dated June 3, 1974, as amended July 17, 1989, January 17, 1990, and September 5, 2000 (the “Foster City Agreement”), to share the capacities, maintenance and operation costs and capital improvements costs of certain sanitary sewage treatment facilities jointly used by both entities.

The City has also entered into an agreement with the Town of Hillsborough (“Hillsborough”), CSCSD and the County dated July 18, 1989 to rescind earlier agreements and designate their present and future relationships with respect to the use of sewage conveyance and treatment facilities by each of the parties. Among other things this agreement provides for (i) the ownership of trunk sewers and joint usage of the treatment facilities, (ii) the responsibilities for the operation and maintenance of the trunk sewers and jointly used facilities, (iii) the recording and reporting of flow and costs, (iv) the sharing of trunk sewer and treatment facilities costs according to each party’s flows, (v) the budgeting, billing and collection procedures, and (vi) compliance standards. Each party has executed this agreement as of July 21, 1989. Subsequent Amendments to the 1989 agreement dated September 28, 2010, April 23, 2013 and March 3, 2014 have been executed for the purpose of allocating costs for the Crystal Springs/El Cerrito Trunk Sewer Improvements required by Cease and Desist Order described below under “Regulatory Compliance.” The first and second Amendments address costs for environmental and design work for the improvement project, and a third amendment addresses allocation of costs for construction of the improvements.

The City also has a pre-existing agreement with the City of Belmont (“Belmont”) dated October 21, 1981, as amended March 1, 2004, that provides for, among other matters, (i) the rights and duties with respect to the operation and maintenance of sewer lines, pumps and treatment facilities, (ii) the rights of Belmont to make additional connections to the sewers, (iii) the connection fees, and payment for conveyance, treatment and disposal of sewage, (iv) the allocation of the capital, debt service and operation and maintenance costs of the sewers and treatment facilities according to prorate usage, and (v) the budgeting, billing and collection procedures.

Sewer Service Charge Rates

Tables 6 and 7 below set forth fiscal year 2012-13 sewer service charges for the City’s largest users and similar information for Foster City (the major Subregional Partner).

Table 6
SEWER ENTERPRISE
CITY OF SAN MATEO LARGEST USERS
Fiscal Year 2012-13

	User	Gallons Billed (in 000)	Percent of Total Billed	Amount Billed	Percent of Total Billed
1	Bohannon Development-Hillsdale Shopping Ctr	23,335,805	0.71%	\$ 314,996	1.21%
2	Atrium Plaza LLC – San Mateo Marriott	19,908,768	0.61	237,354	0.91
3	County of San Mateo	20,290,241	0.62	149,935	0.58
4	San Mateo Community College District	27,909,974	0.85	136,124	0.52
5	Park Village Assoc. LLC &	9,079,210	0.28	118,244	0.45
6	Mills-Peninsula Hospital	13,502,597	0.41	113,906	0.44
7	BRE Properties – Lakeshore Landing Apts.	12,406,627	0.38	104,660	0.40
8	Marina Plaza Shopping Center	7,154,770	0.22	96,392	0.37
9	Bridgepointe Apartments (Sobrato Developmt)	10,889,683	0.33	91,864	0.35
10	Archstone Apartments	10,138,392	0.31	85,526	0.33
	Total	154,616,067	4.73%	\$ 1,449,000	5.57%
	Total annual billing for San Mateo users			\$26,029,285	

Source: City of San Mateo.

Table 7
SEWER ENTERPRISE
FOSTER CITY LARGEST USERS
Fiscal Year 2012-13

	City of Foster City	Number of Units	Amount Billed	Percent of Total Billed
1	Woodmont Management Apartments	924	\$ 429,660	6.15%
2	Foster’s Landing Apartments	490	237,344	3.40
3	Essex Harbor Cove, L.P.	400	186,000	2.66
4	Marina Point HOA	364	167,849	2.40
5	Grupe-Schooner Bay	312	162,409	2.32
6	Isle Cove HOA	280	139,603	2.00
7	Avalon Bay Communities	288	133,920	1.92
8	PWM Residential Venture LLC	280	130,929	1.87
9	Sand Harbour	276	128,495	1.84
10	Lantern Cove	233	121,286	1.74
	Total	3,847	\$1,837,495	26.30%
	Total annual billing for Foster City users		\$6,986,437	

Source: City of Foster City.

The City establishes rates each fiscal year based on a wastewater rate study and financing plan. Connection and expansion fee revenue is based on expected development activity in the next fiscal year. Operating revenues to be contributed by Subregional Partners is estimated based on Subregional Partners’ respective contributions to the WWTP flow. Their respective

contributions to the capital improvement budget are based on their obligations under the respective agreements (see “Subregional Agreements” herein). Non-operating interest income is estimated based on expected investment income on fund balances. The balance of the annual budget is raised from City users of the Sewer Enterprise who pay the sewer service charge rate established annually by the San Mateo City Council. The City has had annual rate increases as shown in Table 8, below. Rates have increased eight percent annually from 2011-12 through 2013-14. An eight percent increase in rates for 2014-15 and 15 percent increases annually for 2015-16, 2016-17 and 2017-18 are assumed in the projections contained in Table 15 below, but such increases have not yet been approved by the City Council and are subject to change as the capital improvement program continues to be refined. The City expects that additional rate increases will be necessary in the future to fund the capital improvement program. See “Capital Improvement Program” below.

See “RISK FACTORS RELATING TO THE BONDS—Increased Costs,” “—Statutory and Regulatory Impact” and “—Impact of Water Conservation Measures” for certain risk factors that may have an impact on the City’s need to raise rates.

Table 8
SEWER SERVICE CHARGE RATES
Fiscal Year 2008-09 to Fiscal Year 2013-14

Classification of Use	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
City of San Mateo						
Residential						
Rate: (Per hundred cubic feet)	\$ 4.51	\$ 4.92	\$ 5.36	\$ 5.84	\$ 6.31	\$ 6.81
Average Yearly Residential Charge (based on median residential water usage of 800 cubic feet per month)	432.96	472.32	514.56	560.64	605.76	653.76
Commercial – Class B (Standard Strength) Rate:	4.51	4.92	5.36	5.84	6.31	6.81
Commercial – Class C (Moderate Strength) Rate:	6.68	7.28	7.93	8.64	9.33	10.07
Commercial – Class D (High Strength) Rate:	10.10	11.02	12.01	13.08	14.13	15.25
Foster City						
Residential (Fixed Charge)						
Single Family	40.98	43.85	46.05	46.05	46.05	46.05
Duplex	34.45	36.90	38.75	38.75	38.75	38.75
Townhouse	34.45	36.90	38.75	38.75	38.75	38.75
Apartment/Condominium	34.45	36.90	38.75	38.75	38.75	38.75
Commercial (per 100 cubic feet of water billed)						
Restaurant	7.45	7.97	8.37	8.37	8.37	8.37
Miscellaneous	2.62	2.80	2.94	2.94	2.94	2.94
Institutional (per 100 cubic feet of water billed)						
Schools, Churches, Public Buildings	1.48	1.58	1.66	1.66	1.66	1.66

Sources: Cities of San Mateo and Foster City.

Sewer Connection Charges and Impact Fee

The City charges both a connection fee and an impact fee as new users are connected to the sewer service facilities of the Sewer Enterprise. The connection fee and the impact fee are collected at the time of issue of the building permits. The connection fees relates to the incremental burden added to the collection system and WWTP for added flow.

The connection fee structure for the City for fiscal year 2013-14, which is reviewed annually, is set forth below and compared to rates charged by Foster City. The City rate structure for Fiscal Year 2013-14 was adopted on June 18, 2013, effective 30 days after adoption.

Table 9
SEWER CONNECTION CHARGES BY CATEGORY
Fiscal Year 2013-14

<u>Sewer Connection Charge</u>	<u>Unit</u>	<u>SAN MATEO Cost per Unit</u>	<u>FOSTER CITY Cost per Unit</u>
Residential:			
Single-family dwelling	Per connection	\$ 2,374.00	\$ 2,100.00
Duplex	Per dwelling unit		1,312.50
Apartment, Studio & 1 Bedroom	Per dwelling unit	1,187.00	1,312.50
Apartment, 2 Bedrooms	Per dwelling unit	1,783.00	1,312.50
Apartment, 3 Bedrooms	Per dwelling unit	2,374.00	1,312.50
Hotels or Motels	Per room or apartment	1,187.00	0.75/sq ft of building area
Board or Lodging Houses	Per bedroom	1,187.00	0.75/sq ft of building area
Non-Residential:			
		<u>Cost per Unit</u>	<u>Cost per SF</u>
Churches	Per connection	\$ 2,374.00	\$ 0.75
Golf Courses	Per connection	2,374.00	0.75
Hospitals	Per fixture unit, minimum	117.00	0.75
Lodges & Clubs	Per fixture unit, minimum	117.00	0.75
Rest, Residential Care & Convalescent Homes	Per fixture unit, minimum	117.00	0.75
Schools	Per fixture unit, minimum	117.00	0.75
Commercial & Industrial:			0.75
Commercial & Industrial	Per fixture unit, minimum	117.00	0.75

Sources: Cities of San Mateo and Foster City.

In addition to connection fees, the City has two developer impact fees that relate to the WWTP and sewer collection system. They are the WWTP Expansion Fee Phase II assessed against all projects that add new flow to the WWTP, and the South Trunk Fee that is assessed against new projects that add flow to this sub-system. The revenue generated by these impact fees is highly variable and dependent on the level of development in each area. Authorization for the WWTP Expansion Fee has been extended until costs are recovered. Given that the area within the City is nearing maximum development, the City does not expect that connection or

impact fees will provide a significant source of revenues to the Sewer Enterprise, or that the connection or impact fees will be sufficient to fully recover the costs for which these fees are imposed.

A ten-year history of the City's sewer connection charge on a per dwelling unit equivalent basis, connection charge revenue, and WWTP Expansion impact fee revenue is shown in Tables 10 and 11 respectively.

Table 10
SEWER CONNECTION CHARGES AND REVENUES
Fiscal Year 2003-04 to Fiscal Year 2012-13

Year Ended June 30	Charge per Dwelling Unit Equivalent	Connection Charge Revenue ⁽¹⁾
2004	\$1,964	\$134,162
2005	1,984	201,893
2006	2,024	244,453
2007	2,081	140,391
2008	2,133	88,923
2009	2,203	89,012
2010	2,282	107,811
2011	2,282	75,058
2012	2,305	72,072
2013	2,374	306,248

Source: City of San Mateo.

(1) Based on receipts.

Table 11
SEWER IMPACT FEE REVENUES
Fiscal Year 2003-04 to Fiscal Year 2012-13

Year Ended June 30	Impact Fee Revenue ⁽¹⁾
2004	\$59,187
2005	96,129
2006	48,090
2007	21,012
2008	30,332
2009	327,433
2010	90,914
2011	72,249
2012	385,811
2013	966,483

Source: City of San Mateo.

(1) Based on receipts.

Table 12 sets forth information on current monthly residential sewer and connection charges for sewage systems in the vicinity of the City, with the order ranked by estimated median annual service charge.

Table 12
SELECTED COMPARABLE MONTHLY RESIDENTIAL SEWER CHARGES
Survey Conducted February 2014
(Based on flat rate or 8 hundred cubic feet of monthly winter water use)

Provider	Monthly Sewer Fee	Flat Residential Sewer Rate	Rate Includes Usage Based Component
<u>SAN MATEO COUNTY</u>			
Hillsborough	\$169.25	X	
Burlingame Hills CSD	132.92	X	
Crystal Springs CSD	112.50	X	
Montara WSD	101.82		X
Pacifica	94.53		X
Belmont	82.77		X
Millbrae	80.98		X
San Bruno	82.19		X
Brisbane	76.32		X
Burlingame	73.30		X
West Bay SD	68.33	X	
San Carlos	67.26	X	
Redwood City	63.09	X	
San Mateo	54.58		X
Foster City	46.05	X	
South San Francisco	44.33	X	
East Palo Alto SD	43.33	X	
Daly City	42.08		X
<u>OTHER REGIONAL AGENCIES</u>			
San Francisco PUC	76.35		X
Los Altos Hills	61.08	X	
Milpitas	37.96	X	
San Jose	33.83	X	
Sunnyvale	33.73	X	
Palo Alto	29.31	X	
Cupertino SD	27.50	X	
Mountain View	26.10	X	
West Valley SD	25.99	X	
Union SD	25.36	X	
Santa Clara	24.54	X	

Source: Bartle Wells Associates.

Regulatory Compliance

Generally. The San Francisco Bay Regional Water Quality Control Board (the “Regional Board”) regulates water quality in the San Francisco Bay region under the authority of the Federal Clean Water Act (the “CWA”) and the State’s Porter-Cologne Water Quality Control Act. The Regional Board is the enforcement arm of the State and federal water-pollution-control programs in the San Francisco Bay region. Regulations with respect to sanitary sewer systems pertain to the prohibition against overflows or bypasses of untreated wastewater. Except as provided in the permits, such overflows and bypasses that reach the surface waters of the United States are violations of the CWA and subject to fines by the SWRCB and the Regional Board, which have the authority to enforce the CWA in the State.

There are several permits or regulatory orders from the SWRCB and the Regional Board which apply to ownership and operation of a sanitary sewer collection system and wastewater treatment plant, and regulate discharges of waste from those facilities. The permits and orders mandate owners of sanitary sewer systems to implement various measures to reduce and prevent sanitary sewer overflows (SSOs) including operational procedures, record keeping and reporting, maintenance activities, and infrastructure renewal and improvement.

Groundwater and storm water enter the City’s collection system through leaky pipes and illegal drain connections. During significant rain events the increased flow in the pipes exceeds the capacity of the Sewer Enterprise facilities and results in overflows of diluted but untreated sewage into streets and storm drains which eventually reach creeks and the Bay. These SSOs are a violation of the permits, orders and regulations described in this Official Statement. In 2009, the Regional Board issued a Cease and Desist Order described below mandating elimination of waste discharges and requiring specific actions be taken by the City and two of its Subregional Partners to correct conditions which cause SSOs.

The actions taken by the City to implement these regulatory requirements are documented in various studies, evaluations, and plans the City has undertaken with the assistance of engineering firms and other consultants. The City presents updates to these plans to the SWRCB and the Regional Board to maintain compliance with the permits and regulatory orders described under this heading.

The regulations, permits and orders discussed below require that the City upgrade its Sewer Enterprise facilities. The capital improvements required to satisfy these regulatory issues are included in the capital improvement programs prepared by the City and described below under “Capital Improvement Program.”

A brief description of the main permits and regulatory orders relating to the Sewer Enterprise is set forth below.

Wastewater Treatment Plant (“WWTP”). Discharge of treated wastewater from the WWTP into the deep-water channel of Lower San Francisco Bay, a water of the State and the United States, is currently regulated by Order No. R2-2013-0006 (National Pollutant Discharge Elimination System Permit (“NPDES”) No. CA0037541), which was adopted on March 13, 2013 and became effective on May 1, 2013, and expires on April 30, 2018. This waste discharge

permit for the WWTP requires the elimination of bypassing of primary effluent around the secondary treatment process during wet weather flow events (termed “blending”). This requires increasing the capacity of the secondary treatment process at the WWTP by the year 2020.

This NPDES Permit requires that the City undertake certain tasks to reduce “blending” at the WWTP. These tasks relate to both the WWTP and the collection system and include capacity evaluations, master planning, developing funding plans, developing improvement programs and designing and constructing improvements. The City completed some of these tasks in 2013 and in years prior. See “Capital Improvement Program” for a description of the draft WWTP Master Plan completed by the City in 2013.

A portion of the stormwater from the WWTP flows offsite to Seal Slough. This stormwater is covered under the SWRCB’s statewide industrial stormwater NPDES permit (NPDES General Permit No. CAS000001). The WWTP wastewater discharge is also regulated under Regional Board Order No. R2-2012-0096 (NPDES Permit No. CA0038849), which establishes requirements on mercury and polychlorinated biphenyls (PCBs) from wastewater discharges in the region.

Collection System. The City’s collection system is subject to the SWRCB’s General Waste Discharge Requirements for Sanitary Sewer Overflow and related Monitoring and Reporting Program (General Order, Order No. 2006-0003-DWQ). To provide a consistent, statewide regulatory approach to address SSOs, the SWRCB adopted Statewide General Waste Discharge Requirements (WDRs) for Sanitary Sewer Systems, Water Quality Order No. 2006-0003 (Sanitary Sewer Systems WDR) on May 2, 2006. The Sanitary Sewer Systems WDR requires public agencies, including the City, that own or operate sanitary sewer systems to develop and implement sewer system management plans and report all SSOs to the SWRCB’s online SSO database.

Combined Wastewater Treatment Plant and Collection System. In 2009, the City received Cease and Desist Order No. R2-2009-0020 (the “Cease and Desist Order”) from the Regional Board. The Cease and Desist Order requires the City and two of its Subregional Partners, the Town of Hillsborough and the CSCSD, by December 31, 2018, to complete a series of improvements necessary to eliminate conditions in their collection systems that cause or contribute to SSOs or unauthorized discharges from the WWTP, achieve full compliance with Order No. 2006-0003 DWQ relating to the collection system, and comply with the prohibition against unpermitted discharges under the CWA.

The City has achieved all but one of the requirements of the Cease and Desist Order on time so far. The only exception is one trunk sewer project which is located within the jurisdictional limits of both Hillsborough and the City. Due to the complexities of funding and executing the multi-agency project, some of the interim deadlines in the Cease and Desist Order were not met. However, the Regional Board accepted these changes to the project delivery process. Although the City cannot provide assurances of compliance by any Subregional Partner with the requirements of the Cease and Desist Order, the City expects to continue to be able to comply with the requirements of the Cease and Desist Order.

The Cease and Desist Order mandates expansion of the City's preventative maintenance program and requires that significant capital improvements to the Sewer Enterprise facilities be constructed. The capital improvement plans discussed below under "Capital Improvement Program" include the cost of the capital improvements needed to comply with the Cease and Desist Order.

Stormwater Collection System. On October 14, 2009, the Water Board re-issued county-wide municipal stormwater permits as one Municipal Regional Stormwater NPDES Permit to regulate stormwater discharges from municipalities and local agencies in Alameda, Contra Costa, San Mateo, and Santa Clara counties, and the cities of Fairfield, Suisun City, and Vallejo. The City is subject to the Municipal Regional Stormwater Permit, Order No. R2-2009-0074, adopted on October 14, 2009 and amended by Order No. R2-2011-0083 on November 28, 2011. This order expires on November 30, 2014. The Municipal Regional Stormwater Permit is expected to be renewed by the Regional Board; negotiations on the development of the new Permit are ongoing among all of the permittees.

Violations. According to the California Integrated Water Quality System, the Regional Board's electronic reporting system, in the last five years the City has had four Class 2 violations of its wastewater discharge NPDES permit, and none considered priority. All of the violation notices involved chlorine total residual. These violations have also been addressed by the City, and no material fines were imposed. There have been no mandatory minimum penalties imposed due to WWTP effluent violations since 2005.

From December 2004 through July 14, 2008, 87 SSOs occurred from the City's collection system. Notably, 84 of the 87 SSOs, representing over 3.5 million gallons of raw sewage, discharged to surface waters. The largest SSO was 378,000 gallons on January 25, 2008, and was caused by insufficient collection system capacity during a rain event. On that same day, 19 other SSOs totaling 2,559,800 gallons occurred from the Sewer Enterprise due to capacity problems. Between, 2009 to present, the City has reported approximately 200 SSOs totaling 2,087,188 gallons of sewage spilled.

All of these discharges were violations of the WWTP NPDES Permit, or the General Waste Discharge Requirements for Sanitary Sewer Overflow and related Monitoring and Reporting Program described above. As a result, the Regional Board established an Administrative Civil Liability on the City for \$950,000. The City agreed to pay that amount to the Waste Permit Discharge Fund, of which \$760,000 will be suspended provided the Regional Board is satisfied through completion of a Supplemental Environmental Project ("SEP"). The SEP involved the City agreeing to provide grants and loans to citizens as an incentive to repair their sewer laterals.

Future Regulatory Requirements. The City believes that the Sewer Enterprise facilities comply with current operations and reporting requirements of local, State, and federal regulators. However, the emergence of total nitrogen limits, the increase in bans on the use of landfills and land application for biosolids disposal, and more stringent emissions standards for internal combustion engines may all play a role in future regulations, and regulations may change. Accordingly, compliance with future requirements could substantially increase the costs of capital improvements to the Sewer Enterprise Facilities and the costs operating and maintaining

the Sewer Enterprise. See “RISK FACTORS RELATING TO THE BONDS—Statutory and Regulatory Impact.”

Capital Improvement Program

The City manages a capital improvement program (CIP) for the Sewer Enterprise which encompasses capital projects, purchases and activities needed to deliver wastewater collection and treatment services. It also outlines planned capital improvements to construct and upgrade infrastructure needed to deliver the desired level of service and to meet the regulatory requirements. A 5 year CIP is included in the biennial business plan of the City’s Department of Public Works.

The CIP for the Sewer Enterprise is driven mainly by the aging nature of the Sewer Enterprise infrastructure and the need to address the current and future regulatory compliance issues. To address these issues, the City has over time completed a number of studies, plans and evaluations of the WWTP and collection system facilities to identify the improvements needed to its Sewer Enterprise facilities, including capital improvement projects needed to increase wet weather capacity and reduce SSOs.

In 2013, the City completed a draft Master Plan for the WWTP. The draft WWTP Master Plan identifies projects and improvements needed to address current plant reliability issues, projected increases in wet weather flows reaching the WWTP, and increasingly restrictive regulatory requirements over the next 20 years. The capital improvement projects identified in the draft WWTP Master Plan address several major drivers of future capital requirements:

- The 2013 waste discharge (NPDES) permit for the WWTP requires the elimination of bypassing of primary effluent around the secondary treatment process during wet weather flow events (termed “blending”). This requires increasing the capacity of the secondary treatment process by the year 2020.
- The WWTP was largely constructed from 1940 to 1980 and thereby has many assets that are over 30 years old. These aging assets are reaching the end of their useful service life and rehabilitation or replacement is necessary.
- The Cease and Desist Order issued by the Regional Board in 2009 requires that the overflows in the collection system stop, necessitating that additional storage or treatment capacity be constructed to handle the additional wet weather flows. The improvements needed to provide peak wet weather flow to 88 mgd are included in the draft WWTP Master Plan.

The estimated costs for the City’s share of the projects identified in the draft WWTP Master Plan (in 2013 dollars) over the 5 year planning period total approximately \$80 million and over the next 20 years total approximately \$220 million. This cost estimate does not include an estimated additional 15% of project costs for program management services.

A separate CIP to address wet weather capacity assurance for the City’s collection system was previously developed in 2009 in response to the Cease and Desist Order. This CIP identifies improvements needed to the collection system to provide wet weather capacity assurance for

year 2020 projected flows. Construction of these projects extends through year 2036. Currently, the estimated cost (in 2013 dollars) of the capital improvement program for the collection system over the 5 year planning period total approximately \$104 million and over the next 20 years total approximately \$239 million. This cost estimate does not include an estimated additional 15% of project costs for program management services. The improvements include rehabilitation to reduce inflow and infiltration, relief sewers, pump station upgrades and storage facilities.

The 2013 NPDES permit requires coordinated plans for the City's collection system and the WWTP be submitted to the Regional Board. The City is in process of updating and combining the existing collection system CIP with the WWTP Master Plan to produce a CIP for the entire Sewer Enterprise to address flow projections through year 2035. The City's current estimates for the total program cost (including an estimated additional 15% of project costs for program management services) when escalated over a 20 year time period using a compound annual rate of escalation of 4% could reach around \$840 million (with the City's share expected to be around \$718 million).

The projections contained in Table 15 below assume that the City will fund approximately \$229 million in CIP improvements over the 5-year projection period ending in Fiscal 2017-18. See "Projected Operating Results." The City's current CIP front loads delivery of the projects, which has the effect of accelerating the need for additional borrowings and rate increases. However, since the City is still in the process of preparing an integrated plan for the City's collection system and the WWTP, the prioritization, sequencing and scheduling of projects and their respective estimated costs will likely change to meet operational requirements and financial constraints.

The current WWTP and collection system CIPs include a schedule of capital improvement projects which span a period of twenty years. Projects fall into three basic areas: collection system improvements, Dale Avenue pump station improvements and wastewater treatment plant improvements, as described further below. A portion of the proceeds of the 2014 Bonds will be spent to fund certain costs related to the following projects for 2013-14 and 2014-15. The proceeds of the SRF Obligations will be used to fund a portion of the improvements to the City's collection system.

Collection System Improvements. These improvements involve annual rehabilitation, capacity, inflow and infiltration reduction, and reliability projects for the sanitary sewer collection system. Annual rehabilitation projects in this area are those needed to keep the collection system in a state of good repair including spot repair, line replacement, closed-circuit television inspection, root foaming, manhole inspection and rehabilitation, rehabilitation and upgrades for pump stations other than Dale Avenue, and any emergency work. Capacity projects provide increased capacity to collect and transport peak wet weather flows. Work includes upsizing existing main trunk lines, constructing relief sewer lines, and pump station upgrades to increase capacity and reliability. The sanitary sewer capacity projects are all wet weather related projects necessary to prevent sanitary sewer overflows and are requirements of the Cease and Desist Order. Expenditures for collection system improvements, other than the Dale Avenue projects described below, are estimated at \$143 million (in 2013 dollars) over the next 10 years.

Dale Avenue Pump Station Improvements. These improvements include all projects for the Dale Avenue Pump Station system, including rehabilitation and upgrades to the existing station, and a new wet-weather pumping system consisting of a new pump station and force main to provide additional capacity during excessive wet weather events. The work includes rehabilitation and new construction for wet-weather SSO reduction. Expenditures under the Dale Avenue pump station improvements are estimated at \$12 million (in 2013 dollars) over the next 10 years, with construction of the new station anticipated in 2021.

Wastewater Treatment Plant Improvements. In 2013, the City completed a Master Plan for the WWTP taking the following into consideration: meeting the projected peak influent flows and loads into the WWTP, resolving existing plant condition and treatment concerns, meeting current regulatory requirements regarding blending, meeting anticipated future regulatory requirements, and accounting for space limitations on site. Proposed improvements fall into the following categories: immediate repair needs, rehabilitation and replacement, wet weather capacity, current and future regulatory compliance, administrative facilities, and flow equalization. The City's share of the expenditures on the WWTP are estimated at \$168 million (in 2013 dollars) over the next 10 years.

Insurance

The City is currently evaluating its insurance coverage. Effective July 1, 1976, for workers' compensation, and December 2, 1976, for general liability, the City implemented a self-insurance program. The City is self-insured for losses up to \$1,000,000 and \$500,000 for workers' compensation and general liability, respectively.

From 2004 through 2011, the City provided for its general liability and property insurance needs through its membership in the Association of Bay Area Governments (ABAG) PLAN program. Since May 2011, the City elected to withdraw from this program and purchase insurance from the commercial markets. The City purchased commercial general liability and property insurance for fiscal years 2011/2012, 2012/2013, and 2013/2014. The City is evaluating whether to continue purchasing commercial insurance, or whether to join a public agency risk sharing pool.

Excess workers' compensation insurance has been purchased by the City for losses exceeding \$1,000,000 up to a maximum of \$25,000,000.

The City's liabilities are reported when it is both probable that a loss has occurred and the amount of the loss can be reasonably estimated. The claims and litigation liabilities are reported in the governmental activities of the government-wide financial statements and in the internal service fund and include an amount for claims that have been incurred but not reported. The liabilities are reevaluated periodically using the results of actuarial studies. The estimated liability for claims and litigation is calculated considering recent claim settlement trends, amounts for claims incurred but not reported, current settlements, frequency of claims, past experience, and economic factors. See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2013 for a description of the City's claims activity.

There have been no significant reductions in any insurance coverage, nor have there been any insurance related settlements that exceeded insurance coverage during the past three fiscal years.

The City, like most regions adjacent to the Pacific Ocean, is an area of significant seismic activity and, therefore, is subject to potentially destructive earthquakes. The San Andreas fault is the major active fault closest to the City, and is approximately three miles from the WWTP and the collection system and associated facilities that serve the Sewer Enterprise. Several active or potentially active faults are located close to Sewer Enterprise facilities.

On October 17, 1989, at 5:04 p.m., a 7.1 magnitude earthquake occurred in Loma Prieta, California, which is located approximately 40 miles from the WWTP. The fiberglass baffles in the chlorine contact tanks were damaged in addition to some incinerator hearth brickwork. Both areas of damage were repaired in 1990 and reimbursement obtained from the Federal Emergency Management Agency. No other WWTP processes sustained damage. Each modular process unit at the WWTP as it is installed is designed by structural engineers to meet earthquake safety standards. However, many of the Sewer Enterprise facilities, such as its WWTP, pump stations and collections system piping, in the event of a significant earthquake, could sustain significant damage, possibly leading to sewage backup into the San Francisco Bay or onto City streets. A major earthquake may also have a severe adverse impact on the economy of the Sewer Enterprise's service area.

The City is not legally obligated under the Indenture to maintain, or cause to be maintained, earthquake insurance on the WWTP and the collection system owned by the Sewer Enterprise and the City does not presently maintain earthquake insurance on behalf of the Sewer Enterprise. No assurance is made that any earthquake insurance will be provided in the future, or if provided, that such insurance will continue to be maintained in the future. If there were to be an occurrence of severe seismic activity in the City, there could be substantial damage to the WWTP and the collection system owned by the Sewer Enterprise, the cost of repair of which could exceed the fund balance available therefore.

In the event of significant earthquake damage to the Sewer Enterprise's facilities, there can be no assurance that Net Revenues would be sufficient to pay principal of and interest on the 2014 Bonds.

Pension Plans

The City provides retirement benefits to its employees through contracts with California Public Employees' Retirement System ("PERS"), a multiple employer public sector employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. Certain labor contracts required the City to also pay employee contributions, however these requirements are no longer in effect for Fiscal Year 2013-14.

PERS maintains more than one pension plan (each, a “PERS Plan”) for the City based on type of employee. The City has PERS Plans for “Safety Employees” and “Miscellaneous Employees.” The City contributes to PERS amounts equal to the recommended rates for each PERS Plan multiplied by the payroll of those employees of the City who are eligible under PERS.

Salaries and benefits costs of the Sewer Enterprise include funding of retirement benefits for employees assigned to the Sewer Enterprise who, as City employees, participate in CalPERS Miscellaneous Plan. Retirement payments paid from Revenues, with respect to employees assigned to the Sewer Enterprise, average 29% of annual employer pension costs paid towards the Miscellaneous Plan. The Sewer Enterprise employer contributions for pensions are estimated to be approximately \$1.2 million for Fiscal Year 2013–14 and approximately \$1.3 million for Fiscal Year 2014-15. Payments to PERS constitute Maintenance and Operation Costs of the Sewer Enterprise.

For a variety of reasons, including investment losses, the City has experienced unfunded liabilities, and retirement costs payable with respect to all City employees, including those assigned to the Wastewater System, have increased in recent years. As of June 30, 2012 (the most recent actuarial date), the City’s “Miscellaneous Plan” with PERS (in which the City employees assigned to the Sewer Enterprise participate) had an unfunded liability (with respect to all participating City employees, including employees assigned to the General Fund, the Sewer Revenue Fund, and other enterprise funds) of approximately \$30.3 million (actuarial value basis) and \$58.1 million (market value basis), and a funded ratio of 84.6% actuarial value basis) and 70.6% (market value basis).

Due to changes to PERS actuarial methodology and assumptions, required contributions from the City are expected to continue to increase. See APPENDIX B — “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2013” — Note 12 to the Basic Financial Statements” for a discussion of retirement liabilities payable by the City.

Post Employment Healthcare Benefits

In addition to required contributions for retirement benefits for employees, the City pays certain post-employment health care and other non-pension benefits (“OPEB”) for such employees. The City of San Mateo Retiree Healthcare Plan is a single-employer defined benefit healthcare plan administered by the City. Merit employees who retire directly from the City under CalPERS at the minimum age of 50 with at least 5 years of CalPERS service (or disability) are eligible to receive \$160/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, 2012, there were 382 retirees receiving postemployment health care benefits from the City. The contribution requirements of the Plan participants and the City are established and may be amended by the City.

The City’s OPEB related payments paid from Revenues were approximately \$174,000 in Fiscal Year 2011-12 and approximately \$139,000 in Fiscal Year 2012-13. Beginning in Fiscal Year 2012-13, the City prefunds the Plan through PERS OPEB Trust by contributing the City’s

annual required contribution. For the Fiscal Year 2012-13, the City contributed \$1.2 million, including \$744,444 in benefit payments and a \$500,000 deposit to the PERS OPEB Trust.

See APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2013—Note 13 to the Basic Financial Statements” for a discussion of OPEB liabilities payable by the City, as well as the City’s current unfunded OPEB liability.

Financial Statements

The City’s audited financial statements dated January 7, 2014, for the fiscal year ended June 30, 2013, which include the financial results of the Sewer Enterprise, are attached hereto as APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2013.

The audited financial statements include information concerning the City’s General Fund and other funds, including the Sewer Revenue Fund and the other enterprise funds. The 2014 Bonds are special obligations of the City, secured by and payable solely from the Net Revenues and other amounts pledged under the Indenture. No other funds of the City are available for payment of the 2014 Bonds. See “INDEPENDENT AUDITOR.”

Table 13 sets forth a five-year history of the Statement of Revenues, Expenses and Changes in Fund Net Position of the Sewer Revenue Fund.

Table 13
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE SEWER REVENUE FUND
For the Fiscal Years Ended June 30, 2009 through June 30, 2013

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Revenues					
Charges for services	\$ 20,321,065	\$21,817,877	\$22,543,950	\$ 24,557,069	\$ 28,074,086
Connection & Impact fees	166,196	127,340	85,720	145,002	638,250
Total Operating Revenues	<u>\$ 20,487,261</u>	<u>\$ 21,945,217</u>	<u>\$22,629,670</u>	<u>\$ 24,702,071</u>	<u>\$ 28,712,336</u>
Operating Expenses					
Costs of sales and services	\$ 13,629,291	\$ 15,453,689	\$15,037,024	\$ 16,268,553	\$ 16,785,161
Administration	1,290,630	1,334,604	1,382,148	1,194,284	1,195,079
Depreciation and amortization	2,016,550	2,797,654	2,922,079	3,015,967	3,158,155
Total Operating Expenses	<u>\$ 16,936,471</u>	<u>\$ 19,585,947</u>	<u>\$19,341,251</u>	<u>\$ 20,478,804</u>	<u>\$ 21,138,395</u>
Operating Income (Loss)	\$ 3,550,790	\$ 2,359,270	\$ 3,288,419	\$ 4,223,267	\$ 7,573,941
Nonoperating Revenues (Expenses)					
Capital contributions	\$ 638,325	\$ 847,512	\$ 125,614	\$ 139,663	\$ 897,868
Interest income	721,558	238,045	178,998	233,504	68,856
Loss from disposal of capital assets	—	—	—	—	(7,123)
Interest expense and fiscal charges	<u>(1,875,062)</u>	<u>(1,823,239)</u>	<u>(1,543,976)</u>	<u>(2,085,431)</u>	<u>(2,071,770)</u>
Total nonoperating revenues (expenses)	\$ (515,179)	\$ (737,682)	\$ (1,239,364)	\$ (1,712,264)	\$ (1,112,169)
Change in net assets	\$ 3,035,611	\$ 1,621,588	\$ 2,049,055	\$ 2,511,003	\$ 6,461,772
Net Position					
Beginning of year	\$ 78,923,185	\$ 81,958,796	\$ 83,580,384	\$ 85,629,439	\$ 88,140,442
End of year	\$ 81,958,796	\$ 83,580,384	\$ 85,629,439	\$ 88,140,442	\$ 94,602,214

Source: City of San Mateo Audited Financial Statements for fiscal years 2009-2013.

Historical Operating Results

The following table presents a five year compressed comparison of Net Revenues, as defined in the Indenture, and historical debt service coverage ratios.

Table 14
HISTORICAL REVENUES, EXPENSES AND DEBT SERVICE COVERAGE
For Fiscal Year Ended June 30,

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Revenues					
Charges for services	\$ 20,321,065	\$ 21,817,877	\$22,543,950	\$ 24,557,069	\$ 28,074,086
Connection and Impact Fees	166,196	127,340	85,720	145,002	638,250
Interest Income	721,558	238,045	178,998	233,504	68,856
Total	<u>\$ 21,208,819</u>	<u>\$ 22,183,262</u>	<u>\$ 22,808,668</u>	<u>\$ 24,935,575</u>	<u>\$ 28,781,192</u>
Expenses					
Cost of sales and services	13,629,291	15,453,689	15,037,024	16,268,553	16,785,161
Administration	1,290,630	1,334,604	1,382,148	1,194,284	1,195,079
Total	<u>14,919,921</u>	<u>16,788,293</u>	<u>16,419,172</u>	<u>17,462,837</u>	<u>17,980,240</u>
Net Revenues	<u>\$ 6,288,898</u>	<u>\$ 5,394,969</u>	<u>\$ 6,389,496</u>	<u>\$ 7,472,738</u>	<u>\$ 10,800,952</u>
Debt Service					
Series 1996A	661,908	661,355	658,963		
Series 1998A	560,985	560,985	560,985		
Series 1998B	1,197,268	1,194,860	1,195,303		
Series 2003	728,254	728,254	728,254	728,254	728,254
Series 2011A	-	-	-	2,450,253	2,770,308
Total	<u>\$ 3,148,414</u>	<u>\$ 3,145,454</u>	<u>\$ 3,143,504</u>	<u>\$ 3,178,507</u>	<u>\$ 3,498,561</u>
Debt Service Coverage	2.00x	1.72x	2.03x	2.35x	3.09x

Source: City of San Mateo Audited Financial Statements, except debt service coverage calculation.

Projected Operating Results

The following is a table of projected revenues and expenses of the Sewer Fund for five fiscal years as prepared by the City. These projections exclude depreciation charged to the Sewer Revenue Fund. These projections are based upon the City's current circumstances and available information that the City believes to be reasonable. The assumptions may be affected by numerous factors and there can be no assurance that such projections will be achieved.

Sewer service charges are projected to increase for the next five years. The Council has taken no action to implement the rate increases assumed in these projections beyond the Fiscal Year 2013-14. Additional rate increases may become necessary in the future in order for the City to comply with provisions of the Indenture. In addition to the 2014 Bonds shown in Table 15, the projections in Table 15 assume three additional bond issues during the projection period: \$45.9 million of bonds issued in Fiscal Year 2015-16, \$28.22 million of bonds issued in Fiscal Year 2016-17 and \$40.8 million of bonds issued in Fiscal Year 2017-18. The projections also assume that additional SRF obligations are obtained by the City in the amounts of (i) \$2.5 million in Fiscal Year 2014-15 and (ii) \$30 million in Fiscal Year 2016-17 (debt service for this obligation is not included in Table 15 because it is not projected to become due and payable until Fiscal Year 2018-19). These projections also assume that the City will fund approximately \$229

million in CIP improvements over the 5-year projection period ending in Fiscal 2017-18. See “Capital Improvement Program” above.

Table 15
PROJECTED REVENUES, EXPENSES, ANNUAL DEBT SERVICE COVERAGE
AND DISCRETIONARY CASH RESERVES
For Fiscal Year Ending June 30,

Revenues ⁽¹⁾	2014	2015	2016	2017	2018
Service Charges - San Mateo	\$ 25,545,000	\$ 27,368,000	\$ 31,001,000	\$ 35,116,000	\$ 39,778,000
O&M Charges - Foster City	1,751,000	1,857,000	1,931,000	2,008,000	2,088,000
O&M Charges - Other Partners	831,000	892,000	923,000	954,000	988,000
Subtotal	<u>\$ 28,127,000</u>	<u>\$ 30,117,000</u>	<u>\$ 33,855,000</u>	<u>\$ 38,078,000</u>	<u>\$ 42,854,000</u>
Interest Income ⁽²⁾	106,000	96,000	279,000	424,000	590,000
<u>Other Revenues</u> ⁽³⁾	<u>420,000</u>	<u>230,000</u>	<u>230,000</u>	<u>230,000</u>	<u>230,000</u>
Total Revenues	<u>\$ 28,653,000</u>	<u>\$ 30,443,000</u>	<u>\$ 34,364,000</u>	<u>\$ 38,732,000</u>	<u>\$ 43,674,000</u>
Operation & Maintenance Expenses ⁽⁴⁾	16,829,685	19,806,551	19,720,346	20,430,278	20,165,768
Net Revenues	\$ 11,823,315	\$ 10,636,449	\$ 14,643,654	\$ 18,301,722	\$ 23,508,232
Debt Service					
2003 Bonds	728,000	0	0	0	0
2011 Bonds	2,767,058	2,760,458	2,676,058	2,686,433	2,682,408
2014 Bonds	0	780,459	1,344,365	1,344,365	1,344,365
SRF Obligations	0	198,579	1,412,889	1,412,889	1,412,889
Future Bonds and SRF Obligations ⁽⁵⁾	<u>0</u>	<u>0</u>	<u>1,180,396</u>	<u>3,073,246</u>	<u>5,101,481</u>
Total Debt Service	\$ 3,495,311	\$ 3,739,496	\$ 6,613,708	\$ 8,516,933	\$ 10,541,143
Annual Debt Service Coverage	3.38	2.84	2.21	2.15	2.23
Discretionary Cash Reserves ⁽⁶⁾	22,432,000	27,820,000	27,656,000	27,848,000	28,073,000

- (1) Assumes annual rate increases of 8% in FY 2015 and 15% in FY 2016, 2017 and 2018 not yet approved. Also assumes a reduction in City winter water use of -0.8% in FY 2015 and -1.5% in FY 2016, 2017 and 2018.
- (2) Assumes interest earnings of 0.25%, 0.25%, 1.0%, 1.5% and 2.0% for FY 2014, 2015, 2016, 2017 and 2018, respectively, from operating, CIP, SRF and bond funds.
- (3) Includes connection and impact fees.
- (4) Year-end estimate for 2014 and budgeted figures for 2015 and 2016. Assumes increase of 3.6% for 2017 and 2018.
- (5) Assumes three additional bond issues during the projection period: \$45.9 million of bonds issued in FY 2016, \$28 million of bonds issued in FY 2017 and \$40.8 million of bonds issued in FY 2018. An average interest rate of 4.85% is assumed in FY 2016 and 5.10% in FY 2017 and 2018. Principal is amortized over 30 years to achieve level aggregate debt service. Six months of interest only is assumed in the year bonds are sold, full debt service thereafter. The projections also assume that additional SRF obligations are obtained by the City in the amounts of (i) \$2.5 million in FY 2015 and (ii) \$30 million in FY 2017 (debt service for this obligation is not included in Table 15 because it is not projected to become due and payable until FY 2019).
- (6) Includes operating reserve and CIP reserve.

Sources: City of San Mateo and Bartle Wells Associates for revenues, operating expenses, capital expenditure requirements and cash reserves. Kitahata & Company and William Euphrat Municipal Finance, Inc. for bond amounts, debt service, and coverage calculations.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES

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

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

Article XIII A

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution (“Article XIII A”). Article XIII A limits the maximum ad valorem tax on real property to 1% of full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by voters prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value,” or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

Article XIII B

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The “base year” for establishing such appropriations limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial sources for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the

extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIIB includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

Proposition 218

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

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

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

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

Judicial Interpretation of Proposition 218. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and

charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three recent cases have held that certain types of water and wastewater charges could be subject to the requirements of Proposition 218 under certain circumstances.

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

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

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

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

Current Practice Regarding Rates and Charges. The City's practice has been to provide public notice of proposed sewer rate increases through means that include, among others, holding informational presentations at community group meetings, mailings to residential and

commercial customers of public hearings on rate increases, and press releases and media campaigns regarding rate increases, followed by public hearings conducted by the City Council. The City believes that it has complied with the requirements of Proposition 218 with respect to the charges it imposes.

Conclusion. It is not possible to predict how courts will further interpret Article XIIC and Article XIID in future judicial decisions, and what, if any, further implementing legislation will be enacted. Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness. There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for wastewater, or to call into question previously adopted wastewater rate increases.

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

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

The ability of the City to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay the principal of and interest on the 2014 Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) under Article XIIC or Article XIID by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the 2014 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the possible limitations on the ability of the City to comply with its covenants under the Indenture, the rights and obligations under the 2014 Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California.

Based on the foregoing, in the event the City fails to comply with its covenants under the Indenture, including its covenants to generate sufficient Net Revenues, as a consequence of the application of Article XIIC and Article XIID, or to pay principal or interest on the 2014 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the 2014 Bonds.

Proposition 26

On November 2, 2010, State voters approved Proposition 26 which amended certain sections of Article XIIC. The proposition attempts to define “tax” as used within Article XIIC as “any levy, charge, or exaction of any kind imposed by a local government, *except* the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.” The local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

The foregoing discussion of Proposition 218 and Proposition 26 should not be considered an exhaustive or authoritative treatment of the provisions of such propositions or the possible effects of Proposition 218 and Proposition 26. Interim rulings, final decisions, legislative proposals and legislative enactments affecting Proposition 218 and Proposition 26 may impact the City’s ability to make debt service payments on the 2014 Bonds. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity related to these issues.

Future Initiatives

Articles XIIC and XIID were adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives could be proposed and adopted affecting Net Revenues or the City’s ability to increase its rates for sewer service. See “Proposition 218” above. The California constitution, Article XIID, Section 5(c), specifically recognizes that any assessment existing on the effective date (of Article XIID) shall be exempt from the procedures and approval process set forth in Article 4, to wit: “...(c) Any assessment

the proceeds of which are exclusively used to repay bonded indebtedness of which the failure to pay would violate the Contract Impairment Clause of the Constitution of the United States.”

RISK FACTORS RELATING TO THE BONDS

Payment of principal of and interest on the 2014 Bonds depends primarily upon the revenues derived from operation of the Sewer Enterprise. Some of the events which could affect the revenues received by the Sewer Enterprise are set forth below. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the 2014 Bonds and the order in which the risks are discussed does not necessarily reflect the relative importance of the various risks.

Limited Obligations

The 2014 Bonds are limited obligations of the City and are not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues. The obligation of the City to pay debt service on the 2014 Bonds from Net Revenues does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

The City is obligated under the Indenture to make debt service payments solely from Net Revenues. There is no assurance that the City can succeed in operating the Sewer Enterprise such that the Net Revenues in the future will be sufficient for that purpose. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES— Proposition 218.”

Rate Covenant Not a Guarantee

The City’s ability to pay the principal of and interest on the 2014 Bonds depends on its ability to generate Net Revenues at the levels required by the Indenture. Although the City has covenanted in the Indenture to impose rates, fees, and charges as more particularly described herein, and expects that sufficient revenues will be generated through the imposition and collection of such rates, fees, charges, and other Revenues described herein, there is no assurance that the imposition and collection of such rates, fees, charges, and other Revenues will result in the generation of Net Revenues in the amounts required by the Indenture. The City’s covenant does not constitute a guarantee that sufficient Net Revenues will be available to make debt-service payments on the 2014 Bonds.

Increased Costs

The actual cost of operating and maintaining the Sewer Enterprise and implementing necessary capital improvements (including the Project) will depend on a variety of factors, including but not limited to potential rising costs or shortages of labor or materials; the discovery of unforeseen subsurface conditions; earthquakes, floods, or other natural disasters; severe weather conditions; and other events outside of the City’s control. There can be no assurances that actual costs will not significantly exceed the costs projected by the City. If the actual costs of operating and maintaining the Sewer Enterprise and implementing necessary capital improvements (including the Project) significantly exceed the costs projected by the City, then

there could be a material adverse impact on the ability of the City to generate Net Revenues in the amounts required by the Indenture.

Statutory and Regulatory Impact

Laws and regulations governing the collection, treatment and disposal of wastewater are enacted and promulgated by government agencies on the federal, State, and local levels. Compliance with these laws and regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs will likely increase. Claims against the City with respect to its facilities and services could be significant. Such claims are payable from assets of the City or from other legally available sources.

The City has identified a number of existing environmental conditions, as well as anticipated regulatory requirements, that could materially impact the City's operations, and require significant increases in the City's capital expenditures and operating costs. See "THE SEWER ENTERPRISE—Regulatory Compliance."

Although rates are the major source of funding for regulatory costs and the City has covenanted in the Indenture to establish such rates as are estimated to enable the City to pay debt service for the 2014 Bonds, no assurance can be given that the cost to remediate identified environmental conditions or to comply with increased requirements imposed as part of permit renewals, or by new laws and regulations will not materially adversely affect the City's ability to generate Net Revenues in the amounts required by the Indenture and in the amounts required to pay debt service for the 2014 Bonds.

Impact of Water Conservation Measures

The City establishes a base sewer service charge rate (base rate) each fiscal year. The applicable rate based on customer class is applied to a customer's average winter water consumption from the prior year to arrive at that customer's monthly charge for the next ensuing fiscal year. California is currently experiencing a significant drought and water users have been asked by the Governor to voluntarily reduce water consumption by 10%. Additional, mandatory water conservation requirements could be imposed by the San Francisco Public Utilities Commission, which supplies potable water to the City. If California's drought continues, material reduced water consumption due to water conservation measures would likely result in lower water use by City rate payers during the FY 2014-15 winter period. Unless sewer rates for FY 2015-16 were adjusted upwards to take into consideration reduced water consumption during the prior winter, revenue to the Sewer Enterprise could decline in FY 2015-16, which could affect the financial condition of the Sewer Enterprise and result in a lowered debt service coverage ratio if expenditures were not reduced to compensate for the reduction in revenue.

Commingling of Revenues

As described herein in "INVESTMENT OF CITY FUNDS," the City commingles the Revenues with its other funds. The Trustee and the Holders or Beneficial Owners of the 2014 Bonds may not have a perfected interest in such commingled Net Revenues, and the City may not be required to turn over to the Trustee any Net Revenues that are in its possession and

have been commingled with other moneys. Under such circumstances, there could be delays or reductions in payments on the 2014 Bonds.

Effect of City Bankruptcy

The City is authorized to file for bankruptcy under certain circumstances. Should the City file for bankruptcy, there could be adverse effects on the Holders or Beneficial Owners of the 2014 Bonds.

If the Net Revenues are “special revenues” under the Bankruptcy Code, then Net Revenues collected after the date of the bankruptcy filing should be subject to the lien of the Indenture. “Special revenues” are defined to include receipts derived from the ownership or operation of projects or systems that are primarily used to provide utility services. Although the Net Revenues appear to satisfy this definition and thus be “special revenues,” no assurance can be given that a court would not hold that the Net Revenues are not special revenues or are not subject to the lien of the Indenture. If the Net Revenues are determined to not be “special revenues,” then Net Revenues collected after the commencement of the bankruptcy case will likely not be subject to the lien of the Indenture. The Holders or Beneficial Owners of the 2014 Bonds may not be able to assert a claim against any property of the City other than the Net Revenues, and if these amounts are no longer subject to the lien of the Indenture, then there may be no amounts from which the Holders or Beneficial Owners of the 2014 Bonds are entitled to be paid.

The Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the related project or system before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, the City may be able to use Net Revenues to pay necessary operating expenses of the Sewer Enterprise that are greater than or different from the Maintenance and Operation Costs defined in the Indenture before the remaining Net Revenues are made available to the Trustee to pay amounts owed to the Holders or Beneficial Owners of the 2014 Bonds. It is not clear which expenses would constitute necessary operating expenses.

If the City is in bankruptcy, then the City’s creditors (including the Holders or Beneficial Owners of the 2014 Bonds) may be prohibited from taking any action to collect any amount from the City or to enforce any obligation of the City without the bankruptcy court’s permission. This prohibition may also prevent the Trustee from making payments to the Holders or Beneficial Owners of the 2014 Bonds from funds in the Trustee’s possession. The Rate Covenant (see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Rate Covenant”) may not be enforceable in bankruptcy by the Trustee or the Holders or Beneficial Owners of the 2014 Bonds.

The provisions of the Indenture that provide that the commencement of a bankruptcy case by the City is an Event of Default and that certain other insolvency-related events with respect to the City are also Events of Default may be unenforceable. This may limit the ability of the Trustee to require the City to turn over to the Trustee Net Revenues and may allow the City to continue to spend Net Revenues for any lawful purpose as provided in the Indenture, free and clear of the lien of the Indenture, notwithstanding that the City is in bankruptcy.

The City is permitted to commingle the Revenues with its own funds for up to one year before transferring Net Revenues to the Trustee. If the City goes into bankruptcy, the City may not be required to turn over to the Trustee any Net Revenues that are in its possession at the time of the

bankruptcy filing and have been commingled with other moneys. With respect to Net Revenues collected after the bankruptcy filing, if the City does not voluntarily turn over such Net Revenues to the Trustee, it is not entirely clear what procedures the Trustee and the Holders or Beneficial Owners of the 2014 Bonds would have to follow to attempt to obtain possession of such Net Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful. Under such circumstances, there may be delays or reductions in payments on the 2014 Bonds.

The City may be able to borrow additional money that is secured by a lien on any of its property (including the Net Revenues), which lien could have priority over the lien of the Indenture, as long as the bankruptcy court determines that the rights of the Trustee and the Holders or Beneficial Owners of the 2014 Bonds will be adequately protected. The City may be able to cause some of the Net Revenues to be released to it, free and clear of lien of the Indenture, as long as the bankruptcy court determines that the rights of the Trustee and the Holders or Beneficial Owners of the 2014 Bonds will be adequately protected.

The City may be able, without the consent and over the objection of the Trustee and the Holders or Beneficial Owners of the 2014 Bonds, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Indenture and the 2014 Bonds as long as the bankruptcy court determines that the alterations are fair and equitable.

There may be delays in payments on the 2014 Bonds while the court considers any of these issues. There may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments on the 2014 Bonds, or result in losses to the Holders or Beneficial Owners of the 2014 Bonds. Regardless of any specific adverse determinations in a City bankruptcy proceeding, the fact of a City bankruptcy proceeding could have an adverse effect on the liquidity and value of the 2014 Bonds.

Effect of Losses in City Investment Pool

Pending delivery of Net Revenues to the Trustee, the City intends to invest Revenues in the City's Investment Pool. Should those investments suffer any losses, there may be delays or reductions in payments on the 2014 Bonds.

Limited Recourse on Default

Failure by the City to pay debt service on the 2014 Bonds constitutes an event of default under the Indenture and the Trustee is permitted to pursue remedies at law or in equity to enforce the City's obligation to make such payments. Although the Trustee has the right to accelerate the total unpaid principal amount of the debt service on the 2014 Bonds, there is no assurance that the City would have sufficient funds to pay the accelerated amounts. See "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES— Proposition 218."

Limitations on Remedies

The ability of the City to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest with respect to the 2014 Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218.” Furthermore, the remedies available to the owners of the 2014 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California. The opinions to be delivered by Bond Counsel concurrently with the issuance of the 2014 Bonds will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the 2014 Bonds will be similarly qualified. See APPENDIX E—FORM OF BOND COUNSEL OPINION. If the City fails to comply with its covenants in the Indenture or fails to pay principal of and interest due on the 2014 Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the holders of the 2014 Bonds.

Initiatives

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. There is no assurance that the electorate or the State legislature will not at some future time approve additional limitations which could affect the ability of the City to implement rate increases which could reduce Net Revenues and adversely affect the security for the 2014 Bonds. See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND FEES—Proposition 218.”

Tax Exemption

The City has covenanted in the Indenture that it will take all actions necessary to assure the exclusion of interest with respect to the 2014 Bonds from the gross income of the Owners of the 2014 Bonds to the same extent as such interest is permitted to be excluded from gross income under the Internal Revenue in the gross income of the Owners thereof for federal tax purposes. See “TAX MATTERS.”

Additional Obligations

The Indenture permits the issuance of Bonds secured by Net Revenues on a parity basis or a subordinate basis to the 2014 Bonds. Such additional Bonds would increase debt service payable from Net Revenues and could adversely affect debt service coverage with respect to the 2014 Bonds. In such event, however, the Rate Covenant will remain in effect. See “SECURITY

AND SOURCES OF PAYMENT FOR THE BONDS—Rates and Charges; Rate Stabilization Fund.”

Seismic Considerations

The City, like much of California, is subject to seismic activity that could result in interference with operation of the Sewer Enterprise. There are several major active fault zones transecting the County that could cause “strong ground motion” at the site of the various facilities constituting the Sewer Enterprise during their useful life. Those major fault zones, listed in order of proximity to the City, are the San Andreas, Hayward, Calaveras and San Gregorio faults. The San Andreas Fault is the major active fault closest to the City, and is approximately three miles from the WWTP and the collection system and associated facilities that serve the Sewer Enterprise. Several active or potentially active faults are located close to Sewer Enterprise capital facilities. If there were to be an occurrence of severe seismic activity in the area of the City, there could be an interruption in the service provided by the Sewer Enterprise resulting in a temporary reduction in the amount of Net Revenues available to pay the principal of and interest on the 2014 Bonds when due.

Secondary Market

There can be no guarantee that there will be a secondary market for the 2014 Bonds or, if a secondary market exists, that any 2014 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

INVESTMENT OF CITY FUNDS

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

Funds held by the City, including Revenues of the Sewer Enterprise, are invested in accordance with the City’s Statement of Investment Policy (the “Investment Policy”) prepared by the Finance Director/Treasurer as authorized by section 53601 of the Government Code of California. The Investment Policy is submitted to the City Council annually. The Investment Policy allows for the purchase of a variety of securities and provides for limitations as to exposure, maturity and rating which vary with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made. Invested funds are managed to insure preservation of capital through high quality investments, maintenance of liquidity and then yield. Further, operating funds may not be invested in any investment with a maturity greater than five years. The City has never invested in derivatives or reverse repurchase agreements and such investments and instruments are not allowed by City policy.

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

See “RISK FACTORS RELATING TO THE BONDS—Effect of Losses in City Investment Pool.”

TAX MATTERS

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 2014 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the City of San Mateo comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Tax Code”) that must be satisfied subsequent to the issuance of the 2014 Bonds. The City of San Mateo 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 2014 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a 2014 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a 2014 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2014 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2014 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2014 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2014 Bonds who purchase the 2014 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2014 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2014 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 2014 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 2014 Bond (said term being the shorter of the 2014 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 2014 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2014 Bond is amortized each year over the term to maturity of the 2014 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 2014 Bond premium is not deductible for federal income tax purposes. Owners of premium 2014 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 2014 Bonds.

In the further opinion of Bond Counsel, interest on the 2014 Bonds is exempt from California personal income taxes.

Owners of the 2014 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2014 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2014 Bonds other than as expressly described above.

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, Bond Counsel, will render its opinion with respect to the validity of the 2014 Bonds, the form of which is set forth in APPENDIX E—FORM OF BOND COUNSEL OPINION. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by Shawn Mason, Esq., City Attorney and by Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel. Payment of the fees and expenses of Bond Counsel and Disclosure Counsel is contingent upon the sale and issuance of the 2014 Bonds.

LITIGATION

There is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending with respect to which the City has been served with process or threatened against or affecting the City, which would adversely impact the City's ability to complete the transaction described in or contemplated by the Indenture or this Official Statement, to restrain or enjoin its collection of the Net Revenues or any payments under the Indenture, or in any way contesting or affecting the validity of the 2014 Bonds, the Indenture, the transactions described in this Official Statement, or wherein an unfavorable decision, ruling or determination would adversely affect the validity or enforceability of the Indenture or the 2014 Bonds.

In addition, there is no litigation pending or threatened against the City which, in the opinion of the City Attorney, would materially adversely affect the Sewer Enterprise or the sources of payment for the 2014 Bonds.

RATINGS

Moody's Investor's Service ("Moody's") and Standard & Poor's Credit Ratings Services, A Division of The McGraw-Hill Companies, Inc. ("S&P"), have assigned the ratings of "Aa2" and "AA," respectively, to the 2014 Bonds. Such ratings reflect only the views of such organizations and an explanation of the significance of such ratings may be obtained from Moody's at 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, and from S&P at 55 Water Street, New York, New York 10041. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by Moody's and/or S&P, if in the judgment of Moody's and/or S&P, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2014 Bonds.

CO-FINANCIAL ADVISORS

The City has retained William Euphrat Municipal Finance, Inc., San Francisco, California, and Kitahata & Company, San Francisco, California, as co-financial advisors (the "Co-Financial Advisors") in connection with the authorization and delivery of the 2014 Bonds. The fees of the Co-Financial Advisors are contingent upon the sale and delivery of the 2014 Bonds. The Co-Financial Advisors are independent advisory firms and are not engaged in the business of underwriting, trading or distributing municipal or other public securities.

CONTINUING DISCLOSURE

The City will covenant for the benefit of the Owners and beneficial owners of the 2014 Bonds to provide certain financial information and operating data relating to the Sewer Enterprise by not later than March 31 after the end of each fiscal year of the City (currently June 30) commencing with the report for the 2013-14 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in APPENDIX D—FORM OF CONTINUING DISCLOSURE CERTIFICATE, attached to this Official Statement. These covenants have been made in order to assist the Underwriter (as defined below) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The Annual Report and the notices of material events will be filed by the City with the Municipal Securities Rulemaking Board through the Electronic Municipal Access ("EMMA") System.

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 to its dissemination agent for filing. While the dissemination agent filed this report properly for the City's general obligation bonds, Joint Power Financing Authority revenue bonds, and sewer revenue bonds, the report was not filed in connection with the redevelopment agency 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. Reference to that web site is made for convenience only; its contents are not incorporated by reference into this Official Statement.

UNDERWRITING

Under the terms of a competitive bid, Robert W. Baird & Co. (the "Underwriter") has agreed to purchase the 2014 Bonds at a price of \$34,138,504.17, which is equal to the aggregate principal amount of the 2014 Bonds (\$32,255,000.00), plus a net original issue premium of \$2,264,122.20, less an Underwriter's discount of \$380,618.03. The Underwriter will purchase all of the 2014 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the "Official Notice of Sale," including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the 2014 Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering price may be changed from time to time by the Underwriter.

INDEPENDENT AUDITOR

Audited financial statements of the City (including the Sewer Revenue Fund) for the Fiscal Year ended June 30, 2013, are attached hereto as Appendix B. The City's financial statements were audited by the independent accounting firm of Badawi & Associates (the "Auditors"). The Auditors have not reviewed or audited this Official Statement and the City has not sought the consent of the Auditors to the inclusion of the Auditor's report in this Official Statement. The audited financial statements include information concerning the City's General Fund and other funds, including the Sewer Revenue Fund and the other enterprise funds. The 2014 Bonds are special obligations of the City, secured by and payable solely from the Net Revenues and other amounts pledged under the Indenture. No other funds of the City are available for payment of the 2014 Bonds.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the owners of the 2014 Bonds.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City for the fiscal year ended June 30, 2013, which include the financial results of the Sewer Enterprise, are contained in APPENDIX B—COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2013.

ADDITIONAL INFORMATION

Quotations and summaries and explanations of the 2014 Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements of their provisions.

The preparation and distribution of this Official Statement have been authorized by the City.

CITY OF SAN MATEO

By /s/ David Culver
Finance Director

APPENDIX A

CITY OF SAN MATEO ECONOMIC AND DEMOGRAPHIC INFORMATION

The following information is presented as general background data. The 2014 Bonds are payable solely from Net Revenues of the Sewer Enterprise and other sources 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 2014 Bonds. See the section of this Official Statement entitled "SECURITY AND SOURCES OF PAYMENT FOR THE 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 San Francisco Peninsula. The City's current population is approximately 99,061 as of 2013 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.

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.

City Management

The City Manager is *Larry Patterson*. He was appointed by San Mateo City Council as City Manager in March of 2014 and brings over 30 years of experience in both the private and public sectors. Mr. Patterson served as the Interim City Manager since September of 2013 while the City conducted a search to fill the City Manager position. Prior to these appointments, Mr. Patterson served as the City's Public Works Director since 2000. He earned his Bachelor's Degree in Civil Engineering at the University of Texas, Arlington and received his Master's Degree in Civil and Transportation Engineering at the University of California, Berkeley. He is a member of the American Public Works Association, the American Society of Civil Engineers and the Institute of Transportation Engineers.

The Finance Director is *David Culver*, who became Finance Director in May 2010. Prior to his current position, he was Finance Director for the City of Pleasanton. Mr. Culver received his Bachelor's Degree in Political Science and Philosophy from the University of Northern Colorado, and Master of Public Administration (Degree Concentration-Public Finance) from the University of Colorado. He serves on a number of civic and financial organizations. He is currently a member of the California Municipal Treasurers Association, California Society of Municipal Finance Officers, and Governmental Finance Officers Association. He has served on the League of California Cities Employee Relations Policy Committee, and also as its President, Fiscal Officers Department. He also belongs to the San Mateo Rotary Club.

The Interim Director of Public Works for the City is *Ray Towne*, who was appointed in October 2013 to fill a vacancy left when Mr. Patterson assumed the position of Interim City Manager. Prior to joining San Mateo, Mr. Towne was Director of Public Works/City Engineer for the City of Foster City for 13 years after having worked in private practice for various consulting and engineering firms for 28 years. He earned his Bachelor's Degree in Civil

Engineering from Michigan State University. He is a member of the American Public Works Association and the American Society of Civil Engineers.

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 2004-2013

Fiscal Year	City Population Estimate ⁽¹⁾	Personal Income ⁽²⁾	Per Capita Personal Income ⁽²⁾	Median Age	Public School Enrollment ⁽³⁾	County Population Estimate ⁽¹⁾
2004	93,721	5,313,699,537	56,697	38.6	11,085	719,154
2005	93,050	5,509,769,650	59,213	39.2	11,360	722,160
2006	94,212	5,767,564,428	61,219	n/a	11,305	726,336
2007	94,315	4,003,294,490	42,446	38.4	11,073	730,339
2008	95,510	4,181,101,280	43,655	n/a	11,749	739,469
2009	95,776	4,212,343,104	43,981	40.1	11,859	736,951
2010	96,529	4,230,383,425	43,825	39.4	12,100	745,654
2011	97,966	4,180,503,118	42,673	38.6	11,995	724,702
2012	98,298	4,315,282,200	43,900	39.7	19,451	729,443
2013	99,061	4,429,908,859	44,719	37.3	19,700	735,678

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.

(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, 2013.

Building Activity

The following table provides a summary of building permit valuation and the number of new dwelling units authorized in the County for the years 2008 through 2012.

COUNTY OF SAN MATEO
Building Permits Valuations
For the Years 2008-2012

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Valuations					
Multi-Family	\$ 146,401,200	\$ 27,327,551	\$ 10,792,185	\$ 92,678,235	\$ 102,013,185
Single Family	220,941,123	137,640,483	173,638,375	184,121,809	218,518,023
Total	<u>\$ 367,342,323</u>	<u>\$ 164,968,034</u>	<u>\$ 184,430,560</u>	<u>\$ 276,800,044</u>	<u>\$ 320,531,208</u>
Number of construction permits by type					
Single Family	269	219	193	213	229
Multiple Family	630	187	47	506	591
Total all types					
Residential Construction permits	<u>899</u>	<u>406</u>	<u>240</u>	<u>719</u>	<u>820</u>

Source: California Labor Market Info

*Totals may not add due to independent rounding.

Employment

The civilian labor force in the City increased slightly from an annual average of 49,300 in 2008 to the 2012 average of 51,900. As of 2012, the City's annual unemployment rate was reported at 5.3% which is significantly lower than the State unemployment rate of 10.5% for the same year. The following summarizes the labor force, employment and unemployment figures for the years 2008 through 2012 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 2008-2012

<u>Year and Area</u>	<u>Civilian Labor Force</u>	<u>Civilian Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate (%)</u>
2008				
City of San Mateo	49,300	47,400	1,900	3.8%
California	18,207,300	16,893,900	1,313,500	7.2
United States	154,287,000	145,362,000	8,924,000	5.8
2009				
City of San Mateo	49,100	45,800	3,300	6.7%
California	18,215,700	16,151,100	2,064,600	11.3
United States	154,142,000	139,877,000	14,265,000	9.3
2010				
City of San Mateo	49,100	45,700	3,400	7.0%
California	18,330,500	16,063,500	2,226,700	12.4
United States	153,889,000	139,064,000	14,825,000	9.6
2011				
City of San Mateo	50,400	47,200	3,200	6.3%
California	18,404,500	16,237,300	2,167,200	11.8
United States	153,617,000	139,869,000	13,747,000	8.9
2012				
City of San Mateo	51,900	49,100	2,800	5.3%
California	18,494,900	16,560,300	1,934,500	10.5
United States	154,975,000	142,469,000	12,506,000	8.1

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

The following table shows the City’s principal employers for the fiscal year 2013.

CITY OF SAN MATEO
Principal Employers for City of San Mateo
For the Fiscal Year 2013

Company Name	Number of Employees	Percent of Total Employment
County of San Mateo Medical Center ⁽¹⁾	1,204	2.32%
Franklin Templeton Investor	1,113	2.14
San Mateo-Foster City Unified School District	1,105	2.13
San Mateo Union High School District	950	1.83
City of San Mateo	928	1.79
San Mateo Community College District ⁽²⁾	763	1.47
San Mateo County Behavioral Health	470	0.91
Fisher Investments	454	0.87
Mills Peninsula Health Services	444	0.86
Macy’s Department Stores	347	0.67
Total Top 10 Employers	7,778	14.99%
Total Labor Force ⁽³⁾	51,900	

Notes: Results based on direct correspondence with city’s local businesses, other potential businesses which may qualify for this report 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, 2013.

Retail Sales

CITY OF SAN MATEO Taxable Transactions For the Years 2009-2012 (in thousands of dollars)

<u>Type of Business</u>	<u>2009 Taxable Transactions</u>	<u>2010 Taxable Transactions</u>	<u>2011 Taxable Transactions</u>	<u>2012 Taxable Transactions</u>
Retail and Food Services				
Motor Vehicle and Parts Dealers	81,431	84,440	83,506	90,494
Home Furnishing & Appliance Stores	78,583	81,463	75,456	85,840
Bldg. Material, Garden Equip. and Supplies	77,194	73,800	75,967	75,897
Food and Beverage Stores	82,651	82,097	86,504	90,694
Gasoline Stations	125,023	147,021	182,845	198,362
Clothing and Accessory Stores	167,393	169,211	180,891	199,600
General Merchandise Stores	156,023	153,540	159,784	161,739
Food Services and Drinking Places	177,138	183,963	205,170	227,010
Other Retail Group	173,412	174,942	180,481	192,727
Total Retail and Food Services	<u>1,118,849</u>	<u>1,150,478</u>	<u>1,230,604</u>	<u>1,322,361</u>
All Other Outlets	<u>157,322</u>	<u>174,025</u>	<u>248,170</u>	<u>282,517</u>
Total All Outlets	<u>1,276,170</u>	<u>1,324,503</u>	<u>1,478,774</u>	<u>1,609,879</u>

Source: California State Board of Equalization, Taxable Sales in California Reports 2009-2012.

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 2004-2013 (in thousands of dollars)

Fiscal Year End	Residential Property ⁽¹⁾	Commercial Property ⁽¹⁾	Industrial Property ⁽¹⁾	Other Property ⁽¹⁾	Unsecured Property	Less Tax-Exempt Property	Taxable Assessed Value	Total Direct Tax Rate ⁽²⁾	Estimated Actual Value ⁽³⁾	Factor of Taxable Assessed Value ⁽³⁾
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

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, 2013.

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 2013
(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	224,767	1	1.33%
Sobrato Interests III	217,003	2	1.29
ASN Bay Meadows I LLC	187,906	3	1.11
Bay Me			
Bohannon Development Co	175,283	4	1.07
Peninsula Office Park	115,807	5	0.69
Essex Hillsdale Garden Apartments	104,832	6	0.62
DW Bridgepointe LLC	95,937	7	0.57
Park Place Realty Holding Co	90,700	8	0.54
Crossroads Associates	77,796	9	0.46
SPK San Mateo Baycenter LLC	77,687	10	0.47
Total Top 10 Taxpayers	<u>1,367,718</u>		<u>11.80%</u>
Total Taxable Value	<u><u>16,860,195</u></u>		<u><u>100.00%</u></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, 2013.

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 San Francisco 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

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2013

The audited financial statements include information concerning the City's General Fund and other funds, including the Sewer Revenue Fund and the other enterprise funds. The 2014 Bonds are special obligations of the City, secured by and payable solely from the Net Revenues and other amounts pledged under the Indenture. No other funds of the City are available for payment of the 2014 Bonds.

(THIS PAGE INTENTIONALLY LEFT BLANK)

City of San Mateo
San Mateo, California



Comprehensive
Annual Financial Report
For the Year Ended June 30, 2013

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

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013**

Prepared by:

FINANCE DEPARTMENT

City of San Mateo
Comprehensive Annual Financial Report
For the year ended June 30, 2013

Table of Contents

	<u>Page</u>
 <u>INTRODUCTORY SECTION</u>	
Table of Contents	i
Transmittal Letter	v
Directory of City Officials.....	xv
Map of City’s Location.....	xvi
Organization Chart.....	xvii
GFOA Certificate of Excellence in Financial Reporting	xviii
 <u>FINANCIAL SECTION</u>	
Independent Auditors’ Report	1
Management’s Discussion and Analysis	5
 Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	21
Statement of Activities	22
 Fund Financial Statements:	
Governmental Fund Financial Statements:	
Balance Sheet.....	28
Reconciliation of the Governmental Funds Balance Sheet	
to the Government-Wide Statement of Net Position.....	31
Statement of Revenues, Expenditures and Changes in Fund Balances.....	33
Reconciliation of the Governmental Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the Government-Wide	
Statement of Activities	34

City of San Mateo
Comprehensive Annual Financial Report
For the year ended June 30, 2013

Table of Contents, Continued

	<u>Page</u>
<u>FINANCIAL SECTION, Continued</u>	
Proprietary Fund Financial Statements:	
Statement of Net Position.....	36
Statement of Revenues, Expenses and Changes in Net Position.....	37
Statement of Cash Flows	38
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position.....	40
Statement of Changes in Fiduciary Net Position.....	41
Notes to Basic Financial Statements	43
Required Supplementary Information (Unaudited):	
Budgets and Budgetary Accounting.....	108
Defined Benefit Pension Plan	113
Other Post Employment Benefits (OPEB).....	114
Supplementary Information:	
Non-Major Governmental Funds:	
Combining Balance Sheet	118
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	120
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual:	
Police Grants Special Revenue Fund	123
Community Development Block Grant Special Revenue Fund	124
Fire Protection Special Revenue Fund.....	125
Gas Tax Special Revenue Fund	126

City of San Mateo
Comprehensive Annual Financial Report
For the year ended June 30, 2013

Table of Contents, Continued

	<u>Page</u>
<u>FINANCIAL SECTION, Continued</u>	
Construction Services Special Revenue Fund	127
Advance Planning Special Revenue Fund	128
Parking Special Revenue Fund	129
Solid Waste Special Revenue Fund	130
Landfill Bonds Debt Service Fund	131
General Obligation Bonds Debt Service Fund	133
2% Hotel Tax Capital Project Fund	133
 Internal Service Funds:	
Combining Statement of Net Position	136
Combining Statement of Revenues, Expenses and Changes in Net Position	138
Combining Statement of Cash Flows	140
 Fiduciary Funds:	
Combining Statement of Fiduciary Net Position	144
Combining Statement of Revenues, Expenses and Changes in Fiduciary Net Position	145
Statement of Changes in Agency Assets and Liabilities	146
 <u>STATISTICAL SECTION (Unaudited)</u>	
Net Position by Component	148
Changes in Net Position	150
Governmental Activities Tax Revenues by Source	154
Fund Balances of Governmental Funds	156
Changes in Fund Balances of Governmental Funds	158
Assessed Value and Estimated Actual Value of Taxable Property	160
Direct and Overlapping Property Tax Rates	161
Principal Sales Tax Producers	162
Principal Property Taxpayers	163

STATISTICAL SECTION (Unaudited), Continued

Property Tax Levies and Collections 164

Ratios of Outstanding Debt by Type 165

Ratios of General Bonded Debt Outstanding..... 166

Direct and Overlapping Governmental Activities Debt..... 167

Legal Debt Margin Information 168

Pledged-Revenue Coverage..... 170

Demographic and Economic Statistics 171

Principal Employers for City of San Mateo 172

Full-Time Equivalent City Government Employees by Function..... 173

Operating Indicators by Function..... 174

Capital Asset Statistics by Function..... 175

Continuing Annual Disclosure Report 177



Finance Department
330 West 20th Avenue
San Mateo, California 94403
p: 650.522.7100
f: 650.522.7101

<http://www.cityofsanmateo.org>

January 07, 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, 2013.

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, 2013 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, 2013. The independent auditors' report is presented as the first component of the financial section of this report.

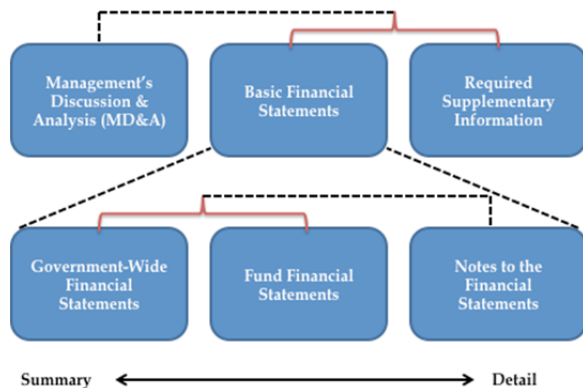
The analysis of the financial condition and the result of operations are in the Management's Discussion and Analysis (MD&A) section immediately following the auditor's report. This transmittal letter is designed to complement the MD&A and should be read in conjunction with the MD&A.

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 separately issued 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

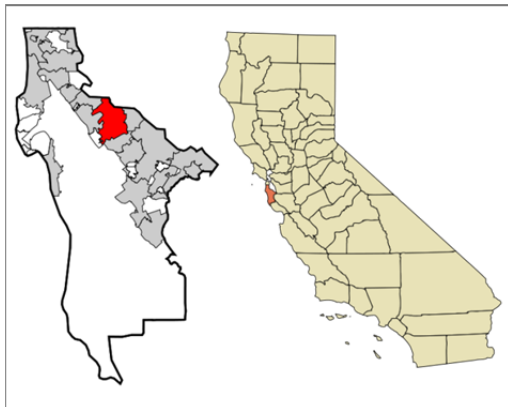


CITY PROFILE

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, and mountain trails, as well as windsurfing and sailing in the Bay itself.

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 19th and early 20th 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 had a 2012 U.S. Census population estimate of 99,670, compared to 739,311 residents in San Mateo County. Total estimated population by the U.S. Census Bureau in the San Francisco-Oakland-Hayward metropolitan statistical area for 2012 is 4.45 million residents. This statistical area includes the five counties (San Francisco, Alameda, Marin, Contra Costa, and San Mateo) directly influenced economically by San Francisco.

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.



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

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 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 that are 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;
- SolarCity - a full service energy company.

The economy appears to have recovered from the recent recession with most revenues increasing in fiscal year 2013. Most economic indicators show improvement. The local real estate market saw an increase in values over the year. San Mateo's assessed value for 2012-13 was \$16.86 billion, a 2.4% increase over the 2011-12 assessed value.

The median price of single-family residential homes in the City in September 2013 increased 13.6% from the same period last year, or from \$900,000 to \$792,000, slightly greater than for in the County as a whole registering a 12.3% increase.

From March 2011 to September 2013, the median sale price for a single-family home in San Mateo increased 40%.

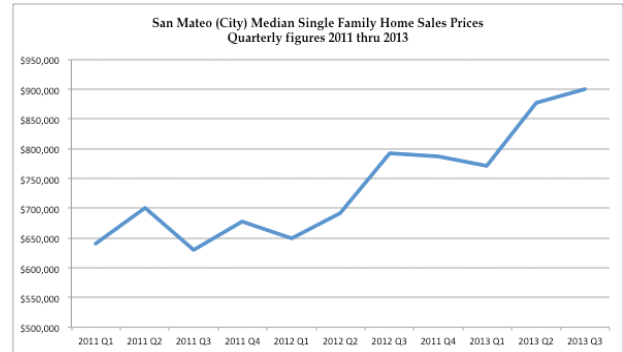


Figure 5: HdL Property Tax Division, 11/2013

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. Recently released November 2013 Bureau of Labor Statistics unemployment data has California's rate at 8.3%, compared with 7.0% nationally. Comparatively better, the unemployment rate for the City was 4.0% in October 2013, down from 5.0% in October of 2012. The unemployment figure in San Mateo County was 5.1% in October 2013. A low rate of unemployment signals an economy that has recovered from the recent recession, although the City's rate has not dropped to its 2007 low point of 3.0%.

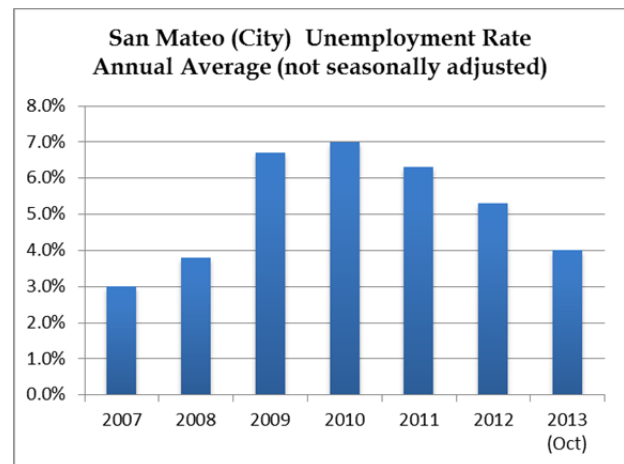


Figure 6: US Bureau of Labor Statistics, 11/22/2013

The general economy continues to struggle with burdensome forces related to the recent recession. Such forces include high levels of private and public debt, loss of wealth, tight credit markets, and heightened uncertainty. However positive trends in employment, strong manufacturing activity, sustained export growth, and the strong financial conditions of many businesses, demonstrate the economy's apparent resiliency. Sustained economic improvements 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 \$4.6 million in additional revenue for FY 2012-13 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 63.6% 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 2013, vacancy salary savings and reduced spending on supplies and equipment contributed to \$3.3 million in additional savings beyond the final expenditure budget 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 operating expenditures, or 25%. For FY 2013-14 these General Fund reserves are expected to meet the 25% reserve target, projected to total \$20 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 62% of operating and debt service 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, 2013, the City's general obligation bonded debt of \$28.6 million, subject to this restriction, amounted to 1.1% of the \$2.6 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, 2013, the City is rated double A+ by the two major credit rating agencies: Standard & Poor's and Moody's Investor Service. The City and San Mateo Joint Powers Public Financing Authority manage seven bond issues totaling \$113.7 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 \$193.8 million at fiscal year 2012-13.

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 seek to ensure consistent delivery of critical services to San Mateo residents.

The adopted planning process included efforts from the City Manager's Office, Human Resources and the Finance departments, along with active engagement of the City's service departments. Outside economic consultants also participated to support this planning process. Various study sessions were conducted with the City Council to review revenues, expenditures, and potential financial sustainability options. Various strategies for achieving financial sustainability 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. Following the Council study sessions, presentations were made to all City employees in an effort to garner support for the planning process.

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 2012-13 General Fund unassigned fund balance was 30% of General Fund expenditures, exceeding the City Council policy.

The City plans to continue the Financial Sustainability Planning Process as part of its upcoming development of the City's 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 INITIATIVES

BAY MEADOWS PHASE II DEVELOPMENT

Bay Meadows Phase II is a major mixed-use redevelopment at the former Bay Meadows Race

Track demolished in 2009. Development plans on the 83 acre site include a significant number of residential, commercial office, and retail space along the CalTrain rail corridor. Bay Meadows Land Company, LLC currently plans for 1,066 residential units, 770,000 square feet of commercial office space, 31,500 square feet of professional space above ground floor retail, and 85,000 square feet of retail space. The adjacent Hillsdale CalTrain Station is expected to be moved approximately three blocks north from its present location, which will place it near the middle of the Bay Meadows Phase II development. Construction on the project began in early 2013.

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 systems. To date, the public streets are nearing completion, 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 bond issue series is scheduled for January 2014 for an amount not to exceed \$32.4 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-8th grade) located in the neighboring Town of Hillsborough is a nationally recognized school serving gifted students. The new high school would serve as a satellite campus. Total square footage of the school buildings would be 134,000, in addition to a parking garage. Approved by the Planning

Commission in December of 2012, construction of the project began in 2013 with completion estimated in Fall of 2014.

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 20th 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.

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. Of the 155 apartment units, 15 will be rented at below market rate per City requirements. The project also includes associated parking, landscaping, and apartment amenities. Approved by the Planning Commission in October of 2011, construction of the project began in 2012 with completion estimated in 2014.

2090 DELAWARE 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. Of the 111 apartment units, 11 will be rented at below market rate per City requirements. The project also includes associated parking, landscaping, and apartment amenities. Approved by the Planning Commission in July of 2012, demolition and foundation permit was issued in February 2013 and construction of the project began in Spring of 2013 with completion estimated in 2014.

SEWER UTILITY INFRASTRUCTURE NEEDS

A major initiative involving the capital

improvement plan for the sewer utility was put into action involving over \$100 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 a decade and be funded with a combination of operating surpluses, regular sewer charge rate increases, bond financing and state revolving fund loans. Initial sewer revenue bonds were issued in 2011 for \$31.9 million. A second revenue bond issuance is being planned for 2014 to include a current refunding of the outstanding debt of the Series 2003 revenue bonds (balance at June 30, 2013 of \$16.3 million) and an estimated \$12 million in new financing for infrastructure needs. Long-range capital improvement plans and a 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 five 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, 2012. 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-third consecutive year that the City has

received this award. A Certificate of Achievement is valid for one year only. We believe this FY 2012-13 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 Patterson, Interim City Manager



David P. Culver
Finance Director



City of San Mateo
San Mateo, California

City Council – 2013

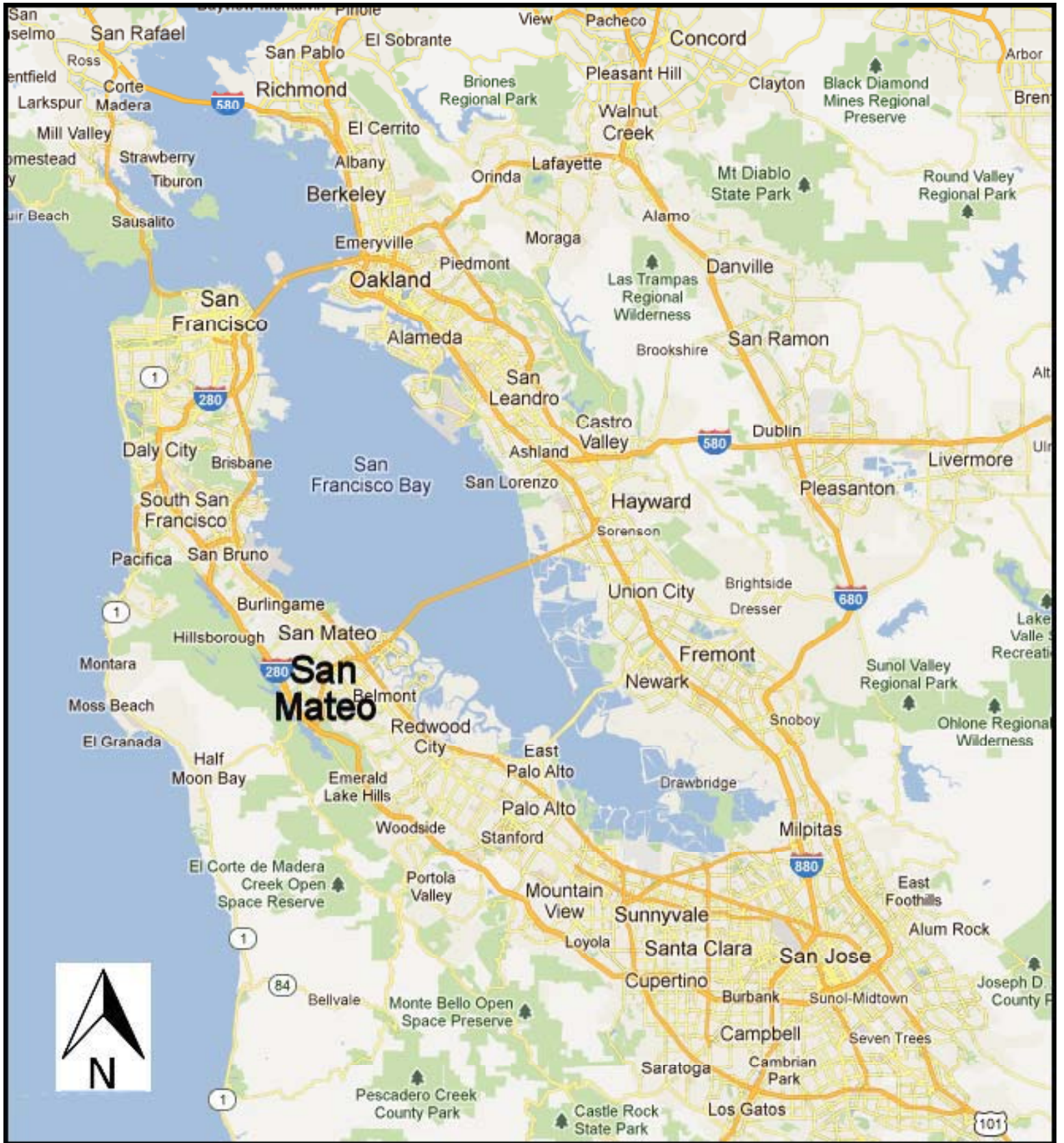
David Lim, Mayor

Robert Ross, Deputy Mayor

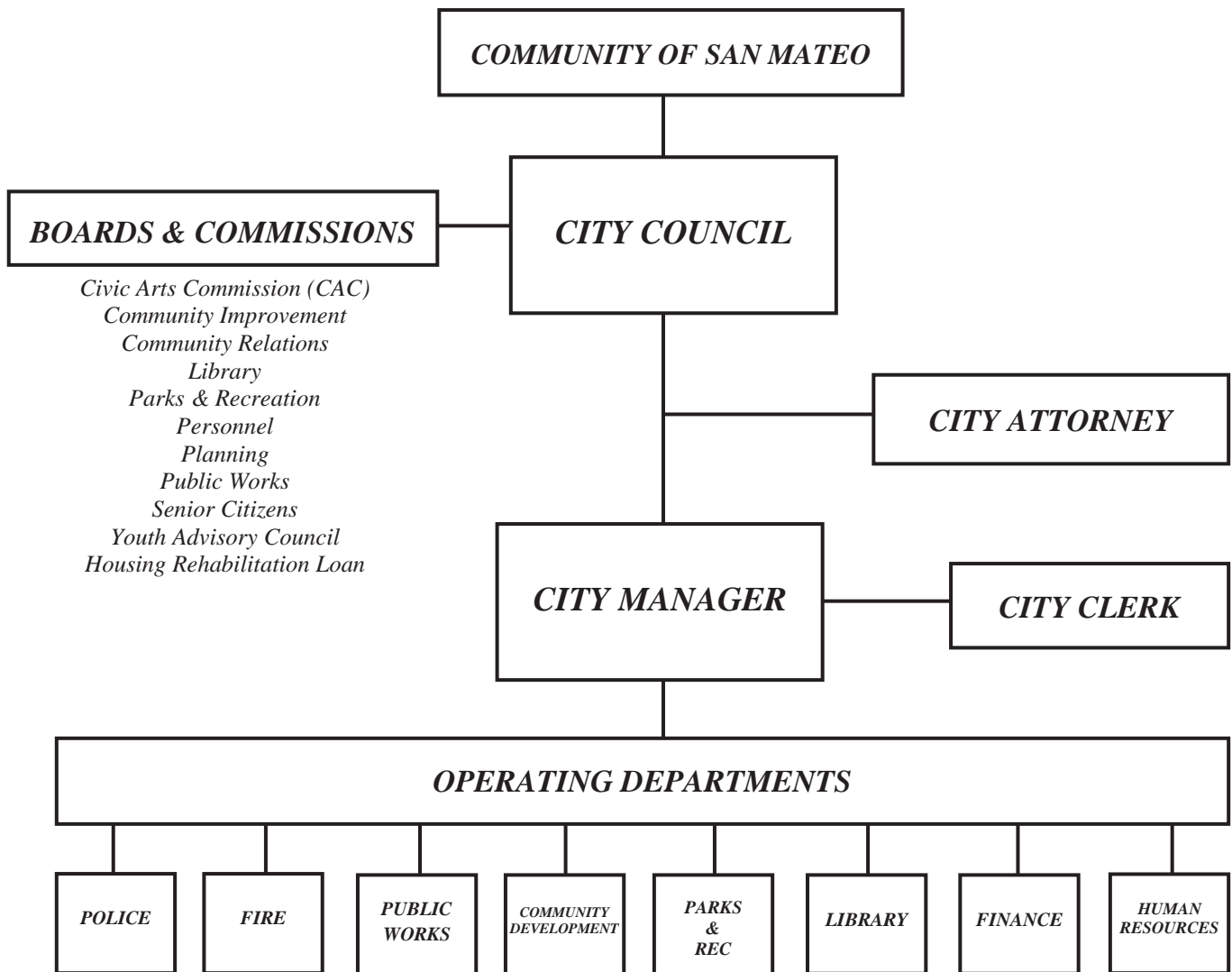
Maureen Freschet, Council Member

Jack Matthews, Council Member

Brandt Grotte, Council Member



CITY OF SAN MATEO ORGANIZATION





Government Finance Officers Association

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

Presented to

**City of San Mateo
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

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, 2013, 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.

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of funding progress for defined benefit pension plans and other post employment benefits on pages 5-16 and 108-114 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 information on pages 123-133, 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 information on pages 123-133 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 budgetary comparison information on pages 123-133 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
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 January 7, 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 & Associates, CPAs
Oakland, California
January 7, 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, 2013. 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 \$571.8 million (net position). Of this amount, \$78.2 million (unrestricted net position) may be used to meet the City's ongoing obligations.
- The City's net position increased by \$39.9 million, or 7.5% over the prior fiscal year.
- At the close of the fiscal year, the City's governmental funds reported combined ending fund balance of \$88.1 million, an increase of \$22.7 million or 34.7% from the prior fiscal year. Approximately 27% of the fund balance (unassigned fund balance) is available for spending at the government's discretion.
- The City's sewer enterprise utility net position increased by \$6.5 million during the fiscal year, or 7.3% over the prior fiscal year.
-
- At the end of the fiscal year, the unassigned fund balance of the General Fund was \$23.8 million, which represents 30% 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, required supplementary information is also provided..

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. 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 21-23 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 and City 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 118 of this report. The basic governmental fund financial statements can be found on pages 28-33 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 109, 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 36-38 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 40-41 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 44-106 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 108-114 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 \$571.8 million at the close of the fiscal year.

A portion of the City's net position, \$78.2 million (13.7%), 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 \$403.95million (70.7%) reflect net 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 investment 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 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 \$89.7 million (15.7%) 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 2012-13 the City is able to report positive balances in all categories of net position, both for the governmental activities as a whole, as well as for its business-type activities.

Table 1 reflects the City's net position as of June 30, 2013 and June 30, 2012:

TABLE 1: CITY OF SAN MATEO STATEMENT OF NET POSITION

Amounts expressed in millions

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	12-13	11-12	12-13	11-12	12-13	11-12
Current and other assets	\$ 182.5	\$ 154.9	\$ 28.0	\$ 28.9	\$ 210.5	\$ 183.8
Capital assets	391.1	384.9	121.9	116.6	513.0	501.5
Total assets	573.6	539.8	149.9	145.5	723.5	685.3
Current liabilities	19.1	17.2	3.9	4.1	23.0	21.3
Non-current liabilities	76.0	77.6	52.7	54.5	128.7	132.1
Total liabilities	95.1	94.8	56.6	58.6	151.7	153.4
Net position						
Net investment in capital assets	333.7	326.4	70.2	70.5	403.9	396.9
Restricted	80.5	74.1	9.2	8.5	89.7	82.6
Unrestricted	64.3	44.5	13.9	7.9	78.2	52.4
Total net position	\$ 478.5	\$ 445.0	\$ 93.3	\$ 86.9	\$ 571.8	\$ 531.9

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net position by \$33.5 million for the fiscal year ended June 30, 2013. Key elements of the increase are as follows:

- Property and sales taxes totaled 75% of all tax revenues and 45% of all governmental activities' revenues. Property taxes, all recorded in the governmental funds, totaled \$38.2 million for a decrease of \$5.9 million or -13.4% due to the loss of redevelopment property tax increment revenue. In the prior fiscal year, the former San Mateo Redevelopment Agency property tax increment distributions totaled \$7.26 million.
- Half of the property tax revenue loss was made up by additional sales tax receipts that increased by \$1.2 million or 5.3% and property transfer taxes which increased by \$1.9 million or 43.2%. More than the remaining portion of the loss in property tax revenue was made up by the City no longer recording operations and interest on long-term debt expense of the former Redevelopment Agency due to its dissolution in February 2012. The full year of operations of the Successor Agency were recorded in its respective private-purpose trust fund for fiscal year 2012-13, and not on the City's basic financial statements.
- Capital grants and contributions revenue of \$22.1 million at the end of the fiscal year increased by \$14.0 million (173%) due to \$11.9 million in donated capital assets consistently of two parks (Paddock Park and Bay Meadows Park) in the Bay Meadows Phase II development.
- Total expenses declined by \$10.5 million or -9.1% of which \$6.0 million of the decline is due to former Redevelopment Agency operations (community development function) and interest on long-term debt expenses of the prior fiscal year no longer recorded on the City's basic financial statements. The remainder of the expense decline is due to operating reductions throughout City departments.

Table 2 reflects the City's net changes in net position for FY 2012-13 and FY 2011-12.

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

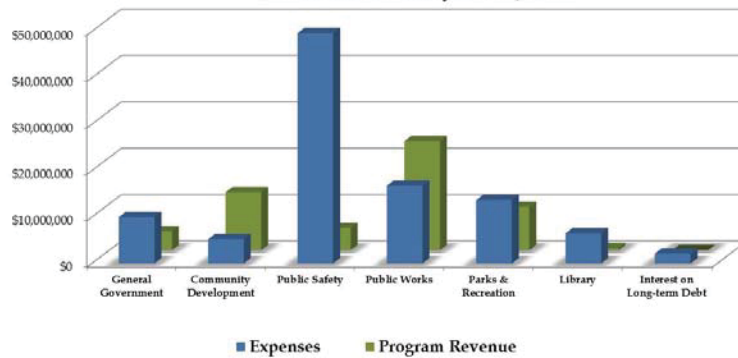
	Governmental Activities		Business-Type Activities		Total Primary Government	
	12-13	11-12	12-13	11-12	12-13	11-12
Revenues:						
Program revenues:						
Charges for services	\$27.6	\$27.4	\$31.2	\$27.2	\$58.8	\$54.8
Operating grants & contributions	5.7	4.8	-	-	5.7	4.8
Capital grants & contributions	22.1	8.0	0.9	0.1	23.0	8.1
General revenues:						
Property taxes	38.2	44.1			38.2	44.1
Sales taxes	23.8	22.6			23.8	22.6
Property transfer taxes	6.3	4.4			6.3	4.4
Business, hotel & other taxes	11.5	10.5			11.5	10.5
Franchise fees	2.8	2.8			2.8	2.8
Motor vehicle in lieu fees	0.1	-			0.1	-
Investment earnings	-	0.8	-	0.2	-	1.0
Total revenues	138.1	125.5	32.1	27.6	170.2	153.2
Expenses:						
General government	10.2	10.8			10.2	10.8
Community development	5.4	8.9			5.4	8.9
Public safety	50.0	50.0			50.0	50.0
Public works	16.8	20.0			16.8	20.0
Parks and recreation	13.7	14.0			13.7	14.0
Library	6.5	6.8			6.5	6.8
Interest on long term debt	2.1	4.4			2.1	4.4
Sewer			23.2	22.6	23.2	22.6
Golf			2.5	2.9	2.5	2.9
Total expenses	104.6	114.9	25.7	25.4	130.3	140.4
Extraordinary item						
RDA Dissolution	-	56.4	-	-	-	56.4
Change in net position	33.5	67.0	6.4	2.2	39.9	69.2
Net position - Beginning of Year	445.0	378.0	86.9	84.7	531.9	462.7
Net position - End of year	\$478.5	\$445.0	\$93.3	\$86.9	\$571.8	\$531.9

Total expenses of all governmental activities for the fiscal year were \$104.6 million. General government expenses in FY 2012-13 were \$10.2 million or 9.7% of total governmental activities expenses, reflecting a decrease of -6.3%. Public safety (police and fire) expenses were \$50.0 million or 47.8% of total expenses, and

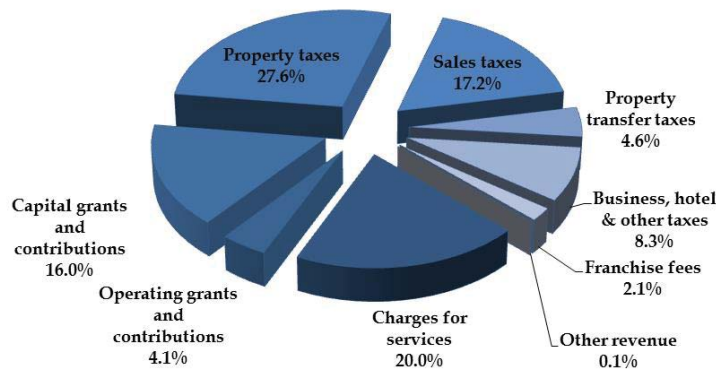
consistent with the prior year. Public works' expenses were \$16.8 million or 16.0% of total expenses, and declined by -16.2%. Parks and recreation expenses were \$13.7 million or 13.1% of total expenses. Library expenses were \$6.5 million or 6.2% of total expenses.

The remainder of the governmental activities expenses were community development expenses totaling \$5.4 million or 5.1% of total governmental expenses and a decrease of \$3.5 million, and interest on long-term debt of \$2.1 million or 2.0% of total expenses which declined by \$2.3 million, or a reduction of -110%. As mentioned previously, both of these two programs declined due to the basic financial statements reflecting a full year in which all the former redevelopment agency operating and debt service expenses are reflected in the Successor Agency's private-purpose trust and not on the City's financial statements.

**Figure 7: Expenses and Program Revenues
Governmental Activities
Fiscal Year Ended June 30, 2013**



**Figure 8: Revenue by Sources
Governmental Activities
Fiscal Year Ended June 30, 2013**



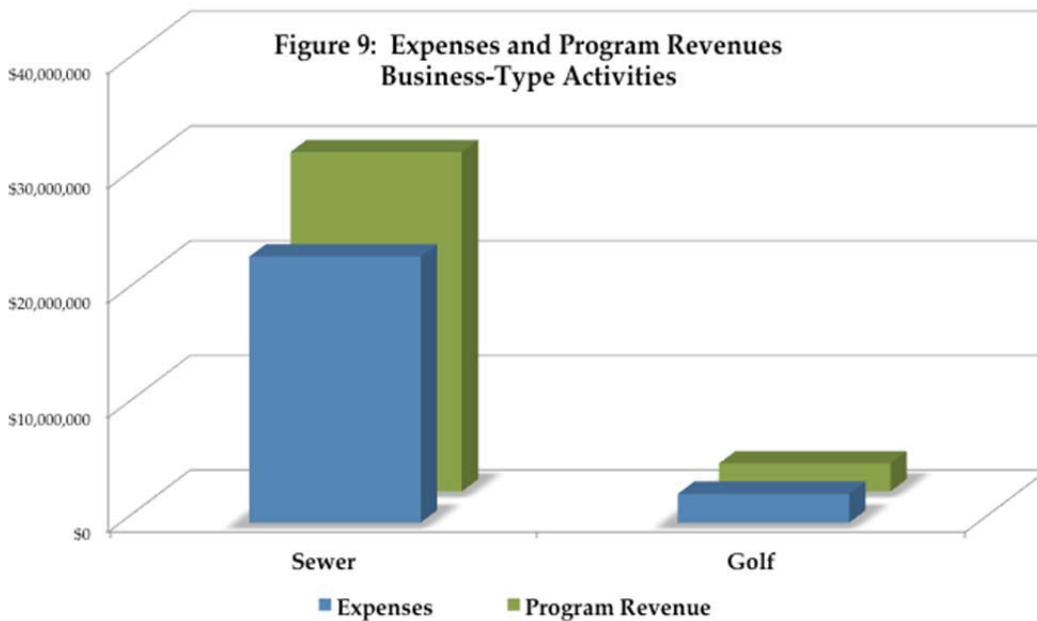
Total Governmental Activities Revenues: \$138.13 million

The cost of all governmental activities for fiscal year ended June 30, 2013 was \$104.6 million. However, as shown in the statement of activities, the amount that taxpayers ultimately financed was \$82.7 million because some of the costs were paid by those directly benefiting from the programs (\$27.6 million), or by other governments and organizations subsidized programs with operating grants and contributions (\$5.7 million) or capital grants and contributions (\$22.1 million). These program revenues totaled \$55.4 million. The City paid for the remaining "public benefit" portion of governmental activities with \$82.7 million in taxes (some of which could only be used for certain programs) and other revenues, such as investment earnings and general entitlements.

BUSINESS-TYPE ACTIVITIES

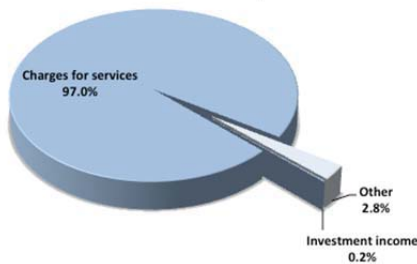
Business-type activities increased the City's net position by \$6.4 million. Key elements of this increase are as follows:

- Total program revenues of \$32.1 million were \$4.7 million higher (17.2%) compared with the prior fiscal year. The amount paid by users of the enterprises totaled \$31.2 million and capital grants and contributions were \$897,900.
- Total expenses of all business-type activities for the fiscal year ended June 30, 2013 were \$25.7 million, a slight \$311,000 higher than the prior fiscal year.
- Cash and investments increased \$6.1 million from additional revenue from the sewer rate increase and slower sewer capital spending. Restricted cash and investments decreased \$7.2 million due to a draw down from the sewer bond proceeds' project account held by trustee.
- Non-depreciable assets increased by \$811,000 due to the addition of completed capital project assets for the sewer collection and treatment system.
- Golf enterprise program revenues were \$2.45 million, a decrease of 2.5% from the prior fiscal year. Total operating expenses of \$2.2 million decreased by \$329,000 or -13.2%.



**Figure 10: Revenue by Sources
Business-Type Activities**

Fiscal Year Ended June 30, 2013



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, 2013, the City's governmental funds reported combined ending fund balances of \$88.1 million, an increase of \$22.7 million or 34.7% in comparison with the prior fiscal year. Approximately 27.0% or \$23.8 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, 2013, unassigned fund balance of the General Fund was \$23.8 million while total fund balance was \$25.5 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 30% of total General Fund expenditures of \$79.6 million, while total fund balance represents 32% of the same amount. The City Council policy goal is to have reserves within the unassigned fund balance at least equal to three months of budgeted operating expenditures, which for FY 2013-14 is projected to total \$20 million.

The total fund balance of the City's General Fund increased by \$6.4 million (33.5%) during the year ended June 30, 2013. This is a result of recovering revenues following the 2009 recession and cost savings measures implemented during the year to reduce overall expenditures. Almost every revenue source increased during FY 2012-13 due to a recovery of the economy. Total General Fund revenues of \$90.5 million increased by \$6.6 million or 7.8%.

Certain revenues in the General Fund that increased between fiscal years 2013 to 2012 include:

- Property taxes were higher by \$1.2 million (3.5%) primarily due to improving property values prompting restoration of formerly higher assessed values on single-family residential homes

previously devalued by the County during the recession through a Constitution measure known as "Prop 8".

- Sales taxes earned were higher by \$1.0 million (4.9%). This increase is primarily attributable to general improvements in the economy increasing income levels.
- Other taxes including business taxes and property transfer tax revenue increased by \$2.9 million or 17% due to improved business receipts and increased sales of residential homes.

Some revenues in the General Fund that decreased between fiscal years 2013 to 2012 include:

- Investment income decreased by \$243,000 due to the portfolio securities' unrealized gains being less at year-end than the prior year.
- Other revenue decreased by \$134,000.

The national and local economies continued to recover in 2013 following the recession of 2009. The City continues to monitor FY 2013-14 expenditures. Total General Fund expenditures increased in FY 2012-13 by \$1.8 million to \$79.6 million, a modest 2.4%. The net between revenue and expenditures was an additional \$10.8 million, of which \$1.5 million was transferred in from the Gas Tax Fund to support operational street maintenance needs and \$6.0 million was transferred out mostly to support the City's future capital improvement needs. The primary drivers of the modest expenditure increase were personnel cost increases, technology investments, and community and economic development initiatives.

The General Capital Project Fund total fund balance is \$30.7 million. This amounts to a net increase in fund balance of \$8.8 million during the year or 40%. The underlying reasons for the increased fund balance includes decreased capital project expenses as a result of the completion of the South Bayfront Flood Control Project and the Smart Corridor Project offset by an increase in transfers in compared to the prior year.

The fund balance in the Non-Major Governmental Funds increased \$6.4 million. Revenues increased by \$3.3 million, while expenditures decreased by \$1.7 million. Revenue for the Construction Services Fund increased by \$3.1 million, or 69%, due to improved residential and commercial development activity. The largest drop in non-major governmental funds expenditures is found in the Solid Waste Fund where in the prior year a final compensation payment was made for Republic Services pursuant to the terminated Solid Waste Franchise Collection Agreement.

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 \$6.4 million, or 7.4% from prior fiscal year.

The unrestricted net position of the Sewer Enterprise Fund at the end of the year was \$14.3 million and a \$6.5 million positive change to net position. Operating revenues increased \$4.0 million primarily due to the increase in charges for services reflecting an 8% overall sewer services rate increase. Expenses increased \$660,000 primarily in costs of sales and services. Operating income of \$7.6 million net of non-operating revenues/expenses and contributions/transfers resulted in the \$6.5 million change in net position.

The unrestricted net position of the Golf Enterprise Fund at the end of the year was a deficit of \$431,000 and a \$62,000 negative change in net position. Operating revenues slightly decreased by \$62,000 primarily due to reduced charges for services generated by the number of golf rounds played. Operating expenses decreased \$329,000 primarily due to reductions in administration and the cost of sales and services which was the result of prior year spending on maintenance that had been deferred. Operating income of

\$277,000 net of non-operating revenues/expenses and contributions/transfers resulted in the deficit \$62,000 change in net position.

Total internal service funds net position increased \$2.2 million, or 9.7% from prior year. This increase primarily results from reductions in cost of services and claims in the Workers' Compensation and Benefits funds. The Workers' Compensation Insurance Fund had a decrease in claims and judgments payable and other liabilities from \$9.2 million to \$8.7 million with an increase in net position of \$464,000. The remaining internal service funds reflected the following changes; Dental Self Insurance Fund decreased net position of -\$10,500, Benefits Fund increased net assets by \$138,000, and decrease in the Comprehensive Liability Insurance Fund by -\$78,000.

GENERAL FUND BUDGETARY HIGHLIGHTS

General Fund revenue increased and exceeded the budget by \$7.9 million, and expenditures were below budget by \$3.3 million, resulting in revenue exceeding expenditures by \$11.2 million. Transfers out totaled \$6.0 million and were made to the General Liability Insurance Fund (\$400,000) to maintain fund balance at the actuarially determined minimum level recommended by City policy. Transfers out were also made to Capital Projects Fund of \$5.5 million and the Fire Protection Fund of \$102,000. The net change in General Fund balance was to total \$25.5 million at the end of the fiscal year.

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, 2013, amounts to \$513.1 million, approximately \$11.5 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 City-wide sanitary sewer and street rehabilitation, and upgrades to Citywide street lights and traffic signals. Additional information on the City's capital assets can be found in Note 7 on pages 76-79 of this report.

TABLE 3: CITY OF SAN MATEO CAPITAL ASSETS

	Amounts in millions					
	Government activities		Business-Type Activities		Total	
	12-13	11-12	12-13	11-12	12-13	11-12
Non-depreciable assets:						
Land	\$ 45.6	\$ 44.3	\$ 4.2	\$ 4.2	\$ 49.8	\$ 48.5
Construction in progress	6.8	4.4	11.6	10.8	18.4	15.2
Total non-depreciable assets	52.4	48.7	15.8	15.0	68.2	63.7
Depreciable assets (net of depreciation):						
Building and improvements	115.2	118.9	6.7	7.1	121.9	126.0
Treatment plant & transmission lines	-	-	98.7	93.9	98.7	93.9
Machinery and equipment	8.9	8.9	0.7	0.6	9.6	9.5
Infrastructure	214.6	208.4	-	-	214.6	208.4
Total depreciable assets (net)	338.7	336.2	106.1	101.6	444.8	437.8
Total capital assets	\$ 391.1	\$ 384.9	\$ 121.9	\$ 116.6	\$ 513.0	\$ 501.5

BONDED DEBT

At the end of the current fiscal year, the City had total bonded debt outstanding of \$110.9 million. Of this amount, \$28.6 million comprises debt backed by the full faith and credit of the City. The remainder of the debt represents 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	
	12-13	11-12	12-13	11-12	12-13	11-12
General Obligation Bonds	\$ 28.64	\$ 29.16	\$ 0.00	\$ 0.00	\$ 28.64	\$ 29.16
Revenue Bonds	28.78	29.38	53.45	55.11	82.23	84.49
Total	\$ 57.42	\$ 58.54	\$ 53.45	\$ 55.11	\$ 110.87	\$ 113.65

The decrease of \$2.8 million in outstanding debt from is primarily due to annual debt service payments reducing outstanding principal and the refunding during the fiscal year of the General Obligation Bonds Series 2000 and Series 2004A.

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 and Baa1 from Moody’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 \$2.6 billion and at June 30, 2013 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.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

Regionally, economic conditions are improving. The job market within the City boundaries is stronger than in the County, and much stronger than California’s. Recently released November 2013 Bureau of Labor Statistics unemployment data has California’s rate at 8.3%, compared with 7.0% nationally. Comparatively better, the unemployment rate for the City was 4.0% in October 2013, down from 5.0% in October of 2012. The unemployment figure in San Mateo County was 5.1% in October 2013. A low rate of unemployment signals an economy that has recovered from the recent recession, although the City’s rate has not dropped to its 2007 low point of 3.0%. Strengthening employment numbers are a sign of the improving economy.

The projected 2013-14 General Fund budget reflects an excess of expenditures over revenues of \$1.1 million. However, this will likely not be realized as general tax revenues have performed better than estimated in the first half of the current fiscal year. The labor agreements with the City’s major bargaining units were renegotiated which has allowed for a restructuring of employee compensation, including meaningful cost sharing of pension and health benefits between the City and employees. The City’s fiscal discipline has assisted in achieving its financial objectives.

REQUESTS FOR INFORMATION

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 20th Avenue, San Mateo, California, 94403.



**BASIC
FINANCIAL STATEMENTS**



GOVERNMENT-WIDE FINANCIAL STATEMENTS



City of San Mateo
Statement of Net Position
June 30, 2013

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current assets:			
Cash and investments	\$ 123,746,512	\$ 24,166,661	\$ 147,913,173
Accounts receivable	3,051,944	1,684,013	4,735,957
Interest receivable	267,539	-	267,539
Taxes receivable	4,572,261	-	4,572,261
Grant receivable	687,879	-	687,879
Prepays and supplies	367,314	74,405	441,719
Internal balances	404,059	(404,059)	-
Total current assets	133,097,508	25,521,020	158,618,528
Noncurrent assets:			
Restricted cash and investments with fiscal agents	1,288,999	1,743,802	3,032,801
Bond issuance costs, net of accumulated amortization	698,662	678,731	1,377,393
Loans and notes receivable, net	47,452,456	-	47,452,456
Capital assets:			
Non-depreciable	52,413,741	15,813,251	68,226,992
Depreciable, net	338,721,678	106,125,875	444,847,553
Total capital asset	391,135,419	121,939,126	513,074,545
Total noncurrent assets	440,575,536	124,361,659	564,937,195
Total assets	573,673,044	149,882,679	723,555,723
LIABILITIES			
Current liabilities:			
Accounts payable	6,499,849	762,934	7,262,783
Interest payable	503,513	1,022,432	1,525,945
Retentions payable	415,575	-	415,575
Accrued salaries and wages payable	1,586,816	-	1,586,816
Deposits payable	4,918,613	224,515	5,143,128
Unearned revenue	1,193,411	-	1,193,411
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	769,709	98,418	868,127
Bonds payable - due within one year	1,610,000	1,800,000	3,410,000
Total current liabilities	19,122,486	3,908,299	23,030,785
Noncurrent liabilities:			
Claims and judgments payable - due in more than one year	8,612,000	-	8,612,000
Landfill postclosure costs payable - due in more than one year	2,750,000	-	2,750,000
Compensated leave payable - due in more than one year	6,227,646	796,289	7,023,935
Net OPEB Obligation	2,630,471	266,279	2,896,750
Bonds payable - due in more than one year, net	55,809,374	51,647,833	107,457,207
Total noncurrent liabilities	76,029,491	52,710,401	128,739,892
Total liabilities	95,151,977	56,618,700	151,770,677
NET POSITION			
Net investment in capital assets	333,716,045	70,235,094	403,951,139
Restricted for:			
Housing and economic development	50,091,557	-	50,091,557
Capital projects	21,774,626	8,211,056	29,985,682
Debt service	2,912,445	-	2,912,445
Other purposes	5,765,848	928,146	6,693,994
Total restricted	80,544,476	9,139,202	89,683,678
Unrestricted	64,260,546	13,889,683	78,150,229
Total net position	\$ 478,521,067	\$ 93,263,979	\$ 571,785,046

See accompanying Notes to Basic Financial Statements.

City of San Mateo
Statement of Activities
For the year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General government	\$ 10,130,843	\$ 4,005,058	\$ -	\$ 55,399	\$ 4,060,457
Community development	5,365,548	9,332,116	3,163,976	-	12,496,092
Public safety	50,037,399	4,528,802	205,493	35,189	4,769,484
Public works	16,749,537	5,604,208	2,258,037	16,456,589	24,318,834
Parks and recreation	13,737,283	3,729,797	48,548	5,521,520	9,299,865
Library	6,464,282	379,807	36,416	-	416,223
Interest on long-term debt	2,105,784	-	-	-	-
Total governmental activities	104,590,676	27,579,788	5,712,470	22,068,697	55,360,955
Business-type activities:					
Sewer	23,217,288	28,712,336	-	897,868	29,610,204
Golf	2,512,817	2,450,940	-	-	2,450,940
Total business-type activities	25,730,105	31,163,276	-	897,868	32,061,144
Total primary government	\$ 130,320,781	\$ 58,743,064	\$ 5,712,470	\$ 22,966,565	\$ 87,422,099

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

Net position - end of year

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (6,070,386)	\$ -	\$ (6,070,386)
7,130,544	-	7,130,544
(45,267,915)	-	(45,267,915)
7,569,297	-	7,569,297
(4,437,418)	-	(4,437,418)
(6,048,059)	-	(6,048,059)
(2,105,784)	-	(2,105,784)
(49,229,721)	-	(49,229,721)
-	6,392,916	6,392,916
-	(61,877)	(61,877)
-	6,331,039	6,331,039
(49,229,721)	6,331,039	(42,898,682)
38,179,530	-	38,179,530
23,822,654	-	23,822,654
6,307,133	-	6,307,133
6,390,727	-	6,390,727
4,949,970	-	4,949,970
2,858,607	-	2,858,607
179,187	-	179,187
57,889	-	57,889
82,745,697	-	82,745,697
24,002	68,856	92,858
82,769,699	68,856	82,838,555
33,539,978	6,399,895	39,939,873
444,981,089	86,864,084	531,845,173
\$ 478,521,067	\$ 93,263,979	\$ 571,785,046



FUND FINANCIAL STATEMENTS

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, 2013

	Major Funds			
	General	General Capital Projects	HOME Special Revenue	City Housing Special Revenue
ASSETS				
Cash and investments	\$ 29,624,263	\$ 31,724,934	\$ 108,281	\$ 213,303
Restricted cash and investments held by fiscal agents	-	763,145	-	-
Accounts receivable	694,284	1,709,323	-	-
Interest receivable	244,639	11,000	-	-
Taxes receivable	4,079,697	-	-	-
Due from other funds	752,434	-	-	-
Prepays and supplies	137,314	-	-	-
Grant receivable	-	327,511	25,095	-
Loans and notes receivable	-	4,537,988	8,493,490	8,337,694
Total assets	\$ 35,532,631	\$ 39,073,901	\$ 8,626,866	\$ 8,550,997
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,631,401	\$ 3,195,281	\$ -	\$ -
Retention payable	-	415,575	-	-
Accrued salaries and wages payable	1,586,816	-	-	-
Due to other funds	-	-	-	-
Deposits payable	4,814,693	-	-	-
Unearned and unavailable revenue	1,043,382	4,744,381	8,626,866	8,337,694
Total liabilities	10,076,292	8,355,237	8,626,866	8,337,694
Fund Balances: (Note 9)				
Nonspendable	137,314	-	-	-
Restricted	-	18,762,217	-	213,303
Committed	-	11,956,447	-	-
Assigned	1,521,652	-	-	-
Unassigned	23,797,373	-	-	-
Total fund balances	25,456,339	30,718,664	-	213,303
Total liabilities and fund balances	\$ 35,532,631	\$ 39,073,901	\$ 8,626,866	\$ 8,550,997

See accompanying Notes to Basic Financial Statements.

<hr/> <hr/>		
Major Funds		
Low Moderate Income Housing Special Revenue	Non-Major Governmental Funds	Total Governmental Funds
<hr/>	<hr/>	<hr/>
\$ 3,532,904	\$ 26,898,084	\$ 92,101,769
11	525,843	1,288,999
-	569,827	2,973,434
-	11,900	267,539
-	492,564	4,572,261
-	-	752,434
-	-	137,314
-	335,273	687,879
31,048,716	2,211,657	54,629,545
<hr/>	<hr/>	<hr/>
\$ 34,581,631	\$ 31,045,148	\$ 157,411,174
<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
\$ 41,303	\$ 179,366	\$ 6,047,351
-	-	415,575
-	-	1,586,816
-	348,375	348,375
-	94,033	4,908,726
31,048,716	2,228,310	56,029,349
<hr/>	<hr/>	<hr/>
31,090,019	2,850,084	69,336,192
<hr/>	<hr/>	<hr/>
-	-	137,314
3,491,612	7,847,355	30,314,487
-	20,347,709	32,304,156
-	-	1,521,652
-	-	23,797,373
<hr/>	<hr/>	<hr/>
3,491,612	28,195,064	88,074,982
<hr/>	<hr/>	<hr/>
\$ 34,581,631	\$ 31,045,148	\$ 157,411,174
<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>



City of San Mateo
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2013

Total Fund Balances - Total Governmental Funds \$ 88,074,982

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	\$ 52,413,741	\$ -	\$ 52,413,741
Depreciable, net	338,721,678	(3,407,531)	335,314,147
Total capital assets	<u>\$ 391,135,419</u>	<u>\$ (3,407,531)</u>	<u>387,727,888</u>

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. 54,835,938

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. (7,632,664)

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. (503,513)

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. 25,241,974

Bond issuance costs related to issuance 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. 698,662

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	(769,709)	-	(769,709)
Bonds payable - due within one year	(1,610,000)	-	(1,610,000)
Long term liabilities - due in more than one year	(76,029,491)	8,612,000	(67,417,491)
Total long-term liabilities	<u>\$ (80,034,200)</u>	<u>\$ 10,112,000</u>	<u>(69,922,200)</u>

Net Position of Governmental Activities \$ 478,521,067

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, 2013

	Major Funds			
	General	General Capital Projects	HOME Special Revenue	City Housing Special Revenue
REVENUES:				
Property taxes	\$ 35,765,491	\$ -	\$ -	\$ -
Sales taxes	21,821,391	2,001,263	-	-
Other taxes	19,672,039	-	-	-
Licenses, building and other permits	46,457	-	-	-
Fines, forfeitures and penalties	1,848,827	141,240	-	-
Intergovernmental	2,388,215	3,234,967	25,095	-
Charges for services	6,788,251	246,770	-	-
Investment income	-	22,159	-	-
Assessments and garbage collection surcharge	-	4,491,753	-	-
Parking meter and lease revenue	-	22,949	-	-
Impact fees	-	2,289,600	-	-
Other revenues	2,138,747	126,546	11,077	246,931
Total revenues	90,469,418	12,577,247	36,172	246,931
EXPENDITURES:				
Current:				
General government:				
City Council	352,570	-	-	-
City Manager	540,627	-	-	-
City Clerk	422,140	-	-	-
City Attorney	1,046,506	-	-	-
Business services	2,429,006	-	-	-
Information technology	3,029,642	-	-	-
Human resources	1,315,839	-	-	-
Community development	1,669,661	-	25,095	46,975
Public safety:				
Police	28,084,199	-	-	-
Fire	17,953,519	-	-	-
Public works	4,517,379	-	-	-
Parks and recreation	12,178,049	-	-	-
Library	4,798,978	-	-	-
Non-departmental	1,280,000	-	-	-
Capital outlay	-	11,104,728	-	-
Debt service:				
Principal	-	210,000	-	-
Interest, and fiscal charges	-	272,429	-	-
Cost of issuance	-	-	-	-
Total expenditures	79,618,115	11,587,157	25,095	46,975
REVENUES OVER (UNDER) EXPENDITURES	10,851,303	990,090	11,077	199,956
OTHER FINANCING SOURCES (USES):				
Proceeds from debt issuance	-	-	-	-
Premium	-	-	-	-
Debt refunding - payment to escrow	-	-	-	-
Transfers in	1,517,500	7,848,997	-	-
Transfers out	(5,976,224)	-	(11,077)	-
Total other financing sources (uses)	(4,458,724)	7,848,997	(11,077)	-
Net change in fund balances	6,392,579	8,839,087	-	199,956
FUND BALANCES:				
Beginning of year	19,063,760	21,879,577	-	13,347
End of year	\$ 25,456,339	\$ 30,718,664	\$ -	\$ 213,303

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>
\$ -	\$ 2,414,039	\$ 38,179,530
-	-	23,822,654
-	1,063,975	20,736,014
-	8,768,499	8,814,956
-	-	1,990,067
706,475	3,457,728	9,812,480
327,910	1,836,228	9,199,159
12	23,992	46,163
-	2,325,147	6,816,900
-	2,315,900	2,338,849
-	-	2,289,600
250	110,923	2,634,474
<u>1,034,647</u>	<u>22,316,431</u>	<u>126,680,846</u>
-	-	352,570
-	-	540,627
-	-	422,140
-	-	1,046,506
-	-	2,429,006
-	-	3,029,642
-	-	1,315,839
110,175	3,325,292	5,177,198
-	965,009	29,049,208
-	1,455,903	19,409,422
-	3,182,012	7,699,391
-	-	12,178,049
-	-	4,798,978
-	-	1,280,000
-	-	11,104,728
-	1,310,000	1,520,000
-	2,180,478	2,452,907
-	314,224	314,224
<u>110,175</u>	<u>12,732,918</u>	<u>104,120,435</u>
<u>924,472</u>	<u>9,583,513</u>	<u>22,560,411</u>
-	27,295,000	27,295,000
-	2,683,949	2,683,949
-	(29,581,180)	(29,581,180)
-	102,110	9,468,607
<u>(119,573)</u>	<u>(3,650,435)</u>	<u>(9,757,309)</u>
<u>(119,573)</u>	<u>(3,150,556)</u>	<u>109,067</u>
804,899	6,432,957	22,669,478
<u>2,686,713</u>	<u>21,762,107</u>	<u>65,405,504</u>
<u>\$ 3,491,612</u>	<u>\$ 28,195,064</u>	<u>\$ 88,074,982</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, 2013

Net Change in Fund Balances - Total Governmental Funds	\$ 22,669,478
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 \$347,112.	9,595,168
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.	11,867,352
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 \$731,586.	(14,846,283)
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.	(21,909)
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.	33,372
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 issuance, net of \$2,683,949 premium	(27,295,000)
Long-term debt refunding	29,581,180
Long-term debt repayments	1,520,000
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.	25,855
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.	77,852
Cost of issuance of bonds was an expenditure in governmental funds, but in the Government-Wide Statement of Net Position, these amounts were recorded as an asset and are being amortized over the life of the bond.	
- This amount is the cost of issuance expended during the year	314,224
- This amount is the current year amortization expense	(25,229)
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 amount of premium added during the year	(2,683,949)
- This amount is the current year amortization expense	(6,560)
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.	378,912
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.	2,230,515
Change in Net Position of Governmental Activities	\$ 33,539,978

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, 2013

	Enterprise Funds			Governmental
	Sewer	Golf	Total	Activities Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 24,166,661	\$ -	\$ 24,166,661	\$ 31,644,743
Accounts receivable	1,651,855	32,158	1,684,013	78,510
Interest receivable	-	-	-	-
Prepays and supplies	-	74,405	74,405	230,000
Total current assets	25,818,516	106,563	25,925,079	31,953,253
Noncurrent assets:				
Restricted cash and investments with fiscal agents	1,743,801	1	1,743,802	-
Bond issuance costs, net of accumulated amortization	449,369	229,362	678,731	-
Loans and notes receivable	-	-	-	455,575
Capital assets:				
Non-depreciable	15,569,251	244,000	15,813,251	-
Depreciable, net	99,325,838	6,800,037	106,125,875	3,407,531
Total capital assets	114,895,089	7,044,037	121,939,126	3,407,531
Total noncurrent assets	117,088,259	7,273,400	124,361,659	3,863,106
Total assets	142,906,775	7,379,963	150,286,738	35,816,359
LIABILITIES				
Current liabilities:				
Accounts payable	694,217	68,717	762,934	452,498
Interest payable	881,873	140,559	1,022,432	-
Deposits payable	224,515	-	224,515	9,887
Due to other fund	-	404,059	404,059	-
Claims and judgments payable - due within one year	-	-	-	1,500,000
Compensated leave payable - due within one year	84,507	13,911	98,418	-
Bonds payable - due within one year	1,455,000	345,000	1,800,000	-
Total current liabilities	3,340,112	972,246	4,312,358	1,962,385
Noncurrent liabilities:				
Claims and judgments payable - due in more than one year	-	-	-	8,612,000
Compensated leave payable - due in more than one year	683,737	112,552	796,289	-
OPEB liability	239,270	27,009	266,279	-
Bonds payable - due in more than one year	44,041,442	7,606,391	51,647,833	-
Total noncurrent liabilities	44,964,449	7,745,952	52,710,401	8,612,000
Total liabilities	48,304,561	8,718,198	57,022,759	10,574,385
NET POSITION				
Net investment in capital assets	71,142,448	(907,354)	70,235,094	3,407,531
Restricted for:				
Capital projects	8,211,056	-	8,211,056	-
Other purposes	928,146	-	928,146	138,432
Unrestricted	14,320,564	(430,881)	13,889,683	21,696,011
Total net position	\$ 94,602,214	\$ (1,338,235)	\$ 93,263,979	\$ 25,241,974

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, 2013

	Enterprise Funds			Governmental
	Sewer	Golf	Total	Activities Internal Service Funds
OPERATING REVENUES:				
Charges for services	\$ 28,074,086	\$ 2,262,476	\$ 30,336,562	\$ 26,488,150
Connection fees	306,248	-	306,248	-
Impact fees	332,002	-	332,002	-
Other	-	188,464	188,464	48,973
Total operating revenues	28,712,336	2,450,940	31,163,276	26,537,123
OPERATING EXPENSES:				
Costs of sales and services	16,785,161	1,277,138	18,062,299	22,546,357
Administration	1,195,079	494,057	1,689,136	1,309,566
Depreciation and amortization	3,158,155	403,181	3,561,336	731,586
Total operating expenses	21,138,395	2,174,376	23,312,771	24,587,509
OPERATING INCOME	7,573,941	276,564	7,850,505	1,949,614
NONOPERATING REVENUES (EXPENSES):				
Interest income	68,856	-	68,856	-
Loss on disposal of capital assets	(7,123)	-	(7,123)	(7,801)
Interest expense and fiscal charges	(2,071,770)	(338,441)	(2,410,211)	-
Total nonoperating revenues (expenses)	(2,010,037)	(338,441)	(2,348,478)	(7,801)
INCOME (LOSS) BEFORE CONTRIBUTION AND TRANSFERS	5,563,904	(61,877)	5,502,027	1,941,813
Capital contributions	897,868	-	897,868	-
Transfers in	-	-	-	400,000
Transfers out	-	-	-	(111,298)
Total transfers	897,868	-	897,868	288,702
Change in net position	6,461,772	(61,877)	6,399,895	2,230,515
NET POSITION				
Beginning of year	88,140,442	(1,276,358)	86,864,084	23,011,459
End of year	\$ 94,602,214	\$ (1,338,235)	\$ 93,263,979	\$ 25,241,974

See accompanying Notes to Basic Financial Statements.

City of San Mateo
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2013

	Enterprise Funds			Governmental
	Sewer	Golf	Total	Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 28,271,420	\$ 2,251,624	\$ 30,523,044	\$ -
Cash received from other funds	-	72,683	72,683	26,410,001
Cash payments to suppliers for goods and services	(10,433,569)	(741,755)	(11,175,324)	(23,218,632)
Cash paid to employees	(7,688,778)	(1,007,472)	(8,696,250)	(2,048,249)
Cash received from others	-	188,464	188,464	53,613
Net cash provided by operating activities	10,149,073	763,544	10,912,617	1,196,733
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Contributions	485,663	-	485,663	-
Transfers in	-	-	-	400,000
Transfers out	-	-	-	(111,298)
Net cash provided by noncapital financing activities	485,663	-	485,663	288,702
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(8,268,592)	(66,686)	(8,335,278)	(347,112)
Long-term debt repayment	(1,415,000)	(330,000)	(1,745,000)	-
Interest paid and fiscal charges	(2,063,943)	(366,858)	(2,430,801)	-
Net cash (used in) capital and related financing activities	(11,747,535)	(763,544)	(12,511,079)	(347,112)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income received	75,156	-	75,156	-
Net cash provided by investing activities	75,156	-	75,156	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,037,643)	-	(1,037,643)	1,138,323
CASH AND CASH EQUIVALENTS - Beginning of year	26,948,105	1	26,948,106	30,506,420
CASH AND CASH EQUIVALENTS - End of year	\$ 25,910,462	\$ 1	\$ 25,910,463	\$ 31,644,743
FINANCIAL STATEMENT PRESENTATION:				
Cash and investments	\$ 24,166,661	\$ -	\$ 24,166,661	\$ 31,644,743
Restricted cash and investments with fiscal agents	1,743,801	1	1,743,802	-
Total	\$ 25,910,462	\$ 1	\$ 25,910,463	\$ 31,644,743
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income	\$ 7,573,941	\$ 276,564	\$ 7,850,505	\$ 1,949,614
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	3,158,155	403,181	3,561,336	731,586
Changes in assets and liabilities:				
Accounts receivable	(256,672)	(10,852)	(267,524)	(73,509)
Prepays and supplies	-	3,571	3,571	56,189
Accounts payable	79,243	19,731	98,974	(1,140,236)
Accrued salaries and wages payable	(117,330)	(15,552)	(132,882)	(32,911)
Deposits payable	(184,244)	-	(184,244)	-
Due to other fund	-	72,683	72,683	-
Claims and judgments payable	-	-	-	(294,000)
Compensated leave payable	(75,871)	17,141	(58,730)	-
OPEB liability	(28,149)	(2,923)	(31,072)	-
Total adjustments	2,575,132	486,980	3,062,112	(752,881)
Net cash provided by operating activities	\$ 10,149,073	\$ 763,544	\$ 10,912,617	\$ 1,196,733
NONCASH ITEMS				
Capital contributions	\$ 412,205	\$ -	\$ 412,205	\$ -
Total noncash items	\$ 412,205	\$ -	\$ 412,205	\$ -

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, 2013

	Community Facilities	
	District 2008-1 Agency Fund	Successor Agency Trust Fund
ASSETS		
Current assets		
Cash and investments	\$ -	\$ 8,062,990
Loans and notes receivable	-	255,109
Total current assets	-	8,318,099
Noncurrent assets		
Restricted cash and investments	30,176,215	4,600,230
Bond issuance costs, net of accumulated amortization	-	1,338,713
Capital assets - land	-	7,274,984
Total noncurrent assets	30,176,215	13,213,927
Total assets	\$ 30,176,215	\$ 21,532,026
LIABILITIES		
Liabilities:		
Current liabilities		
Accounts payable	-	1,478,847
County CDBG Loan	-	538,750
Bonds payable - due in one year	-	3,220,000
Total current liabilities	-	5,237,597
Noncurrent liabilities		
Due to bondholders	30,176,215	-
Bonds payable	-	77,252,789
Total noncurrent liabilities	30,176,215	77,252,789
Total liabilities	\$ 30,176,215	82,490,386
NET POSITION		
Held in trust for dissolution of RDA		(60,958,360)
Total net position		\$ (60,958,360)

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, 2013

	Successor Agency Trust Fund
ADDITIONS:	
Investment income	\$ 5,029
RDA property tax trust fund distribution	7,929,786
Other	68,437
Total additions	8,003,252
DEDUCTIONS:	
Administration	333,602
Amortization expense	225,052
Return of RDA funds to taxing agencies	5,822,482
Interest expense	3,654,709
Total Deductions	10,035,845
Change in net position	(2,032,593)
NET POSITION:	
Beginning of year	(58,925,767)
End of year	<u>\$ (60,958,360)</u>

See accompanying Notes to Basic Financial Statements.



NOTES TO BASIC FINANCIAL STATEMENTS

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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 Power 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 Power 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, 2013

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, 2013

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, 2013

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, 2013

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, 2013

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.

Successor Agency Private Purpose Trust Fund - accounts for assets and liabilities transferred from the City to the Successor Agency Trust Fund.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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, 2013

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 and for acquisition and construction of capital projects. 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 a fund balance reservation, 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, 2013

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, 2013

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. Unavailable and unearned revenue

In the Government-Wide Financial Statements, 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.

In the Fund Financial Statements, unavailable revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records unavailable and unearned revenues for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which unearned and unavailable revenues are recorded are grants received but not yet earned or available, long-term loans receivables, and 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.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. 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.

M. 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 classification of fund balances is as follows:

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.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Fund Balances, Continued

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.

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.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Fund Balances, Continued

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 and Recreational Services Fund for which the authorization has not lapsed, amounts held in petty cash accounts in the General Fund and Recreational Services 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 Manager. 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.

Unassigned Fund Balance

The residual classification for the general fund, 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% TOT 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.

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.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Fund Balances, Continued

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	\$ 360,505
General Capital Projects Fund	Restricted	11,189,210
Total Major Funds		<u>\$ 11,549,715</u>
Nonmajor governmental funds	Committed	<u>\$ 151,355</u>

N. 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.

O. 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.

P. New Pronouncements

In 2013, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* – The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. There was no effect on net position by the City implementing this new accounting standard.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* – The requirements of this statement result in financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. There was no effect on net position by the City implementing this new accounting standard.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. New Pronouncements, Continued

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* - The requirements of this statement improve financial reporting by contributing to the Governmental Accounting Standards Board's (GASB) efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. There was no effect on net position by the City implementing this new accounting standard.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* - The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosure.

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.

A. Summary of Cash and Investments

The following is a summary of cash and investments at June 30, 2013:

	<u>Government-Wide Statement of Net Position</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Petty cash	\$ 27,399	\$ -	\$ -	\$ 27,399
Deposits and investments	123,719,113	24,166,661	8,062,990	155,948,764
Restricted cash and investments	1,288,999	1,743,802	34,776,445	37,809,246
Total cash and investments	\$ 125,035,511	\$ 25,910,463	\$ 42,839,435	\$ 193,785,409

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

2. CASH AND INVESTMENTS, Continued

Cash and investments as of June 30, 2013 consist of the following:

Cash on hand	\$ 27,399
Deposits with financial institution	(830,492)
Total cash on hand and deposits	<u>(803,093)</u>
Local Agency Investment funds	47,891,010
San Mateo County Pool	42,572,506
Investments	66,315,740
Total investments	<u>156,779,256</u>
Total City Treasury	<u>155,976,163</u>
Cash with fiscal agent	<u>37,809,246</u>
Total cash and investments	<u>\$ 193,785,409</u>

B. Deposits

The carrying amount of the City's cash deposit was a negative amount of \$830,492 at June 30, 2013. Bank balances before reconciling items were a negative amount of \$65,518 at June 30, 2013. 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.

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.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

2. CASH AND INVESTMENTS, Continued

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	\$ 1,162,767
Unrealized gain in changes in fair value of investments	<u>(1,069,909)</u>
Total investment income	<u>\$ 92,858</u>

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, 2013, 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.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

2. CASH AND INVESTMENTS, Continued

C. Investments, Continued

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, 2013, the City had \$47,891,010 invested in LAIF, which had invested 1.96% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 3.47% in the previous year. The LAIF fair value factor of 1.000273207 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.

Investments held in the City Treasury grouped by maturity date at June 30, 2013, 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 (FCB)	\$ 9,866,251	\$ -	\$ 1,021,311	\$ 1,000,036	\$ 1,987,389	\$ 5,857,515
Federal Home Loan Bank Bonds (FHLB)	6,415,145	1,003,543	1,048,120	2,000,780	993,523	1,369,179
Federal Home Loan Mortg. Corp. Notes (FHLMC)	8,934,154	-	1,009,119	2,007,367	1,994,578	3,923,090
Federal National Mortg. Assn. Notes (FNMA)	24,017,636	3,006,316	2,756,809	3,000,582	4,403,136	10,850,793
US Treasuries	7,063,828	5,022,109	-	1,018,203	1,023,516	-
Berkshire Hathaway	1,064,318	-	1,064,318	-	-	-
New York Life Global	520,625	-	-	520,625	-	-
Money Market	3,083,783	3,083,783	-	-	-	-
Time Deposits	5,350,000	3,000,000	2,350,000	-	-	-
Subtotal	66,315,740	15,115,751	9,249,677	9,547,593	10,402,142	22,000,577
City Local Agency Investment Fund	47,891,010	47,891,010	-	-	-	-
San Mateo County Pool	42,572,506	42,572,506	-	-	-	-
Total	\$ 156,779,256	\$ 105,579,267	\$ 9,249,677	\$ 9,547,593	\$ 10,402,142	\$ 22,000,577

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

2. CASH AND INVESTMENTS, Continued

C. Investments, Continued

Liquidity Standard: As a means of maintaining liquidity, the City's investment policy limits are as follows:

<u>Maturity</u>	<u>% of Portfolio</u>
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).

At June 30, 2013, the City's deposits and investments were rated as follows:

	<u>Credit Quality Ratings</u>	
	<u>Moody's</u>	<u>S&P</u>
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
Microsoft	Aaa	AAA
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.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

3. INTERFUND TRANSACTIONS

A. Due To/From Other Funds

At June 30, 2013, 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	\$ 348,375
Golf Enterprise Fund	404,059
Total	<u>\$ 752,434</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.

B. Transfers

At June 30, 2013, the City had the following transfers in/out which arise in the normal course of operations.

<u>Transfers Out</u>	<u>Transfers In</u>				<u>Total</u>
	<u>General</u>	<u>Genera Capital Projects</u>	<u>Non-Major Governmental Funds</u>	<u>Internal Service Funds</u>	
Major Funds					
General Fund	\$ -	\$ 5,474,114	\$ 102,110	\$ 400,000	\$ 5,976,224
Home Special Revenue	-	11,077	-	-	11,077
Low & Moderate Income Housing Asset Fund	-	119,573	-	-	119,573
Non-major Govtl Funds	1,517,500	2,132,935	-	-	3,650,435
Total Govt Funds	<u>1,517,500</u>	<u>7,737,699</u>	<u>102,110</u>	<u>400,000</u>	<u>9,757,309</u>
Internal Service Funds	-	111,298	-	-	111,298
Total	<u>\$ 1,517,500</u>	<u>\$ 7,848,997</u>	<u>\$ 102,110</u>	<u>\$ 400,000</u>	<u>\$ 9,868,607</u>

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.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

4. LOANS AND NOTES RECEIVABLE

A. Government-Wide Financial Statements

At June 30, 2013, the City's loans and notes receivable consisted of the following:

Loans and notes receivable	\$ 55,085,120
Allowances for potential forgiveness	<u>(7,632,664)</u>
Loans and notes receivable, net	<u>\$ 47,452,456</u>

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 unearned and unavailable revenue as they are not expected to be repaid immediately.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

4. LOANS AND NOTES RECEIVABLE, Continued

B. Fund Financial Statements, Continued

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, 2013	Balance June 30, 2012
Governmental Funds:			
First-Time Homebuyer Loans	Various	\$ 19,410,940	\$ 19,196,486
Home Rehabilitation Loans	Various	1,704,310	1,863,121
106 N. Eldorado	2036	450,000	450,000
Darcy Building	2040	1,447,313	1,454,650
Edgewater Isle Senior Apartments	2048	3,974,265	3,904,379
Belmont Building	2032	800,000	800,000
St. Matthew Hotel	2036	2,492,889	2,466,199
Rotary Hacienda	2058	4,369,069	4,382,870
Turning Point	2018	1,102,297	1,107,338
12 N. Idaho Street	2034	100,000	100,000
200 S. Delaware Street	2049	1,778,445	1,745,979
Employees' Housing Assistance Program	Various	-	95,248
232 S. Humboldt Street	2021	685,178	672,356
11 S. Delaware Street	2032	1,086,699	1,065,421
El Camino Family Housing	2042	4,411,514	4,324,685
Swanson - 349 North Claremont	2025	322,029	311,961
Lesley Foundation	2020	67,637	75,388
Cora Loan	2026	-	12,922
MP San Mateo Transit Associates	2062	7,686,186	7,634,688
MP Delaware Pacific Associates LP	2067	1,245,074	1,214,301
Gateway Commons Assessment Loan	Various	811,952	881,373
Cal Home Loans	Various	683,748	571,711
Miranda Loan	2013	-	3,038
Total governmental funds		54,629,545	54,334,114
Internal Service Funds:			
Employee Loan	Open	455,575	455,575
Total Primary Government		\$ 55,085,120	\$ 54,789,689
Fiduciary Fund- Successor Agency Private Purpose Trust Fund			
Business Development Loans	2029	255,109	284,207
Total Fiduciary Funds		\$ 255,109	\$ 284,207

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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, 2013

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, 2013

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. On September 29, 2010, a principal payment of \$48,400 was made reducing the unpaid principal balance to \$919,600.

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, 2013

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 \$1,216,000 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.

Employees' Housing Assistance Program

The City has a housing assistance program for City employees for housing located within City limits. This program provides short-term loans up to \$75,000 to finance rental deposits or closing costs for home ownership. Loan repayments are deducted from employees' paychecks over a period of up to five years or are due upon leaving employment. The balance for these loans as of June 30, 2013 is \$0.

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.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

4. LOANS AND NOTES RECEIVABLE, Continued

B. Fund Financial Statements, Continued

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.

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, 2013

4. LOANS AND NOTES RECEIVABLE, Continued

B. Fund Financial Statements, Continued

Cora Loan

On April 26, 2006, the City entered two promissory notes with the Community Overcoming Relationship Abuse (CORA) in the amount of \$75,000 and \$70,000. The notes bear an interest rate of 3%. Payments of principal and interest are deferred for 20 years or until sale or transfer of the property, whichever comes first, at such time the City of San Mateo may elect to extend or modify the loan terms. The balance as of June 30, 2013 for the Cora Loan is \$0.

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, 2013

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 17).

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

5. UNEARNED/UNAVAILABLE REVENUE

A. Government-Wide Financial Statements

Unearned revenues in the Government-Wide Financial Statements represent amounts for which revenues have not been earned. At June 30, 2013, unearned revenues in the Government-Wide Financial Statements were as follows:

	Governmental Activities
Prepaid rent and service	\$ 15,223
Prepaid summer course registration	975,777
Prepaid recreation classes	52,382
Unearned grant revenues	150,029
Total	\$ 1,193,411

B. Fund Financial Statements

At June 30, 2013, the following unearned and unavailable revenues were recorded in the Fund Financial Statements because either the revenues had not been earned or the funds were not available to finance expenditures of the current period:

Governmental Funds:

	General Fund	General Capital Projects	HOME	City Housing	Low Moderate Income Housing	Non-Major Funds	Total
Long-Term Notes Receivable Principal	\$ -	\$ 4,508,025	\$ 7,262,807	\$ 2,949,024	\$ 21,859,410	\$ 1,579,135	\$ 38,158,401
Interest Accruals:							
1st Time Home Buyer Loan	-	-	-	5,350,586	5,424,391	340,762	11,115,739
Home Rehabilitation Loan	-	-	-	38,084	209,897	231,855	479,836
11 S. Delaware Loan	-	-	256,949	-	-	-	256,949
200 S. Delaware Loan	-	-	315,828	-	196,617	-	512,445
Darcy Building	-	-	-	-	401	-	401
Edgewater Isle Senior Apt Loan	-	-	225,828	-	1,023,167	-	1,248,995
St. Matthew Hotel Loan	-	-	-	-	492,888	-	492,888
El Camino Family Hsg Loan	-	-	-	-	1,025,514	-	1,025,514
Turning Point Loan	-	-	69,139	-	141,711	59,905	270,755
Humboldt House Loan	-	-	135,180	-	49,998	-	185,178
Rotary Floritas Loan	-	-	-	-	497,869	-	497,869
Gateway Commons Assessment Loan	-	-	18,144	-	1,844	-	19,988
Swanson Loan	-	-	86,477	-	-	-	86,477
Lesley Foundation	-	-	139	-	-	-	139
MP San Mateo Transit Associates	-	-	89,945	-	112,989	-	202,934
MP Delaware Pacific Assoc LP	-	-	33,054	-	12,020	-	45,074
Cal Home Loan	-	29,963	-	-	-	-	29,963
Unbilled grant revenues and other revenues to be collected after 60 days from year-end	-	206,393	-	-	-	-	206,393
Prepaid Rent and Service	1,043,382	-	-	-	-	-	1,043,382
Unearned Grant Revenues	-	-	133,376	-	-	16,653	150,029
Total	\$ 1,043,382	\$ 4,744,381	\$ 8,626,866	\$ 8,337,694	\$ 31,048,716	\$ 2,228,310	\$ 56,029,349

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

6. BOND ISSUANCE COSTS

As of June 30, 2013, bond issuance costs, net of accumulated amortization for the Government-Wide Financial Statements and Fiduciary Financial Statements consisted of the following:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental Activities:				
Bond issuance costs	\$ 409,667	\$ 314,224	\$ (25,229)	\$ 698,662
Business-Type Activities:				
Bond issuance costs	717,528	-	(38,797)	678,731
Total Primary Government	<u>\$ 1,127,195</u>	<u>\$ 314,224</u>	<u>\$ (64,026)</u>	<u>\$ 1,377,393</u>
Fiduciary Funds - Successor Agency to Redevelopment Agency Trust Fund				
Bond issuance costs	1,430,213	-	(91,500)	1,338,713
Total Fiduciary Funds	<u>\$ 1,430,213</u>	<u>\$ -</u>	<u>\$ (91,500)</u>	<u>\$ 1,338,713</u>

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

7. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2013, 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	6,826,976	11,595,953	18,422,929
Total non-depreciable assets	<u>52,413,741</u>	<u>15,813,251</u>	<u>68,226,992</u>
Depreciable assets:			
Buildings and improvements	145,778,343	11,790,969	157,569,312
Treatment plant & transmission lines	-	172,697,018	172,697,018
Machinery and equipment	31,714,701	3,111,891	34,826,592
Infrastructure	418,225,095	-	418,225,095
	<u>595,718,139</u>	<u>187,599,878</u>	<u>783,318,017</u>
Less accumulated depreciation:			
Buildings and improvements	30,592,289	5,060,320	35,652,609
Treatment plant & transmission lines	-	73,990,134	73,990,134
Machinery and equipment	22,817,624	2,423,549	25,241,173
Infrastructure	203,586,548	-	203,586,548
Total accumulated depreciation	<u>256,996,461</u>	<u>81,474,003</u>	<u>338,470,464</u>
Total depreciable assets	<u>338,721,678</u>	<u>106,125,875</u>	<u>444,847,553</u>
Total capital assets	<u><u>\$ 391,135,419</u></u>	<u><u>\$ 121,939,126</u></u>	<u><u>\$ 513,074,545</u></u>

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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, 2012	Additions	Retirements	Reclassification	Balance June 30, 2013
Non-depreciable assets:					
Land	\$ 44,319,018	\$ 1,267,747	\$ -	\$ -	\$ 45,586,765
Construction in progress	4,421,705	8,277,342	-	(5,872,071)	6,826,976
Total non-depreciable assets	<u>48,740,723</u>	<u>9,545,089</u>	<u>-</u>	<u>(5,872,071)</u>	<u>52,413,741</u>
Depreciable assets:					
Building and improvements	145,778,343	-	-	-	145,778,343
Machinery and equipment	30,996,311	462,592	(833,953)	1,089,752	31,714,702
Infrastructure	401,640,824	11,801,951	-	4,782,319	418,225,094
	<u>578,415,478</u>	<u>12,264,543</u>	<u>(833,953)</u>	<u>5,872,071</u>	<u>595,718,139</u>
Less accumulated depreciation:					
Building and improvements	26,901,739	3,690,550	-	-	30,592,289
Machinery and equipment	22,068,765	1,575,011	(826,152)	-	22,817,624
Infrastructure	193,274,239	10,312,309	-	-	203,586,548
Total accumulated depreciation	<u>242,244,743</u>	<u>15,577,870</u>	<u>(826,152)</u>	<u>-</u>	<u>256,996,461</u>
Total depreciable assets, net	<u>336,170,735</u>	<u>(3,313,327)</u>	<u>(7,801)</u>	<u>5,872,071</u>	<u>338,721,678</u>
Total capital assets	<u>\$ 384,911,457</u>	<u>\$ 6,231,762</u>	<u>\$ (7,801)</u>	<u>\$ -</u>	<u>\$ 391,135,419</u>

Depreciation expense by program for capital assets for the year ended June 30, 2013 was as follows:

General government	\$ 261,069
Community development	83,267
Public safety	2,261,930
Public works	9,371,095
Parks and recreation	1,788,275
Library	1,812,234
Total depreciation expense	<u>\$ 15,577,870</u>

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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, 2012	Additions	Retirements	Reclassification	Balance June 30, 2013
Non-depreciable assets:					
Land	\$ 4,217,298	\$ -	\$ -	\$ -	\$ 4,217,298
Construction in progress	10,784,716	8,156,491	-	(7,345,254)	11,595,953
Total non-depreciable assets	15,002,014	8,156,491	-	(7,345,254)	15,813,251
Depreciable assets:					
Golf building and improvements	11,790,969	-	-	-	11,790,969
Sewer treatment plant and transmission lines	164,939,559	412,205	-	7,345,254	172,697,018
Machinery and equipment	3,058,410	178,787	(125,306)	-	3,111,891
Total depreciable assets	179,788,938	590,992	(125,306)	7,345,254	187,599,878
Less accumulated depreciation:					
Golf building and improvements	4,691,680	368,640	-	-	5,060,320
Sewer treatment plant and transmission lines	71,011,183	2,978,951	-	-	73,990,134
Machinery and equipment	2,452,861	88,871	(118,183)	-	2,423,549
Total accumulated depreciation	78,155,724	3,436,462	(118,183)	-	81,474,003
Total depreciable assets, net	101,633,214	(2,845,470)	(7,123)	7,345,254	106,125,875
Total capital assets	\$ 116,635,228	\$ 5,311,021	\$ (7,123)	\$ -	\$ 121,939,126

Depreciation expense for the year ended June 30, 2013 was as follows:

Sewer	\$ 3,061,279
Golf	375,183
Total depreciation expense	\$ 3,436,462

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, 2013

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, 2012	Additions	Retirements	Reclassification	Balance June 30, 2013
Non-depreciable assets:					
Land	\$ 7,274,984	\$ -	\$ -	\$ -	\$ 7,274,984
Total capital assets	\$ 7,274,984	\$ -	\$ -	\$ -	\$ 7,274,984

Land held by the Successor Agency includes land held for sale previously recorded in 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, 2013:

	Original Issue Amount	Balance June 30, 2012	Additions	Deletions	Bond Discount/ Premium	Balance June 30, 2013	Due Within One Year
Governmental Activities:							
Bonds Payable:							
General Obligation Bonds:							
Series 2000	\$ 12,000,000	\$ 9,785,000	\$ -	\$ (9,785,000)	\$ -	\$ -	\$ -
Series 2004A	23,000,000	19,375,000	-	(19,375,000)	-	-	-
Series 2013, Refunding	27,295,000	-	28,637,769	-	-	28,637,769	970,000
Joint Power Financing Authority:							
Revenue Bonds, Series 2003	7,900,000	6,865,000	-	(175,000)	-	6,690,000	180,000
Lease Revenue Bonds, Series 2007 A	17,400,000	16,870,000	-	(215,000)	-	16,655,000	240,000
S. Bayfront Flood Ctrl, Series 2011A	5,745,000	5,640,045	-	(210,000)	6,560	5,436,605	220,000
Total bonds payable	\$ 93,340,000	\$ 58,535,045	\$ 28,637,769	\$ (29,760,000)	\$ 6,560	\$ 57,419,374	\$ 1,610,000

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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 1, 2013, the City 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 2004 General Obligation Bonds, and to pay the costs of issuance of the 2013 Refunding Bonds.

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 two bonds are expected to require 100% percent of net revenues. The total principal and interest remaining to be paid on the 2013 Refunding Bonds is \$36,730,133. For the current year, principal and interest paid on the 2013 Refunding Bonds was \$0 and ad valorem property tax net revenues were \$2,414,030.

The outstanding balance of the refunded 2000 and 2004 General Obligation Bonds as of June 30, 2013 were \$0 and \$18,745,000 respectively.

The present value refunding savings attributable to the Bonds is \$5.822 million, or 21.3% of the par amount of the refunding bonds issued. Net present value savings on the 2000 bonds was \$2.6 million (30.4%) and net present value savings on the 2004A Bonds was \$3.1 million (17.0%).

The annual debt service requirements on the 2013 Refunding Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 970,000	\$ 815,058	\$ 1,785,058
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
2019-2023	5,490,000	2,657,600	8,147,600
2024-2028	6,490,000	1,734,300	8,224,300
2029-2031	7,580,000	751,525	8,331,525
2032	2,070,000	31,050	2,101,050
Subtotal	27,295,000	<u>\$ 9,435,133</u>	<u>\$ 36,730,133</u>
Bond Premium	2,683,949		
Deferred loss on refunding	<u>(1,341,180)</u>		
Total	<u>\$ 28,637,769</u>		

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

8. LONG-TERM DEBT, Continued

A. Governmental Activities, Continued

Joint Powers Financing Authority Revenue Bonds, Series 2003 - Original Issue \$7,900,000

On October 30, 2003, the Authority issued \$7,900,000 principal amount Joint Powers Financing Authority Revenue Bonds, Series 2003 (Revenue Bonds). 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 from 2006 to 2034, in amounts ranging from \$130,000 to \$485,000. The interest of the Revenue Bonds is payable semi-annually on each February 1 and August 1. The interest rate of the Revenue Bonds ranges from 4.10% 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 outstanding balance of the Revenue Bonds was \$6,690,000 as of June 30, 2013.

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. The total principal and interest remaining to be paid on the bonds is \$10,877,752. For the current year, principal and interest paid were \$495,790 and garbage collection surcharge net revenues were \$984,355.

The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 180,000	\$ 313,335	\$ 493,335
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
2019-2023	1,230,000	1,243,525	2,473,525
2024-2028	1,550,000	917,939	2,467,939
2029-2033	1,980,000	492,800	2,472,800
2034-2035	945,000	47,875	992,875
Total	\$ 6,690,000	\$ 4,187,752	\$ 10,877,752

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

8. LONG-TERM DEBT, Continued

A. Governmental Activities, Continued

Joint Powers Financing Authority Revenue Bonds, Series 2007A – Original Issue \$17,400,000

On April 16, 2007, the Authority issued \$17,400,000 principal amount Joint Powers Financing Authority Lease Revenue Bonds, Series 2007A (Lease Revenue Bonds). The proceeds of the Lease Revenue Bonds were provided to finance expenditures related to the acquisition, construction and installation of a police station.

The Lease Revenue Bonds mature annually through April 1, 2038 in the amounts ranging from \$160,000 to \$1,195,000 beginning April 1, 2009. The interest of the Lease Revenue Bonds is payable monthly from the lease revenue of the Authority from the City. The interest rate of the Lease Revenue Bonds is determined based on the Weekly Rate by the Remarketing Agency no greater than 12% per annum (Rates are not available for the debt service requirements). The Lease 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 outstanding balance of the Lease Revenue Bonds was \$16,655,000 as of June 30, 2013.

The City has elected to use the 2% hotel tax (Measure C), backed by a general fund lease, to pay the annual principal and interest payments on the bonds. The annual payments are expected to require 24% of 2% hotel tax net revenues. For the current year, principal and interest paid were \$242,686 and the 2% hotel tax net revenues were \$1,063,975.

The annual principal requirements on these bonds are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>
2014	\$ 240,000
2015	260,000
2016	285,000
2017	310,000
2018	335,000
2019-2023	2,090,000
2024-2028	2,905,000
2029-2033	3,905,000
2034-2038	5,130,000
2039	1,195,000
Total	\$ 16,655,000

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

8. LONG-TERM DEBT, Continued

A. Governmental Activities, Continued

**Joint Powers Financing Authority Revenue Bonds (South Bayfront Flood Control Project), Series 2011A
- Original Issue \$5,745,000**

On February 1, 2011, the Authority issued \$5,745,000 principal amount Joint Powers Financing Authority Revenue Bonds (South Bayfront Flood Control Project), Series 2011A (Revenue Bonds). The proceeds of the Revenue Bonds are 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 2012 to 2029, in amounts ranging from \$210,000 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 outstanding principal balance of the Revenue Bonds was \$5,436,605 as of June 30, 2013

Under the Facility Lease, payment of Installment Payments by the City satisfies, to the extent of those Installment Payments, the obligations of the City to pay Base Rental payments. The City funds the Installment Payments to the Authority from South Bayfront Assessment Revenues which consist of all revenue received by the City from the levy and collection of the South Bayfront Benefit Assessments.

Under the Facility Lease, payment of Installment Payments by the City satisfies, to the extent of those Installment Payments, the obligations of the City to pay Base Rental payments. The City funds the Installment Payments to the Authority from South Bayfront Assessment Revenues which consist of all revenue received by the City from the levy and collection of the South Bayfront Benefit Assessments. The total principal and interest remaining to be paid on the bonds is \$8,337,559.

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 \$480,075 and the assessment net revenues were \$538,343.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

8. LONG-TERM DEBT, Continued

A. Governmental Activities, Continued

**Joint Powers Financing Authority 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
2014	\$ 220,000	\$ 263,625	\$ 483,625
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
2018-2023	1,505,000	969,675	2,474,675
2024-2028	1,925,000	535,799	2,460,799
2029-2030	925,000	52,734	977,734
Subtotal	5,535,000	<u>\$ 2,802,559</u>	<u>\$ 8,337,559</u>
Bond Discount	(98,395)		
Total	<u>\$ 5,436,605</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 FY2005-06.

As of June 30, 2013, the estimated amount of \$3,875,000 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 23 years for the Post-closure costs.

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year
Landfill Closure and Postclosure					
Costs Payable	\$ 3,000,000	\$ -	\$ (125,000)	\$ 2,875,000	\$ 125,000

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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 \$7,892,062 as of June 30, 2013.

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year
Governmental Activities					
Compensated Leave Payable	\$ 6,975,446	\$ 6,028,642	\$ (6,006,733)	\$ 6,997,355	\$ 769,709
Business-Type Activities					
Compensated Leave Payable	\$ 953,437	\$ 1,025,005	\$ (1,083,735)	\$ 894,707	\$ 98,418

The amount due within one year of \$769,709 for Governmental Activities and \$98,418 for Business-Type Activities represents the estimated amount for anticipated retirees.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

8. LONG-TERM DEBT, Continued

D. Business-Type Activities

	Original Issue Amount	Balance July 1, 2012	Additions	Deletions	Bond Discount/Loss	Balance June 30, 2013	Due Within One Year
Sewer Revenue Bonds:							
Series 2003	\$ 16,300,000	\$ 16,300,000	\$ -	\$ -	\$ -	\$ 16,300,000	\$ -
Series 2011A	31,990,000	30,539,028	-	(1,415,000)	72,414	29,196,442	1,455,000
Total sewer revenue bonds	48,290,000	46,839,028	-	(1,415,000)	72,414	45,496,442	1,455,000
San Mateo Joint Powers							
Financing Authority Revenue							
Refunding Bonds, Series 2007							
Golf Course Project	9,125,000	8,267,728	-	(330,000)	13,663	7,951,391	345,000
Total	\$ 57,415,000	\$ 55,106,756	\$ -	\$ (1,745,000)	\$ 86,077	\$ 53,447,833	\$ 1,800,000

Sewer Revenue Bonds, Series 2003 – Original Issue \$16,300,000

On November 19, 2003, the City 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.

The Series 2003 Bonds mature annually through August 1, 2028 in the amounts 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 of 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 balance of the Series 2003 Bonds was \$16,300,000 at June 30, 2013.

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 \$24,320,527 and \$49,968,770, respectively. For the current year, principal and interest paid on the Series 2003 was \$728,254 and on Series 2011A was \$2,770,307. Charges for sewer services net revenues were \$28,074,086.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

8. LONG-TERM DEBT, Continued

D. Business-Type Activities, Continued

Sewer Revenue Bonds, Series 2003 – Original Issue \$16,300,000, Continued

The annual debt service requirements on the Series 2003 Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ -	\$ 728,254	\$ 728,254
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
2019-2023	6,150,000	2,964,020	9,114,020
2024-2028	7,985,000	1,389,549	9,374,549
2029	1,860,000	43,013	1,903,013
Total	\$ 16,300,000	\$ 8,020,527	\$ 24,320,527

Sewer Revenue Bonds, Series 2011A – Original Issue \$31,990,000

On May 1, 2011, the City 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 from 2011 through 2041 in the amounts 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 of the Series 2011A Bonds range from 0.37% to 5.25%. The Series 2011A Bonds are payable solely from net revenues received by the City from the operation of the Sewer System and certain funds and accounts held under the Indenture. The Series 2011A Bonds are subject to early redemption provisions. The outstanding balance of the Series 2011A Bonds was \$29,196,442 at June 30, 2013.

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 \$24,320,527 and \$49,968,770, respectively. For the current year, principal and interest paid on the Series 2003 was \$728,254 and on Series 2011A was \$2,770,307. Charges for sewer services net revenues were \$28,074,086.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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
2014	\$ 1,455,000	\$ 1,312,057	\$ 2,767,057
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
2019-2023	3,355,000	5,075,321	8,430,321
2024-2028	4,275,000	4,145,969	8,420,969
2029-2033	4,115,000	3,063,873	7,178,873
2034-2038	4,915,000	1,953,329	6,868,329
2039-2042	4,960,000	537,864	5,497,864
Subtotal	29,115,000	<u>\$ 20,853,770</u>	<u>\$ 49,968,770</u>
Deferred Loss	(806,180)		
Bond Premium	887,622		
Total	<u>\$ 29,196,442</u>		

San Mateo Joint Powers Financing Authority Revenue Bonds (Golf Course Project), Refunding Series 2007B - Original Issue \$9,125,000

On October 25, 2007, the City Authority issued \$9,125,000 in City of San Mateo Joint Powers Financing Authority Revenue Refunding Bonds Series 2007B (JPFA Revenue Bonds) to refund \$9,384,190 of the City of San Mateo Joint Powers Authority Revenue Bonds, Series 1999. The refunding resulted in \$1,527,113 gross debt service (principal and interest) savings over the next 20 years, and an economic gain of \$494,316.

The JPFA Revenue Bonds mature annually through August 1, 2029 in amounts ranging from \$305,000 to \$655,000 beginning August 1, 2010. The interest of the JPFA Revenue Bonds is payable semi-annually on each February 1 and August 1. The interest rates of the JPFA Revenue Bonds range from 3.70% to 4.38% annually. The JPFA Revenue Bonds are payable solely from golf course facility lease revenue of the Authority. The JPFA Revenue Bonds are subject to optional and mandatory early redemption provisions. The outstanding balance of the JPFA Revenue Bonds was \$7,591,391 at June 30, 2013.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

8. LONG-TERM DEBT, Continued

D. Business-Type Activities, Continued

San Mateo Joint Powers Financing Authority Revenue Bonds (Golf Course Project), Refunding Series 2007B - Original Issue \$9,125,000, Continued

The City funds the lease payments to the Authority from the 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 \$11,424,501. Principal and interest paid for the current year and golf course facility lease net revenues were \$673,942 and \$2,262,476, respectively.

Year Ending June 30,	Principal	Interest	Total
2014	\$ 345,000	\$ 330,442	\$ 675,442
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
2019-2023	2,260,000	1,104,736	3,364,736
2024-2028	2,765,000	586,594	3,351,594
2029-2030	1,280,000	56,656	1,336,656
Subtotal	8,170,000	\$ 3,254,501	\$ 11,424,501
Deferred Loss	(218,609)		
Total	\$ 7,951,391		

E. Fiduciary Funds - Private Purpose Trust Funds - Successor Agency

The following is a summary of long-term debt transactions including amortization for the year ended June 30, 2013:

	Original Issue Amount	Balance July 1, 2012	Additions	Deletions	Bond Discount/ Premium	Balance June 30, 2013	Due Within One Year
Redevelopment Tax Allocation Bonds:							
Series 2005A	\$ 38,665,000	\$ 36,331,577	\$ -	\$ (535,000)	\$ (4,320)	\$ 35,792,257	\$ 555,000
Series 2005A, Housing Set-Aside	11,195,000	8,985,000	-	(395,000)		8,590,000	405,000
Series 2007A, Refunding	46,135,000	38,122,660	-	(2,170,000)	137,872	36,090,532	2,260,000
County CDBG Loan	500,000	538,750	-	-	-	538,750	538,750
Total long term debt	\$ 96,495,000	\$ 83,977,987	\$ -	\$ (3,100,000)	\$ 133,552	\$ 81,011,539	\$ 3,758,750

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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

On June 1, 2005, the Redevelopment Agency 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. As of February 1, 2012, the future annual debt service requirements of the Series 2005A Bonds were 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 17).

The Series 2005A Bonds mature annually through August 1, 2032 in the amounts ranging from \$450,000 to \$4,345,000 beginning August 1, 2007. The interest of the Series 2005A Bonds is payable semi-annually on each February 1 and August 1, commencing August 1, 2005. The interest rate of the Series 2005A Bonds ranges from 3.50% to 5.00%. The Series 2005A Bonds are subject to optional and mandatory early redemption provisions. The outstanding balance of the Series 2005A Bonds was \$35,792,257 at June 30, 2013.

Assembly Bill AB 1X 26 provided that upon dissolution of the Redevelopment Agency, property taxes 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.

There are two RDA Merged Area Tax Allocation Bonds secured by property tax revenues: Series 2005A and 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 and 2007A bonds is \$58,655,613 and \$48,743,488 respectively. For the current year, principal and interest paid on the Series 2005A and 2007A were \$2,120,484 and \$3,760,388, respectively and RDA Property Tax Trust Fund distributions were \$7,929,786.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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
2014	\$ 555,000	\$ 1,566,409	\$ 2,121,409
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
2019-2023	3,580,000	7,002,045	10,582,045
2024-2028	9,290,000	5,966,106	15,256,106
2029-2033	19,865,000	2,352,274	22,217,274
Subtotal	35,710,000	<u>\$ 22,945,613</u>	<u>\$ 58,655,613</u>
Bond premium	82,257		
Total	<u>\$ 35,792,257</u>		

Merged Area Housing Set-Aside Tax Allocation Bonds, Series 2005A – Original Issue \$11,195,000

On June 30, 2005, the Agency of the City 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. As of February 1, 2012, the future annual debt service requirements of the 2005A Housing Bonds were 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 17).

The 2005A Housing Bonds mature annually through August 1, 2027 in the amounts ranging from \$170,000 to \$780,000 beginning August 1, 2005. The interest of the 2005A Housing Bonds is payable semi-annually on each February 1 and August 1. The interest rate of the 2005A Housing Bonds ranges from 4.00% to 4.95%. The 2005A Housing Bonds are subject to optional and mandatory early redemption provisions. The outstanding principal balance of the 2005A Housing Bonds was \$8,590,000 at June 30, 2013.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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 - Original Issue \$11,195,000, Continued

Assembly Bill AB 1X 26 provided that upon dissolution of the Redevelopment Agency, property taxes 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.

Annual principal and interest payments on the bonds are expected to require 35% of property tax revenues. The total principal and interest remaining to be paid on the bonds is \$12,109,671. For the current year, principal and interest paid were \$817,235 and RDA Property Tax Trust Fund distributions were \$7,929,786.

The annual debt service requirements on the 2005A Housing Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 405,000	\$ 404,982	\$ 809,982
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
2019-2023	2,805,000	1,234,463	4,039,463
2024-2028	3,555,000	457,504	4,012,504
Total	<u>\$ 8,590,000</u>	<u>\$ 3,519,671</u>	<u>\$ 12,109,671</u>

Merged Area Tax Allocation Refunding Bonds, Series 2007A - Original Issue \$46,135,000

On May 1, 2007, the Agency 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 Refunding Bonds were 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 17).

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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 from 2009 through 2025 in the amounts ranging from \$1,990,000 to \$3,655,000. The interest of the 2007A Refunding Bonds is payable semi-annually on each February 1 and August 1. The interest rate of the 2007A Refunding Bonds ranges from 3.50% to 4.25%. The 2007A Refunding Bonds are subject to optional and mandatory early redemption provisions. The outstanding balance of the 2007A Refunding Bonds was \$36,090,532 at June 30, 2013.

Assembly Bill AB 1X 26 provided that upon dissolution of the Redevelopment Agency, property taxes 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.

There are two RDA Merged Area Tax Allocation Bonds secured by property tax revenues: Series 2005A and 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 and 2007A bonds is \$58,655,613 and \$48,743,488 respectively. For the current year, principal and interest paid on the Series 2005A and 2007A were \$2,120,484 and \$3,760,388, respectively and RDA Property Tax Trust Fund distributions were \$7,929,786.

The annual debt service requirements on the 2007A Refunding Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 2,260,000	\$ 1,501,788	\$ 3,761,788
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
Subtotal	37,745,000	<u>\$ 10,998,488</u>	<u>\$ 48,743,488</u>
Deferred Loss	<u>(1,654,468)</u>		
Total	<u>\$ 36,090,532</u>		

In connection with the issuance of the 2007A Refunding Bonds, the City recorded a deferral on refunding of debt which is reported as part of long-term debt. This deferral was in connection with interest payments made to the escrow agent for future payments of interest. At June 30, 2013, the total amount deferred was \$1,654,468 which will be amortized over the remaining life of the bond.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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 17). The outstanding balance of the loan was \$538,750 as of June 30, 2013.

F. Bonds with No City Commitment

On January 5, 2012, the City of San Mateo, acting under authority conferred by the Bay Meadows Community Facilities District, acting through its eligible landowner voters, issued \$31.8 million Special Tax Bonds, Series 2012. The Series 2012 Bonds are being issued to (i) finance acquisition and construction of certain public capital improvements and to pay for certain development fees, (ii) fund a reserve fund for the Series 2012 Bonds, (iii) pay capitalized interest on the Series 2012 Bonds through September 1, 2013, (iv) pay the costs of issuing the Series 2012 Bonds and (v) fund certain costs of administering the Community Facilities District. The Series 2012 Bonds are secured by and payable from the special taxes to be levied within the Bay Meadows Community Facilities District. The City is the collecting and paying agent for the debt, but has no direct or contingent liability for the payment of this debt. The outstanding balance of the Series 2012 bonds was \$31.8 million as of June 30, 2013.

On January 17, 2013, the City of San Mateo, acting under authority conferred by the Bay Meadows Community Facilities District, acting through its eligible landowner voters, issued \$26 million Special Tax Bonds, Series 2013. The Series 2013 Bonds are being issued to (i) finance acquisition and construction of certain public capital improvements and to pay for certain development fees, (ii) fund a reserve fund for the Series 2013 Bonds, (iii) pay capitalized interest on the Series 2013 Bonds through September 1, 2014, (iv) pay the costs of issuing the Series 2013 Bonds and (v) fund certain costs of administering the Community Facilities District. The Series 2013 Bonds are secured by and payable from the special taxes to be levied within the Bay Meadows Community Facilities District. The City is the collecting and paying agent for the debt, but has no direct or contingent liability for the payment of this debt. The outstanding balance of the Series 2012 bonds was \$26 million as of June 30, 2013

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

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							
Nonspendable fund balance:							
Prepays and Supplies	\$ 137,314	\$ -	\$ -	\$ -	\$ -	\$ -	137,314
Restricted fund balance for:							
Debt Service	-	952,471	-	-	-	2,912,445	3,864,916
Infrastructure	-	2,815,479	-	-	-	-	2,815,479
Housing	-	-	-	213,303	3,111,185	-	3,324,488
Other Capital Projects	-	2,840,346	-	-	380,427	3,012,409	6,233,182
Public Streets and Related Facilities	-	5,203,294	-	-	-	1,901,816	7,105,110
Parks	-	6,539,954	-	-	-	-	6,539,954
Public Safety	-	410,673	-	-	-	20,685	431,358
	-	18,762,217	-	213,303	3,491,612	7,847,355	30,314,487
Committed fund balance for:							
Infrastructure	-	988,353	-	-	-	-	988,353
Other Capital Projects	-	1,144,933	-	-	-	602,824	1,747,757
Public Streets and Related Facilities	-	4,927,670	-	-	-	-	4,927,670
Parks	-	368,749	-	-	-	-	368,749
Public Safety	-	4,526,742	-	-	-	903,423	5,430,165
Other Purposes:							
Solid Waste	-	-	-	-	-	1,016,014	1,016,014
Advance Planning	-	-	-	-	-	978,899	978,899
Construction Services	-	-	-	-	-	8,322,455	8,322,455
Downtown Parking & Security	-	-	-	-	-	4,315,168	4,315,168
Landfill Post-Closure	-	-	-	-	-	4,208,926	4,208,926
	-	11,956,447	-	-	-	20,347,709	32,304,156
Assigned fund balance for:							
Public Streets and Related Facilities	67,155	-	-	-	-	-	67,155
Other Purposes	1,454,497	-	-	-	-	-	1,454,497
	1,521,652	-	-	-	-	-	1,521,652
Unassigned fund balance							
Future emergencies	18,245,914	-	-	-	-	-	18,245,914
Service Stability	2,095,971	-	-	-	-	-	2,095,971
Genetech Property Tax Refund	251,722	-	-	-	-	-	251,722
Future Years' Expenditures	1,750,000	-	-	-	-	-	1,750,000
Other Purposes	1,453,766	-	-	-	-	-	1,453,766
	23,797,373	-	-	-	-	-	23,797,373
Total Fund Balances	\$ 25,456,339	\$ 30,718,664	\$ -	\$ 213,303	\$ 3,491,612	\$ 28,195,064	\$ 88,074,982

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

10. EXPENDITURES IN EXCESS OF APPROPRIATIONS

The following funds had departmental expenditures in excess of budget. Sufficient fund balances were available to fund these expenditures:

Fund	Appropriations	Expenditures	Excess
Debt Service Fund:			
General Obligations Bonds Fund	\$ 2,739,849	\$ 2,866,855	\$ (127,006)

11. 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.

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:

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

11. RISK MANAGEMENT, Continued

B. Claims Activity, Continued

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>					
2011	\$ 8,209,000	\$ 1,030,631	\$ (935,631)	\$ 8,304,000	\$ 1,000,000
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
<u>Dental</u>					
2011	-	711,738	(711,738)	-	-
2012	-	729,667	(729,667)	-	-
2013	-	779,485	(779,485)	-	-
<u>General Liability</u>					
2011	1,179,000	425,617	(200,617)	1,404,000	500,000
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

12. 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, 2013

12. EMPLOYEE RETIREMENT PLANS, Continued

A. Pension Plan, Continued

Funding Policy - The Plan's provisions and benefits in effect at June 30, 2013, are summarized as follows:

	<u>Safety</u>	<u>Miscellaneous</u>
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	35.402%	13.492%
Actuarially required contribution:		
Employer	\$ 7,617,620	\$ 3,429,527
Employee	\$ 1,940,153	\$ 1,689,917

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, 2013, the City's annual pension cost of \$11,044,426 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.25% to 14.45% for miscellaneous employees and from 3.55% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. 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, 2010, was 23 years for miscellaneous and 30 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, 2013

12. 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
	Miscellaneous	Contributed	Obligation
6/30/2011	2,887,067	100%	-
6/30/2012	3,303,090	100%	-
6/30/2013	3,429,527	100%	-

Safety Plan

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC	Net Pension
	Safety	Contributed	Obligation
6/30/2011	6,148,698	100%	-
6/30/2012	7,508,862	100%	-
6/30/2013	7,617,620	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
6/30/2012	\$ 214,565,839	\$ 296,468,223	\$ 81,902,384	72.4%	\$ 20,916,601	391.6%

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

12. 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>
6/30/2012	\$ 167,086,497	\$ 197,429,248	\$ 30,342,751	84.6%	\$ 24,521,824	123.7%

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, 2010 to June 30, 2012.

B. Social Security

Total contributions to Social Security for all City employees during the year ended June 30, 2013 amounted to \$2,862,364, of which the City paid \$1,548,334.

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%.

13. 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. Currently there are 390 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, 2013

13. 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 2012-13, the City contributed \$1,244,444, including \$744,444 in benefit payments and a \$500,000 deposit to CERBT.

As of June 30, 2013 the total market value of the funds set aside in the irrevocable plan trust was \$506,686.

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, 2013 are as follows:

Annual required contribution	\$ 1,154,000
Interest on net OPEB obligation	215,000
Amortization of net OPEB obligation	(189,000)
Annual OPEB cost	<u>1,180,000</u>
Payments made	<u>(1,244,445)</u>
Decrease in net OPEB obligation	(64,445)
Net OPEB obligation - beginning of the year	<u>2,961,195</u>
Net OPEB obligation - ending of year	<u><u>\$ 2,896,750</u></u>

The following table presents the fund level allocation of the Net OPEB Obligation for the year ended June 30, 2013:

Fiscal Year	Annual OPEB Cost				Percentage of Annual OPEB Cost Contributed	Accumulative Net OPEB Obligation
	Governmental Activities		Business Type Activities			
	Safety	Miscellaneous	Sewer	Golf		
6/30/2011	660,433	621,115	145,849	17,603	51%	2,176,978
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

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

13. 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, 2012 actuarial valuation, the actuarial cost method used is Entry Age Normal (EAN) cost method. Under the EAN cost method, the plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime. Entry age is based on current age minus years of service. The Actuarial Accrued Liability (AAL) is the cumulative value on the valuation date of prior Normal Cost. For the retirees, the AAL is the present value of all projected benefits. The Unfunded AAL is being amortized as a level dollar closed 30 year basis, as a level percent of payroll with a remaining amortization period at June 30, 2012 of 26 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 1997-2007 Experience Study. Retirement assumption was also based on CalPERS 1997-2007 Experience Study of the Miscellaneous Plan 2.0% at 55 years, with expected retirement age of approximately 59.4, and Public Safety 3% at 50 years, with expected retirement age of approximately 53.6 for Police and 54.9 for Fire.

The amounts listed below represent the most recent actuarial valuation as of June 30, 2013:

<u>Actuarial Valuation Date *</u>	<u>Actuarial Asset Value</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll **</u>	<u>Unfunded Actuarial Liability as Percentage of Covered Payroll</u>
6/30/2012	\$ -	\$ 12,254,000	0.0%	\$ 47,474,000	25.8%

* 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, 2013

13. 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.

14. 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, 2013

14. COMMITMENTS AND CONTINGENCIES, CONTINUED

C. Commitments

The following is a list of commitments at June 30, 2013:

\$3.3 million in sanitary sewer rehabilitation and improvement projects including wastewater treatment plant biofilter rehabilitation, collection system and pump station upgrades.

\$1.8 million in streetscape improvements and on-going citywide street rehabilitation funded by gas tax, Measure A, Federal grants and General Fund contributions.

\$3.2 million for the construction of the new Fire Station #24 which will be reimbursed by the unspent proceeds from the former Redevelopment Agency Merged Area Tax Allocation Bonds Series 2005A and Series 2007A.

15. 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, 2013 the City paid \$17,980,240 for operations and maintenance of the wastewater treatment plant facility.

16. SUBSEQUENT EVENT

On October 14, 2013, the California Department of Finance approved the City of San Mateo Successor Agency Recognized Obligation Payment Schedule 13-14B for the period January 1, 2014 through June 30, 2014 which provides for the City to reimburse the costs of Fire Station 24 construction from the \$3.3M unspent proceeds of the former Redevelopment Agency Merged Area Tax Allocation Bonds Series 2005A and Series 2007A.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

16. SUBSEQUENT EVENT, CONTINUED

On November 18, 2013, the City Council approved the property transfer of The Vendome from the City to Innvision Shelter Network for a nominal payment of \$1. The former RDA and the City had invested approximately \$3.6 million in the purchase and rehabilitation of the facility designed to provide support to the chronically homeless in the community. Under the purchase and sales agreement, Innvision Shelter Network will continue to use the property to provide permanent supportive housing as long as it is a community need and/or is economically feasible. The transfer of the property was dependent on the repayment by the RDA Successor Agency of a \$500,000 CDBG loan from the County of San Mateo to the former RDA. The loan repayment was approved by the California Department of Finance on Recognized Obligation Payment Schedule (ROPS) 13-14A covering July 1, 2013 through December 31, 2013 to be funded by Redevelopment Property Tax Trust Funds.

17. 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 issued a Finding of Completion to the Successor Agency which allows 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 is a use of the proceeds that is consistent with the stated purposes of the original bond covenants.

City of San Mateo
Notes to Basic Financial Statements
For the year ended June 30, 2013

17. SUCCESSOR AGENCY PRIVATE PURPOSE TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY, Continued

The issuance of the Finding of Completion required the Successor Agency to submit a Long-Range Property Management Plan (LRPMP) indicating the intended disposition of the remaining assets of the former RDA. In October 2013, the Successor Agency submitted to the DOF a LRPMP as amended and approved by the Oversight Board to the Successor Agency. In the event the LRPMP is approved by the DOF without modification, three of the five parcels held by the Successor Agency will be transferred to the City of San Mateo for continued public use and the remaining two will be offered for public sale. The complete LRPMP is available for viewing at <http://www.cityofsanmateo.org/DocumentCenter/View/39796>.

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated. At the expiration of the Recognized Obligations Payment Schedule (ROPS) 13-14B for the period January 1, 2014 through June 30, 2014, 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.

18. PRIOR PERIOD ADJUSTMENT

The City restated previously issued financial statements to include amounts held in a fiduciary capacity for the Community Facilities District No. 2008-01 (District). As of June 30, 2012, restricted cash and investments held for the District in a fiduciary capacity was \$8,476,269.

	Amounts, as Previously Reported	<u>Prior Period Adjustment</u> Community Facilities District No. 2008-01	Amounts, as Restated
Agency Fund Statement			
Restricted cash and investments	\$ -	\$ 8,476,269	\$ 8,476,269
Due to bondholders	\$ -	\$ 8,476,269	\$ 8,476,269

**REQUIRED
SUPPLEMENTARY INFORMATION**

City of San Mateo
Required Supplementary Information
For the year ended June 30, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgetary Control and Budgetary Accounting*

The City uses a two-year financial plan for operations that is called the Business Plan. The Long-Term Capital Improvement Plan, which corresponds with the General Plan, is adopted on an incremental basis to coincide with the Business Plan. Budgets are adopted annually for the General Fund, Special Revenue Funds, and Debt Service Funds. Capital Projects are budgeted on a project length basis. The Business Plan and the Long-Term Capital Improvement Plan are adopted by City Council and can be amended only by City Council.

An annual operating budget is adopted by City Council on or before June 30, and comprises the departmental operating budget and the capital improvement budget. The departmental operating budget may be reallocated among programs within a department, but expenditures may not exceed budgeted appropriations at the department level each year without Council acknowledgment and approval. Capital improvement expenditures may not exceed budgeted amounts without Council approval.

The original budget includes amounts automatically carried over from the prior years' budget such as encumbrances.

B. *Encumbrances and Budgetary Financial Statements*

The City's budgets, and the accompanying budgetary financial statements, are prepared using encumbrance accounting. Encumbrance accounting requires that purchase orders, contracts and other commitments for the expenditure of monies be recorded as expenditures in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year-end are reported as expenditures in the budgetary financial statements.

Unencumbered operating appropriations lapse at year-end, while capital improvement appropriations are carried over to subsequent years until projects are completed.

C. *Adjustments to GAAP Basis From Budgetary Basis*

City budgets are adopted on a basis consistent with GAAP except that encumbrances are considered budgetary expenditures in the year of the commitment of purchase, and capital projects expenditures are budgeted on a project length basis, as discussed above. The effects of these differences are shown as adjustments in the budgetary financial statements.

City of San Mateo
Required Supplementary Information, Continued
For the year ended June 30, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

D. Budgetary Comparison Schedules

The following are the budget comparison schedules for all major Governmental Funds.

Budgetary Comparison Schedule (Budgetary Basis), General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Property taxes	\$ 33,485,073	\$ 33,485,073	\$ 35,765,491	\$ 2,280,418
Sales taxes	21,632,605	21,632,605	21,821,391	188,786
Other taxes	16,208,897	16,208,897	19,672,039	3,463,142
Licenses, building and other permits	30,000	30,000	46,457	16,457
Fines, forfeitures and penalties	1,577,000	1,577,000	1,848,827	271,827
Intergovernmental	1,027,130	1,027,130	2,388,215	1,361,085
Charges for services	6,170,984	6,170,984	6,788,251	617,267
Investment income	240,000	240,000	-	(240,000)
Other revenues	2,162,210	2,162,210	2,138,747	(23,463)
Total revenues	82,533,899	82,533,899	90,469,418	7,935,519
EXPENDITURES:				
Current:				
General government:				
City Council	381,545	406,545	352,570	53,975
City Manager	785,888	785,888	540,627	245,261
City Clerk	395,779	422,779	422,140	639
City Attorney	800,925	1,106,966	1,105,146	1,820
Business services	2,288,727	2,430,538	2,429,006	1,532
Information technology	3,345,413	3,377,157	3,037,895	339,262
Human resources	1,330,770	1,330,770	1,321,263	9,507
Community development	1,803,350	2,028,350	1,743,294	285,056
Public safety:				
Police	28,654,132	28,913,330	28,084,199	829,131
Fire	18,671,391	18,781,210	17,953,519	827,691
Public works	4,739,934	4,777,843	4,623,485	154,358
Parks and recreation	12,339,955	12,340,355	12,227,356	112,999
Library	5,278,421	5,278,421	4,858,120	420,301
Non-departmental	780,000	1,280,000	1,280,000	-
Total expenditures	81,596,230	83,260,152	79,978,620	3,281,532
REVENUES OVER (UNDER) EXPENDITURES	937,669	(726,253)	10,490,798	11,217,051
OTHER FINANCING SOURCES (USES):				
Transfers in	1,517,500	1,517,500	1,517,500	-
Transfers out	(3,437,110)	(5,980,149)	(5,976,224)	3,925
Total other financing sources (uses)	(1,919,610)	(4,462,649)	(4,458,724)	3,925
Net change in fund balance	\$ (981,941)	\$ (5,188,902)	6,032,074	\$ 11,220,976
FUND BALANCE:				
Beginning of year			19,063,760	
End of year, budgetary basis			25,095,834	
Adjustments to GAAP basis:				
Encumbrance adjustments			360,505	
End of year			\$ 25,456,339	

City of San Mateo
Required Supplementary Information, Continued
For the year ended June 30, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

D. Budgetary Comparison Schedules, Continued

Budgetary Comparison Schedule (Budgetary Basis), HOME Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 250,576	\$ 250,576	\$ 25,095	\$ (225,481)
Other	22,796	22,796	11,077	(11,719)
Total revenues	273,372	273,372	36,172	(237,200)
EXPENDITURES:				
Community development	27,337	27,337	25,095	2,242
Total expenditures	27,337	27,337	25,095	2,242
REVENUES OVER (UNDER) EXPENDITURE	246,035	246,035	11,077	(234,958)
OTHER FINANCING SOURCES (USES):				
Transfers out	(247,500)	(247,500)	(11,077)	236,423
Total other financing sources (uses)	(247,500)	(247,500)	(11,077)	236,423
Net change in fund balance	\$ (1,465)	\$ (1,465)	-	\$ 1,465
FUND BALANCE:				
Beginning of year			-	
End of year, budgetary basis			-	
Adjustments to GAAP basis:				
Encumbrance adjustments			-	
End of year			\$ -	

City of San Mateo
Required Supplementary Information, Continued
For the year ended June 30, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

D. Budgetary Comparison Schedules, Continued

Budgetary Comparison Schedule (Budgetary Basis), City Housing Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Other	\$ 58,500	\$ 58,500	\$ 246,931	\$ 188,431
Total revenues	<u>58,500</u>	<u>58,500</u>	<u>246,931</u>	<u>188,431</u>
EXPENDITURES:				
Community development	52,000	52,000	46,975	5,025
Total expenditures	<u>52,000</u>	<u>52,000</u>	<u>46,975</u>	<u>5,025</u>
Net change in fund balance	<u>\$ 6,500</u>	<u>\$ 6,500</u>	199,956	<u>\$ 193,456</u>
FUND BALANCE:				
Beginning of year			13,347	
End of year, budgetary basis			213,303	
Adjustments to GAAP basis:				
Encumbrance adjustments			-	
End of year			<u>\$ 213,303</u>	

City of San Mateo
Required Supplementary Information, Continued
For the year ended June 30, 2013

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

D. Budgetary Comparison Schedules, Continued

Budgetary Comparison Schedule (Budgetary Basis), Low Moderate Income Housing Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ -	\$ -	\$ 706,475	\$ 706,475
Charges for services	96,500	96,500	327,910	231,410
Investment income	10,000	10,000	12	(9,988)
Other	350,000	350,000	250	(349,750)
Total revenues	456,500	456,500	1,034,647	578,147
EXPENDITURES:				
Community development	167,595	170,595	110,175	60,420
Total expenditures	167,595	170,595	110,175	60,420
REVENUES OVER (UNDER) EXPENDITURE	288,905	285,905	924,472	638,567
OTHER FINANCING SOURCES (USES):				
Transfer out	(200,000)	(200,000)	(119,573)	80,427
Total other financing sources (uses)	(200,000)	(200,000)	(119,573)	80,427
Net change in fund balance	\$ 88,905	\$ 85,905	804,899	\$ 718,994
FUND BALANCE:				
Beginning of year			2,686,713	
End of year, budgetary basis			3,491,612	
Adjustments to GAAP basis:				
Encumbrance adjustments			-	
End of year			<u>\$ 3,491,612</u>	

City of San Mateo
Required Supplementary Information, Continued
For the year ended June 30, 2013

2. DEFINED BENEFIT PENSION PLAN

A schedule of funding progress for the past three actuarial valuations is presented below.

<u>Safety Plan</u>						
Actuarial Valuation Date *	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded / (Overfunded) Actuarial (Overfunded) Liability	Funded Ratio AVA	Covered Payroll	Unfunded / (Overfunded) Actuarial Liability as Percentage of Covered Payroll
6/30/10	201,033,647	268,033,318	66,999,671	75.0%	21,505,106	311.6%
6/30/11	209,374,970	286,193,053	76,818,083	73.2%	21,772,565	352.8%
6/30/12	214,565,839	296,468,223	81,902,384	72.4%	20,916,601	391.6%

* Latest information available

<u>Miscellaneous Plan</u>						
Actuarial Valuation Date *	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded / (Overfunded) Actuarial (Overfunded) Liability	Funded Ratio AVA	Covered Payroll	Unfunded / (Overfunded) Actuarial Liability as Percentage of Covered Payroll
6/30/10	154,805,392	179,488,482	24,683,090	86.2%	25,420,454	97.1%
6/30/11	161,931,498	190,096,565	28,165,067	85.2%	25,589,551	110.1%
6/30/12	167,086,497	197,429,248	30,342,751	84.6%	24,521,824	123.7%

*Latest information available

City of San Mateo
Required Supplementary Information, Continued
For the year ended June 30, 2013

3. OTHER POST EMPLOYMENT BENEFITS (OPEB)

A schedule of funding progress for the actuarial valuation of June 30, 2012 is presented below.

Actuarial Valuation Date *	Actuarial Asset Value	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll **	Unfunded Actuarial Liability as Percentage of Covered Payroll
6/30/2008	\$ -	\$ 16,401,000	0.0%	\$ 48,218,000	34.0%
6/30/2010	\$ -	\$ 17,513,000	0.0%	\$ 46,146,000	38.0%
6/30/2012	\$ -	\$ 12,254,000	0.0%	\$ 47,474,000	25.8%

* Based on the most recent actuarial valuation available

** Annual payroll of active employees covered by the plan

SUPPLEMENTARY INFORMATION



NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Police Grants 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 Fund (CDBG) accounts for revenue and expenditures of CDBG funds awarded by the Department of Housing and Urban Development.

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

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

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

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

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

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

DEBT SERVICE FUNDS

Landfill Bonds 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 Fund accounts for voter approved property tax revenues and debt service payments on general obligation bonds.

CAPITAL PROJECT FUND

2% Hotel Tax 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
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2013

	Special Revenue				
	Police Grants	Community Development Block Grant	Fire Protection	Gas Tax	Construction Services
ASSETS					
Cash and investments	\$ -	\$ -	\$ 606,949	\$ 1,708,863	\$ 8,386,997
Restricted cash and investments held by fiscal agents	-	-	-	-	-
Accounts receivable	64,458	-	318,958	-	5
Interest receivable	-	-	-	-	-
Taxes receivable	-	-	-	192,953	-
Grants receivable	11,638	323,635	-	-	-
Loans and notes receivable	-	2,211,657	-	-	-
Total assets	\$ 76,096	\$ 2,535,292	\$ 925,907	\$ 1,901,816	\$ 8,387,002
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 7,717	\$ 6,301	\$ 1,844	\$ -	\$ 64,547
Due to other funds	31,041	317,334	-	-	-
Deposits payable	-	-	20,640	-	-
Unearned and unavailable revenue	16,653	2,211,657	-	-	-
Total liabilities	55,411	2,535,292	22,484	-	64,547
Fund Balances:					
Restricted	20,685	-	-	1,901,816	-
Committed	-	-	903,423	-	8,322,455
Total fund balances	20,685	-	903,423	1,901,816	8,322,455
Total liabilities and fund balances	\$ 76,096	\$ 2,535,292	\$ 925,907	\$ 1,901,816	\$ 8,387,002

Special Revenue			Debt Service		Capital Projects	Total
Advance Planning	Parking	Solid Waste	Landfill Bonds	General Obligation Bonds	2% Hotel Tax	Non-Major Governmental Funds
\$ 1,011,574	\$ 4,842,507	\$ 933,935	\$ 4,121,543	\$ 2,393,773	\$ 2,891,943	\$ 26,898,084
-	-	-	508,856	9,816	7,171	525,843
-	130,008	56,398	-	-	-	569,827
-	-	-	11,900	-	-	11,900
-	-	101,063	81,517	-	117,031	492,564
-	-	-	-	-	-	335,273
-	-	-	-	-	-	2,211,657
<u>\$ 1,011,574</u>	<u>\$ 4,972,515</u>	<u>\$ 1,091,396</u>	<u>\$ 4,723,816</u>	<u>\$ 2,403,589</u>	<u>\$ 3,016,145</u>	<u>\$ 31,045,148</u>
\$ 32,675	\$ 54,523	\$ 1,989	\$ 6,034	\$ -	\$ 3,736	\$ 179,366
-	-	-	-	-	-	348,375
-	-	73,393	-	-	-	94,033
-	-	-	-	-	-	2,228,310
<u>32,675</u>	<u>54,523</u>	<u>75,382</u>	<u>6,034</u>	<u>-</u>	<u>3,736</u>	<u>2,850,084</u>
-	-	-	508,856	2,403,589	3,012,409	7,847,355
978,899	4,917,992	1,016,014	4,208,926	-	-	20,347,709
<u>978,899</u>	<u>4,917,992</u>	<u>1,016,014</u>	<u>4,717,782</u>	<u>2,403,589</u>	<u>3,012,409</u>	<u>28,195,064</u>
<u>\$ 1,011,574</u>	<u>\$ 4,972,515</u>	<u>\$ 1,091,396</u>	<u>\$ 4,723,816</u>	<u>\$ 2,403,589</u>	<u>\$ 3,016,145</u>	<u>\$ 31,045,148</u>

City of San Mateo
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2013

	Special Revenue				
	Police Grants	Community Development Block Grant	Fire Protection	Gas Tax	Construction Services
REVENUES:					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-
Licenses, building and other permits	-	-	1,834,151	-	6,934,348
Intergovernmental	173,573	840,082	-	2,265,537	-
Charges for services	-	-	-	-	729,836
Investment income	12	-	-	-	-
Garbage collection surcharge	-	-	-	-	-
Parking meter, permits, and lease revenue	-	-	-	-	-
Other revenues	-	107,645	-	-	-
Total revenues	173,585	947,727	1,834,151	2,265,537	7,664,184
EXPENDITURES:					
Current:					
Community development	-	629,851	-	-	2,473,586
Public safety:					
Police	173,585	-	-	-	-
Fire	-	-	1,455,903	-	-
Public works	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Cost of issuance	-	-	-	-	-
Total expenditures	173,585	629,851	1,455,903	-	2,473,586
REVENUES OVER (UNDER) EXPENDITURES	-	317,876	378,248	2,265,537	5,190,598
OTHER FINANCING SOURCES (USES):					
Proceeds from debt issuance	-	-	-	-	-
Premium	-	-	-	-	-
Debt refunding - payment to escrow	-	-	-	-	-
Transfers in	-	-	102,110	-	-
Transfers out	-	(317,876)	-	(2,655,325)	11,317
Total other financing sources (uses)	-	(317,876)	102,110	(2,655,325)	11,317
Net change in fund balances	-	-	480,358	(389,788)	5,201,915
FUND BALANCES:					
Beginning of year	20,685	-	423,065	2,291,604	3,120,540
End of year	\$ 20,685	\$ -	\$ 903,423	\$ 1,901,816	\$ 8,322,455

Special Revenue			Debt Service		Capital Projects	Total Non-Major Governmental Funds
Advance Planning	Parking	Solid Waste	Landfill Bonds	General Obligation Bonds	2% Hotel Tax	
\$ -	\$ -	\$ -	\$ -	\$ 2,414,039	\$ -	\$ 2,414,039
-	-	-	-	-	1,063,975	1,063,975
-	-	-	-	-	-	8,768,499
-	-	178,536	-	-	-	3,457,728
751,231	35,161	320,000	-	-	-	1,836,228
-	-	-	23,980	-	-	23,992
-	-	1,340,792	984,355	-	-	2,325,147
-	2,315,900	-	-	-	-	2,315,900
-	2,278	1,000	-	-	-	110,923
<u>751,231</u>	<u>2,353,339</u>	<u>1,840,328</u>	<u>1,008,335</u>	<u>2,414,039</u>	<u>1,063,975</u>	<u>22,316,431</u>
189,529	32,326	-	-	-	-	3,325,292
-	791,424	-	-	-	-	965,009
-	-	-	-	-	-	1,455,903
-	1,035,588	2,102,046	44,378	-	-	3,182,012
-	-	-	175,000	920,000	215,000	1,310,000
-	-	-	323,275	1,632,631	224,572	2,180,478
-	-	-	-	314,224	-	314,224
<u>189,529</u>	<u>1,859,338</u>	<u>2,102,046</u>	<u>542,653</u>	<u>2,866,855</u>	<u>439,572</u>	<u>12,732,918</u>
<u>561,702</u>	<u>494,001</u>	<u>(261,718)</u>	<u>465,682</u>	<u>(452,816)</u>	<u>624,403</u>	<u>9,583,513</u>
-	-	-	-	27,295,000	-	27,295,000
-	-	-	-	2,683,949	-	2,683,949
-	-	-	-	(29,581,180)	-	(29,581,180)
-	-	-	-	-	-	102,110
-	(122,684)	(4,889)	-	-	(560,978)	(3,650,435)
<u>-</u>	<u>(122,684)</u>	<u>(4,889)</u>	<u>-</u>	<u>397,769</u>	<u>(560,978)</u>	<u>(3,150,556)</u>
561,702	371,317	(266,607)	465,682	(55,047)	63,425	6,432,957
<u>417,197</u>	<u>4,546,675</u>	<u>1,282,621</u>	<u>4,252,100</u>	<u>2,458,636</u>	<u>2,948,984</u>	<u>21,762,107</u>
<u>\$ 978,899</u>	<u>\$ 4,917,992</u>	<u>\$ 1,016,014</u>	<u>\$ 4,717,782</u>	<u>\$ 2,403,589</u>	<u>\$ 3,012,409</u>	<u>\$ 28,195,064</u>



City of San Mateo

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Police Grants Special Revenue Fund For the year ended June 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 157,356	\$ 232,732	\$ 173,573	\$ (59,159)
Investment income	100	100	12	(88)
Total revenues	157,456	232,832	173,585	(59,247)
EXPENDITURES:				
Current:				
Public safety:				
Police	221,327	296,703	173,585	123,118
Total expenditures	221,327	296,703	173,585	123,118
Net change in fund balance	\$ (63,871)	\$ (63,871)	-	\$ 63,871
FUND BALANCE:				
Beginning of year			20,685	
End of year, budgetary basis			20,685	
Adjustments to GAAP basis:				
Encumbrance adjustments			-	
End of year			\$ 20,685	

City of San Mateo

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Community Development Block Grant Special Revenue Fund For the year ended June 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 648,927	\$ 648,927	\$ 840,082	\$ 191,155
Other revenues	60,000	60,000	107,645	47,645
Total revenues	708,927	708,927	947,727	238,800
EXPENDITURES:				
Current:				
Community development	673,957	673,957	629,851	44,106
Total expenditures	673,957	673,957	629,851	44,106
REVENUES OVER (UNDER) EXPENDITURES	34,970	34,970	317,876	282,906
OTHER FINANCING SOURCES (USES):				
Transfers out	(275,000)	(325,000)	(317,876)	7,124
Total other financing sources (uses)	(275,000)	(325,000)	(317,876)	7,124
Net change in fund balance	\$ (240,030)	\$ (290,030)	-	\$ 290,030
FUND BALANCE:				
Beginning of year			-	
End of year, budgetary basis			-	
Adjustments to GAAP basis:				
Encumbrance adjustments			-	
End of year			\$ -	

City of San Mateo

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Fire Protection Special Revenue Fund For the year ended June 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Licenses, building and other permits	\$ 1,521,668	\$ 1,661,668	\$ 1,834,151	\$ 172,483
Total revenues	<u>1,521,668</u>	<u>1,661,668</u>	<u>1,834,151</u>	<u>172,483</u>
EXPENDITURES:				
Current:				
Public safety:				
Fire	1,322,580	1,462,580	1,460,903	1,677
Total expenditures	<u>1,322,580</u>	<u>1,462,580</u>	<u>1,460,903</u>	<u>1,677</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>199,088</u>	<u>199,088</u>	<u>373,248</u>	<u>174,160</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	102,110	102,110	102,110	-
Total other financing sources (uses)	<u>102,110</u>	<u>102,110</u>	<u>102,110</u>	<u>-</u>
Net change in fund balance	<u>\$ 301,198</u>	<u>\$ 301,198</u>	475,358	<u>\$ 174,160</u>
FUND BALANCE:				
Beginning of year			423,065	
End of year, budgetary basis			898,423	
Adjustments to GAAP basis:				
Encumbrance adjustments			5,000	
End of year			<u>\$ 903,423</u>	

City of San Mateo

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Gas Tax Special Revenue Fund For the year ended June 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 2,492,500	\$ 2,492,500	\$ 2,265,537	\$ (226,963)
Investment income	25,000	25,000	-	(25,000)
Total revenues	2,517,500	2,517,500	2,265,537	(251,963)
OTHER FINANCING SOURCES (USES):				
Transfers out	(2,517,500)	(2,517,500)	(2,655,325)	(137,825)
Total other financing sources (uses)	(2,517,500)	(2,517,500)	(2,655,325)	(137,825)
Net change in fund balance	\$ -	\$ -	(389,788)	\$ (389,788)
FUND BALANCE:				
Beginning of year			2,291,604	
End of year, budgetary basis			1,901,816	
Adjustments to GAAP basis:				
Encumbrance adjustments			-	
End of year			\$ 1,901,816	

City of San Mateo

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Construction Services Special Revenue Fund For the year ended June 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Licenses, building and other permits	\$ 3,030,721	\$ 3,030,721	\$ 6,934,348	\$ 3,903,627
Charges for services	250,000	250,000	729,836	479,836
Investment income	10,000	10,000	-	(10,000)
Total revenues	3,290,721	3,290,721	7,664,184	4,373,463
EXPENDITURES:				
Current:	-	-	-	-
Community development	2,801,654	2,801,654	2,541,879	259,775
Total expenditures	2,801,654	2,801,654	2,541,879	259,775
REVENUES OVER (UNDER) EXPENDITURES	489,067	489,067	5,122,305	4,633,238
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	11,317	11,317
Total other financing sources (uses)	-	-	11,317	11,317
Net change in fund balance	\$ 489,067	\$ 489,067	5,133,622	\$ 4,644,555
FUND BALANCE:				
Beginning of year			3,120,540	
End of year, budgetary basis			8,254,162	
Adjustments to GAAP basis:				
Encumbrance adjustments			68,293	
End of year			\$ 8,322,455	

City of San Mateo

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Advance Planning Special Revenue Fund For the year ended June 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 230,000	\$ 236,500	\$ 751,231	\$ 514,731
Total revenues	230,000	236,500	751,231	514,731
EXPENDITURES:				
Current:				
Community development	207,714	214,214	214,024	190
Total expenditures	207,714	214,214	214,024	190
Net change in fund balance	\$ 22,286	\$ 22,286	537,207	\$ 514,921
FUND BALANCE:				
Beginning of year			417,197	
End of year, budgetary basis			954,404	
Adjustments to GAAP basis:				
Encumbrance adjustments			24,495	
End of year			\$ 978,899	

City of San Mateo

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Parking Special Revenue Fund For the year ended June 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Charges for services	\$ 35,288	\$ 35,288	\$ 35,161	\$ (127)
Investment income	50,000	50,000	-	(50,000)
Parking meter, permits, and lease revenue	1,818,923	1,818,923	2,315,900	496,977
Other	2,085	2,085	2,278	193
Total revenues	1,906,296	1,906,296	2,353,339	447,043
EXPENDITURES:				
Current:				
Community development	39,327	39,327	32,326	7,001
Public safety:				
Police	833,148	833,148	791,424	41,724
Public works	1,158,758	1,173,671	1,071,255	102,416
Total expenditures	2,031,233	2,046,146	1,895,005	151,141
Net change in fund balance	\$ (124,937)	\$ (144,739)	335,650	\$ 480,389
FUND BALANCE:				
Beginning of year			4,546,675	
End of year, budgetary basis			4,882,325	
Adjustments to GAAP basis:				
Encumbrance adjustments			35,667	
End of year			\$ 4,917,992	

City of San Mateo

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Solid Waste Special Revenue Fund For the year ended June 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 137,750	\$ 137,750	\$ 178,536	\$ 40,786
Charges for services	320,000	320,000	320,000	-
Investment income	5,000	5,000	-	(5,000)
Garbage collection surcharge	1,238,527	1,238,527	1,340,792	102,265
Other revenues	-	-	1,000	1,000
Total revenues	1,701,277	1,701,277	1,840,328	139,051
EXPENDITURES:				
Current:				
Public works	1,323,071	2,206,037	2,119,946	86,091
Total expenditures	1,323,071	2,206,037	2,119,946	86,091
REVENUES OVER (UNDER) EXPENDITURES	378,206	(504,760)	(279,618)	225,142
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(4,889)	(4,889)	-
Total other financing sources (uses)	-	(4,889)	(4,889)	-
Net change in fund balance	\$ 378,206	\$ (509,649)	(284,507)	\$ 225,142
FUND BALANCE:				
Beginning of year			1,282,621	
End of year, budgetary basis			998,114	
Adjustments to GAAP basis:				
Encumbrance adjustments			17,900	
End of year			\$ 1,016,014	

City of San Mateo

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Landfill Bonds Debt Service Fund For the year ended June 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Investment income	\$ 10,000	\$ 10,000	\$ 23,980	\$ 13,980
Garbage collection surcharge	895,000	895,000	984,355	89,355
Total revenues	905,000	905,000	1,008,335	103,335
EXPENDITURES:				
Current:				
Public works	68,000	105,971	44,378	61,593
Debt service:				
Principal	175,000	175,000	175,000	-
Interest and fiscal charges	320,790	323,275	323,275	-
Total expenditures	563,790	604,246	542,653	61,593
Net change in fund balance	\$ 341,210	\$ 300,754	465,682	\$ 164,928
FUND BALANCE:				
Beginning of year			4,252,100	
End of year, budgetary basis			4,717,782	
Adjustments to GAAP basis:				
Encumbrance adjustments			-	
End of year			\$ 4,717,782	

City of San Mateo

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - General Obligation Bonds Debt Service Fund For the year ended June 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property taxes	\$ 2,307,000	\$ 2,307,000	\$ 2,414,039	\$ 107,039
Investment income	20,000	20,000	-	(20,000)
Total revenues	2,327,000	2,327,000	2,414,039	87,039
EXPENDITURES:				
Debt service:				
Principal	920,000	920,000	920,000	-
Interest and fiscal charges	1,564,849	1,633,613	1,632,631	982
Cost of issuance	-	186,236	314,224	(127,988)
Total expenditures	2,484,849	2,739,849	2,866,855	(127,006)
REVENUES OVER (UNDER) EXPENDITURES	(157,849)	(412,849)	(452,816)	(39,967)
OTHER FINANCING SOURCES (USES):				
Proceeds from debt issuance	-	-	27,295,000	27,295,000
Premium	-	-	2,683,949	2,683,949
Debt refunding - payment to escrow	-	-	(29,581,180)	(29,581,180)
Total other financing sources (uses)	-	-	397,769	397,769
Net change in fund balance	\$ (157,849)	\$ (412,849)	(55,047)	\$ 357,802
FUND BALANCE:				
Beginning of year			2,458,636	
End of year, budgetary basis			2,403,589	
Adjustments to GAAP basis:				
Encumbrance adjustments			-	
End of year			\$ 2,403,589	

City of San Mateo

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - 2% Hotel Tax Capital Project Fund For the year ended June 30, 2013

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Other taxes	\$ 924,000	\$ 924,000	\$ 1,063,975	\$ 139,975
Investment income	20,000	20,000	-	(20,000)
Total revenues	944,000	944,000	1,063,975	119,975
EXPENDITURES:				
Debt service:				
Principal	215,000	215,000	215,000	-
Interest and fiscal charges	235,000	235,000	224,572	10,428
Total expenditures	450,000	450,000	439,572	10,428
REVENUES OVER (UNDER) EXPENDITURES	494,000	494,000	624,403	130,403
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(650,000)	(560,978)	89,022
Total other financing sources (uses)	-	(650,000)	(560,978)	89,022
Net change in fund balance	\$ 494,000	\$ (156,000)	63,425	\$ 219,425
FUND BALANCE:				
Beginning of year			2,948,984	
End of year, budgetary basis			3,012,409	
Adjustments to GAAP basis:				
Encumbrance adjustments			-	
End of year			\$ 3,012,409	



INTERNAL SERVICE 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 the City provides to its employees.

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

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

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

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

City of San Mateo
Combining Statement of Net Position
All Internal Service Funds
June 30, 2013

	Workers' Compensation Insurance	Dental Self -Insurance	Benefits	Comprehensive Liability Insurance
ASSETS				
Current assets:				
Cash and investments	\$ 9,344,669	\$ 157,358	\$ 366,591	\$ 1,428,146
Accounts receivable	-	17,241	60,908	-
Prepays and supplies	200,000	-	-	30,000
Total current assets	<u>9,544,669</u>	<u>174,599</u>	<u>427,499</u>	<u>1,458,146</u>
Noncurrent assets:				
Loans and notes receivable	-	-	-	455,575
Capital assets:				
Depreciable, net	-	-	-	-
Total capital asset	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>455,575</u>
Total assets	<u>9,544,669</u>	<u>174,599</u>	<u>427,499</u>	<u>1,913,721</u>
LIABILITIES				
Liabilities:				
Current liabilities:				
Accounts payable	10,591	51,987	5,291	86,787
Accrued salaries and wages payable	-	-	-	-
Deposit payable	9,092	795	-	-
Claims and judgments payable	1,000,000	-	-	500,000
Total current liabilities	<u>1,019,683</u>	<u>52,782</u>	<u>5,291</u>	<u>586,787</u>
Noncurrent liabilities:				
Claims and judgments payable	7,708,000	-	-	904,000
Total noncurrent liabilities	<u>7,708,000</u>	<u>-</u>	<u>-</u>	<u>904,000</u>
Total liabilities	<u>8,727,683</u>	<u>52,782</u>	<u>5,291</u>	<u>1,490,787</u>
NET POSITION				
Net investment in capital assets	-	-	-	-
Restricted for :				
Special projects	13,752	-	-	-
Unrestricted	803,234	121,817	422,208	422,934
Total net position	<u>\$ 816,986</u>	<u>\$ 121,817</u>	<u>\$ 422,208</u>	<u>\$ 422,934</u>

Vehicle & Equipment Replacement	Fleet & Building Maintenance Fund	Total
\$ 18,209,850	\$ 2,138,129	\$ 31,644,743
-	361	78,510
-	-	230,000
18,209,850	2,138,490	31,953,253
-	-	455,575
3,407,531	-	3,407,531
3,407,531	-	3,407,531
3,407,531	-	3,863,106
21,617,381	2,138,490	35,816,359
31,094	266,748	452,498
-	-	-
-	-	9,887
-	-	1,500,000
31,094	266,748	1,962,385
-	-	8,612,000
-	-	8,612,000
31,094	266,748	10,574,385
3,407,531	-	3,407,531
89,089	35,591	138,432
18,089,667	1,836,151	21,696,011
\$ 21,586,287	\$ 1,871,742	\$ 25,241,974

City of San Mateo
Combining Statement of Revenues, Expenses and Changes in Net Position
All Internal Service Funds
For the year ended June 30, 2013

	Workers' Compensation Insurance	Dental Self -Insurance	Benefits	Comprehensive Liability Insurance
OPERATING REVENUES:				
Charges for services	\$ 2,131,079	\$ 794,124	\$ 16,968,841	\$ 779,999
Other	-	-	-	-
Total operating revenues	2,131,079	794,124	16,968,841	779,999
OPERATING EXPENSES:				
Costs of sales and services	1,368,898	804,663	16,831,050	1,198,699
Administration	298,109	-	-	59,811
Depreciation and amortization	-	-	-	-
Total operating expenses	1,667,007	804,663	16,831,050	1,258,510
OPERATING INCOME (LOSS)	464,072	(10,539)	137,791	(478,511)
NONOPERATING REVENUES EXPENSES:				
Loss on disposal of capital assets	-	-	-	-
Total nonoperating revenues (expenses)	-	-	-	-
INCOME (LOSS) BEFORE TRANSFERS	464,072	(10,539)	137,791	(478,511)
Transfers in	-	-	-	400,000
Transfers out	-	-	-	-
Total transfers in (out)	-	-	-	400,000
Change in net position	464,072	(10,539)	137,791	(78,511)
NET POSITION:				
Beginning of year	352,914	132,356	284,417	501,445
End of year	<u>\$ 816,986</u>	<u>\$ 121,817</u>	<u>\$ 422,208</u>	<u>\$ 422,934</u>

Vehicle & Equipment Replacement	Fleet & Building Maint. Fund	Total
\$ 2,445,397	\$ 3,368,710	\$ 26,488,150
48,973	-	48,973
<u>2,494,370</u>	<u>3,368,710</u>	<u>26,537,123</u>
389,286	1,953,761	22,546,357
-	951,646	1,309,566
731,586	-	731,586
<u>1,120,872</u>	<u>2,905,407</u>	<u>24,587,509</u>
<u>1,373,498</u>	<u>463,303</u>	<u>1,949,614</u>
(7,801)	-	(7,801)
<u>(7,801)</u>	<u>-</u>	<u>(7,801)</u>
1,365,697	463,303	1,941,813
-	-	400,000
(95,000)	(16,298)	(111,298)
<u>(95,000)</u>	<u>(16,298)</u>	<u>288,702</u>
1,270,697	447,005	2,230,515
<u>20,315,590</u>	<u>1,424,737</u>	<u>23,011,459</u>
<u>\$ 21,586,287</u>	<u>\$ 1,871,742</u>	<u>\$ 25,241,974</u>

City of San Mateo
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2013

	Workers' Compensation Insurance	Dental Self -Insurance	Benefits	Comprehensive Liability Insurance
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from other funds	\$ 2,131,079	\$ 776,883	\$ 16,907,933	\$ 779,999
Cash payments to suppliers for goods and services	(1,830,219)	(760,048)	(16,990,725)	(1,126,614)
Cash paid to employees	(302,292)	-	(721,149)	(60,886)
Cash received from others	-	-	-	-
Net cash provided by (used in) operating activities	(1,432)	16,835	(803,941)	(407,501)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	-	-	-	400,000
Transfers out	-	-	-	-
Net cash provided by (used in) noncapital financing activities	-	-	-	400,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	-	-	-	-
Net cash (used in) capital and related financing activities	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(1,432)	16,835	(803,941)	(7,501)
CASH AND CASH EQUIVALENTS:				
Beginning of year	9,346,101	140,523	1,170,532	1,435,647
End of year	\$ 9,344,669	\$ 157,358	\$ 366,591	\$ 1,428,146
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 464,072	\$ (10,539)	\$ 137,791	\$ (478,511)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	-	-	-	-
Changes in assets and liabilities:				
Accounts receivable	-	(17,241)	(60,908)	-
Prepays and supplies	-	50,000	6,189	-
Accounts payable	(167,321)	(5,385)	(871,636)	72,085
Accrued salaries and wages payable	(4,183)	-	(15,377)	(1,075)
Claims and judgments payable	(294,000)	-	-	-
Total adjustments	(465,504)	27,374	(941,732)	71,010
Net cash provided by (used in) operating activities	\$ (1,432)	\$ 16,835	\$ (803,941)	\$ (407,501)

Vehicle & Equipment Replacement	Fleet & Building Maint. Fund	Total
\$ 2,445,397	\$ 3,368,710	\$ 26,410,001
(611,906)	(1,899,120)	(23,218,632)
-	(963,922)	(2,048,249)
48,973	4,640	53,613
<u>1,882,464</u>	<u>510,308</u>	<u>1,196,733</u>
-	-	400,000
(95,000)	(16,298)	(111,298)
<u>(95,000)</u>	<u>(16,298)</u>	<u>288,702</u>
(347,112)	-	(347,112)
<u>(347,112)</u>	<u>-</u>	<u>(347,112)</u>
1,440,352	494,010	1,138,323
16,769,498	1,644,119	30,506,420
<u>\$ 18,209,850</u>	<u>\$ 2,138,129</u>	<u>31,644,743</u>
\$ 1,373,498	\$ 463,303	\$ 1,949,614
731,586	-	731,586
-	4,640	(73,509)
-	-	56,189
(222,620)	54,641	(1,140,236)
-	(12,276)	(32,911)
-	-	(294,000)
<u>508,966</u>	<u>47,005</u>	<u>(752,881)</u>
<u>\$ 1,882,464</u>	<u>\$ 510,308</u>	<u>\$ 1,196,733</u>



FIDUCIARY FUNDS

RDA Obligation Retirement Fund (RORF), established in accordance with AB 1X 26, accounts for Redevelopment Property Tax Trust Fund amounts received after January 31, 2012 to pay for Recognized Obligation Payment Schedule (ROPS) items.

Successor Agency to RDA Merged Area Fund, a sub-fund of the RORF, accounts for assets and liabilities of the former RDA merged project area which were transferred to the Successor Agency upon RDA dissolution to be used for ROPS payments or redistributed to taxing entities.

Successor Agency to RDA Housing Fund, a sub-fund of the RORF, accounts for assets and liabilities of the former RDA housing set aside transferred to the Successor Agency upon RDA dissolution to be used for ROPS payments or redistributed to taxing entities.

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.

City of San Mateo
Combining Statement of Fiduciary Net Position
Fiduciary Funds - Private Purpose Trust Funds
June 30, 2013

	RDA Retirement Obligation	Successor Agency to RDA Merged Area	Successor Agency to RDA Housing	Total
ASSETS				
Current assets				
Cash and investments	\$ 7,935,327	\$ 77,540	\$ 50,123	\$ 8,062,990
Loans and notes receivable	-	255,109	-	255,109
Total current assets	7,935,327	332,649	50,123	8,318,099
Noncurrent assets				
Restricted cash and investments	-	4,600,230	-	4,600,230
Bond issuance costs, net of accumulated amortization	-	1,120,991	217,722	1,338,713
Capital assets - land	-	7,274,984	-	7,274,984
Total noncurrent assets	-	12,996,205	217,722	13,213,927
Total assets	7,935,327	13,328,854	267,845	21,532,026
LIABILITIES				
Liabilities:				
Current liabilities				
Accounts payable	-	1,302,138	176,709	1,478,847
County CDBG Loan	-	-	538,750	538,750
Bonds payable - due in one year	-	2,815,000	405,000	3,220,000
Total current liabilities	-	4,117,138	1,120,459	5,237,597
Noncurrent liabilities				
Bonds payable	-	69,067,789	8,185,000	77,252,789
Total noncurrent liabilities	-	69,067,789	8,185,000	77,252,789
Total liabilities	-	73,184,927	9,305,459	82,490,386
NET POSITION				
Held in trust for dissolution of RDA	7,935,327	(59,856,073)	(9,037,614)	(60,958,360)
Total net position	\$ 7,935,327	\$ (59,856,073)	\$ (9,037,614)	\$ (60,958,360)

City of San Mateo
Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds - Private Purpose Trust Funds
For the year ended June 30, 2013

	RDA Retirement Obligation	Successor Agency to RDA Merged Area	Successor Agency to RDA Housing	Total
ADDITIONS:				
Investment income	\$ 5,029	\$ -	\$ -	\$ 5,029
RDA property tax trust fund distribution	7,929,786	-	-	7,929,786
Other	-	68,437	-	68,437
Transfer within Successor Agency	-	1,817,555	206,921	2,024,476
Total additions	7,934,815	1,885,992	206,921	10,027,728
DEDUCTIONS:				
Administration	-	168,363	165,239	333,602
Amortization expense	-	208,924	16,128	225,052
Return of RDA funds to taxing agencies	105,666	3,774,557	1,942,259	5,822,482
Interest expense	-	3,232,332	422,377	3,654,709
Transfer within Successor Agency	2,024,476	-	-	2,024,476
Total Deductions	2,130,142	7,384,176	2,546,003	12,060,321
Change in net position	5,804,673	(5,498,184)	(2,339,082)	(2,032,593)
NET POSITION:				
Beginning of year	2,130,654	(54,357,889)	(6,698,532)	(58,925,767)
End of year	\$ 7,935,327	\$ (59,856,073)	\$ (9,037,614)	\$ (60,958,360)

City of San Mateo
Agency Funds
Combining Statement of Changes in Assets and Liabilities
For the year ended June 30, 2013

	Balance July 1, 2012, as restated	Additions	Deductions	Balance June 30, 2013
Community Facilities District No. 2008-01				
Assets:				
Restricted cash and investments	\$ 8,476,269	\$ 26,129,795	\$ 4,429,849	\$ 30,176,215
Total assets	\$ 8,476,269	\$ 26,129,795	\$ 4,429,849	\$ 30,176,215
Liabilities:				
Due to bondholders	\$ 8,476,269	\$ 26,129,795	\$ 4,429,849	\$ 30,176,215
Total liabilities	\$ 8,476,269	\$ 26,129,795	\$ 4,429,849	\$ 30,176,215

STATISTICAL SECTION

This part of the City of San Mateo’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City.

Index	Page
Financial Trends	148
These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.	
Revenue Capacity	160
These schedules contain information to help the reader assess the City’s most significant local revenues source, the property tax.	
Debt Capacity	165
These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the City’s ability issues additional debt in the future.	
Demographic and Economic Information	171
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place.	
Operating Information	174
These schedules contain service and infrastructure data to help the reader understand how the information in the City’s financial report relates to the services the City provides and the activities it performs.	

CITY OF SAN MATEO
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	FISCAL YEAR			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental Activities				
Net investment in capital assets	\$ 239,580,485	\$ 202,812,017	\$ 253,801,385	\$ 270,609,793
Restricted	98,469,508	120,051,016	92,430,582	110,656,195
Unrestricted	(13,493,769)	6,847,713	2,931,789	(11,911,405)
Total Governmental Activities Net Position	<u>\$ 324,556,224</u>	<u>\$ 329,710,746</u>	<u>\$ 349,163,756</u>	<u>\$ 369,354,583</u>
Business-Type Activities				
Net investment in capital assets	\$ 56,860,575	\$ 38,319,882	\$ 47,346,977	\$ 51,679,616
Restricted	5,042,901	16,039,227	17,446,175	19,766,119
Unrestricted	15,016,606	24,233,309	19,281,805	3,450,221
Total Business-Type Activities Net Position	<u>\$ 76,920,082</u>	<u>\$ 78,592,418</u>	<u>\$ 84,074,957</u>	<u>\$ 74,895,956</u>
Primary Government				
Net investment in capital assets	\$ 296,441,060	\$ 241,131,899	\$ 301,148,362	\$ 322,289,409
Restricted	103,512,409	136,090,243	109,876,757	130,422,314
Unrestricted	1,522,837	31,081,022	22,213,594	(8,461,184)
Total Primary Government Net Position	<u>\$ 401,476,306</u>	<u>\$ 408,303,164</u>	<u>\$ 433,238,713</u>	<u>\$ 444,250,539</u>

Source: City of San Mateo Comprehensive Annual Financial Reports

CITY OF SAN MATEO
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

FISCAL YEAR					
<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 290,225,555	\$ 304,333,449	\$ 301,771,175	\$ 310,491,591	\$ 326,376,412	\$ 333,716,045
96,654,203	76,677,934	70,252,109	62,809,001	74,111,660	80,544,476
(13,975,620)	(6,409,480)	(1,505,943)	4,244,356	44,493,017	64,260,546
<u>\$ 372,904,138</u>	<u>\$ 374,601,903</u>	<u>\$ 370,517,341</u>	<u>\$ 377,544,948</u>	<u>\$ 444,981,089</u>	<u>\$ 478,521,067</u>
\$ 55,767,938	\$ 61,473,526	\$ 65,510,402	\$ 59,336,646	\$ 70,447,496	\$ 70,235,094
19,813,092	16,885,982	13,838,450	18,463,953	8,510,414	9,139,202
3,263,092	3,209,518	3,646,168	6,894,459	7,906,174	13,889,683
<u>\$ 78,844,122</u>	<u>\$ 81,569,026</u>	<u>\$ 82,995,020</u>	<u>\$ 84,695,058</u>	<u>\$ 86,864,084</u>	<u>\$ 93,263,979</u>
\$ 345,993,493	\$ 365,806,975	\$ 367,281,577	\$ 369,828,237	\$ 396,823,908	\$ 403,951,139
116,467,295	93,563,916	84,090,559	81,272,954	82,622,074	89,683,678
(10,712,528)	(3,199,962)	2,140,225	11,138,815	52,399,191	78,150,229
<u>\$ 451,748,260</u>	<u>\$ 456,170,929</u>	<u>\$ 453,512,361</u>	<u>\$ 462,240,006</u>	<u>\$ 531,845,173</u>	<u>\$ 571,785,046</u>

CITY OF SAN MATEO
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	FISCAL YEAR			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Expenses				
Governmental activities:				
General government	\$ 9,913,200	\$ 8,966,424	\$ 9,485,772	\$ 11,087,270
Community development	11,544,360	18,002,219	12,333,880	9,737,689
Public Safety	36,112,283	33,679,835	41,648,116	44,162,723
Public Works	13,496,669	18,725,608	13,682,357	15,886,830
Parks and recreation	12,417,960	11,271,994	12,123,125	12,433,920
Library	4,136,444	4,557,329	4,819,650	7,050,722
Interest and fiscal charges	5,263,065	8,132,007	6,897,570	6,286,081
Total governmental activities expenses	<u>92,883,981</u>	<u>103,335,416</u>	<u>100,990,470</u>	<u>106,645,235</u>
Business-type activities:				
Sewer	13,572,439	15,486,652	16,280,226	17,115,591
Golf	2,890,138	2,979,850	2,954,403	3,040,191
Total business-type activities expenses	<u>16,462,577</u>	<u>18,466,502</u>	<u>19,234,629</u>	<u>20,155,782</u>
Total primary government expenses	<u>\$ 109,346,558</u>	<u>\$ 121,801,918</u>	<u>\$ 120,225,099</u>	<u>\$ 126,801,017</u>
Program Revenues				
Governmental activities:				
Charges for Services:				
General government	\$ 2,622,148	\$ 2,514,749	\$ 2,609,976	\$ 3,968,856
Community development	3,638,262	3,394,222	3,073,993	6,166,829
Public Safety	2,840,509	3,429,074	3,876,421	4,096,154
Public Works	3,189,229	3,305,006	3,305,192	4,105,046
Parks and recreation	2,592,051	2,616,062	2,802,519	2,687,280
Library	321,262	345,085	319,088	428,949
Operating Grants and Contributions	5,975,936	5,658,364	7,205,902	10,358,812
Capital Grants and Contributions	8,541,758	13,576,651	15,382,985	6,098,650
Total governmental activities program revenues	<u>29,721,155</u>	<u>34,839,213</u>	<u>38,576,076</u>	<u>37,910,576</u>
Business-type activities:				
Charges for Services:				
Sewer	14,687,151	16,821,531	17,023,153	18,780,168
Golf	2,732,670	2,565,077	2,578,255	2,781,032
Operating Grants and Contributions	-	-	-	-
Capital Grants and Contributions	613,476	-	3,984,520	1,855,042
Total business-type activities program revenues	<u>18,033,297</u>	<u>19,386,608</u>	<u>23,585,928</u>	<u>23,416,242</u>
Total primary government program revenues	<u>\$ 47,754,452</u>	<u>\$ 54,225,821</u>	<u>\$ 62,162,004</u>	<u>\$ 61,326,818</u>
Net (Expense)/Revenue				
Governmental activities	\$ (63,162,826)	\$ (68,496,203)	\$ (62,414,394)	\$ (68,734,659)
Business-type activities	1,570,720	920,106	4,351,299	3,260,460
Total primary government net expense	<u>\$ (61,592,106)</u>	<u>\$ (67,576,097)</u>	<u>\$ (58,063,095)</u>	<u>\$ (65,474,199)</u>

CITY OF SAN MATEO
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

FISCAL YEAR					
<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 11,486,481	\$ 9,785,695	\$ 10,303,976	\$ 9,752,065	\$ 10,806,831	\$ 10,130,843
10,277,268	9,515,258	14,960,890	12,041,987	8,932,479	5,365,548
47,649,834	47,151,607	48,720,750	48,321,512	50,044,825	50,037,399
16,933,865	20,645,839	17,270,079	15,548,018	19,996,054	16,749,537
13,688,912	13,187,955	13,229,802	13,117,080	14,038,405	13,737,283
7,431,857	7,278,367	6,993,740	6,590,125	6,766,173	6,464,282
6,896,337	7,126,582	6,512,125	6,281,858	4,469,852	2,105,784
114,364,554	114,691,303	117,991,362	111,652,645	115,054,619	104,590,676
18,023,289	18,811,533	21,409,186	20,885,227	22,564,245	23,210,165
3,001,688	2,943,333	2,749,226	2,751,375	2,855,223	2,512,817
21,024,977	21,754,866	24,158,412	23,636,602	25,419,468	25,722,982
\$ 135,389,531	\$ 136,446,169	\$ 142,149,774	\$ 135,289,247	\$ 140,474,087	\$ 130,313,658
\$ 4,361,135	\$ 5,448,212	\$ 4,640,326	\$ 4,349,557	\$ 4,261,915	\$ 4,060,457
6,150,603	4,069,112	3,694,785	6,524,487	9,604,245	12,496,092
3,940,522	3,789,605	4,089,902	4,091,242	3,888,490	4,769,484
4,413,565	4,223,597	4,699,858	4,757,052	5,721,081	24,318,834
2,968,461	3,153,601	3,294,740	3,385,488	3,484,929	9,299,865
519,012	550,536	473,978	491,636	448,884	416,223
2,489,231	5,330,504	7,354,028	5,305,034	4,838,570	-
5,048,216	4,394,020	4,690,463	3,979,518	8,038,370	-
29,890,745	30,959,187	32,938,080	32,884,014	40,286,484	55,360,955
20,246,739	20,487,261	21,945,217	22,629,670	24,702,071	29,610,204
2,722,560	2,632,626	2,553,632	2,402,358	2,513,246	2,450,940
-	-	-	-	-	-
905,050	638,325	847,512	125,614	139,663	-
23,874,349	23,758,212	25,346,361	25,157,642	27,354,980	32,061,144
\$ 53,765,094	\$ 54,717,399	\$ 58,284,441	\$ 58,041,656	\$ 67,641,464	\$ 87,422,099
\$ (84,473,809)	\$ (83,732,116)	\$ (85,053,282)	\$ (78,768,631)	\$ (74,768,135)	\$ (49,229,721)
2,849,372	2,003,346	1,187,949	1,521,040	1,935,512	6,338,162
\$ (81,624,437)	\$ (81,728,770)	\$ (83,865,333)	\$ (77,247,591)	\$ (72,832,623)	\$ (42,891,559)

CITY OF SAN MATEO
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	FISCAL YEAR			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Revenues and Other Changes in Net Position				
Government activities:				
Taxes				
Property taxes	\$ 29,362,781	\$ 34,550,963	\$ 40,871,277	\$ 43,800,052
Sales and use tax	15,131,986	15,404,513	15,905,701	16,356,365
Property transfer tax	6,712,963	7,287,827	9,006,399	10,416,972
Other taxes	6,405,508	7,863,470	6,787,398	7,499,932
Franchise taxes	1,792,175	1,924,648	2,167,952	2,305,976
Motor vehicle taxes	4,316,676	4,472,656	2,182,069	590,398
Investment earnings	683,888	2,146,648	4,973,233	5,382,511
Loss on sales of assets	(236,290)		(26,625)	
Extraordinary gain due to RDA dissolution				
Total Governmental activities:	<u>64,169,687</u>	<u>73,650,725</u>	<u>81,867,404</u>	<u>86,352,206</u>
Business-type activities:				
Investment earnings	154,023	752,230	1,131,240	818,209
Loss on disposal of capital assets				
Total business-type activities	<u>154,023</u>	<u>752,230</u>	<u>1,131,240</u>	<u>818,209</u>
Total primary government	<u>\$ 64,323,710</u>	<u>\$ 74,402,955</u>	<u>\$ 82,998,644</u>	<u>\$ 87,170,415</u>
Change in Net Position				
Governmental activities	\$ 1,006,861	\$ 5,154,522	\$ 19,453,010	\$ 17,617,547
Business-type activities	1,724,743	1,672,336	5,482,539	4,078,669
Total primary government	<u>\$ 2,731,604</u>	<u>\$ 6,826,858</u>	<u>\$ 24,935,549</u>	<u>\$ 21,696,216</u>

Source: City of San Mateo Comprehensive Annual Financial Reports

CITY OF SAN MATEO
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

FISCAL YEAR					
2008	2009	2010	2011	2012	2013
\$ 47,642,809	\$ 50,454,999	\$ 49,462,900	\$ 47,659,495	\$ 44,094,970	\$ 38,179,530
18,347,573	16,271,075	15,725,042	20,783,156	22,620,197	23,822,654
5,718,326	3,336,943	3,837,736	4,221,831	4,387,035	6,307,133
8,335,320	7,829,015	7,825,409	9,194,253	10,544,367	11,519,884
2,433,806	2,567,248	2,538,520	2,661,264	2,821,616	2,858,607
430,882	333,556	291,425	500,001	7,500	57,889
5,114,646	2,456,622	1,287,688	776,240	806,556	24,002
				56,443,535	-
88,023,362	83,249,458	80,968,720	85,796,240	141,725,776	82,769,699
1,098,794	721,558	238,045	178,998	233,504	68,856
					(7,123)
1,098,794	721,558	238,045	178,998	233,504	61,733
\$ 89,122,156	\$ 83,971,016	\$ 81,206,765	\$ 85,975,238	\$ 141,959,280	\$ 82,831,432
\$ 3,549,553	\$ (482,658)	\$ (4,084,562)	\$ 7,027,608	\$ 66,957,641	\$ 33,539,978
3,948,166	2,724,904	1,425,994	1,700,038	2,169,026	6,399,895
\$ 7,497,719	\$ 2,242,246	\$ (2,658,568)	\$ 8,727,646	\$ 69,126,667	\$ 39,939,873

CITY OF SAN MATEO
Governmental Activities Tax Revenues By Source
Last Ten Fiscal Years
(accrual basis of accounting)

<u>Fiscal Year</u>	<u>Property Tax (1)</u>	<u>Sales Tax</u>	<u>Property Transfer Tax</u>	<u>Motor Vehicle Tax</u>	<u>Franchise Fee</u>	<u>Other Taxes (2)</u>	<u>Total</u>
2004	\$ 29,362,781	\$ 16,652,308	\$ 6,712,963	\$ 4,316,676	\$ 1,792,175	\$ 6,405,508	\$ 65,242,411
2005	34,550,963	16,513,350	7,287,827	4,472,656	1,924,648	7,863,470	72,612,914
2006	40,871,277	17,722,840	9,006,399	2,182,069	2,167,952	6,787,398	78,737,935
2007	43,800,052	18,223,843	10,416,972	590,398	2,305,976	7,499,932	82,837,173
2008	47,642,809	18,347,573	5,718,326	430,882	2,433,806	8,335,320	82,908,716
2009	50,454,999	16,271,075	3,336,943	333,556	2,567,248	7,829,015	80,792,836
2010	49,462,900	15,725,042	3,837,736	291,425	2,538,520	7,825,409	79,681,032
2011	47,659,495	20,783,156	4,221,831	500,001	2,661,264	9,194,253	85,020,000
2012	44,094,970	22,620,197	4,387,035	7,500	2,821,616	10,544,367	84,475,685
2013	38,179,530	23,822,654	6,307,133	57,889	2,858,607	11,519,884	82,745,697

Note:

(1) The amounts include property tax data for both the City and the former Redevelopment Agency until January 31, 2012.

(2) Other taxes include transient occupancy tax and business taxes.

Source: City of San Mateo Comprehensive Annual Financial Reports



CITY OF SAN MATEO
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	FISCAL YEAR			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Fund				
Reserved	\$ 961,851	\$ 845,491	\$ 563,082	\$ 848,110
Unreserved	8,304,183	9,509,771	11,594,881	16,834,416
Nonspendable fund balance				
Restricted fund balance				
Committed fund balance				
Assigned fund balance				
Unassigned fund balance				
Total General Fund	<u>\$ 9,266,034</u>	<u>\$ 10,355,262</u>	<u>\$ 12,157,963</u>	<u>\$ 17,682,526</u>
All Other Governmental Funds				
Reserved	\$ 72,002,173	\$ 81,385,536	\$ 44,129,672	\$ 96,197,656
Unreserved, reported in:				
Special revenue funds	13,919,736	17,676,990	24,574,345	13,409,487
Debt service fund	1,611,869	1,192,401	721,970	-
Capital projects funds	20,004,782	11,110,916	32,715,348	1,012,275
Nonspendable fund balance				
Restricted fund balance				
Committed fund balance				
Assigned fund balance				
Unassigned fund balance				
Total all other Governmental Funds	<u>\$ 107,538,560</u>	<u>\$ 111,365,843</u>	<u>\$ 102,141,335</u>	<u>\$ 110,619,418</u>

Source: City of San Mateo Comprehensive Annual Financial Reports

CITY OF SAN MATEO
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

FISCAL YEAR					
<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 645,017	\$ 262,546	\$ 271,156			
12,548,504	11,211,424	10,396,690			
			133,171	155,101	137,314
			254,790	2,140,061	1,521,652
			12,651,062	16,768,598	23,797,373
<u>\$ 13,193,521</u>	<u>\$ 11,473,970</u>	<u>\$ 10,667,846</u>	<u>\$ 13,039,023</u>	<u>\$ 19,063,760</u>	<u>\$ 25,456,339</u>
\$ 74,926,566	\$ 43,906,631	\$ 31,391,882			
13,255,702	6,304,514	6,591,873			
9,010,389	30,464,067	36,972,966			
			6,517	168,131	-
			47,507,738	23,361,973	30,314,487
			24,722,687	22,830,269	32,304,156
				(18,629)	
<u>\$ 97,192,657</u>	<u>\$ 80,675,212</u>	<u>\$ 74,956,721</u>	<u>\$ 72,236,942</u>	<u>\$ 46,341,744</u>	<u>\$ 62,618,643</u>

CITY OF SAN MATEO
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	FISCAL YEAR			
	2004	2005	2006	2007
Revenues:				
Property taxes	\$ 29,362,781	\$ 34,354,865	\$ 40,871,277	\$ 43,800,052
Sales taxes	16,652,308	16,513,350	17,722,840	18,223,843
Other taxes	13,118,471	13,854,278	15,793,797	17,916,903
Special assessments	183,586	5,191	5,003	-
Licenses, building and other permits	5,359,913	5,319,419	6,359,991	6,341,413
Fines, forfeitures and Penalties	1,258,051	1,606,465	2,112,194	2,570,397
Intergovernmental Revenues	16,602,998	18,950,743	15,680,914	11,022,682
Charges for services	5,491,535	5,651,248	5,996,898	4,413,571
Investment Earnings	1,506,912	2,902,972	4,306,897	5,572,982
Indirect and in-lieu fees	206,782	422,916	1,189,177	2,398,157
Assessment and Garbage collection surcharge	991,946	1,042,235	1,380,915	1,082,635
Parking meter and lease revenue	1,463,741	1,467,702	1,631,695	1,908,572
Impact fees	120,793	227,574	607,213	1,593,868
Other Revenues	4,444,720	6,063,593	6,127,910	5,922,047
Total Revenues	96,764,537	108,382,551	119,786,721	122,767,122
Expenditures:				
General Government	8,036,145	8,606,467	9,272,480	10,358,107
Community development	9,631,586	9,160,733	9,389,845	9,720,496
Public Safety	35,675,818	37,559,555	40,852,679	44,594,370
Public Works	5,243,404	5,470,609	5,857,259	6,448,758
Parks and recreation	9,454,803	9,422,904	10,282,039	11,164,709
Library	4,169,051	4,428,132	4,679,854	5,673,298
Non-departmental				
Capital Outlay	42,143,215	41,705,260	37,896,055	29,147,662
Debt Service				
Principal	2,180,000	1,820,000	2,585,000	2,875,000
Interest & Fiscal Charges	5,251,744	5,945,218	6,093,317	6,861,626
Cost of issuance				
Total Expenditures	121,785,766	124,118,878	126,908,528	126,844,026
Excess of Revenues over (under) expenditures	(25,021,229)	(15,736,327)	(7,121,807)	(4,076,904)
Other Financing Sources (Uses)				
Proceeds from debt issuance				
Premium				
Debt refunding - payment to escrow				
Proceeds from Loan				
Transfers in	12,518,895	4,611,204	10,068,281	28,247,035
Transfers Out	(13,048,895)	(5,876,204)	(10,368,281)	(27,447,035)
Issuance of debt	33,745,000	49,860,000	-	63,535,000
Proceeds from HELP loan	1,200,000	-	-	-
Payment to refunding bond escrow agent	(3,225,000)	(26,919,399)	-	(45,051,700)
Cost of issue	-	(1,139,400)	-	(1,203,750)
Bond Premium	-	116,637	-	-
Total other financing sources (uses)	31,190,000	20,652,838	(300,000)	18,079,550
General Revenues and Other Changes in Net Position				
Extraordinary Items				
Extraordinary Gain (loss) on dissolution of RDA				
Net change in fund balances	\$ 6,168,771	\$ 4,916,511	\$ (7,421,807)	\$ 14,002,646
Debt Service as a percentage of noncapital expenditures (1)	10.29%	10.40%	10.80%	11.07%

Note:

(1) Former Redevelopment Agency Bonds were excluded in fiscal year 2012 and subsequent fiscal years.

Source: City of San Mateo Comprehensive Annual Financial Reports

CITY OF SAN MATEO
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

		FISCAL YEAR					
		2008	2009	2010	2011	2012	2013
\$		47,642,808	\$ 50,454,992	\$ 49,770,136	\$ 47,659,494	\$ 44,094,971	\$ 38,179,530
		18,347,573	16,387,270	15,725,043	20,783,155	22,620,197	23,822,654
		14,053,647	11,165,959	11,663,147	13,416,084	17,753,018	20,736,014
		-	-	-	-	-	-
		6,518,133	6,258,740	6,198,138	7,064,740	5,563,732	8,814,956
		2,352,496	1,919,311	1,891,683	1,671,540	1,644,699	1,990,067
		7,299,209	7,181,274	11,114,908	9,140,309	11,155,347	9,812,480
		4,642,557	4,857,710	4,936,027	5,374,244	9,835,848	9,199,159
		5,518,740	2,303,431	1,059,564	662,105	671,674	46,163
		2,316,500	1,969,765	2,045,449	2,005,949	-	-
		1,114,439	1,130,724	1,872,880	2,418,852	5,202,065	6,816,900
		1,709,455	1,747,843	1,844,491	2,029,159	2,215,812	2,338,849
		284,236	2,101,738	1,043,248	590,889	949,863	2,289,600
		4,639,503	5,601,364	4,757,180	4,590,352	3,124,839	2,634,474
		116,439,296	113,080,121	113,921,894	117,406,872	124,832,065	126,680,846
		12,077,708	9,354,758	9,185,947	8,200,787	8,693,749	9,136,330
		9,196,079	9,428,805	13,390,381	8,650,128	6,648,962	5,177,198
		47,567,844	46,863,256	46,232,348	47,417,641	48,797,774	48,458,630
		8,979,589	6,779,372	6,621,018	7,536,796	9,095,961	7,699,391
		12,263,904	11,867,994	11,348,177	11,868,145	11,622,101	12,178,049
		5,648,456	5,498,992	5,093,473	4,847,027	5,007,303	4,798,978
		31,051,871	32,931,787	18,352,876	3,110,311	780,000	1,280,000
					17,476,298	18,528,824	11,104,728
		3,495,000	2,695,000	4,425,000	5,815,000	4,290,000	1,520,000
		6,274,611	6,943,120	6,297,289	6,224,181	5,912,898	2,452,907
							314,224
		136,555,062	132,363,084	120,946,509	121,146,314	119,377,572	104,120,435
		(20,115,766)	(19,282,963)	(7,024,615)	(3,739,442)	5,454,493	22,560,411
							27,295,000
							2,683,949
							(29,581,180)
			495,967	-	-	-	-
		19,285,144	11,431,950	8,905,653	7,758,324	15,054,919	9,468,607
		(17,085,144)	(10,881,950)	(8,405,653)	(9,844,324)	(15,596,599)	(9,757,309)
		-			5,630,686	-	-
		-					-
		-					-
		-			(153,846)		-
		-					-
		2,200,000	1,045,967	500,000	3,390,840	(541,680)	109,067
						(25,261,774)	-
\$		(17,915,766)	(18,236,996)	(6,524,615)	(348,602)	(20,348,961)	22,669,478
		10.20%	10.73%	11.67%	13.14%	11.26%	4.46%

CITY OF SAN MATEO
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(amount expressed in thousands)

Fiscal Year End	Residential Property (1)	Commercial Property (1)	Industrial Property (1)	Other Property (1)	Unsecured Property	Less Tax-Exempt Property	Taxable Assessed Value	Total Direct Tax Rate (2)	Estimated Actual Value (3)	Factor of Taxable Assessed Value (3)
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

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.

CITY OF SAN MATEO
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(rate expressed in percentage)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Basic City and County Levy										
CITY OF SAN MATEO	n/a	n/a	n/a	n/a	0.1761	0.1761	0.1761	0.1761	0.1761	0.1761
OTHER SAN MATEO COUNTY AGENCIES	n/a	n/a	n/a	n/a	0.8239	0.8239	0.8239	0.8239	0.8239	0.8239
TOTAL	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Override Assessments										
S M CITY GO DEBT	0.0115	0.0253	0.0220	0.0193	0.0193	0.0175	0.0160	0.0129	0.0129	0.0129
SM FC EL BD REFUND SER	-	-	-	-	0.0094	0.0084	0.0087	0.0093	0.0091	-
SAN MATEO HIGH BD SER 2	-	-	-	-	0.0048	0.0049	0.0055	0.0062	0.0066	0.0068
SAN MATEO UN HIGH BND S	0.0161	0.0174	0.0174	0.0150	0.0019	0.0172	0.0172	0.0167	0.0132	0.0135
SAN MATEO HIGH RFND. SER	-	-	-	-	0.0083	0.0077	0.0092	0.0093	0.0090	0.0088
SAN MATEO HIGH 2012 GO										0.0010
SM JR COLLEGE BD 2002	0.0065	0.0065	0.0065	0.0171	0.0040	0.0030	0.0035	0.0038	0.0039	-
SM JR COLL BOND SER 2000	-	-	-	-	0.0012	0.0021	0.0021	0.0023	0.0023	0.0014
SM JR COLL BOND 2001 SE	-	-	-	-	0.0009	0.0008	0.0009	0.0010	0.0010	0.0010
SM JR COLL BOND 2006 SE	-	-	-	-	0.0110	0.0106	0.0117	0.0122	0.0127	0.0109
SAN MATEO HIGH ELEC									0.0095	0.0080
SM FOSTER CITY 2005 REF	0.0428	0.0384	0.0382	0.0333	0.0239	0.0231	0.0239	0.0248	0.0256	0.0262
SAN FC 2012 GO REF Ser I										0.0076
SM JR COLL BOND REF 201	-	-	-	-	-	-	-	-	-	0.0061
TOTAL	0.0769	0.0876	0.0841	0.0847	0.0847	0.0953	0.0987	0.0985	0.1058	0.1042
TOTAL TAX RATE	1.0769	1.0876	1.0841	1.0847	1.0847	1.0953	1.0987	1.0985	1.1058	1.1042

Source: (A) City of San Mateo Comprehensive Annual Financial Reports
(B) MuniServices, LLC.

CITY OF SAN MATEO
Principal Sales Tax Producers
Current Year and Nine Years Ago

2013	
Taxpayer	Business Type
Apple Inc.	Furniture/Appliance
ARCO AM/PM	Service Stations
Bed Bath & Beyond	Miscellaneous Retail
Cafepress.com	Miscellaneous Retail
Cheesecake Factory	Restaurants
Chevron Service Stations	Service Stations
CVS/Pharmacy	Drug Stores
Financial Svcs Vehicle Trust	Leasing
Gas & Shop Service Stations	Service Stations
Home Depot	Bldg. Matls - Retail
Kmart	Department Stores
Macy's Department Stores Inc	Department Stores
Marshall's Stores	Apparel Stores
Nordstrom Inc.	Department Stores
Old Navy	Apparel Stores
Peter Pan BMW	Auto Sales - New
Safeway Stores	Food Markets
Sears Roebuck & Co.	Department Stores
Shell Service Stations	Services Stations
Solar City	Leasing
Sportmart	Recreation Products
Target Stores	Department Stores
Toys R Us	Miscellaneous Retail
Walgreen's Drug Stores	Drug Stores
Whole Foods Market	Food Markets

2004	
Taxpayer	Business Type
ARCO AM/PM	Service Stations
Automotive Rentals Inc.	Leasing
Bed Bath & Beyond	Miscellaneous Retail
Burlingame Saab/Jaguar	Auto Sales - New
Circuit City	Furniture/Appliance
Cvs/Pharmacy	Drug Stores
Draeger's Supermarkets	Food Markets
Financial Svcs Vehicle Trust	Leasing
Home Depot	Bldg. Matls - Retail
IBM Corporation	Office Equipment
Kmart	Department Stores
Lfs Bv Inc.	Leasing
Macy's Department Stores Inc	Department Stores
Mervyn's	Department Stores
Nordstrom Inc.	Department Stores
Old Navy	Apparel Stores
Peter Pan BMW	Auto Sales - New
Ross Stores	Apparel Stores
Safeway Stores	Food Markets
Sears Roebuck & Co.	Department Stores
Target Stores	Department Stores
The Gap	Apparel Stores
The Good Guys	Furniture/Appliance
Toys R Us	Miscellaneous Retail
Veracom Mitsubishi	Auto Sales - New

Note:

Top Sales Tax Producers listed in alphabetical order.

Source: SBOE data, MuniServices, LLC

CITY OF SAN MATEO
Principal Property Taxpayers
Current Year and Nine Years Ago
(amount expressed in thousands)

Taxpayer	2013			2004		
	Taxable Value	Rank	Percent of Total City Taxable Value	Taxable Value	Rank	Percent of Total City Taxable Value
Franklin Templeton Co LLC	224,767	1	1.33%	197,380	1	1.69%
Sobrato Interests III	217,003	2	1.29%	162,927	2	1.40%
ASN Bay Meadows I LLC Bay Me	187,906	3	1.11%	0		0.00%
Bohannon Development Co	175,283	4	1.07%	141,012	4	1.21%
Peninsula Office Park	115,807	5	0.69%	98,804	6	0.85%
Essex Hillsdale Garden Apartments	104,832	6	0.62%	0		0.00%
DW Bridgepointe LLC	95,937	7	0.57%	0		0.00%
Park Place Realty Holding Co	90,700	8	0.54%	0		0.00%
Crossroads Associates	77,796	9	0.46%	67,474	9	0.58%
SPK San Mateo Baycenter LLC	77,687	10	0.47%	71,918	8	0.62%
Jefferson At Bay Meadows LP				144,724	3	1.24%
PW Acquisitions IV LLC				100,696	5	0.86%
Siebel Systems LLC				95,733	7	0.82%
Cornerstone Properties				63,449	10	0.54%
Total Top 10 Taxpayers	1,367,718		11.80%	1,144,117		15.18%
Total Taxable Value	16,860,195		100.00%	11,675,255		100.00%

Source: San Mateo County Assessor data, MuniServices, LLC

CITY OF SAN MATEO
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30	Total Tax Levied for Fiscal Year (1)	Collected Within the Fiscal Year of the Levy		Delinquent Tax Collections (3)	Total Collections To Date	
		Collected Amount (2)	Percentage of Levy		Collected Amount	Percentage of Levy
2004	29,032,000	29,363,000	101%	n/a	29,363,000	101%
2005	33,831,000	34,355,000	102%	n/a	34,355,000	102%
2006	40,267,000	40,871,000	101%	n/a	40,871,000	101%
2007	43,822,000	43,800,000	100%	n/a	43,800,000	100%
2008	47,082,000	47,643,000	101%	n/a	47,643,000	101%
2009	50,028,000	50,455,000	101%	n/a	50,455,000	101%
2010	50,537,000	49,770,000	98%	n/a	49,770,000	98%
2011	48,616,000	47,659,000	98%	n/a	47,659,000	98%
2012	47,020,000	44,094,970	94%	n/a	44,094,970	94%
2013	35,849,000	35,348,719	99%	n/a	35,348,719	99%

Notes:

- (1) The data in this table includes the basic and supplemental city property taxes and subventions, debt service tax and the Redevelopment Agency tax increments, ERAF refunds, and property tax in-lieu of motor vehicle fees
- (2) Former redevelopment agency tax increments were excluded starting February 1, 2012 and subsequent fiscal years.
- (3) San Mateo County assesses properties and it bills, collects, and distributes property taxes to all taxing entities including the City. Under State law, known as the Teeter Plan, the county remits the entire amount levied and handles all delinquencies, retaining interest and penalties.
- (4) Collections exceed the original tax levied because of supplemental taxes and State subventions collected during the year.

Source: County of San Mateo

CITY OF SAN MATEO
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

Fiscal Year	Governmental Activities				Business-Type Activities		Total Primary Government	Percentage of Personal Income	Per Capita	Fiduciary Funds	
	General Obligation Bonds	Redevelopment Bonds	Revenue Bond	Loans Payable	Sewer Bonds	Golf Bond				Redevelopment Tax Allocation Bond	County CDBG Loan
2004	\$ 37,455	\$ 73,315	7,900	1,200	\$ 45,500	\$ 10,020	\$ 175,390	3.301%	\$ 1,871		
2005	37,280	96,875	7,900	1,200	43,407	9,762	196,424	3.565%	2,111		
2006	36,215	95,597	7,770	1,200	42,423	9,580	192,785	3.339%	2,046		
2007	35,090	95,061	25,035	1,336	41,385	9,384	207,291	5.113%	2,198		
2008	33,910	93,020	24,895	1,372	40,298	8,838	202,333	4.839%	2,118		
2009	32,675	91,844	24,745	1,904	39,148	8,852	199,168	4.728%	2,080		
2010	31,385	89,157	24,430	1,960	37,942	8,865	193,739	4.580%	2,007		
2011	30,040	86,356	29,728	530	48,227	8,574	203,455	4.867%	2,077		
2012	29,160	-	29,375	-	46,839	8,268	113,642	2.633%	1,156	83,439	539
2013	28,638	-	28,782	-	45,496	7,951	110,867	2.503%	1,119	80,473	539

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
Former Redevelopment Agency Bonds were excluded in fiscal year 2012 and subsequent fiscal years.

Source: City of San Mateo Comprehensive Annual Financial Reports

CITY OF SAN MATEO
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years
(amounts expressed in thousands, except per capita amount)

Fiscal Year	Outstanding General Bonded Debt			Less: Amount Available in Debt Svc Fund	Total (net)	Percentage of Total Taxable Assessed Value	Per Capita
	General Obligation Bonds	Tax Allocation Bonds					
2004	\$ 37,455	\$ 73,315	\$ 10,974	\$ 99,796	0.85%	1,065	
2005	37,280	96,875	10,478	123,677	1.00%	1,329	
2006	36,215	95,597	10,528	121,284	0.92%	1,287	
2007	35,090	95,061	9,212	120,939	0.84%	1,282	
2008	33,910	93,020	7,557	119,373	0.77%	1,250	
2009	32,675	91,844	9,362	115,157	0.69%	1,202	
2010	31,385	89,157	8,789	111,753	0.67%	1,158	
2011	30,040	86,356	8,240	108,156	0.66%	1,104	
2012	29,160	-	2,459	26,701	0.16%	272	
2013	28,638	-	2,404	26,234	0.16%	265	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
Former Redevelopment Agency Bonds were excluded in fiscal year 2012 and subsequent fiscal years.

Source: City of San Mateo Comprehensive Annual Financial Reports

CITY OF SAN MATEO
Direct and Overlapping Governmental Activities Debt
As of June 30, 2013

<u>2012-13 Assessed Valuation:</u>	\$16,978,588,948		
	Total Debt	%	City's
	6/30/2013	Applicable (1)	Share of
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			Debt 6/30/13
San Mateo Community College District	\$ 580,659,994	11.458%	\$ 66,532,022
San Mateo Union High School District	453,412,289	32.271%	146,320,680
Sequoia Union High School District	336,340,000	0.760%	2,556,184
Belmont-Redwood Shores School District	33,159,348	4.471%	1,482,554
Belmont-Redwood Shores School District Belmont Scholl Facilities Imp	34,965,000	8.413%	2,941,605
Hillsborough School District	56,921,434	0.0004%	228
San Mateo-Foster City School District	191,512,385	68.213%	130,636,343
City of San Mateo Community Facilities District No.2008-1	57,800,000	100.000%	57,800,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			408,269,616
<u>DIRECT TAX AND ASSESSMENT DEBT:</u>			
City of San Mateo	27,295,000	100.00%	27,295,000
TOTAL DIRECT TAX AND ASSESSMENT DEBT:			27,295,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 435,564,616
<u>Ratios to 2012-13 Assessed Valuation:</u>			
Direct Debt (\$27,295,000)		0.16%	
Total Direct and Overlapping Tax and Assessment Debt		2.56%	
<u>OVERLAPPING GENERAL FUND DEBT:</u>			
San Mateo County Certificates of Participation	311,729,816	11.458%	35,718,002
San Mateo County Board of Education Certificates of Participation	11,455,000	11.458%	1,312,514
San Mateo Union High School District Certificates of Participation			-
Belmont-Redwood Shores School District Certificates of Participation			-
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			37,030,516
City of San Mateo General Fund Obligations	37,050,000	100.00%	37,050,000
TOTAL DIRECT GENERAL FUND DEBT:			37,050,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 74,080,516
OVERLAPPING TAX INCREMENT DEBT (Successor Agency)	82,045,000	100.00%	82,045,000
TOTAL DIRECT DEBT			\$ 64,345,000
TOTAL OVERLAPPING DEBT			\$ 527,345,132
COMBINED TOTAL DEBT			\$ 591,690,132 (2)

Ratios to 2012-13 Assessed Valuation:

Combined Direct Debt (\$91,640,000)	0.54%
Combined Total Debt	3.48%

Ratios to Redevelopment Incremental Valuation (\$1,296,993,683)

Total Overlapping Tax Increment Debt	6.33%
--------------------------------------	-------

Note:

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligation.

Source: MuniServices, LLC.

CITY OF SAN MATEO
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Debt Limit	\$ 1,807,001	\$ 1,917,882	\$ 2,038,517	\$ 2,221,076
Total net debt applicable to limit	<u>36,942</u>	<u>35,104</u>	<u>33,867</u>	<u>32,468</u>
Legal debt margin	<u>\$ 1,770,059</u>	<u>\$ 1,882,778</u>	<u>\$ 2,004,650</u>	<u>\$ 2,188,608</u>
Total net debt applicable to the limit as a percentage of debt limit	2.09%	1.86%	1.69%	1.48%

Note: The Government Code of the State of California provides for a legal debt limit of 15% of gross assessed valuation.

Source: County of San Mateo

CITY OF SAN MATEO
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year					
<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$ 2,391,656	\$ 2,532,908	\$ 2,555,796	\$ 2,510,780	\$ 2,542,340	\$ 2,607,331
30,865	32,675	31,385	30,040	29,160	28,638
\$ 2,360,791	\$ 2,500,233	\$ 2,524,411	\$ 2,480,740	\$ 2,513,180	\$ 2,578,693
1.31%	1.31%	1.24%	1.21%	1.16%	1.11%

Legal Debt Margin Calculation for Fiscal Year 2013

Assessed value	16,860,195
Add back: exempt real property	522,010
	17,382,205
Debt limit (15% of assessed value)	\$ 2,607,331
 <u>Debt Application to limit:</u>	
General obligation bonds	28,638
Less, amount set aside for repayment of general obligation debt	2,404
Total net debt applicable to limit	26,234
Legal debt margin	\$ 2,581,097

CITY OF SAN MATEO
Pledged-Revenue Coverage
Last Ten Fiscal Years
(amounts expressed in thousands)

Fiscal Year	Sewer Revenue Bonds							Tax Allocation Bonds				
	Sewer Charges and Other	Less Operating Expenses (1)	Net Available Revenue (2)	Debt Service		Coverage	Tax Increment	Debt Service				
				Principal	Interest			Principal	Interest	Coverage		
2004	\$ 15,412	\$ 9,718	\$ 5,694	\$ 1,005	\$ 1,425	2.34	\$ 9,485	\$ 1,540	\$ 4,241	1.64		
2005	17,534	11,497	6,037	1,045	1,381	2.49	9,949	1,645	4,151	1.72		
2006	18,123	11,550	6,573	1,095	1,335	2.70	10,138	1,390	4,040	1.87		
2007	19,574	13,282	6,292	1,145	2,004	2.00	10,602	1,615	4,623	1.70		
2008	21,346	13,650	7,696	1,190	1,953	2.45	12,648	2,175	3,586	2.20		
2009	21,209	14,920	6,289	1,250	1,898	2.00	13,210	1,310	4,044	2.47		
2010	22,183	16,788	5,395	1,305	1,840	1.72	12,943	2,820	3,954	1.91		
2011	22,809	16,419	6,390	1,365	1,779	2.03	12,455	2,935	3,838	1.84		
2012	24,936	17,463	7,473	1,460	1,719	2.35	12,657 (3)	3,050	3,719	1.87		
2013	28,781	17,980	10,801	1,415	2,072	3.10	-	-	-	-		

Note: (1) Sewer charges and other include investment earnings.
(2) Operating expenses do not include interest or depreciation.
(3) The Successor Agencies to the redevelopment agencies receive funding from the Redevelopment Property Tax Trust Fund to pay these types of debt obligations began in February 2012.

Source: City of San Mateo Comprehensive Annual Financial Reports

CITY OF SAN MATEO
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income (2)	Per Capita Personal Income (2)	Median Age	Public School Enrollment (3)	County Unemployment Rate (%) (4)	City Unemployment Rate(%) (4)	County Population (1)	City Population (% of County) (1)
2004	93,721	5,313,699,537	56,697	38.6	11,085	n/a	5.10%	719,154	13.03%
2005	93,050	5,509,769,650	59,213	39.2	11,360	n/a	4.20%	722,160	12.88%
2006	94,212	5,767,564,428	61,219	n/a	11,305	n/a	3.40%	726,336	12.97%
2007	94,315	4,003,294,490	42,446	38.4	11,073	n/a	3.10%	730,339	12.91%
2008	95,510	4,181,101,280	43,655	n/a	11,749	3.80%	3.00%	739,469	12.92%
2009	95,776	4,212,343,104	43,981	40.1	11,859	4.70%	3.70%	736,951	13.00%
2010	96,529	4,230,383,425	43,825	39.4	12,100	8.60%	6.80%	745,654	12.95%
2011	97,966	4,180,503,118	42,673	38.6	11,995	8.30%	6.60%	724,702	13.52%
2012	98,298	4,315,282,200	43,900	39.7	19,451	6.40%	5.00%	729,443	13.48%
2013	99,061	4,429,908,859	44,719	37.3	19,700	6.70%	5.30%	735,678	13.47%

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
- (4) Unemployment Data is provided by the EDD's Bureau of Labor Statistics Department.

Source: MuniServices, LLC

CITY OF SAN MATEO
Principal Employers for City of San Mateo
Current Year and Nine Years Ago

Business Name	2013		2004	
	Number of Employees	Percent of Total Employment	Number of Employees	Percent of Total Employment
County of San Mateo Medical Center (1)	1,204	2.32%	n/a	0.00%
Franklin Templeton Investor	1,113	2.14%	n/a	0.00%
San Mateo-Foster City Unified	1,105	2.13%	n/a	0.00%
San Mateo Union High School District	950	1.83%	n/a	0.00%
City of San Mateo	928	1.79%	n/a	0.00%
San Mateo Community College District (2)	763	1.47%	n/a	0.00%
San Mateo County Behavioral Health	470	0.91%	n/a	0.00%
Fisher Investments	454	0.87%	n/a	0.00%
Mills Peninsula Health Services	444	0.86%	n/a	0.00%
Macy's Department Stores	347	0.67%	n/a	0.00%
Total Top 10 Employers	7,778	14.99%	n/a	0.00%
Total Labor Force (3)	51,900		n/a	0.00%

Notes:

Results based on direct correspondence with city's local businesses, other potential businesses which may qualify for this report 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

CITY OF SAN MATEO
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

<u>Function</u>	<u>Full-time Equivalent Employees as of June 30</u>									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General government	63.15	58.76	59.76	60.78	61.78	62.38	55.10	55.60	56.80	57.83
Community Development	60.56	57.44	57.24	56.87	57.37	55.61	40.91	39.37	30.27	32.52
Public safety	277.02	263.96	264.86	276.59	277.05	277.28	267.04	267.04	261.36	262.48
Public Works (excluding Sewer)	59.71	54.19	54.19	56.32	56.32	48.77	44.54	44.54	44.82	46.08
Parks and Recreation (excluding Golf)	123.40	109.80	109.80	113.52	113.52	112.38	110.97	98.93	98.93	98.44
Library	51.79	49.58	49.33	54.86	53.41	53.21	49.41	49.61	49.61	48.37
Sewer	68.00	67.89	67.89	68.13	68.13	71.68	74.58	74.58	74.58	75.58
Golf	16.05	16.05	16.05	16.56	16.56	16.45	11.25	11.25	11.25	11.54
Total:	719.68	677.67	679.12	703.63	704.14	697.76	653.80	640.92	627.62	632.84

Source: Adopted City Budgets

CITY OF SAN MATEO
Operating Indicators by Function
Last Ten Fiscal Years

<u>Function</u>	<u>Fiscal Year</u>									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Police:										
Arrests	3,111	3,006	3,116	3,587	3,237	3,699	3,634	3,577	3,381	3,264
Traffic violations	7,294	7,505	6,210	6,299	6,011	8,473	6,034	7,682	8,572	9,433
Parking violations	51,116	58,067	62,592	56,715	50,024	41,198	37,554	28,229	31,196	32,211
Fire:										
Number of calls	8,000	7,965	7,491	8,302	8,200	7,933	8,247	8,234	8,463	8,274
Inspections	5,300	6,350	6,350	6,570	6,700	5,651	6,282	6,752	8,356	5,620
Public works:										
Street resurfacing (lane miles)	21	33	36	46	45	22	18	18	25	18
Potholes repaired	n/a	n/a	835	1,576	845	597	750	821	549	373
Parks and recreation:										
Course registration	29,130	28,217	28,646	27,630	27,783	27,100	24,583	23,945	22,923	23,303
Facility rentals	n/a	n/a	1,776	1,706	1,790	1,719	1,707	1,423	1,316	1,302
Picnic rentals	1,113	994	1,024	1,010	1,076	1,160	1,127	1,183	1,081	1,111
Library:										
Annual circulation	414,448	566,236	540,654	737,096	857,031	907,319	960,084	867,073	824,695	837,004
Library visits	287,839	345,471	336,551	613,148	743,578	866,635	822,978	574,354	533,843	521,264
Sewer:										
Number of customers	27,352	27,252	27,366	27,277	27,277	27,371	27,502	27,530	27,525	27,532
Average daily sewage treatment (mgd)	12.7	13.4	13.7	12.2	12.5	12.9	12.9	13.8	12.2	11.6
Golf course:										
Golf rounds played	85,728	83,836	86,309	86,315	82,218	81,888	75,550	70,709	74,311	70,294

Source: Various City Departments

CITY OF SAN MATEO
Capital Asset Statistics by Function
Last Ten Fiscal Years

<u>Function</u>	<u>Fiscal Year</u>									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	34	33	35	35	35	35	33	34	34	34
General Revenues and Other Changes in Net Position										
Fire stations	6	6	6	6	6	6	6	6	6	6
Public works:										
Street (miles)	204	204	204	204	204	204	204	204	204	204
Street lights	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
Traffic signals	73	76	79	79	79	79	79	79	79	79
Parks and recreation:										
Parks acreage	235	300	300	300	300	300	300	300	300	300
Parks	28	30	30	30	30	30	30	30	30	30
Swimming pools	2	2	2	2	2	2	2	2	2	2
Tennis courts	16	16	16	16	16	16	16	16	16	16
Community centers	6	6	6	6	6	6	6	6	6	6
Library:										
Main Library	1	1	1	1	1	1	1	1	1	1
Branch Library	-	2	2	2	2	2	2	2	2	2
Sewer:										
Wastewater treatment plant	1	1	1	1	1	1	1	1	1	1
Sanitary sewers (miles)	236	236	236	236	236	236	236	236	236	236
Storm drains (miles)	136	136	136	136	136	136	136	136	140	140
Number of pump stations	38	38	38	38	38	38	38	38	38	38
Maximum daily treatment capacity (mgd)	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7
Golf course:										
Municipal golf courses	1	1	1	1	1	1	1	1	1	1

Source: Various City Departments



CONTINUING ANNUAL DISCLOSURE REPORT

**City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013**

The following information is provided in accordance with S.E.C. Rule 15c2-12(b)(5) and the Continuing Disclosure Agreements for the bonds listed below. The required audited financial statements are part of the City of San Mateo Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013 and by this reference incorporated in the Continuing Annual Disclosure Report. The CAFR/audited financial statements are also available on line at the City of San Mateo's web site (www.cityofsanmateo.org). As may be required in the Official Statements, updated information specific to each bond series is provided herein. There are no significant/listed events to report for 2012-13 that have not been reported elsewhere.

	Authorized and Issued	Balance as of 6/30/13		Underlying Ratings as of 6/30/13 ¹		Insurer/LOC
		Principal	Reserve	Moody's	S&P	
General Obligation Bonds						
Series 2013 - Library Improvement	\$27,295,000	\$27,295,000	n.a.	Aa1	AA+	None
City of San Mateo Joint Powers Financing Authority Revenue Bonds						
Series 2003 - Landfill Closure	7,900,000	7,030,000	508,657	Aa3	AA	Syncora (XLCA)
Refunding Series 2007B - Golf Course	9,125,000	8,820,000	684,007*	Not rated	AA	FGIC (MBIA reinsured)
Series 2007A - Public Safety ²	17,400,000	17,065,000	n.a.	Not rated	Not rated	Wells Fargo Letter of Credit
Series 2012A - S. Bayfront Flood Ctrl.	5,745,000	5,745,000	502,370	Not rated	AA	None
Sewer Revenue Bonds						
Series 2003	16,300,000	16,300,000	991,554	Aa2	AA	Syncora (XLCA)
Series 2012A	31,990,000	31,990,000	700,773	Aa2	AA	None
Redevelopment Agency of the City of San Mateo Merged Area Tax Allocation Bonds						
2005 Series A	38,665,000	36,765,000	1,296,877	Ba1	A	Syncora (XLCA)
			2,114,184*			
Refunding 2007 Series A	46,135,000	42,070,000	2,757,084*	Not rated	A	Syncora (XLCA)
Housing Set-Aside 2005 Series A (Taxable)	11,195,000	9,360,000	826,610*	Ba1	A	Syncora (XLCA)

¹ Some issues have no underlying ratings because they carry the ratings of the credit enhancer, either a bond insurer or bank letter of credit. Credit enhancers are listed, but not their ratings. The original bond insurer may not be the current insurer.

² Variable rate bond, secured by a letter of credit, not subject to Continuing Annual Disclosure reporting because issued before 11/30/10

*Surety Policy

City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013

I. CITY OF SAN MATEO SERIES 2013 LIBRARY GENERAL OBLIGATION BONDS

1. The required audited financial statements are part of the City of San Mateo Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013 and by this reference incorporated in the Continuing Annual Disclosure Report.
2. Summary of budgeted general fund revenues and appropriations - incorporated by reference, see CAFR, Required Supplementary Information.
3. Assessed valuation of taxable property in the City - incorporated by reference, see CAFR, Statistical Section.
4. Summary of the *ad valorem* property tax levy - incorporated by reference, see CAFR, Statistical Section.

City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013

5. Schedule of aggregate annual debt service on tax-supported indebtedness of the City.

Aggregate Debt Service for Library Project GO Bonds

Period Ending	Series 2013		Total Debt Service
	Principal	Interest	
8/1/2013	970,000.00	346,883.34	
2/1/2014		468,175.00	1,785,058.34
8/1/2014	1,115,000.00	468,175.00	
2/1/2015		451,450.00	2,034,625.00
8/1/2015	1,155,000.00	451,450.00	
2/1/2016		434,125.00	2,040,575.00
8/1/2016	1,190,000.00	434,125.00	
2/1/2017		410,325.00	2,034,450.00
8/1/2017	1,235,000.00	410,325.00	
2/1/2018		385,625.00	2,030,950.00
8/1/2018	1,285,000.00	385,625.00	
2/1/2019		359,925.00	2,030,550.00
8/1/2019	1,345,000.00	359,925.00	
2/1/2020		333,025.00	2,037,950.00
8/1/2020	1,395,000.00	333,025.00	
2/1/2021		305,125.00	2,033,150.00
8/1/2021	1,465,000.00	305,125.00	
2/1/2022		275,825.00	2,045,950.00
8/1/2022	1,520,000.00	275,825.00	
2/1/2023		245,425.00	2,041,250.00
8/1/2023	1,590,000.00	245,425.00	
2/1/2024		213,625.00	2,049,050.00
8/1/2024	1,660,000.00	213,625.00	
2/1/2025		188,725.00	2,062,350.00
8/1/2025	1,720,000.00	188,725.00	
2/1/2026		162,925.00	2,071,650.00
8/1/2026	1,775,000.00	162,925.00	
2/1/2027		127,425.00	2,065,350.00
8/1/2027	1,860,000.00	127,425.00	
2/1/2028		90,225.00	2,077,650.00
8/1/2028	1,940,000.00	90,225.00	
2/1/2029		61,125.00	2,091,350.00
8/1/2029	2,005,000.00	61,125.00	
2/1/2030		31,050.00	2,097,175.00
8/1/2030	2,070,000.00	31,050.00	
6/30/2031		-	2,101,050.00
	27,295,000.00	9,435,133.34	36,730,133.34

6. Outstanding and authorized but unissued tax-supported indebtedness of the City.
The City has no outstanding and authorized but unissued tax-supported indebtedness.

**City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013**

**II. CITY OF SAN MATEO JOINT POWERS FINANCING AUTHORITY REVENUE BONDS
(LANDFILL CLOSURE PROJECT) SERIES 2003**

1. The required audited financial statements are part of the City of San Mateo Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013 and by this reference incorporated in the Continuing Annual Disclosure Report.
2. Principal amount of bonds outstanding – see table on first page of this report.
3. Balance in the reserve fund -- see table on first page of this report.
4. Landfill closure fees history and debt service coverage.

**Official Statement Table 3 - Updated
City of San Mateo Joint Powers Financing Authority
Revenue Bonds Series 2003 - Landfill Closure Project
Landfill Closure Fees History and Debt Service Coverage**

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Landfill</u> <u>Closure Fees</u>	<u>% Increase</u> <u>From Prior Year</u>
2004	694,187	-1.5%
2005	717,232	3.3%
2006	713,445	-0.5%
2007	762,635	6.9%
2008	794,439	4.2%
2009	810,724	2.0%
2010	849,710	4.8%
2011	873,095	2.8%
2012	980,199	12.3%
2013	984,355	0.4%
Total fees for FY 2012-13		\$ 984,355
Less, pledged post-closure cost		<u>(125,000)</u>
Net fees available for debt service		\$ 859,355
Maximum annual debt service		\$ 497,220
Estimated coverage for the bonds		1.73

5. Construction of the Landfill Closure Project is complete.
6. There are no significant legislative, administrative or judicial challenges or investigations to the construction or operation of the Landfill Closure Project known to the City.
7. There are no claims payable from the Landfill closure fees that are not in the ordinary course of business for the City.

City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013

III. CITY OF SAN MATEO JOINT POWERS FINANCING AUTHORITY REVENUE BONDS (GOLF COURSE PROJECT) SERIES 2007B

1. The required audited financial statements are part of the City of San Mateo Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013 and by this reference incorporated in the Continuing Annual Disclosure Report.
2. Principal amount of bonds outstanding – see table on first page of this report.
3. Balance in the reserve fund -- see table on first page of this report.
4. Statement of Golf Course revenues and expenses – incorporated by reference, see CAFR, Proprietary Fund Financial Statements.
5. There are no significant legislative, administrative or judicial challenges to the operation of the Enterprise known to the City.
6. There are no claims against the Enterprise regarding construction of any projects of the Enterprise.

City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013

**IV. CITY OF SAN MATEO JOINT POWERS FINANCING AUTHORITY REVENUE BONDS
(BAYFRONT FLOOD CONTROL PROJECT) SERIES 2011A**

1. The required audited financial statements are part of the City of San Mateo Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013 and by this reference incorporated in the Continuing Annual Disclosure Report.
2. Outstanding indebtedness of the City – see table on first page of this report.
3. City General Fund Revenue, Expenditures and Fund Balances and General Fund Comparative Balance Sheet – incorporated by reference, see CAFR, Basic Financial Statements.
4. Tax Revenue by Source – incorporated by reference, see CAFR, Statistical Section.
5. City Assessed Valuations -- incorporated by reference, see CAFR, Statistical Section.
6. City Largest Taxpayers -- incorporated by reference, see CAFR, Statistical Section.
7. City Market Value of Investments -- incorporated by reference, see CAFR, Notes to Basic Financial Statements.
8. Financial and Statistical Information Related to the Assessment District.

City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013

City of San Mateo Joint Powers Financing Authority
Revenue Bonds (South Bayfront Flood Control Project), Series 2011A
Assessed Valuation and Parcels of Land Use within the Assessment District
Fiscal Year Ending June 30, 2013

	<u>Assessed Valuation</u>	<u>Percentage of Total</u>	<u>No. of Parcels</u>	<u>Percentage of Total</u>
Non-Residential				
Industrial	\$ 71,649,200	1.71%	43	0.53%
Commercial / Office	922,880,422	21.97%	108	1.33%
Government / Social/ Institutional	38,605,737	0.92%	35	0.43%
Miscellaneous Non-Residential	23,131,176	0.55%	17	0.21%
Subtotal Non-Residential	\$ 1,056,266,535	25.15%	203	2.50%
Residential				
Single Family Residence	\$ 2,032,159,489	48.39%	5,665	69.82%
Condominium / Townhouse	574,272,712	13.67%	1,884	23.22%
Hotel / Motel	110,609,324	2.63%	7	0.09%
2-4 Residential Units	58,665,383	1.40%	135	1.66%
5+ Residential Units / Apartments	310,252,520	7.39%	92	1.13%
Miscellaneous Residential	14,257,497	0.34%	30	0.37%
Subtotal Residential	\$ 3,100,216,925	73.82%	7,813	96.29%
Vacant Parcels	\$ 17,816,617	0.42%	15	0.18%
Paid-Off Parcels	\$ 25,520,541	0.61%	83	1.02%
Total	\$ 4,199,820,618	100.00%	8,114	100.00%

City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013

City of San Mateo Joint Powers Financing Authority
Revenue Bonds (South Bayfront Flood Control Project), Series 2011A
Per Parcel Assessed Valuation of Single Family Homes
Fiscal Year Ending June 30, 2013

<u>Assessed Valuation</u>	<u>No. of Parcels</u>	<u>Percentage of Total</u>	<u>Cumulative Percentage of Total</u>	<u>Total Valuation</u>	<u>Percentage of Total</u>	<u>Cumulative Percentage of Total</u>
\$2,000,000 and above	-	0.00%	0.00%	\$ -	0.00%	0.00%
\$1,900,000 - \$1,999,999	-	0.00%	0.00%	-	0.00%	0.00%
\$1,800,000 - \$1,899,999	-	0.00%	0.00%	-	0.00%	0.00%
\$1,700,000 - \$1,799,999	-	0.00%	0.00%	-	0.00%	0.00%
\$1,600,000 - \$1,699,999	1	0.01%	0.01%	1,625,000	0.06%	0.06%
\$1,500,000 - \$1,599,999	2	0.03%	0.04%	3,131,000	0.12%	0.18%
\$1,400,000 - \$1,499,999	-	0.00%	0.04%		0.00%	0.18%
\$1,300,000 - \$1,399,999	-	0.00%	0.04%		0.00%	0.18%
\$1,200,000 - \$1,299,999	-	0.00%	0.04%		0.00%	0.18%
\$1,100,000 - \$1,199,999	1	0.01%	0.05%	1,150,000	0.04%	0.23%
\$1,000,000 - \$1,099,999	8	0.11%	0.16%	8,238,571	0.32%	0.54%
\$900,000 - \$ 999,999	22	0.29%	0.45%	20,377,194	0.78%	1.32%
\$800,000 - \$ 899,999	48	0.64%	1.09%	40,075,875	1.54%	2.86%
\$700,000 - \$ 799,999	179	2.37%	3.46%	131,894,092	5.06%	7.92%
\$600,000 - \$ 699,999	590	7.82%	11.27%	374,349,127	14.36%	22.28%
\$500,000 - \$ 599,999	1,014	13.43%	24.71%	552,106,408	21.18%	43.47%
\$400,000 - \$ 499,999	1,110	14.70%	39.41%	495,911,139	19.03%	62.49%
\$300,000 - \$ 399,999	1,287	17.05%	56.46%	443,997,429	17.03%	79.53%
\$200,000 - \$ 299,999	1,211	16.04%	72.50%	302,562,646	11.61%	91.14%
\$100,000 - \$ 199,999	954	12.64%	85.14%	142,708,052	5.48%	96.61%
\$ 75,000 - \$ 99,999	727	9.63%	94.77%	61,847,086	2.37%	98.98%
\$ 50,000 - \$ 74,999	363	4.81%	99.58%	25,166,585	0.97%	99.95%
Less than \$50,000	32	0.42%	100.00%	1,291,997	0.05%	100.00%
Total	7,549	100.00%		\$ 2,606,432,201	100.00%	

**City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013**

**City of San Mateo Joint Powers Financing Authority
Revenue Bonds (South Bayfront Flood Control Project), Series 2011A
Per Parcel Assessed Valuation of Non-Residential and Multifamily Residential Parcels
Fiscal Year Ending June 30, 2013**

<u>Assessed Valuation</u>	<u>No. of Parcels</u>	<u>Percentage of Total</u>	<u>Cumulative Percentage of Total</u>	<u>Total Valuation</u>	<u>Percentage of Total</u>	<u>Cumulative Percentage of Total</u>
\$70,000,000 and above	2	0.41%	0.41%	\$ 147,780,114	9.43%	9.43%
\$60,000,000 - \$69,999,999	-	0.00%	0.41%	-	0.00%	9.43%
\$50,000,000 - \$59,999,999	2	0.41%	0.83%	111,404,000	7.11%	16.53%
\$40,000,000 - \$49,999,999	4	0.83%	1.66%	182,405,915	11.63%	28.17%
\$30,000,000 - \$39,999,999	4	0.83%	2.49%	134,012,560	8.55%	36.71%
\$20,000,000 - \$29,999,999	8	1.66%	4.15%	203,598,903	12.99%	49.70%
\$15,000,000 - \$19,999,999	9	1.87%	6.02%	154,377,115	9.85%	59.54%
\$10,000,000 - \$14,999,999	15	3.11%	9.13%	193,697,533	12.35%	71.90%
\$5,000,000 - \$ 9,999,999	23	4.77%	13.90%	159,478,856	10.17%	82.07%
\$1,000,000 - \$ 4,999,999	67	13.90%	27.80%	134,977,722	8.61%	90.68%
\$500,000 - \$ 999,999	137	28.42%	56.22%	97,876,272	6.24%	96.92%
\$250,000 - \$ 499,999	94	19.50%	75.73%	35,006,462	2.23%	99.15%
Less than \$250,000	117	24.27%	100.00%	13,252,424	0.85%	100.00%
Total	482	100.00%		\$ 1,567,867,876	100.00%	

The table on the following pages sets forth the largest taxpayers located within the Assessment District in terms of their assessed value for Fiscal Year 2012-13.

**City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013**

**City of San Mateo Joint Powers Financing Authority
Revenue Bonds (South Bayfront Flood Control Project), Series 2011A
Largest Taxpayers (Secured Roll)
Fiscal Year Ending June 30, 2013**

<u>Property Owner</u>	<u>Use Description</u>	<u>Assessments</u>	<u>Value</u>
1 Cornerstone Properties IIS LLC	Office: Multi-Story	\$ 5,073	\$ 39,249,100
2 Spk-San Mateo Baycenter LLC	Office: Multi-Story	3,816	77,687,198
3 County of San Mateo	Government / Recreation	3,718	-
4 Crossroads Assoc	Office: Multi-Story	2,790	77,780,114
5 City of San Mateo	Various	2,577	-
6 Carr Carp Properties LLC	Office: Multi-Story	2,547	51,130,573
7 Norfolk Atrium	Office: Multi-Story	2,374	30,307,430
8 Keynote Systems, Inc.	Office: Multi-Story	2,283	31,709,871
9 Realty Associates Fund VIII	Office: Multi-Story	2,029	25,000,000
10 Bridgepointe Office Park Assoc, LLC	Office: Multi-Story	1,776	28,560,000

9. South Bayfront Benefit Assessment FY 2012-13 levies.

	<u>FY 2012-13</u>
Amount of South Bayfront benefit assessments levied	\$546,530.84
Amount of South Bayfront benefit assessments received	\$534,806.48

The South Bayfront Benefit Assessments are still included in the County of San Mateo's Teeter Plan.

10. None of the following listed events occurred during the fiscal year ended June 30, 2013.

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. Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds.
6. Defeasances.
7. Tender offers.
8. Bankruptcy, insolvency, receivership or similar proceedings.
9. Rating changes.
10. Mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated persons or their termination.
11. Appointment of a successor or additional trustee or the change of the name of a trustee.
12. Non-payment related defaults.
13. Modifications to the rights of bondholders.
14. Notices of redemption.
15. Release, substitution or sale of property securing repayment of the Bonds.
16. Removal of the South Bayfront Levee and Flood Control Facilities Assessment District from the County's Teeter Plan.

**City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013**

V. SEWER REVENUE BONDS SERIES 2003 and 2011A

1. The required audited financial statements are part of the City of San Mateo Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013 and by this reference incorporated in the Continuing Annual Disclosure Report.
2. Principal amount of bonds outstanding – see table on first page of this report.
3. Balance in each reserve fund – see table on first page of this report.
4. Maintenance and operation costs, actual revenues and net revenues, total debt service on outstanding bonds and parity debt and the debt service coverage ratio.

	FY2012-13
Total actual revenues generated by the Sewer Enterprise Fund	\$ 28,781,192
Total actual maintenance and operations costs incurred in connection with the Enterprise	\$ 17,980,240
Total actual net revenues generated by the Sewer Enterprise Fund*	\$ 10,732,096
Total debt service on the outstanding bonds	\$ 3,486,770
Debt service coverage ratio	3.08

* Does not include investment earnings of \$68,856 in the Sewer Enterprise Fund

5. Updated average flow and accounts of the sub-regional partners.

**Official Statement Table 4 - Updated
Wastewater Treatment Plant Service Area
Average Flow and Accounts of the Sub-regional Partners
Fiscal Year Ending June 30, 2013**

	Average Daily Flow (mgd)	Customer Accounts
San Mateo	8.5	27,532
Foster City	2.2	7,146
CSCSD	0.5	1,421
Belmont ⁽¹⁾	-	139
Hillsborough	0.5	1,585
Unincorporated County ⁽²⁾	-	-
Total	11.6 mgd	37,823

(1) Insignificant average daily flow

(2) Insignificant

**City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013**

6. Sewer service charges for Enterprise largest users.

**Official Statement Table 6 - Updated
Sewer Service Charges for City of San Mateo's Largest Users
Fiscal Year 2012-13**

	Gallons Billed	% of Total Billed *	Amount Billed (\$)	% of Total
Bohanna Development -Hillsdale Shopping Center	23,335,805	0.71%	\$ 314,996	1.10%
Atrium Plaza LLC - San Mateo Marriott	19,908,768	0.61%	237,354	0.83%
County of San Mateo	20,290,241	0.62%	149,935	0.52%
San Mateo Community College District	27,909,974	0.85%	136,124	0.47%
Park Village Assoc LLC &	9,079,210	0.28%	118,244	0.41%
Mills-Peninsula Hospital	13,502,597	0.41%	113,906	0.40%
BRE Properties - Lakeshore Landing Apartments	12,406,627	0.38%	104,660	0.36%
Marina Plaza Shopping Center	7,154,770	0.22%	96,392	0.34%
Bridgepointe Apartments (Sobrato Development)	10,889,683	0.33%	91,864	0.32%
Archstone Apartments	10,138,392	0.31%	85,526	0.30%
Total	154,616,067	4.73%	\$ 1,449,000	5.0%

**Official Statement Table 7 - Updated
Sewer Service Charges City of Foster City Largest Users
Fiscal Year 2012-13**

	Number of Units	Amount Billed (\$)	% of Total Billed
Woodmont Mgt. Apts.	924	429,660.00	6.15%
Foster's Landing Apartments	490	237,343.75	3.40%
Essex Harbor Cove, L.P.	400	186,000.00	2.66%
Marina Point HOA	364	167,849.50	2.40%
Grupe-Schooner Bay	312	162,409.00	2.32%
Isle Cove HOA	280	139,603.33	2.00%
Avalon Bay Communities	288	133,920.00	1.92%
PWM Residential Venture LLC	280	130,929.12	1.87%
Sand Harbour	276	128,495.00	1.84%
Lantern Cove	233	121,286.21	1.74%
Total	3847	\$ 1,837,495.91	26.30%

Total of annual billing for customers: \$6.9 million

7. There are no significant legislative, administrative or judicial challenges to the operation of the Enterprise known to the City.
8. There are no claims against the Enterprise regarding construction of any projects of the Enterprise.

**City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013**

VI. REDEVELOPMENT AGENCY OF THE CITY OF SAN MATEO MERGED AREA TAX ALLOCATION BONDS SERIES 2005A AND 2007A AND HOUSING SET-ASIDE 2005A

1. The required audited financial statements are part of the City of San Mateo Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013 and by this reference incorporated in the Continuing Annual Disclosure Report.
2. The Basic Financial Statements and Independent Auditors' Reports for the San Mateo Redevelopment Agency for the fiscal year ended June 30, 2013 are attached and by this reference incorporated in the Continuing Annual Disclosure Report.
3. Merged Project Area Ten Largest Property Owners

**Redevelopment Agency of the City of San Mateo
Merged Area Tax Allocation Bonds
Series 2005A, 2007A and Housing Set-Aside 2005A
Merged Area Top Ten Property Owners/Taxpayers
Fiscal Year Ending June 30, 2013**

<u>Assessee</u>	<u>Secured</u>	<u>Unsecured</u>	<u>Assessed Valuation</u>	<u>Project Area</u>
Sobrato Companies	\$ 217,003,226	\$ 163,338	\$ 217,166,564	Shoreline
DW Bridgepointe LLC et. al.	95,936,682	-	95,936,682	Shoreline
SPK-San Mateo Baycenter LLC	77,687,198	-	77,687,198	Shoreline
1400 Fashion Island	44,288,990	-	44,288,990	Shoreline
Keynote Systems, Inc.	38,101,716	-	38,101,716	Shoreline
Park Village Associates LLC	33,439,025	-	33,439,025	Shoreline
Bridgepointe Office Park Assoc LLC	28,560,000	-	28,560,000	Shoreline
Draegers Super Markets Inc.	23,257,145	-	23,257,145	Downtown
Dayton Hudson Corp/Target	18,704,384	3,048,836	21,753,220	Shoreline
101 Ellsworth Development Co LLC	21,569,402	-	21,569,402	Downtown
Totals	<u>\$ 598,547,768</u>	<u>\$ 3,212,174</u>	<u>\$ 601,759,942</u>	
	% of Total Assessed Value:		42.78%	

City of San Mateo
Continuing Annual Disclosure Report
For the year ended June 30, 2013

4. Merged Project Area Total and Incremental Assessed Valuation for Last Five Years

Redevelopment Agency of the City of San Mateo
Merged Area Tax Allocation Bonds
Series 2005A, 2007A and Housing Set-Aside 2005A
Merged Area Incremental Assessed Value

	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>2012-2013</u>
Downtown Project Area					
Secured Roll	\$ 536,568,204	\$ 548,724,036	\$ 531,161,770	\$ 534,267,338	\$ 546,963,669
Unsecured Roll	45,400,692	46,986,067	62,687,015	52,309,539	55,270,114
State Roll / Utility Roll	700	678	761	946	954
Subtotal	\$ 581,969,596	\$ 595,710,781	\$ 593,849,546	\$ 586,577,823	\$ 602,234,737
Shoreline Project Area					
Secured Roll	\$ 769,062,185	\$ 742,401,425	\$ 712,681,304	\$ 708,468,802	\$ 741,779,634
Unsecured Roll	53,145,934	42,600,431	61,950,060	80,482,187	59,410,384
State Roll / Utility Roll	-	-	-	-	-
Subtotal	\$ 822,208,119	\$ 785,001,856	\$ 774,631,364	\$ 788,950,989	\$ 801,190,018
Merged Area					
Secured Roll	\$ 1,305,630,389	\$ 1,291,125,461	\$ 1,243,843,074	\$ 1,242,736,140	\$ 1,288,743,303
Unsecured Roll	98,546,626	89,586,498	124,637,075	132,791,726	114,680,498
State Roll / Utility Roll	700	678	761	946	954
Total	\$ 1,404,177,715	\$ 1,380,712,637	\$ 1,368,480,910	\$ 1,375,528,812	\$ 1,403,424,755
Less Base Year Value	(109,788,272)	(109,788,272)	(109,788,272)	(109,788,272)	(109,788,272)
Incremental Assessed Value	\$ 1,294,389,443	\$ 1,270,924,365	\$ 1,258,692,638	\$ 1,265,740,540	\$ 1,293,636,483

5. Estimated Debt Service Requirements and Coverage for Tax Allocation Bonds

Redevelopment Agency of the City of San Mateo
Merged Area Tax Allocation Bonds
Series 2005A, 2007A and Housing Set-Aside 2005
Debt Service Requirements and Estimated Coverage

	<u>Bond Year</u>	<u>Tax Year</u>	<u>Tax Revenues</u>	<u>Allocation Bonds</u>	<u>Debt Service</u>
	<u>(Ending Aug 1)</u>	<u>(Ending June 30)</u>	<u>(Ending June 30)</u>	<u>(Ending Aug 1)</u>	<u>Coverage</u>
Merged Area Tax					
Allocation Bonds	2013	2013	\$ 10,349,092	\$ 5,880,872	1.76
Housing Set-Aside					
Bond	2013	2013	\$ 2,587,273	\$ 817,235	3.17

6. Amendments to the Project Area or Redevelopment Plan - There were no such amendments during the fiscal year.

7. Evidence the Agency has performed the calculations necessary to determine whether the Agency is in compliance with the requirements of Section 22.01 of 2005 Series A Bond Indenture and Section 27.01 of 2007 Series A Bond Indenture - incorporated by reference, see Basic Financial Statements and Independent Auditors' Reports for the San Mateo Redevelopment Agency, Notes to Basic Financial Statements.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following statements are summaries of certain provisions of the Second Amended and Restated Master Indenture, dated as of July 1, 2014 (the "Master Indenture"), a First Supplemental Indenture, dated as of May 1, 2011 (the "First Supplemental Indenture"), where applicable, and the Second Supplemental Indenture (the "Second Supplemental Indenture"), dated as of July 1, 2014, each by and between the City of San Mateo and The Bank of New York Mellon Trust Company, N.A. as trustee (the "Trustee"). Certain other provisions of the Master Indenture and the Second Supplemental Indenture are summarized in the Official Statement under the headings "THE 2014 BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS." Such summaries are not intended to be definitive. Reference is directed to the Master Indenture and the Second Supplemental Indenture for the complete text thereof.

Transition Provisions

Master Indenture is an Amendment and Restatement of First Amended and Restated Master Indenture (as defined below). Upon the issuance of the 2014 Bonds (which constitute at least a majority in aggregate principal amount of the Outstanding Bonds), the Master Indenture shall constitute a full amendment and complete restatement of the First Amended and Restated Master Indenture as previously amended and supplemented by the First Supplemental Indenture, and will be deemed to have been approved in writing by a majority of the Holders of the Outstanding Bonds filed with the Trustee in accordance with Section 9.02 of the First Amended and Restated Master Indenture. In the case of any inconsistency between the Master Indenture and the First Amended and Restated Master Indenture, the terms of the Master Indenture shall control; provided, however, that in accordance with the First Amended and Restated Master Indenture, under no circumstances will the Master Indenture: (1) extend the stated maturity of the Bonds, or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the owner of each Bond so affected, or (2) reduce the applicable threshold of owners of Bonds required to approve any Supplemental Indenture, without the consent of the owners of all Bonds then outstanding. Except to the extent set forth in the Master Indenture, the provisions of the First Supplemental Indenture will survive after the effective date of the Master Indenture.

Definitions

The following terms as used in the Master Indenture and in this summary have the meanings set forth below. Each capitalized term not otherwise defined herein shall have the meaning set forth in the Master Indenture.

"Accreted Value" means, with respect to any Capital Appreciation Obligation and as of any date, the Initial Amount thereof plus the interest accrued thereon from its delivery date, compounded at the approximate interest rate with respect to such Capital Appreciation Obligation specified in or pursuant to the Issuing Instrument authorizing the issuance of such Capital Appreciation Obligation on each date specified therein. The applicable Accreted Value at any date will be the amount set forth in the Accreted Value Table as of such date, if such date

is a compounding date, and if not, will be determined by straight-line interpolation with reference to such Accreted Value Table.

"Accreted Value Table" means, with respect to Capital Appreciation Obligations, the table denominated as such in, and to which reference is made in, the Issuing Instrument authorizing the issuance of such Capital Appreciation Obligations.

"Additional Bonds" means Bonds issued in accordance with the terms and conditions of the Master Indenture for the purposes set forth therein.

"Additional Parity Obligations" means Parity Obligations issued for the purposes set forth in the Master Indenture and satisfying the conditions set forth in the Master Indenture.

"Authorized Denominations" means with respect to a Series of Bonds the meaning set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds. With respect to 2014 Series A Bonds, "Authorized Denominations" means \$5,000 or any integral multiple thereof.

"Authorized Representative" means the City Manager, the Finance Director or any other officer of the City duly authorized to act as an Authorized Representative for purposes of the Bond Indenture by resolution of the City Council of the City or written authorization of the City Manager or the Finance Director.

"Balloon Indebtedness" means, with respect to any Series of Obligations, 25% or more of the principal of which matures on the same date or within a 12-month period (with Sinking Fund Installments on Term Obligations deemed to be payments of matured principal), that portion of such Series of Obligations which matures on such date or within such 12-month period. For purposes of this definition, the principal amount maturing on any date shall be reduced by the amount of such indebtedness which is required, by the documents governing such indebtedness, to be amortized by prepayment or redemption prior to its stated maturity date.

"Beneficial Holder" means any Person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond, including, without limitation, any Persons holding bonds through nominees or depositories.

"Bond Counsel" means any attorney at law or firm of attorneys selected by the City, of nationally recognized standing in matters pertaining to the validity of and federal tax exemption of interest on obligations issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America.

"Bond Indenture" means, with respect to a Series of Bonds, the Master Indenture, and as supplemented by the Supplemental Indenture authorizing such Series of Bonds and as to the extent provided in such Supplemental Indenture.

"Bonds" means the 2014 Bonds, the 2011 Bonds and all of the City of San Mateo Sewer Revenue Bonds authorized under and secured by the Master Indenture.

"Business Day" means any day other than Saturday, Sunday or a day on which banking institutions in San Francisco, California, or New York, New York, are authorized or required to be closed or a day on which the New York Stock Exchange is closed.

"Calculation Period" means, with respect to any certificate to be provided pursuant to the Master Indenture, any twelve consecutive month period within the eighteen consecutive months ending immediately prior to the issuance of the Additional Parity Obligations to which such certificate relates.

"Capital Appreciation Obligations" means any Obligations the interest on which is compounded and not scheduled to be paid until the maturity or prior redemption of such Obligations.

"Certificate," "Request," "Requisition," "Statement" and "Written Order" mean, respectively, a written certificate, request, requisition, statement or order signed, in the case of the City, by an Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the provisions of the Master Indenture, each Certificate shall include the statements provided for in the Master Indenture.

"Charter" means the Charter of the City of San Mateo.

"City" means the City of San Mateo, a chartered city, duly organized and existing under and by virtue of the Constitution and laws of the State of California.

"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 Master 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.

"Commercial Paper Program" means a program of short-term Obligations having the characteristics of commercial paper in that such Parity Obligations have a stated maturity not later than 270 days from their date of issue and that maturing Obligations of such program may be paid with the proceeds of renewal short-term Obligations.

"Consultant" means a consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm retained by the City to perform acts, prepare certificates or otherwise carry out the duties provided for a Consultant in the Master Indenture or any Supplemental Indenture. Such consultant, consulting firm, engineer, architect, engineering firm or architectural firm shall be nationally recognized within its profession for works of the character required. Such accountants or accounting firm shall be Independent Certified Public Accountants licensed to practice in the State of California.

"Continuing Disclosure Agreement" means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under United States Securities and Exchange Commission Rule 15c2-12, the written undertaking, dated the date of issuance and delivery of such Series of Bonds, as originally executed and as the same may from time to time be amended or supplemented pursuant to its terms.

"Corporate Trust Office" means the corporate trust office of the Trustee in San Francisco, California, or such other or additional offices as may be designated by the Trustee.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City and related to the original authorization, execution, sale and delivery of Parity Obligations, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, including disclosure documents and documents relating to the sale of such Parity Obligations, initial fees and charges (including counsel fees) of any trustee, fiscal agent, any paying agent and any Credit Provider, legal fees and charges, financial advisor fees and expenses, fees and expenses of other consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Parity Obligations and any other cost, charge or fee in connection with the authorization, issuance, sale or original delivery of Parity Obligations.

"Council" means the City Council of the City of San Mateo.

"Credit Provider" means any municipal bond insurance company, bank or other financial institution or organization which is performing in all material respects its obligations under any Credit Support Instrument for some or all of the Parity Obligations.

"Credit Provider Reimbursement Obligations" means obligations of the City to pay from the Sewer Revenue Fund amounts due under a Credit Support Agreement, including without limitation amounts advanced by a Credit Provider pursuant to a Credit Support Instrument as credit support or liquidity for Parity Obligations and the interest with respect thereto.

"Credit Provider Bonds" means any Bonds purchased with funds provided under a Credit Support Instrument for so long as such Bonds are held by or for the account of, or are pledged to, the applicable Credit Provider in accordance with the applicable Bond Indenture.

"Credit Support Agreement" means, with respect to any Credit Support Instrument, the agreement or agreements (which may be the Credit Support Instrument itself) between the City and the applicable Credit Provider, as originally executed or as it may from time to time be replaced, supplemented or amended in accordance with the provisions thereof, providing for the reimbursement to the Credit Provider for payments under such Credit Support Instrument, and the interest thereon, and includes any subsequent agreement pursuant to which a substitute Credit Support Instrument is provided, together with any related pledge agreement, security agreement or other security document.

"Credit Support Instrument" means a policy of insurance, a letter of credit, a stand-by purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit or liquidity support with respect to the payment of interest, principal or the purchase price of any Parity Obligations.

"Debt Service" means, for any Fiscal Year, the sum of (a) the interest payable during such Fiscal Year on all Outstanding Parity Obligations, assuming that all Outstanding Serial Parity Obligations are retired as scheduled and that all Outstanding Term Parity Obligations are redeemed or paid from Sinking Fund Installment as scheduled, (b) that portion of the principal amount of all Outstanding Serial Parity Obligations maturing on each principal payment date which falls in such Fiscal Year, including the Final Compounded Amount of any Capital Appreciation Obligations which are Series Parity Obligations, (c) that portion of the principal amount of all Outstanding Term Parity Obligations required to be redeemed or paid from Sinking Fund Installments becoming due during such Fiscal Year (together with the redemption premiums, if any, thereon), including the Accreted Value of any Capital Appreciation Obligations which are Term Parity Obligations; provided that, for purposes of calculating Debt Service, any

Federal Subsidy to be received by the City during such Fiscal Year shall be subtracted from such sum, and provided further that the following adjustments and assumptions shall be made:

(a) in determining the amount of Debt Service constituting principal due in each Fiscal Year, principal payments with respect to Parity Obligations which are or upon issuance will be, part of a Commercial Paper Program, but which would not constitute Balloon Indebtedness, shall be treated as if such Parity Obligations were to be amortized with substantially level annual Debt Service payments over a term of 40 years commencing on the date the calculation of Debt Service is made;

(b) if all or any portion or portions of the Parity Obligations constitute, or upon issuance would constitute, Balloon Indebtedness, then, for purposes of determining Debt Service, each maturity which constitutes, or upon issuance would constitute, Balloon Indebtedness shall be treated as if it were to be amortized with substantially level annual Debt Service payments over a term of 40 years commencing on the date which is the first anniversary of the initial issuance of such Parity Obligations;

(c) if any Outstanding Parity Obligations constitute Tax-Exempt Variable Rate Indebtedness (except to the extent paragraph (g) applies), the interest rate on such Parity Obligations for any period as to which such interest rate has not been established shall be assumed to be 110% of the daily average interest rate on such Parity Obligations during the 12 months ending with the month preceding the date of calculation, or such shorter period that such Parity Obligations shall have been Outstanding;

(d) if any Outstanding Parity Obligations constitute Variable Rate Indebtedness which is not Tax-Exempt (except to the extent paragraph (g) applies), the interest rate on such Parity Obligations for any period as to which such interest rate has not been established shall be assumed to be 110% of the average One Month USD LIBOR Rate during the calendar quarter preceding the calendar quarter in which the calculation of Debt Service is made or if the One Month USD LIBOR Rate is not available for such period, another similar rate or index selected by the City;

(e) if Additional Parity Obligations proposed to be issued will be Tax-Exempt Variable Rate Indebtedness (except to the extent subsection (h) applies), then the interest rate on such Additional Parity Obligations shall be assumed to be 110% of the average SIFMA Index during the calendar quarter preceding the calendar quarter in which the calculation of Debt Service is made, or if that index is no longer published, 75% of the One Month USD LIBOR Rate, or if the One Month USD LIBOR Rate is not available, another similar rate or index selected by the City;

(f) if Additional Parity Obligations proposed to be issued will be Variable Rate Indebtedness which is not Tax-Exempt (except to the extent subsection (h) applies) then the interest rate on such Additional Parity Obligations shall be assumed to be 110% of the average One Month USD LIBOR Rate during the calendar quarter preceding the calendar quarter in which the calculation is made, or if the One Month USD LIBOR Rate is not available for such period, another similar rate or index selected by the City;

(g) if a Qualified Swap Agreement has been entered into in connection with any Outstanding Parity Obligations, the interest rate on such Outstanding Parity Obligations for each Fiscal Year or portion thereof during which payments are to be

exchanged by the parties under such Qualified Swap Agreement shall be determined for purposes of calculating Debt Service by adding: (1) the amount of Debt Service paid or to be paid by the City as interest on the Outstanding Parity Obligations during such Fiscal Year or portion thereof (determined as provided in paragraph (c) or (d), as applicable, if such Outstanding Parity Obligations constitute Variable Rate Indebtedness) and (2) the net amount (which may be a negative amount) paid or to be paid by the City under the Qualified Swap Agreement (after giving effect to payments made and received, and to be made and received, by the City under the Qualified Swap Agreement) during such Fiscal Year or portion thereof, and for this purpose any variable rate of interest agreed to be paid under the Qualified Swap Agreement shall be deemed to be the rate at which the related Outstanding Parity Obligations constituting Variable Rate Indebtedness is assumed to bear interest;

(h) if a Qualified Swap Agreement has been entered into by the City with respect to any Additional Parity Obligations proposed to be issued, the interest on such proposed Additional Parity Obligations for each Fiscal Year or portion thereof during which payments are to be exchanged under the Qualified Swap Agreement shall be determined for purposes of calculating Debt Service by adding: (1) the amount of Debt Service to be paid by the City as interest on such Additional Parity Obligations during such Fiscal Year or portion thereof (determined as provided in paragraph (e) or (f), as applicable, if such Additional Parity Obligations are to constitute Variable Rate Indebtedness) and (2) the net amount (which may be a negative amount) to be paid by the City under the Qualified Swap Agreement (after giving effect to payments to be made and received by the City under the Qualified Swap Agreement) during such Fiscal Year or portion thereof, and for this purpose any variable rate of interest agreed to be paid under the Qualified Swap Agreement shall be deemed to be the rate at which the related Additional Parity Obligations which are to constitute Variable Rate Indebtedness shall be assumed to bear interest; and

(i) if any Parity Obligations are, or upon issuance will be, Paired Obligations, the interest thereon shall be the resulting linked rate or effective fixed rate to be paid with respect to such Paired Obligations.

"Defeasance Obligations" means (i) non-callable Investment Securities described in clauses (1) and (2) of the definition thereof, (ii) for a particular Series of Bonds, any Investment Securities approved as Defeasance Obligations by the Credit Provider for such Series of Bonds, or (iii) any other investment designated in a Supplemental Indenture as a Defeasance Obligation for purposes of defeasing a Series of Bonds authorized by such Supplemental Indenture.

"Delivery Certificate" means, with respect to a Series of Bonds or any Subseries thereof, a certificate of an Authorized Representative establishing certain terms and conditions for such Series or Subseries and specifying the application of the proceeds of such Series or Subseries, all as authorized by the Supplemental Indenture authorizing such Series of Bonds.

"DTC" means The Depository Trust Company, New York, New York.

"Existing SRF Obligations" means the following agreements: (i) an Installment Sale Agreement, Publicly Owned Treatment Works (POTW) Construction Financing, 25th Avenue Sanitary Sewer Relief Project, Clean Water State Revolving Fund Project No. C-06-7858-110; Agreement No. 13-823-550), dated as of January 15, 2014 and (ii) an Installment Sale

Agreement, Publicly Owned Treatment Works (POTW) Construction Financing, South Trunk Project, Clean Water State Revolving Fund Project No. C-06-7826-110; Agreement No. 13-822-550), dated as of January 15, 2014, which obligations are payable on a parity basis with the 2011 Bonds and the 2003 Bonds.

"Event of Default" means any of the events specified in the Master Indenture.

"Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the Issuer and related parties do not own more than a 10% beneficial interest therein if the return paid by the fund is without regard to the source of the investment. To the extent required by the applicable regulations under the Code, the term "investment" will include a hedge.

"Federal Subsidy" means any payment or tax credit by the United States of America established in connection with any Bond or other Parity Obligation, including without limitation a 35% cash subsidy payment from the United States Treasury paid pursuant to Section 54AA or 6431 of the Code (as such Sections were added by Section 1531 of the Recovery Act, pertaining to "Build America Bonds").

"Final Compounded Amount" means the Accreted Value of any Capital Appreciation Obligation on its maturity date.

"Financial Newspaper or Journal" means The Wall Street Journal or The Bond Buyer or any other newspaper or journal containing financial news, printed in the English language, customarily published on each business day and circulated in Los Angeles or San Francisco, California, and selected by the City, in its sole discretion whose decision shall be final and conclusive.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the succeeding June 30, or any other twelve-month period selected and designated as the official fiscal year of the City.

"Generally Accepted Accounting Principles" means generally accepted accounting principles applied on a consistent basis set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants applicable to a government-owned utility applying all statements and interpretations issued by the Governmental Accounting Standards Board and statements and pronouncements of the Financial Accounting Standards Board which are not in conflict with the statements and interpretations issued by the Governmental Accounting Standards Board or in such other

statements by such other entity as may be approved by a significant segment of the accounting profession, that are applicable to the circumstances as of the date of determination.

"Holder" or "Bondholder" means the person in whose name a Bond is registered.

"Independent Certified Public Accountant" means any firm of certified public accountants appointed by the City, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

"Initial Amount" means the Accreted Value of a Capital Appreciation Obligation on its date of issuance and delivery to the original purchaser thereof.

"Interest Fund" means the fund by that name established pursuant to the Master Indenture.

"Interest Payment Date" means with respect to any Series of Bonds the meaning set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

"Investment Securities" means any of the following, but only to the extent that the same are acquired at Fair Market Value (but not including any obligation issued by the City) (the Trustee is entitled to rely upon any investment direction received by it as a certification that such investment constitutes an Investment Security under the Master Indenture):

(1) (A) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"), (B) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (C) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (D) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

(2) Federal Housing Administration debentures.

(3) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

(A) Federal Home Loan Mortgage Corporation (FHLMC) (i) participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts) and (ii) senior debt obligations

(B) Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes

(C) Federal Home Loan Banks (FHL Banks) Consolidated debt obligations

(D) Federal National Mortgage Association (FNMA) (i) senior debt obligations and (ii) mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(E) Student Loan Marketing Association (SLMA) senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)

(F) Financing Corporation (FICO) debt obligations

(G) Resolution Funding Corporation (REFCORP) debt obligations

(4) Unsecured certificates of deposit, time deposits and bankers' acceptances (having maturities of not more than 360 days) of any bank the short-term obligations of which are rated "A-1" or better by S&P including those of the Trustee and its affiliates.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks (including the Trustee and its affiliates) which have capital and surplus of at least \$5 million.

(6) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's at the time of purchase.

(7) Money market funds rated "AAm" or "AAm-G" or higher by S&P and the equivalent rating or higher by Moody's, 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 the Master Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Master Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee.

(8) "State Obligations," which means:

(A) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(B) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated "A-1+" by S&P and "Prime-1" by Moody's.

(C) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated "AA" or better by S&P and "Aa" or better by Moody's.

(9) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

(A) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(B) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(C) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest and premium, if any, due and to become due on the municipal obligations ("Verification");

(D) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(E) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and

(F) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(10) Repurchase agreements:

(A) With (1) any domestic bank, or domestic branch of a foreign bank, the long-term debt of which is rated "A" or better by S&P and Moody's or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company of which has, long-term debt rated at least "A" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation (SIPC); or (3) any other entity rated "A" or better by S&P and Moody's, provided that:

(i) The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" category rating in an "A" category rated structured financing (with a market value approach);

(ii) The Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books),

(iii) The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Trustee has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof,

(iv) All other requirements of S&P in respect of repurchase agreements shall be met.

(v) The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the Authority or the Trustee, within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the City or Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least in the "A" category by S&P and Moody's, respectively.

(11) investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by S&P and "Aa" by Moody's; provided that, by the terms of the investment agreement:

(A) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service on the Bonds;

(B) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided, that the Trust Agreement specifically requires the City or the Trustee to give notice in accordance with the terms of the investment agreement so as to receive funds under the Master Indenture with no penalty or premium paid;

(C) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof,

(D) the City or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the City) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its

terms and of foreign counsel (if applicable) in form and substance acceptable and addressed to the City;

(E) the investment agreement shall provide that if during its term

(i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the City, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" category rating in an "A" category rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment, and

(ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the City or the Trustee, within 10 days of receipt of such direction, repay the principal of and accrued by unpaid interest on the investment, in either case with no penalty or premium to the City or Trustee; and

(F) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

(G) the investment agreement must provide that if during its term

(i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the City or the Trustee, be accelerated and amounts invested and accrued by unpaid interest thereon shall be repaid to the City or Trustee, as appropriate, and

(ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of bankruptcy"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the City or Trustee, as appropriate.

(12) State of California Local Agency Investment Fund.

(13) Any other investment that does not adversely affect the then-current ratings on the Bonds.

"Issuing Instrument" means any indenture, trust agreement or other instrument or agreement under which Obligations are issued.

"Maintenance and Operation Costs" means the reasonable and necessary costs of maintaining and operating the Sewer Enterprise, calculated in accordance with Generally Accepted Accounting Principles, including (without limitation) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Sewer Enterprise in good repair and working order, and reasonable amounts for administration, overhead, wages of employees, insurance, taxes (if any) and other similar costs or charges required to be paid by the City to comply with the law or terms of the Bonds or Parity Obligations or other Obligations, such as compensation of the trustee, and fees and expenses payable to any Credit Provider (other than in repayment of a Credit Provider Reimbursement Obligation), and accountant and engineering fees, but excluding in all cases (a) depreciation and obsolescence charges or reserves therefor, amortization of intangibles, or other bookkeeping entries of a similar nature, (b) all costs paid from the proceeds of taxes received by the City, and (c) all interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the City, and all payments made pursuant to any Qualified Swap Agreement.

"Master Indenture" means that certain Master Indenture, dated as of July 1, 2014, between the City and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions of the Master Indenture.

"Maximum Annual Debt Service" means the greatest total Debt Service payable in any Fiscal Year during the period commencing with the next ensuing Fiscal Year and terminating with the Fiscal Year in which payments are due under the last Outstanding Parity Obligations.

"Net Revenues" for any Fiscal Year means the sum of (i) Revenues for such Fiscal Year plus (ii) the amounts, if any, withdrawn from the Rate Stabilization Fund for treatment as Revenues for such Fiscal Year, less the sum of (iii) all Maintenance and Operation Costs for such Fiscal Year and (iv) the amounts, if any, withdrawn by the City from Revenues during such Fiscal year for deposit in the Rate Stabilization Fund.

"Obligations" means (a) obligations with respect to borrowed money and includes loans or other evidences of indebtedness, installment purchase payments under any contract, and lease payments under any financing or capital lease (determined to be such in accordance with Generally Accepted Accounting Principles), which are payable from the Sewer Revenue Fund, (b) obligations to replenish any debt service reserve fund with respect to obligations of the City described in (a) above; (c) obligations secured by or payable from any of obligations of the City described in (a) above; (d) obligations payable from the Sewer Revenue Fund and entered into in connection with, relating to, or otherwise serving as a hedge with respect to, an obligation described in (a), (b) or (c) above under (1) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (2) any contract to exchange cash flows or a series of payments, or (3) any contract to hedge payment, currency, rate spread or similar exposure, including but not limited to interest rate swap agreements and interest rate cap agreements; and (e) Credit Provider Reimbursement Obligations.

"One Month USD LIBOR Rate" means the British Banker's Association average of interbank offered rates in the London market for United States dollar deposits for a one month period as reported in the Wall Street Journal or, if not reported in such newspaper, as reported in such other source as may be selected by the City.

"Opinion of Counsel" means a written opinion of counsel who is selected by the City (including counsel to the City) and who is acceptable to the Trustee. If and to the extent required by the provisions of the Master Indenture, each Opinion of Counsel shall include the statements provided for in the Master Indenture.

"Outstanding" when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Master Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the City shall have been discharged in accordance with the Master Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Master Indenture.

"Paired Obligations" shall mean any Series (or portion thereof) of Parity Obligations designated as Paired Obligations in the Issuing Instrument authorizing the issuance thereof, which are simultaneously issued (a) the principal of which is of equal amount maturing and to be redeemed (or cancelled after acquisition thereof) on the same dates and in the same amounts, and (b) the interest rates which, taken together, result in an irrevocably fixed interest rate obligation of the City for the terms of such Paired Obligations.

"Parity Obligations" means (a) Bonds, (b) the Existing SRF Obligations, and (c) Obligations that are payable from Net Revenues on a parity with the payment of the Bonds and which satisfy the applicable conditions of the Master Indenture, including payments due under Qualified Swap Agreements.

"Person" means an individual, a corporation, a partnership, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

"Principal Fund" means the fund by that name established pursuant to the Master Indenture.

"Principal Payment Date" means with respect to any Series of Bonds the meaning set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

"Purchase Price" means, with respect to Bonds of any Series or Subseries, the amount set forth with respect to such Series or Subseries in the Supplemental Indenture authorizing the Bonds of such Series or Subseries, or the Delivery Certificate relating to such Series or Subseries, in each case as the amount to be paid to the Owners of such Bonds when such Bonds are tendered for purchase or deemed tender for purchase in accordance with the provisions of such Supplemental Indenture.

"Qualified Swap Agreement" means a contract or agreement, payable from Net Revenues on a parity with the payment of Parity Obligations and satisfying the conditions of the Master Indenture, intended to place Parity Obligations or the applicable investments on the interest rate, currency, cash flow or other basis desired by the City, including, without limitation,

any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure, between the City and a counterparty.

“Rate Stabilization Fund” means the Rate Stabilization Fund established pursuant to the Master Indenture.

“Rating Agency” means, on any given date, any nationally recognized rating agency designated by the City which then has outstanding a credit rating on the Bonds (or other obligations to which reference is made in the Master Indenture).

“Rebate Fund” means the fund by that name established pursuant to the Master Indenture.

“Record Date” means with respect to a Series of Bonds the meaning set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

“Refunding Bonds” means Bonds issued in accordance with the terms and conditions of the Master Indenture for the purposes, and satisfying the conditions of the Master Indenture.

“Refunding Parity Obligations” means Parity Obligations, including Refunding Bonds, issued for the refunding purposes set forth in the Master Indenture and satisfying the conditions set forth in the Master Indenture.

“Responsible Officer” of the Trustee means and includes the president, every vice president, every assistant vice president, every trust officer, and every officer and assistant officer of the Trustee other than those specifically above mentioned, to whom any corporate trust matter is referred because of his knowledge of, and familiarity with, a particular subject.

“Revenues” means all charges received for, and all other income and receipts derived by the City from the ownership and operation of the Sewer Enterprise or arising from the Sewer Enterprise, including the proceeds of any Federal Subsidy and all rates, fees, and user charges received by the City for Sewer Service and all connection charges, impact fees, standby charges or similar fees or charges relating to the Sewer Enterprise (including without limitation all charges received from other public agencies pursuant to contracts with the City for Sewer Services), together with any receipts derived from the sale of any property pertaining to the Sewer Enterprise or incidental to the operation of the Sewer Enterprise, together with all interest, profits and other income derived from the investment of moneys in any fund or account established under the Master Indenture (other than the Rebate Fund), but exclusive of any moneys derived from refundable deposits made to establish credit and advances, or contributions in aid of construction, or other payments of a similar nature.

“Second Supplemental Indenture” means the Second Supplemental Indenture, as executed by the City and the Trustee in accordance with the Master Indenture, and which is supplemental to the Master Indenture.

“Serial Bonds” means Bonds that are Serial Obligations.

“Serial Obligations” means Obligations for which no Sinking Fund Installments are established.

“Serial Parity Obligations” means Serial Obligations that are Parity Obligations.

"Series" means Obligations issued at the same time or sharing some other common term or characteristic and designated in the Issuing Instrument pursuant to which such Obligations were issued as a separate issue or series of Obligations.

"Sewer Enterprise" means the whole and each and every part of the existing sewer system of the City comprising all facilities for the collection, treatment and disposal of sewage, waste and storm water and the operation of a water quality control plant, together with all additions, betterments, extensions and improvements thereto or any part thereof subsequently acquired or constructed.

“Sewer Revenue Fund” means the fund by that name established pursuant to the Master Indenture.

"Sewer Service" means the water reclamation and sewage collection, treatment, and disposal service made available or provided by the Sewer Enterprise.

"SIFMA Index" means The Securities Industry and Financial Markets Association Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, Tax-Exempt variable rate demand notes produced by Municipal Market Data, or its successor, or as otherwise designated by The Securities Industry and Financial Markets Association, provided, however, that, if such index is no longer produced by Municipal Market Data, or its successors, then "SIFMA Index" shall mean such other reasonably comparable index selected by the City.

“Sinking Accounts” means the accounts in the Principal Fund so designated and established pursuant to the Master Indenture.

“Sinking Fund Installment” means, with respect to any Term Parity Obligations, each amount so designated for such Term Parity Obligations in the Issuing Instrument authorizing the issuance of such Parity Obligations requiring payments by the City from the Sewer Revenue Fund to be applied to the retirement of such Parity Obligations on and prior to the stated maturity date thereof.

"State" means the State of California.

"Subordinated Obligation" means any Obligation which is expressly made subordinate and junior in right of payment from the Sewer Revenue Fund to the payment of Parity Obligations and which complies with the provisions of the Master Indenture.

“Subseries” means, with respect to any Series of Bonds, a portion of the Bonds of such Series identified as a Subseries in the Supplemental Indenture authorizing such Series or the Delivery Certificate relating to such Series or Subseries, which Bonds may bear interest at a different rate or based on a different interest rate determination method or otherwise have terms and conditions which vary from other Bonds of such Series, all to the extent provided in or authorized by the Supplemental Indenture authorizing such Series of Bonds.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Master Indenture as theretofore in effect, executed and delivered by the City in accordance with the Master Indenture.

"Tax Certificate" means the certificate signed by the City on the date any Series of Bonds are issued relating to the requirements of the Code.

"Tax-Exempt" means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from the gross income of the holders thereof (other than any holder who is a "substantial user" of facilities financed with such obligations or a "related person" within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

"Tax-Exempt Securities" means bonds, notes or other securities the interest on which is Tax-Exempt.

"Tender Indebtedness" means any Parity Obligations or portions of Parity Obligations, a feature of which is an option or obligation, on the part of the owners thereof under the terms of such Parity Obligations, to tender all or a portion of such Parity Obligations to the City, a trustee, a fiscal agent, a paying agent, a tender agent or other agent for purchase and requiring that such Parity Obligations or portions thereof be purchased at the applicable purchase price if properly presented.

"Term Bonds" means Bonds that are Term Obligations.

"Term Obligations" means Obligations that are payable on or before their specified maturity dates from Sinking Fund Installments established for that purpose and calculated to retire such Obligations on or before their specified maturity dates.

"Term Parity Obligations" means Term Obligations that are Parity Obligations.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., as trustee or as authenticating agent or its successor as Trustee under the Master Indenture as provided therein.

"Variable Rate Indebtedness" means any portion of indebtedness evidenced by Parity Obligations the interest rate on which is not established at the time of incurrence of such indebtedness and has not, at some subsequent date, been established at a rate which is not subject to fluctuation or subsequent adjustment, excluding Paired Obligations.

"2011 Bonds" means the City of San Mateo Sewer Revenue Bonds, 2011 Series A.

"2011 Bond Reserve Fund" means the fund by that name established pursuant to the Master Indenture. **Moneys in the 2011 Bond Reserve Fund are not available to pay debt service on the 2014 Bonds.**

"2011 Bond Reserve Fund Requirement" means, as of any date of calculation, an amount equal to one-half of the following amount, namely, the lesser of: (i) Maximum Annual Debt Service on all 2011 Bonds then Outstanding and any other Bonds secured by the 2011

Bond Reserve Fund then Outstanding; and (ii) 125% of average annual Debt Service on the 2011 Bonds then Outstanding and any other Bonds secured by the 2011 Bond Reserve Fund then Outstanding.

“2011 Bonds” means the City of San Mateo Sewer Revenue Bonds, 2011 Series A, in the aggregate principal amount of \$31,990,000 that are Outstanding on the date of execution and delivery of the Master Indenture and were originally authorized to be issued under the First Amended and Restated Master Indenture.

"2014 Bonds" means the City of San Mateo Sewer Revenue Bonds, 2014 Series A, issued on July 2, 2014 in the initial aggregate principal amount of \$32,255,000.

“2014 Series A Capital Improvement Fund” means the fund by that name established pursuant to the Supplemental Indenture.

Pledge of Net Revenues

All Net Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Master Indenture (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest on and principal of the Bonds as provided in the Master Indenture; provided, however, that out of the Net Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Master Indenture. The pledge shall constitute a pledge of and charge and lien upon the Net Revenues, which pledge and lien upon the Net Revenues is on a parity with any pledge and lien of Parity Obligations, and all other moneys on deposit in the funds and accounts established under the Master Indenture (other than amounts on deposit in the Rebate Fund) for the payment of the interest on and principal of the Bonds in accordance with the terms of the Master Indenture and thereof.

Establishment of Funds and Accounts; Flow of Funds

The Master Indenture and/or the Second Supplemental Indenture establishes the following funds and accounts, among others: (1) the Sewer Revenue Fund, (2) the Interest Fund, (3) the Principal Fund, (4) the 2011 Bond Reserve Fund, (5) the 2014 Series A Sinking Account, (6) the 2003 Bonds Optional Redemption Fund, (7) the 2014 Series A Capital Improvement Fund, (8) Rate Stabilization Fund, and (9) the Rebate Fund.

Receipt and Deposit of Revenues in the Sewer Revenue Fund

The City agrees and covenants that all Revenues received by it shall be deposited when and as received in the City of San Mateo Sewer Revenue Fund which fund the City agrees and covenants to maintain so long as Bonds shall be Outstanding, and all money on deposit in the Sewer Revenue Fund shall be applied and used only as provided in the Master Indenture, and shall be accounted for separate and apart from all other moneys, funds or other resources of the City. The City may, to the extent provided in the Master Indenture, transfer amounts in the Sewer Revenue Fund to the Rate Stabilization Fund or from the Rate Stabilization Fund to the Sewer Revenue Fund.

Investment of Moneys in Funds

All moneys in any of the funds and accounts established pursuant to the Master Indenture and held by the Trustee shall be invested by the Trustee in Investment Securities as directed by the City. The Trustee shall only invest funds under the Master Indenture in accordance with directions from the City and shall have no liability whatsoever with respect to the selection of such investments by the City. In the absence of written directions by the City, the Trustee is directed to invest available funds in Investment Securities described in paragraph (7) of the definition thereof; 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 direction by the City specifying a specific money market fund and, if no such written instruction of the City is so received, the Trustee shall hold such moneys uninvested.

Subject to certain conditions of the Master Indenture and except as provided in a Supplemental Indenture, all interest, profits and other income received from the investment of moneys in any fund or account shall be transferred to the Sewer Revenue Fund. For the purpose of determining the amount in any such fund or account, all Investment Securities credited to such fund or account shall be valued at market value or as otherwise provided in a Supplemental Indenture. In making any valuations under the Master Indenture, the Trustee may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Master Indenture.

Rebate Fund

The Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Master Indenture designated the Rebate Fund. The City shall cause to be deposited in the Rebate Fund the rebate requirement as provided in the Tax Certificate for each Series of Tax-Exempt Bonds. Subject to the provisions of the Master Indenture, moneys held in the Rebate Fund are pledged to secure payments to the United States government, and the City and the owners shall have no rights in or claim to such moneys. The Trustee shall invest all amounts held in the Rebate Fund in accordance with directions from the City.

Upon receipt of the rebate instructions required to be delivered to the Trustee by the Tax Certificate, the Trustee shall remit part or all of the balance held in the Rebate Fund to the United States government as so directed. In addition, if the rebate instructions so direct, the Trustee shall deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as the rebate instructions direct.

The Trustee shall conclusively be deemed to have complied with the provisions of the Master Indenture if it follows the directions of the City set forth in the rebate instructions and shall not be required to take any actions under the Master Indenture in the absence of rebate instructions from the City. The Trustee may rely conclusively upon the City's determinations, calculations and certifications required by the Master Indenture. The Trustee shall have no

responsibility to independently make any calculation or determination or to review the City's calculations thereunder.

Notwithstanding any of the above provisions, if the City shall provide to the Trustee any Opinion of Counsel that any specified action required under the Master Indenture is no longer required or that some further or different action is required to maintain the exclusion of interest on the Series of Bonds from gross income for federal income tax purposes, the Trustee and the City may conclusively rely on such opinion in complying with the requirements of the Master Indenture, and the covenants under the Master Indenture shall be deemed to be modified to that extent.

Certain Covenants of the City

Amount of Rates, Fees and Charges. The City will at all times fix, prescribe and collect rates and charges for the Sewer Service during each Fiscal Year which will be at least sufficient to yield: (a) Net Revenues for such Fiscal Year at least equal to 120% of Debt Service on Parity Obligations for such Fiscal Year and (b) Net Revenues equal to 100% of Debt Service on all Parity Obligations plus debt service on all Subordinated Obligations for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements described in this paragraph. The City will increase such rates, fees and charges whenever necessary to produce Net Revenues sufficient to meet the requirements described in this paragraph and any Supplemental Indenture.

No Prior Lien. The City shall not issue any Obligation which has a lien on Net Revenues which is senior to the lien of the Master Indenture.

Sale of Sewer Enterprise. The Sewer Enterprise shall not be sold or otherwise disposed of, as a whole or substantially as a whole, unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Sewer Revenue Fund sufficient in amount to permit payment therefrom when due, at maturity or upon redemption, of the principal of, premiums, if any, and interest on all Outstanding Bonds, or to provide for a continuance of payments sufficient for such purposes into some other fund charged with the payment of such principal, interest and premiums.

Audits. The City will cause the books and accounts of the Sewer Enterprise, including the Sewer Revenue Fund, to be audited annually by Independent Certified Public Accountants (which audit may be part of the City's comprehensive annual financial report) and will make available for inspection by the Owners of the Outstanding Bonds, at the Principal Office of the Trustee, a copy of the report of such accountants and will also furnish a copy thereof, upon request, to any Owner of an Outstanding Bond.

Maintenance and Operation of the Sewer Enterprise. The City will cause the Sewer Enterprise to be maintained in good repair, working order and condition at all times, and will continuously operate the Sewer Enterprise in an efficient and economical manner, and so that all lawful orders of any governmental agency or authority having jurisdiction in the premises shall be complied with, but the City shall not be required to comply with any such orders so long as the validity or application thereof shall be contested in good faith or the failure to comply will not have a material adverse effect on the operation or financial condition of the Sewer Enterprise. The City further covenants and agrees that it will at all times maintain and comply

with all necessary permits and licenses issued by governmental authorities having jurisdiction unless the lawful requirement thereof is being contested in good faith or the failure to comply will not have a material adverse effect on the operation or financial condition of the Sewer Enterprise.

Payment of Taxes and Claims. The City will, from time to time, duly pay and discharge, or cause to be paid and discharged, any taxes, assessments or other governmental charges lawfully imposed upon the Sewer Enterprise or upon the Revenues when the same shall become due (except to the extent such charges may be contested in good faith).

Compliance with Master Indenture, Contracts, Laws and Regulations. The City shall faithfully observe and perform all the covenants, conditions and requirements of the Master Indenture, shall not issue any Bonds or Obligations in any manner other than in accordance with the Master Indenture, and shall not suffer or permit any default to occur under the Master Indenture, or do or permit to be done, anything that might in any way weaken, diminish or impair the security intended to be given pursuant to the Master Indenture. Subject to the limitations and consistent with the covenants, conditions and requirements contained in the Master Indenture, the City and the Trustee shall comply with the terms, covenants and provisions of all contracts concerning or affecting the application of proceeds of Bonds or the Revenues.

Continuing Disclosure. Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, the City and the Trustee covenant and agree that the City will comply with and carry out all of the provisions of the Continuing Disclosure Agreement executed and delivered in connection with such Series of Bonds and applicable to them. Notwithstanding any other provision of the Master Indenture, failure of the City or the Trustee (if applicable) to comply with the provisions of any Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee at the written request of any Participating Underwriter or the Holders of at least 50% aggregate principal amount of any Series of Bonds then Outstanding, shall, but only to the extent it has been indemnified to its satisfaction from any loss, liability, cost, claim or expense whatsoever, including, without limitation, fees and expenses of its attorneys, or any Holder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Trustee, as the case may be, to comply with its obligations described in this paragraph.

Additional Bonds

One or more Series of Additional Bonds may be issued, authenticated and delivered upon original issuance for the purpose of paying all or a portion of the costs of the Sewer Enterprise, including, without limitation, the financing of all or a part of the cost of acquisition and construction of any additions to or improvements of the Sewer Enterprise.

The Master Indenture establishes certain conditions for the issuance of Additional Bonds, including the following:

(1) An Opinion of Bond Counsel, dated the date of the initial delivery of the Additional Bonds, to the effect that this Master Indenture, and the Supplemental Indenture authorizing the issuance of such Series of Bonds, are valid obligations of the City.

(2) The City must have delivered to the Trustee a certificate prepared by the City or at the City's option by a Consultant, showing that:

(a) Net Revenues for the applicable Calculation Period shall have amounted to at least 1.20 times the Maximum Annual Debt Service on all Parity Obligations to be Outstanding immediately after the issuance of the proposed Additional Bonds, or

(b) estimated Net Revenues for each of the five full Fiscal Years beginning with the first full Fiscal Year following the issuance of the proposed Additional Bonds is at least equal to 1.20 times the Debt Service scheduled to be paid in each Fiscal Year on all Parity Obligations to be Outstanding immediately after the issuance of the proposed Additional Bonds.

For purposes of calculating either of the coverage tests, the proceeds of the Federal Subsidy, if any, received by the City will not be included in Net Revenues and will be subtracted from the amount of interest payable in calculating Debt Service.

For purposes of preparing the certificate or certificates described above, the City and any Consultant may rely upon the books and records of the City or any financial statements prepared by the City which have not been subject to audit by an Independent Certified Public Accountant if audited financial statements for the particular Calculation Period selected by the City are not available.

(3) The Supplemental Indenture providing for issuance of the Additional Bonds shall provide for:

(a) a deposit into an existing reserve account, including but not limited to the 2011 Bond Reserve Fund, in an amount sufficient to satisfy the funding requirements of such reserve account and that such Series of Bonds shall have an interest in and claim to such reserve account but to no other reserve account;

(b) a deposit into a reserve account for the Bonds (and such other series of Bonds identified by the City) in an amount defined in such Supplemental Indenture, as long as such Supplemental Indenture expressly declares that the Owners of such Bonds will have no interest in or claim to the 2011 Bond Reserve Fund and that the Owners of the Bonds covered by the 2011 Bond Reserve Fund will have no interest in or claim to such other reserve account; or

(c) no deposit to either the 2011 Bond Reserve Fund or another reserve account as long as such Supplemental Indenture expressly declares that the Owners of such Bonds will have no interest in or claim to the 2011 Bond Reserve Fund or any other reserve account;

(4) With respect to any Refunding Bonds, the Trustee shall have received an Opinion of Bond Counsel to the effect that the Additional Bonds (or the portion thereof) to be refunded are deemed paid pursuant to the Issuing Instrument authorizing the refunded obligations.

Refunding Bonds

One or more Series of Refunding Bonds may be issued, authenticated and delivered upon original issuance for the purpose of refunding all or any portion of the Outstanding Parity Obligations. Refunding Bonds may be issued in a principal amount sufficient to accomplish such refunding including providing amounts for the Costs of Issuance of such Refunding Bonds, and

the making of any deposits into the funds and accounts required by the provisions of the applicable Bond Indenture.

The City is not required to deliver a certificate showing debt service coverage, but must deliver an Opinion of Bond Counsel to the effect that the Parity Obligations to be refunded are deemed paid pursuant to the Issuing Instrument authorizing such Parity Obligations.

Events of Default

The following events are Events of Default under the Master Indenture:

(a) default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as expressed in the Bonds, by proceedings for redemption, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable; or

(c) default by the City in the observance of any of the covenants, agreements or conditions on its part of the Master Indenture or in the Bonds contained, other than a default described in (a) or (b) above, and continuance of such default for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City by the Trustee, or to the City and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding.

(d) if the City files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(e) if a court of competent jurisdiction shall enter an order, judgment or decree declaring the City an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the City, or approving a petition filed against the City seeking reorganization of the City under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof; or

(f) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City, and such custody or control shall not be terminated within 60 days from the date of assumption of such custody or control.

Acceleration of Maturities

If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the request of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding shall, upon notice in writing to the City, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such

declaration the same shall become and shall be immediately due and payable, anything in the Master Indenture or in the Bonds contained to the contrary notwithstanding. The Trustee shall immediately give notice of such declaration to Bondholders, in the same manner that notices of redemption are given, specifying the date of such declaration, that as of the Business Day immediately following such declaration the Bonds shall cease to bear interest; and that all principal of and interest on the Bonds to the Business Day immediately following such declaration of acceleration shall be payable upon the surrender thereof at the principal office of the Trustee.

Application of Net Revenues and Other Funds After Default

If an Event of Default shall occur, then, and in every such case during the continuance of such Event of Default, all Net Revenues shall be applied as set forth in the Master Indenture, and any moneys then held or thereafter received by the Trustee under any of the provisions of the Master Indenture, shall be applied by the Trustee as follows and in the following order:

- (i) To the payment of any compensation and expenses as due to the Trustee under the Master Indenture;
- (ii) To the payment of the principal of and interest then due on the Bonds as follows:
 - (A) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

(B) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over the principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

Trustee to Represent Bondholders

The Trustee is attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds and the Master Indenture, as well as under applicable provisions of any other law.

Bondholders' Direction of Proceedings

The Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee under the Master Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Master Indenture, that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction and the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Master Indenture at the request or direction of any of the Holders pursuant to the Master Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

Limitation on Bondholders' Right to Sue

No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Master Indenture or any applicable law with respect to such Bond, unless: (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Master Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) 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; and (5) the Trustee shall not have received contrary directions from the Holders of a majority of the Bonds then Outstanding.

Limited Obligation of the City

Nothing in the Master Indenture or in the Bonds shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal of, premium, if any, and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as in the Master Indenture provided, but only out of the Net Revenues in the Master Indenture pledged therefor, or affect or impair the right of such Holders, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

The Trustee

There shall at all times be a trustee under the Master Indenture which shall be a bank, national banking association or corporation organized and doing business under the laws of the

United States or the State of California, authorized under such laws to exercise corporate trust powers, having its corporate trust office and place of business in San Francisco, California, having a combined capital and surplus of at least one hundred million dollars (\$100,000,000), and subject to supervision or examination by federal or state authority. If such bank, national banking association or corporation publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Master Indenture the combined capital and surplus shall be as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the Master Indenture, the Trustee shall resign upon written notice from the City or a Bondholder in the manner and with the effect specified in the Master Indenture.

The Trustee may at any time resign by giving 30 days written notice to the City and by giving to the Bondholders notice by mail, first class postage prepaid, at the addresses of the owners set forth on the registration books of the Trustee. Upon receiving such notice of resignation, the City shall promptly appoint a successor trustee by an instrument in writing. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the receipt by the City of such notice of resignation, the resigning trustee at the expense of the City may petition any court of competent jurisdiction for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

The City may in its sole and absolute discretion remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the Master Indenture, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of the Master Indenture shall become effective upon acceptance of appointment by the successor trustee as provided in the Master Indenture.

Modification of Master Indenture

The City and the Trustee from time to time and at any time, subject to the conditions and restrictions contained in the Master Indenture, may enter into an indenture or indentures supplemental to the Master Indenture, which indenture or indentures thereafter shall form a part of the Master Indenture, for any one or more or all of the following purposes --

- (a) to add to the covenants and agreements of the City in the Master Indenture contained, other covenants and agreements thereafter to be observed, or to surrender any right or power in the Master Indenture reserved to or conferred upon the City;

(b) to evidence the succession of another corporation, whether public or private, to the City, or successive successions, and the assumption by a successor corporation of the covenants and obligations of the City in the Bonds and in the Master Indenture contained;

(c) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Master Indenture, or in regard to any matters or any questions arising under the Master Indenture, as the City may deem necessary or desirable and not inconsistent with the Master Indenture, and which shall not materially adversely affect the interests of the owners of the Bonds;

(d) to conform to the terms and conditions of the Issuing Instrument for Additional Parity Obligations, provided such modification shall not materially adversely affect the interests of the owners of the Bonds;

(e) to make any changes necessary or convenient to provide for the issuance of a Series of Bonds pursuant to the provisions of the Master Indenture including any changes necessary or convenient in connection with the establishment of an interest rate mode, tender and purchase provisions;

(f) to make any changes required by a Rating Agency in order to obtain or maintain a rating for any Series of Bonds; or

(g) to modify, alter, amend or supplement the Master Indenture in any other respect desired by the City which is not materially adverse to the Holders.

Any Supplemental Indenture authorized by the provisions of the Master Indenture may be executed by the City and the Trustee without the consent of the owners of any of the Bonds at the time outstanding but the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Master Indenture or otherwise.

With the consent (evidenced as provided in the Master Indenture) of the owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, the City and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental to the Master Indenture for the purpose of adding any provisions to, or changing in any manner, or eliminating any of the provisions of, the Master Indenture or of any Supplemental Indenture; provided, however, that no such Supplemental Indenture shall (1) extend the stated maturity of the Bonds or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption of the Master Indenture, without the consent of the owner of each Bond so affected, or (2) reduce the aforesaid percentage of owners of Bonds required to approve any such Supplemental Indenture, without the consent of the owners of all Bonds then outstanding. Upon receipt by the Trustee of a Certificate of the City authorizing the execution of any such Supplemental Indenture, and upon the filing with the Trustee of evidence of the consent of Bondholders, the Trustee shall join with the City in the execution of such Supplemental Indenture unless such Supplemental Indenture affects the Trustee's own rights, duties or immunities under the Master Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obliged to, enter into such Supplemental Indenture. The written consent of the Owners of a Series of Bonds may be effected (1) through a consent by the

underwriter of such Series of Bonds at the time of the issuance of such Series of Bonds and (2) through a provision of a Supplemental Indenture that deems any Owners purchasing such Series of Bonds to consent for purposes of this Section by virtue of its purchase of such Series of Bonds.

It shall not be necessary for the consent of the Bondholders to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Defeasance

Bonds may be paid by the City in any of the following ways provided that the City also pays or causes to be paid any other sums payable under the Master Indenture by the City and related to the Bonds:

- (a) by paying or causing to be paid the principal, and interest on Outstanding Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as described in “Deposit of Money or Securities with Trustee” below) to pay or redeem Outstanding Bonds; or
- (c) by delivering to the Trustee, for cancellation by it, Outstanding Bonds.

If the City shall pay all Bonds Outstanding and shall also pay or cause to be paid all other sums payable under the Master Indenture by the City, then and in that case, at the election of the City (evidenced by a Certificate of the City, filed with the Trustee, signifying the intention of the City to discharge all such indebtedness and the Master Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Master Indenture and the pledge of Net Revenues and other assets made under the Master Indenture and all covenants, agreements and other obligations of the City under the Master Indenture shall cease, terminate, become void and be completely discharged and satisfied, except only as described in “Discharge of Liability on Bonds” and except for the obligation of the City to pay any amounts under and to otherwise satisfy all of its obligations to the Trustee under the Master Indenture. In such event, upon Request of the City, the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee and any paying agent shall pay over, transfer, assign or deliver to the City all moneys or securities or other property held by them pursuant to the Master Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Discharge of Liability on Bonds

Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Master Indenture then all liability of the City in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the owner thereof shall be entitled only to payment of the principal of and interest on such Bond by the City, and the City shall remain

liable for such payment, but only out of such money or securities deposited with the Trustee for such purpose.

Deposit of Money or Securities with Trustee

Whenever in the Master Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Master Indenture and shall be--

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds, premium, if any, and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Master Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal, premium, if any, and all unpaid interest thereon to the redemption date; or

(b) Defeasance Obligations the principal of and interest on which when due will provide money sufficient to pay the principal, premium, if any, and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal, premium, if any, and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Master Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Master Indenture or by Request of the City) to apply such money to the payment of such principal and interest with respect to such Bonds; and provided further, in each case that is not either (i) a current refunding (i.e., when such Bonds shall be retired within 90 days of the deposit of such moneys or Defeasance Obligations pursuant to this section); or (ii) a gross defeasance (i.e., when the full amount of money or Defeasance Obligations necessary to pay or redeem any such Bonds is initially deposited with the Trustee pursuant to this section), then at the time of deposit of such money or Defeasance Obligations the City shall also file with the Trustee either: (A) a report of an independent certified public accountant (or other independent financial consulting firm selected by the City) confirming that such deposit of moneys or Defeasance Obligations, together with the principal and interest thereon, shall be fully sufficient to pay the principal, premium, if any, and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal, premium, if any, and interest become due; or (B) an Opinion of Bond Counsel to the effect that all liability of the City in respect of such Bonds has ceased, terminated and been completely discharged in accordance with the Master Indenture.

THE SECOND SUPPLEMENTAL INDENTURE

Tax Covenants

Private Activity Bond Limitation. The City will assure that the proceeds of the 2014 Bonds are not so used as to cause the 2014 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.

Federal Guarantee Prohibition. The City will not take any action or permit or suffer any action to be taken if the result of such action would be to cause any of the 2014 Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

Rebate Requirement. The City will take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the 2014 Bonds.

No Arbitrage. The City will not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the 2014 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 2014 Bonds would have caused the 2014 Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

Maintenance of Tax-Exemption. The City will take all actions necessary to assure the exclusion of interest on the 2014 Bonds from the gross income of the Owners of the 2014 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 2014 Bonds.

Record Retention. The City will retain its records of all accounting and monitoring it carries out with respect to the 2014 Bonds for at least three years after the 2014 Bonds mature or are redeemed (whichever is earlier); however, if the 2014 Bonds are redeemed and refunded, the City will retain its records of accounting and monitoring at least three years after the earlier of the maturity or redemption of the obligations that refunded the 2014 Bonds.

Compliance with Tax Certificate. The City will comply with the provisions of the Tax Certificate and the Use of Proceeds Certificate with respect to the 2014 Bonds, which are incorporated herein as if fully set forth herein.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the “Disclosure Certificate”) is executed and delivered by the CITY OF SAN MATEO (the “City”) in connection with the issuance of \$32,255,000 City of San Mateo Sewer Revenue Bonds, 2014 Series A (the “2014 Bonds”). The 2014 Bonds are being issued under the provisions of sections 3, 5 and 7 of Article XI of the California Constitution, Sections 1.03, 5.23 and 9.06 of the City Charter of the City, City of San Mateo Ordinance No. 1989-23, a second amended and restated indenture of trust, dated as of July 1, 2014 (the “Master Indenture”), between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), a second supplemental indenture, dated as of July 1, 2014 (the “Second Supplemental Indenture” and, with the Master Indenture, the “Indenture”), between the City and the Trustee, and a resolution adopted by the City Council of the City. Pursuant to Section 6.12 of the Indenture, the City 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 City 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 2014 Bonds (including persons holding 2014 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2014 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 City and which has filed with the City a written acceptance of such designation. In the absence of such a designation, the City shall act as the Dissemination Agent.

“*EMMA*” or “*Electronic Municipal Market Access*” means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

“*Listed Events*” 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 2014 Bonds required to comply with the Rule in connection with offering of the 2014 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 City for the benefit of the owners and Beneficial Owners of the 2014 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 City shall, or shall cause the Dissemination Agent to, not later than March 31 after the end of the City’s fiscal year (which currently ends on June 30), commencing with the report for the 2013-14 Fiscal Year, which is due not later than March 31, 2015, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance.* If the City is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the City shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the City is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

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

(a) *Financial Statements.* Audited financial statements of the City for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the City, the Annual Report shall also include financial and operating data with respect to the City for preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statement for the 2014 Bonds, as follows:

- (i) Principal amount of each series of Bonds and any Parity Obligations outstanding;
- (ii) Total actual Maintenance and Operation Costs incurred in connection with the Sewer Enterprise during the subject fiscal year;
- (iii) Total actual Revenues and Net Revenues generated by the Sewer Enterprise during the subject fiscal year, the total debt service on the outstanding Bonds and any Parity Obligations for such fiscal year and the debt service coverage ratio;
- (iv) Updated information with respect to the following tables in the Official Statement for the 2014 Bonds:
 - (A) Table 4—Sewer Enterprise—Service Area—Average Flow and Accounts of the Subregional Partners, and
 - (B) Table 6—Sewer Enterprise Service—City Largest Users;
- (v) Status of any significant legislative, administrative and judicial challengers to the construction or operation of the Sewer Enterprise known to the City; and
- (vi) Status of any claim against the Sewer Enterprise regarding construction of any projects of the Sewer Enterprise.

(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 City or related public entities, which are available to the public on EMMA. The City shall clearly identify each such other document so included by reference.

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 City shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The City shall, or shall cause the Dissemination Agent (if not the City) to, give notice of the occurrence of any of the following events with respect to the 2014 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 City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2014 Bonds, if material:

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.

- (4) The release, substitution, or sale of property securing repayment of the securities.
- (5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
- (6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* The City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of any Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected 2014 Bonds under the Indenture.

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

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the 2014 Bonds. If such termination occurs prior to the final maturity of the 2014 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the City. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the City shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the City.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the City from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the City or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the City. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent.* In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent agrees, to provide a request to the City to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the City under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the City that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2014 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 2014 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 City shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition,

if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Indenture. The obligations of the City under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the 2014 Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the 2014 Bonds, and shall create no rights in any other person or entity.

Date: July 2, 2014

CITY OF SAN MATEO

By _____
David Culver
Finance Director

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: City of San Mateo

Name of Issue: \$32,255,000 City of San Mateo Sewer Revenue Bonds, 2014 Series A

Date of Issuance: July 2, 2014

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 July 2, 2014, 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

By _____
Authorized Officer

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX E
FORM OF BOND COUNSEL OPINION

July 2, 2014

City of San Mateo
330 West 20th Avenue
San Mateo, California 94403-1388

OPINION: \$32,255,000 City of San Mateo Sewer Revenue Bonds, 2014 Series A

Members of the Council:

We have acted as bond counsel to the City of San Mateo (the "City") in connection with its issuance of the \$32,255,000 City of San Mateo Sewer Revenue Bonds, 2014 Series A (the "Bonds"), pursuant to Sections 3, 5 and 7 of Article XI of the California Constitution, Section 5.23 of the Charter of the City, Ordinance No. 1989-23, a Second Amended and Restated Master Indenture, dated as of July 1, 2014, by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee, as supplemented, including a Second Supplemental Indenture, dated as of July 1, 2014 (collectively, the "Indenture") by and between the City and Trustee, and a resolution of the City Council of the City (the "Resolution") adopted on May 19, 2014. 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 City contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

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

1. The City is duly created and validly existing as a municipal corporation and chartered law city 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 City, and constitutes a valid and binding obligation of the City, enforceable upon the City in accordance with its terms.

3. The Indenture creates a valid lien on the Net Revenues and other moneys pledged by the Indenture for the security of the Bonds.

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

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

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

The rights of the owners of the Bonds, and the enforceability of the Bonds and the Indenture, may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, and may also be subject to the exercise of judicial discretion in appropriate cases. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

APPENDIX F
CITY INVESTMENT POLICY

(THIS PAGE INTENTIONALLY LEFT BLANK)

INVESTMENT POLICY

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

I. SCOPE AND AUTHORITY

In accordance with Article 4.10 of the Charter of the City of San Mateo, (the City) the Finance Director/City Treasurer is responsible for investing the unexpended cash of the City of San Mateo and the Successor Agency to the Redevelopment Agency of the City of San Mateo (the Successor Agency). The authority governing investments for municipal governments is set forth in the California Government Code, Sections 53600 through 53659.

This Investment Policy (the Policy) applies to all the investment activities of the City and the Successor Agency, except for the employees' retirement funds that are administered separately. The Policy will also apply to all other funds under the Finance Director/City Treasurer's span of control unless specifically exempted by statute or ordinance. All the invested financial assets are accounted for in the City's fund accounting system which includes: General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Debt Service Funds, Internal Service Funds and Trust and Agency Funds.

One exception does exist regarding the investment of bond reserve and project construction funds, or cash held by the fiscal agent or bond trustee. If in the opinion of the Finance Director/City Treasurer matching the segregated investment portfolio of the bond reserve funds with the maturity schedule of an individual bond issue is prudent given current economic analysis, this Policy authorizes extending beyond the five-year maturity limitation, as outlined herein. The City Council may, as part of a bond issuance, direct or authorize staff to invest bond reserve and project funds in investment instruments authorized in the bond documents, as prescribed in Section 53601(1) of the California Government Code .

All cash, except those funds held by the fiscal agent, shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance. Investment income shall be distributed to the individual funds not less than annually.

II. OBJECTIVES

City and Successor Agency funds shall be invested in accordance with all applicable City policies and codes, State statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

A. Safety of principal

The City shall seek to preserve principal by mitigating credit risk and market risk, as defined below:

1. "Credit Risk" - the risk of loss due to failure of the issuer of a security or the diminished quality of its rating.

Credit risk shall be mitigated by investing in only very safe securities, and by diversifying the investment portfolio.

2. "Market Risk" - the risk of market value fluctuations due to overall changes in the general level of interest rates.

Market risk shall be mitigated by limiting the average maturity of the City's portfolio to three years and the maximum maturity of any one security in the portfolio to five years. The portfolio shall be structured with an adequate mix of highly liquid securities and maturities to meet major cash outflow requirements.

Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value.

B. Liquidity Standard

To ensure sufficient liquidity in order to meet anticipated cash flows, 25% of the market value of the portfolio shall be invested in liquid securities or deposits with a remaining maturity of six months or less.

C. Return on investment

The City's investment portfolio shall be structured to attain a market-average rate of return through economic cycles.

III. DELEGATION OF AUTHORITY

In accordance with the City Charter, the City Manager delegates his/her authority over investment activities to the Finance Director/City Treasurer, who may further delegate the responsibility of day-to-day treasury activities and investment of City funds to the Deputy Finance Director or other specifically authorized staff members. No person may engage in an investment transaction except as expressly provided under the terms of this Policy.

The City may delegate its investment authority to an investment adviser registered under the Investment Advisers Act of 1940, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources. The adviser shall follow this Policy and such other written instructions as provided. Such delegation is subject to City review and overriding discretion which will be exercised as needed.

IV. INTERNAL CONTROLS

The Finance Director/City Treasurer has established a system of internal controls to ensure compliance with the investment policies and procedures of the City, the Successor Agency,

and the California Government Code. Such controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees of the City. Investment decisions are made by the Director of Finance/City Treasurer, or his/her designee, and executed and confirmed by senior level finance staff. All wire transfers initiated by senior level finance staff must be approved by and transmitted by the Director of Finance/City Treasurer, or his/her designee, and reconfirmed by the appropriate financial institution to the senior finance staff. Proper documentation obtained from confirmation and cash disbursement wire transfers is required for each investment transaction. Timely bank reconciliation is conducted to ensure proper handling of all transactions.

The investment portfolio and all related transactions are reviewed and balanced to appropriate general ledger accounts by senior finance staff on a monthly basis. An independent analysis by an external auditor shall be conducted annually to review and perform procedure testing on the City's cash and investments that have a material impact on the financial statements. The Director of Finance/City Treasurer shall review and assure compliance with investment process and procedures.

V. ETHICS AND CONFLICT OF INTEREST

In accordance with California Government Code Sections 1090 et seq. and 87100 et seq., officers and employees of the City will refrain from any activity that could conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decision and all investment personnel shall subordinate their personal investment transactions to those of the City. In addition, City Council members and the Finance Director/City Manager shall comply with the reporting requirements of California Government Code Section 87203 and regulations of the Fair Political Practices Commission and file a Statement of Economic Interest annually.

VI. PRUDENT PERSON STANDARD

The standard of prudence to be used for managing the City's investments shall be California Government Code Section 53600.3, the prudent investor standard, which states that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The City recognizes that market prices of securities will vary depending on economic and interest rate conditions at any point in time. It is further recognized, that in a well diversified investment portfolio, occasional measured losses may occur due to economic, bond market, or individual security credit analysis. These occasional declines in value must be considered within the context of the overall investment program objectives and the resultant long-term rate of return.

The Finance Director/City Treasurer and other individuals assigned to manage the investment portfolio, acting within the intent and scope of this Policy and other written procedures and exercising due diligence, shall be relieved of personal responsibility and liability for an individual security's credit risk or market price changes, provided deviations

from expectations are reported in a timely manner and appropriate action is taken to control adverse developments.

VII. AUTHORIZED INVESTMENTS

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1, 53600-53609, and 53630-53686. Any amendments to these code sections will be assumed to be part of this Policy immediately upon being enacted. However, in the event that such amendments conflict with this Policy and past City investment practices, the City may delay adherence to the new requirements when it is deemed in the best interest of the City to do so. In such instances, after consultation with the City's attorney, the Finance Director/ City Treasurer will present a recommended course of action to the City Council for approval.

- A. United States Treasury bills, notes, bonds, strips or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation on the percentage of the portfolio that can be invested in this category, although a five-year maturity limitation is applicable.
- B. Federal Agency debentures and mortgage-backed securities with a final maturity not exceeding five years from the date of trade settlement issued by the Government National Mortgage Association (GNMA). The aggregate investment in Federal Agency securities shall not exceed 25% of the City's total portfolio.
- C. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement, issued by the following only: Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB) and Federal Home Loan Mortgage Corporation (FHLMC). The aggregate investment in Federal Instrumentality securities shall not exceed 70% of the City's total portfolio and the securities of any one Federal Instrumentality shall not exceed 35% of the City's total portfolio.
- D. Medium-Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of trade settlement, and rated at least A, or the equivalent, by a Nationally Recognized Statistical Rating Organization (NRSRO). The aggregate investment in medium-term notes shall not exceed 10% of the City's total portfolio and no more than 2% of the City's portfolio may be invested in the medium- term notes of any one issuer or its affiliates.
- E. Non-negotiable Certificates of Deposit with a maturity not exceeding three years from the date of trade settlement, in state or nationally chartered banks or savings banks that are insured by the FDIC, subject to the limitations of California Government Code Section 53638. Amounts in excess of FDIC insurance coverage shall be secured in accordance with California Government Code Section 53652. No more than 5% of the City's total portfolio shall be invested in the deposits of any one bank, and the aggregate investment in certificates of deposit shall not exceed 30% of the City's total portfolio.

- F. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph A. or sub-paragraph B. below:
- A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of \$500,000,000 and (3) have debt other than commercial paper, if any, that is rated at least, A or the equivalent, by a NRSRO.
 - B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program-wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond; and (3) have commercial paper that is rated at least A-1, or the equivalent, by a NRSRO.

No more than 2% of the City's total portfolio shall be invested in the commercial paper of any one issuer, and the aggregate investment in commercial paper shall not exceed 15% of the City's total portfolio.

- G. Eligible Banker's Acceptances with a maturity not exceeding 180 days from the date of trade settlement, rated at least A-1, or the equivalent, by a NRSRO, drawn on or accepted by a commercial bank with combined capital and surplus of at least \$250 million, whose deposits are insured by the FDIC, and whose senior long-term debt is rated at least A, or the equivalent, by a NRSRO at the time of purchase. No more than 5% of the City's total portfolio shall be invested in banker's acceptances of any one issuer, and the aggregate investment in banker's acceptances shall not exceed 30% of the City's total portfolio.
- H. Repurchase Agreements with a final termination date not exceeding 90 days collateralized by U.S. Treasury obligations listed in A. above with the maturity of the collateral not exceeding 10 years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the funds borrowed. Collateral shall be held in the City's custodian bank, as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily. No more than 5% of the City's total portfolio shall be invested in repurchase agreements with any one counterparty, and the aggregate investment in repurchase agreements shall not exceed 10% of the City's total portfolio.

Repurchase Agreements shall be entered into only with broker/dealers recognized as a primary dealer by the Federal Reserve Bank of New York, or with financial firms that have a primary dealer within their holding company structure. Approved Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1, or the equivalent, and a long-term credit rating of at least A, or the equivalent, by a NRSRO. Repurchase agreement counterparties shall execute a City approved Master Repurchase Agreement with the City. The Finance Director/City Treasurer shall maintain a copy of the City's approved Master Repurchase Agreement along with a list of broker/dealers who have executed same.

- I. **LOCAL AGENCY INVESTMENT FUND.** The City may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer for the benefit of local agencies up to the maximum permitted under Section 16429.1 of the Government Code, or 65% of the market value of the portfolio, whichever is less.
- J. **SAN MATEO COUNTY POOL.** The City may invest in the San Mateo County Pool established by the San Mateo County Treasurer for the benefit of local agencies (as established in California Code Section 53684). No more than 30% of the market value of the portfolio may be invested in this category.
- K. **Money Market Funds** registered under the Investment Company Act of 1940 that (1) are “no-load” (no commission or fee shall be charged on purchases or sales of shares); (2) have a constant daily net asset value per share of \$1.00; (3) invest only in the securities and obligations authorized in this Policy; and (4) have a rating of at least AAA, or the equivalent, by a NRSRO. No more than 5% of the City’s total portfolio shall be invested in any one issuer and the aggregate investment in money market funds shall not exceed 20% of the City’s total portfolio.

The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from this list must be approved in advance by resolution of the City Council.

NOTE 1: References throughout this document to "the City’s total portfolio” will be the market value of the portfolio at the time the specific security is purchased.

NOTE 2: Should the rating of any authorized investment subsequent to purchase fall below the requirement, in order to avoid selling in a distressed market, the City may carry such investment up to six months from the date of the downgrade.

VIII. INVESTMENT DIVERSIFICATION

The City shall diversify its investments within the parameters of this Policy to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Nevertheless, the asset allocation in the investment portfolio should be flexible depending upon the outlook for the economy, the securities markets, and the City’s anticipated cash flow needs.

IX. SELECTION OF BROKER/DEALERS

The Finance Director/City Treasurer shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the City to conduct transactions only with those authorized firms. To be eligible, a firm must be licensed by the State of California as a broker/dealer as defined in Section 25004 of the California Corporations Code, and

- 1. be recognized as a Primary Dealer by the Federal Reserve Bank of New York, or
- 2. report voluntarily to the Federal Reserve Bank of New York, or
- 3. qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

Each authorized broker/dealer shall be required to submit and annually update a City approved Broker/Dealer Information form. The Finance Director/City Treasurer shall

maintain a list of the broker/dealers that have been approved by the City, along with each firm's most recent Broker/Dealer Information Request form.

If the City has not engaged the support services of an outside investment advisor while in the process of executing a particular transaction, the authorized broker/dealer(s) shall provide certification of having received and reviewed this Policy.

The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item F. of the Authorized Investments section of this Policy.

X. COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, then the Treasurer will document quotations for comparable or alternative securities.

XI. SELECTION OF BANKS

The Finance Director/City Treasurer shall maintain a list of banks approved to provide depository and other banking services for the City. To be eligible for authorization, a bank shall qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5, shall be a member of the FDIC and shall secure all deposits exceeding FDIC insurance coverage in accordance with California Government Code Section 53652.

XII. SAFEKEEPING AND CUSTODY

The Finance Director/City Treasurer shall select a bank to provide safekeeping and custodial services for the City, in accordance with the provisions of Section 53608 of the California Government Code. A City approved Safekeeping Agreement shall be executed with the custodian bank prior to utilizing that bank's safekeeping services. The custodian bank will be selected on the basis of its ability to provide satisfactory safekeeping services and the competitive pricing of them.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery-versus-payment basis. All securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities will be delivered by either book entry or physical delivery and will be held by the City's custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

XIII. PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk

constraints for eligible securities, and cash flow requirements. The performance of the City's investments shall be compared to the average yield of the State of California's Local Agency Investment Fund (LAIF) plus 0.25%, or 25 basis points. When comparing the performance of the City's portfolio, its rate of return will be computed net of all fees and expenses.

XIV. MONTHLY REPORTING

Monthly, the Finance Director/City Treasurer shall submit to the City Council a report of the investment earnings and performance results of the City's investment portfolio. The report shall include the following information:

1. Investment type, issuer, date of purchase and maturity, par value and dollar amount invested in all securities, and investments and monies held by the City;
2. A description of the funds, investments and programs;
3. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;
4. A statement of compliance with this Policy or an explanation for non-compliance; and
5. A statement of the City's ability to meet expenditure requirements for six months, and an explanation of why money will not be available if that is the case.

XV. INVESTMENT POLICY ADOPTION

This Investment Policy shall be adopted by resolution of the City Council. The Policy shall be reviewed annually by the Investment Advisory Committee and any modifications made thereto must be approved by the City Council.

APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”) New York, NY, will act as securities depository for the 2014 Bonds. The 2014 Bonds will be offered as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2014 Bonds bearing interest at a particular rate, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC 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.

Purchases of the 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2014 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2014 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 2014 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 beneficial ownership interests in the 2014 Bonds, except in the event that use of the book-entry system for the 2014 Bonds is discontinued.

To facilitate subsequent transfers, all 2014 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the 2014 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 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2014 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2014 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2014 Bonds, such as redemptions, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of the 2014 Bonds may wish to ascertain that the nominee holding the 2014 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 Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2014 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the 2014 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2014 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 City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, redemption proceeds and interest payments on the 2014 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on a payment 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 Participants and not of DTC, its nominee, the Trustee or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, redemption proceeds and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2014 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates for such 2014 Bonds will be printed and delivered to DTC or Owners, as applicable.

THE PRECEDING INFORMATION PROVIDED IN THIS APPENDIX G HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE CITY, THE UNDERWRITER OR THE TRUSTEE AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS OFFICIAL STATEMENT.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2014 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS OF THE 2014 BONDS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY SUCH NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2014 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

The City, the Underwriter and the Trustee cannot and do not give any assurances that DTC will distribute to Participants, or that Participants or others will distribute to the Beneficial Owners, payments of principal of and interest and premium, if any, on the 2014 Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the City, the Underwriter or the Trustee is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the 2014 Bonds or any error or delay relating thereto.

(THIS PAGE INTENTIONALLY LEFT BLANK)



FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272