

In the opinion of Greenberg Traurig, LLP, Santa Monica, California, Special Counsel, subject, however, to certain qualifications described herein, under existing law, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants set forth in the documents and instruments pertaining to the Certificates and requirements of the Internal Revenue Code of 1986, as amended (the “Code”), as described herein, the portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; although, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS” herein.

\$19,815,000
CERTIFICATES OF PARTICIPATION
(2008 Conversion of 2006 Auction Rate Certificates)
Evidencing Direct, Undivided Fractional Interests of the Owners Thereof
In Lease Payments to be Made by the
CITY OF PACIFICA, CALIFORNIA
As the Rental for Certain Property Pursuant to a Lease Agreement with the
CITY OF PACIFICA FINANCING AUTHORITY

Dated: Date of Delivery**Due: January 1, as shown on inside cover page**

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT A SUMMARY OF THIS ISSUE OR THE SECURITY FOR THE CERTIFICATES. INVESTORS ARE ADVISED TO READ THE ENTIRE REOFFERING MEMORANDUM TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING AN INFORMED INVESTMENT DECISION.

This is a reoffering of the above-captioned City of Pacifica (the “City”) Certificates of Participation (the “Certificates”) that were initially offered (the “Original Certificates”) and executed pursuant to a Trust Agreement dated as of May 1, 2006 (the “Original Trust Agreement”), by and among the City, the City of Pacifica Financing Authority (the “Authority”) and Wells Fargo Bank, National Association, as trustee thereunder (the “2006 Trustee”). In connection with the interest rate conversion described herein (the “Conversion”), the Original Trust Agreement will be amended and restated by the Amended and Restated Trust Agreement, dated as of August 1, 2008 (together with the Original Trust Agreement and the amendments and supplements hereto, the “Trust Agreement”), by and among the City, the Authority and Deutsche Bank National Trust Company (the “Trustee”). The Certificates were originally executed and delivered for the principal purpose of refunding certain City debt obligations which were originally issued to finance the acquisition, construction and equipping of certain City public improvement projects (collectively, the “Original Improvements”). See “THE FINANCING PLAN” herein.

The Original Certificates were initially executed and delivered as auction rate securities on May 16, 2006 in the aggregate principal amount of \$15,725,000 with a final maturity date of January 8, 2037, with interest rates correspondingly changing from time to time in conjunction with the auction rate market. In connection with the reoffering of the Certificates pursuant to this Reoffering Memorandum, the interest rates applicable to the Certificates are being fixed to their respective maturities at their respective rates shown on the inside front cover page hereof. Such interest will be payable on January 1 and July 1 of each year, commencing January 1, 2009.

The Project (as defined herein) has been undertaken by the City for the purpose of issuing the Certificates, the proceeds of which are anticipated to be used to (i) fund an escrow to cause the mandatory tender of all outstanding Original Certificates necessary to cause the Fixed Rate Conversion thereof, (ii) provide funds relating to the acquisition, construction and equipping of certain City public street improvement projects (the “2008 Improvements”), (iii) fund certain costs relating to termination of a swap agreement relating to the Original Certificates, (iv) fund capitalized interest, (v) fund or provide for satisfaction of the Reserve Fund Requirement, and (vi) pay the costs incurred in connection with the execution, delivery and sale of the Certificates. See “THE FINANCING PLAN” herein.

Upon Conversion, the Certificates represent direct, undivided fractional interests of the owners thereof in the lease payments (the “Lease Payments” and each a “Lease Payment”) to be made by the City to the Authority for the use and occupancy of the Site and Facilities as described in the First Amended and Restated Lease Agreement, dated as of May 1, 2006, by and between the Authority and the City (the “Original Lease Agreement”), as amended by the Amendment to First Amended and Restated Lease Agreement, dated as of August 1, 2008 (together with the Original Lease Agreement and the amendments and supplements hereto, the “Lease Agreement”), by and between the City and the Authority. Pursuant to the Lease Agreement, the Authority will lease to the City the Site and Facilities, as more particularly set forth in the Lease Agreement (the “Site and Facilities”). Prior to Conversion, proceeds of the Certificates, in an amount necessary to convert the Original Certificates as set forth herein, will be deposited in a designated escrow fund and held in escrow as collateral security for the Certificates until the Conversion Date. See “THE CERTIFICATES” and “THE FINANCING PLAN” herein.

The Certificates are being executed and delivered in denominations of \$5,000 and integral multiples thereof in book-entry 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. Purchasers of the Certificates will not receive certificates representing their beneficial ownership thereof but will receive credit balances on the books of their respective nominees. The principal of and interest evidenced by the Certificates are payable by the Trustee to Cede & Co.; and such interest and principal payments are to be disbursed to the beneficial owners of the Certificates through their nominees. See “BOOK-ENTRY ONLY SYSTEM” herein.

The Certificates are subject to optional, mandatory and special prepayment prior to their respective maturities, in accordance with the terms of the Trust Agreement. See “PREPAYMENT PROVISIONS” herein.

The scheduled payment of principal of and interest on the Original Certificates when due is guaranteed under a financial guaranty insurance policy No. 25296BE effective as of May 16, 2006 (the “Original Policy”), issued by Ambac Assurance Corporation (the “Insurer” or the “Certificate Insurer”), which Original Policy continues, along with a certain Financial Guaranty Insurance Policy issued by the Certificate Insurer effective simultaneously with the original delivery of the Certificates (the “2008 Policy” together with the Original Policy, the “Policy” or “Certificate Insurance Policy”), to guaranty the payment of principal of and interest on the Certificates. The City has not reviewed the financial condition of the Insurer and makes no representation as to such Policy or financial condition of the Insurer. Prospective purchasers of the Certificates should rely on the City’s ability to make Lease Payments in determining whether to invest in the Certificates. See “THE CERTIFICATE INSURANCE POLICY” and “RISK FACTORS” herein.

Ambac

The City is, subject to abatement as described herein, legally required under the Lease Agreement to make Lease Payments in an amount sufficient to pay, when due, the principal and interest with respect to Certificates in each year in consideration of the use and occupancy of the Sites and Facilities from any source of legally available funds. The City has covenanted under the Lease Agreement to take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations therefore.

MATURITY SCHEDULE
(See inside front cover page)

THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION OR OTHER FAITH AND CREDIT OF THE CITY. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR OTHERWISE.

The Certificates are reoffered, when, as and if executed, delivered to and received by the Underwriter, subject to approval of legality by Greenberg Traurig, LLP, Santa Monica, California, Special Counsel. Certain legal matters will be passed upon for the City and the Authority by their general counsel, respectively. Certain legal matters will be passed upon for the City by its Disclosure Counsel, The Weist Law Firm, A Professional Law Corporation, Scotts Valley, California. It is anticipated that the Certificates in book-entry form, will be available for delivery in New York, New York on or about July 31, 2008 for deposit with DTC.

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES AND YIELDS

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MATURITY SCHEDULE
(Base CUSIP[†] No. 695096)

\$9,300,000 Serial Maturities

Maturity Date (January 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2010	\$510,000	3.000%	2.700%	DC8
2011	455,000	3.250	3.200	DD6
2017	580,000	4.250	4.400	DK0
2018	555,000	4.375	4.550	DL8
2019	625,000	4.500	4.700	DM6
2020	625,000	4.625	4.850	DN4
2023	650,000	5.000	5.100	DR5
2024	700,000	5.000	5.150	DS3
2025	700,000	5.000	5.200	DT1
2026	750,000	5.000	5.250	DU8
2027	725,000	5.125	5.300	DV6
2028	800,000	5.125	5.350	DW4
2029	825,000	5.250	5.400	DX2
2030	800,000	5.375	5.500	DY0

\$1,050,000 4.500% Term Certificates Due January 1, 2013 – Yield 3.700% CUSIP[†] No. DF1

\$1,590,000 4.500% Term Certificates Due January 1, 2016 – Yield 4.200% CUSIP[†] No. DJ3

\$1,275,000 5.000% Term Certificates Due January 1, 2022 – Yield 5.000% CUSIP[†] No. DQ7

\$6,600,000 5.375% Term Certificates Due January 1, 2037 – Yield 5.600% CUSIP[†] No. DZ7

[†] Copyright 2008, American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. None of the City, the Authority, or the Underwriter take any responsibility for the accuracy of such CUSIP numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.

The Underwriter has provided the following sentence for inclusion in this Reoffering Memorandum: The Underwriter has reviewed the information in this Reoffering Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. In making an investment decision investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, neither the foregoing authorities nor Special Counsel or Disclosure Counsel have confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

This Reoffering Memorandum does not constitute an offer to sell the Certificates or the solicitation of an offer to buy, nor shall there be any sale of the Certificates by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, broker, salesman or any other person has been authorized by the City of Pacifica (the "City") or Underwriter to give any information or to make any representation other than those contained herein in connection with the offering of the Certificates and, if given or made, such information or representation must not be relied upon as having been authorized by the City, Underwriter or any other person.

The Execution and delivery of the Certificates has not been registered under the Securities Act of 1933 in reliance upon an exemption thereunder. This Reoffering Memorandum is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Reoffering Memorandum which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein are intended solely as such and are not to be construed as representations of fact.

The information set forth herein relating to book-entry and to the Depository Trust Company ("DTC"), New York, New York has been obtained from DTC and the information herein relating to the Certificate Insurer and to the Certificate Insurance Policy has been obtained from the Insurer. Such information is believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as representation by the City, the Authority or respective counsel. All other information set forth herein has been furnished by the City and other sources believed to be reliable. Such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter, its counsel, Disclosure Counsel or Special Counsel.

When used in this Reoffering Memorandum and in any continuing disclosure by the City in any press release and in any oral statement made with the approval of an authorized officer of the City or any other entity described or referenced in this Reoffering Memorandum, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend," and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

This Reoffering Memorandum speaks only as of its date, and the information and expressions of opinion herein are subject to change without notice and neither the delivery of this Reoffering Memorandum nor any sale of the Certificates made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, or any other party described herein since the date hereof. Further, all summaries contained herein of the Trust Agreement, the Lease Agreement and other related documents are expressly made subject to the provisions of such documents and instruments and do not purport to be complete, comprehensive or definitive summaries of any or all of such provisions. This Reoffering Memorandum is submitted in connection with the sale of the Certificates and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES OFFERED HEREBY AT LEVELS 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 CERTIFICATES TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE THEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

CITY OF PACIFICA

AUTHORITY BOARD / CITY COUNCIL

James M. Vreeland, *Authority Chair, Mayor*
Julie Lancelle, *Authority Vice Chair, Mayor Pro Tem*
Peter DeJarnatt, *Authority Member, Council Member*
Sue Digre, *Authority Member, Council Member*
Calvin Hinton, *Authority Member, Council Member*

CITY / AUTHORITY ADMINISTRATION

Stephen A. Rhodes, *City Manager/Authority Executive Director*
Kathy O'Connell, *City Clerk/Authority Secretary*
Cecilia M. Quick, Esq., *City Attorney*
Ann E. Ritzma, *Administrative Services Director*
Van Ocampo, *Director of Public Works*
James Saunders, *Chief of Police*

PROFESSIONAL SERVICES

Underwriter

Nollenberger Capital Partners Inc.
San Francisco, California

Special Counsel

Greenberg Traurig, LLP
Santa Monica, California

Disclosure Counsel

The Weist Law Firm
Scotts Valley, California

Trustee

Deutsche Bank National Trust Company
Los Angeles, California

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CITY OF PACIFICA FINANCING AUTHORITY

INTRODUCTORY STATEMENT

The summaries or references to the Trust Agreement, the Lease Agreement, the Site Lease, Assignment Agreement, Escrow Agreement and other documents, agreements and statutes referred to herein (the “Principal Legal Documents”), and the description of the Certificates included in this Reoffering Memorandum, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document or statute. All capitalized terms used in this Reoffering Memorandum (unless otherwise defined herein) shall have the meanings set forth in the Principal Legal Documents, some of which are summarized in “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Certain Definitions.”

This Reoffering Memorandum, which includes the cover page and the appendices hereto (the “Reoffering Memorandum”), has been prepared under the direction of the City of Pacifica (the “City”) and provides certain information concerning the execution and delivery of the above-captioned \$19,815,000 the City of Pacifica, Certificates of Participation (2008 Conversion of 2006 Auction Rate Certificates) (the “Certificates”).

Certain information regarding the Certificates has been provided directly by the City and is believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as representation by the City, the Authority or respective counsel. All other information set forth herein has been furnished by other sources believed by the City to be reliable; however, such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter, its counsel, Disclosure Counsel or Special Counsel.

Any statements in this Reoffering Memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Reoffering Memorandum is not to be construed as a contract or agreement between the City and the purchasers or Owners of any of the Certificates.

The following Introduction does not purport to be complete, but rather is intended only as a brief summary of certain terms of the Certificates being offered and a brief description of the Reoffering Memorandum. All statements contained in this Introduction are qualified in their entirety by more complete and detailed information contained in the entire Reoffering Memorandum, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Reoffering Memorandum. The sale and delivery of the Certificates to potential investors is made only by means of the entire Reoffering Memorandum.

INTRODUCTION

THE CERTIFICATES

The Original Certificates were executed and delivered in book-entry only form pursuant to a Trust Agreement dated as of May 1, 2006 (the “Original Trust Agreement”), by and among the City, the City of Pacifica Financing Authority (the “Authority”) and Wells Fargo Bank, National Association, as trustee thereunder (the “2006 Trustee”). In connection with the interest rate conversion described herein, the Original Trust Agreement will be amended and restated by the Amended and Restated Trust Agreement, dated as of August 1, 2008 (together with the Original Trust Agreement and the amendments, supplements and restatements thereto, collectively the “Trust Agreement”) by and among the City, the Authority and Deutsche Bank National Trust Company, as Trustee (the “Trustee”). The Trust Agreement was authorized by City Resolution, adopted on June 23, 2008. See “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – The Trust Agreement” herein.

PURPOSE

The proceeds of the Certificates are being used to (i) fund an escrow to cause the mandatory tender and Conversion (as described below) of all outstanding City of Pacifica, 2006 Certificates of Participation originally executed and delivered in the principal amount of \$15,725,000 on May 16, 2006 (the “Original Certificates”), as originally described in the official statement relating thereto dated May 9, 2006 (the “Original Official Statement”), (ii) provide funds relating to the acquisition, construction and equipping of certain City public street improvement projects (the “2008 Improvements”), (iii) fund certain costs relating to termination of a swap agreement relating to the Original Certificates, (iv) fund capitalized interest, (v) fund or otherwise satisfy the Reserve Fund Requirement, and (vi) pay the costs incurred in connection with the execution, delivery and sale of the Certificates. See “THE FINANCING PLAN” herein.

The Original Certificates were executed and delivered primarily to refund and defease three (3) of the City’s previously issued lease obligations, and also to finance the acquisition, construction and equipping of certain previous City public improvement projects (collectively, the “Original Improvements”), as further described under the caption “THE FINANCING PLAN” herein. Proceeds derived from the sale of the Original Certificates were also used: (i) to obtain an insurance policy (the “Certificate Insurance Policy”) issued by Ambac Assurance Corporation (the “Certificate Insurer”) guaranteeing the scheduled payments of principal of and interest with respect to the Original Certificates (including the Certificates), (ii) to finance a reserve fund surety, and (iii) to pay the costs of executing and delivering the Original Certificates. See “THE FINANCING PLAN” herein.

THE CONVERSION

The Original Certificates were initially executed and delivered at an Auction Rate, bearing variable rates of interest established in accordance with certain Auction Procedures set forth in the Original Trust Agreement (the “Auction Mode”). The Certificates are primarily being reoffered to finance the conversion of the Original Certificates from an Auction Mode to a Fixed Rate (as defined in the Original Trust Agreement), resulting in the interest rate applicable to the Certificates becoming fixed to the respective maturity dates of the Certificates at the interest rates indicated on the inside front cover page hereof, as more specifically set forth in the Trust Agreement (the “Conversion”).

In accordance with the Original Trust Agreement, all Original Certificates, whether or not tendered for purchase on or prior to the Conversion, will be deemed purchased on the Conversion Date at a price of one hundred percent (100%) of the principal amount thereof, plus accrued and unpaid interest to such date. See “THE FINANCING PLAN” herein.

SECURITY

Upon Conversion, the Certificates represent direct, undivided fractional interests of the owners thereof in the lease payments (the “Lease Payments”) to be made by the City to the Authority for the use and occupancy of the Site and Facilities as described in the First Amended and Restated Lease Agreement, dated as of May 1, 2006, by and between the Authority and the City (the “Original Lease Agreement”), as amended by the amendment to the First Amended and Restated Lease Agreement, dated as of August 1, 2008 (together with the Original Lease Agreement and the amendments and supplements hereto, the “Lease Agreement”), by and between the City and the Authority. Prior to Conversion, a portion of the proceeds of the Certificates, in an amount necessary to convert the Original Certificates in full on the Conversion Date, will be deposited with the Trustee and invested in strict accordance with the Conversion Fund Escrow Agreement (as defined in the Trust Agreement), and will be held in trust as collateral security for the Certificates until the Conversion Date, all as specifically set forth in the Trust Agreement. See “THE FINANCING PLAN” and “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS” herein.

The Authority, pursuant to the Assignment Agreement, will assign substantially all of its rights under the Lease Agreement, including its right to receive Lease Payments from the City as well as its right to enforce the Lease Agreement, to the Trustee for the benefit of the registered owners of the Certificates.

The City is required under the Lease Agreement, subject to abatement as described in the Lease Agreement, to make Lease Payments in each year in consideration for the use and occupancy of the Leased Property (as described below) from any source of legally available funds in an amount sufficient to pay, when due, the annual principal, prepayment price (expressed as a percentage of the principal amount of the Certificates to be prepaid), and interest with respect to the Certificates. See “RISK FACTORS – Abatement” herein.

The City and the Authority have determined that 25.235% (the “Allocable Share”) of each Lease Payment is payable from and ratably secured by a pledge of and lien on (the “Revenue Pledge”) the Gas Tax Revenues (as defined in the Trust Agreement). The City has covenanted to deposit all of the Gas Tax Revenues into a special fund to be held and administered by the City. On or before each January 1 and July 1, commencing January 1, 2009 (each a “Lease Payment Date”), the City will withdraw from such special fund and pay to the Trustee the Allocable Share of the Lease Payment and Additional Payments which are then coming due and payable. See “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Administration and Maintenance of Gas Tax Revenues” herein.

THE OBLIGATION OF THE CITY TO PAY THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA (THE “STATE”) OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

THE LEASED PROPERTY

The Certificates represent direct, undivided fractional interests of the registered owners (the “Owners”) thereof in Lease Payments to be made by the City to the Authority for the right to the use and occupancy of certain real property and improvements, including the City’s Public Safety Building and its related site, and the City’s Community Center and its related site (collectively, the “Leased Property”). For a more complete description, see “THE PROJECT – The Leased Property” herein. The Leased Property will be leased by the City from the Authority pursuant to the Lease Agreement. To facilitate the conveyance accomplished by the Lease Agreement, the City has leased the Leased Property to the Authority pursuant to a First Amended and Restated Site Lease, dated as of May 1, 2006 (the “Site Lease”).

FORM OF CERTIFICATES AND DENOMINATION

The Certificates are being executed and delivered in denominations of \$5,000 and integral multiples thereof in book-entry 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. Purchasers of the Certificates will not receive certificates representing their beneficial ownership thereof but will receive credit balances on the books of their respective nominees. The principal of and interest evidenced by the Certificates are payable by the Trustee to Cede & Co.; and such interest and principal payments are to be disbursed to the beneficial owners of the Certificates through their nominees. See “BOOK-ENTRY ONLY SYSTEM” herein.

REGISTRATION, TRANSFERS AND EXCHANGES

The Certificates will be executed and delivered as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), or such other name as may be requested by an authorized representative of DTC and will be available to actual purchasers of the Certificates (the “Beneficial Owners”) in the denominations set forth above, under the Book-Entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Certificates. In the event that the Book-Entry Only system described herein is no longer used with respect to the Certificates, the Certificates will be registered and transferred in accordance with the Trust Agreement. See “BOOK-ENTRY ONLY SYSTEM” herein.

FINANCIAL GUARANTY INSURANCE POLICY

The scheduled payment of principal of and interest on the Original Certificates when due is guaranteed under a financial guaranty insurance policy No. 25296BE effective as of May 16, 2006 (the “Original Policy”), issued by Ambac Assurance Corporation (the “Insurer” or the “Certificate Insurer”), which Original Policy continues, together with a certain Financial Guaranty Insurance Policy issued by the Certificate Insurer effective simultaneously with the original delivery of the Certificates (the “2008 Policy” together with the Original Policy, the “Policy” or “Certificate Insurance Policy”), to guaranty the payment of principal of and interest on the Certificates. See “APPENDIX F – SPECIMEN CERTIFICATE INSURANCE POLICY” herein. The Certificate Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding this Reoffering Memorandum other than the information supplied by the Certificate Insurer and presented under the

heading “THE CERTIFICATE INSURANCE POLICY.” See “RISK FACTORS – The Certificate Insurer and the Certificate Insurance Policy” herein.

DESCRIPTION OF THE CERTIFICATES

The Certificates are being executed and delivered in denominations of \$5,000 or any integral multiple thereof. Interest will accrue on the principal components of each Certificate at the applicable interest rate (as set forth on the inside front cover page hereof) from the date of original delivery thereof until its date of maturity or prior prepayment, with interest becoming payable on each January 1 and July 1, commencing January 1, 2009. The Certificates are subject to prepayment as described in this Reoffering Memorandum. See “THE CERTIFICATES” herein.

The Certificates evidence fractional and undivided interests in the right to receive Lease Payments and prepayments thereof to be made by the City to the Authority under the Lease Agreement. The Lease Payments are designed to pay, when due, the principal and interest with respect to the Certificates. The City has covenanted in the Lease Agreement that it will take such action as may be necessary to include the Lease Payments and other payments due under the Lease Agreement in its annual budgets and to make the necessary annual appropriations therefor. The City’s obligation to make Lease Payments is subject to abatement in the event of the taking of, damage to or loss of use and possession of the Leased Property. See “RISK FACTORS – Abatement” herein

PREPAYMENT

The Certificates will be subject to optional and mandatory prepayment, in whole or in part, prior to their stated maturity as set forth herein under the section entitled “PREPAYMENT PROVISIONS.”

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners and beneficial owners of the Certificates to provide, or cause to be provided, certain financial information and operating data relating to the City by not later than nine (9) months (i.e., no later than March, 31st) following the end of the City’s fiscal year (which fiscal year currently ends on June 30), commencing with the report for the 2007-08 Fiscal Year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events, if material. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in “APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The City has never failed to comply, in all material respects, with an undertaking pursuant to said Rule. See “CONTINUING DISCLOSURE” herein.

LIMITED OBLIGATIONS OF THE CITY

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT IS AS SET FORTH THEREIN AND DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS, AND DOES NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

NEITHER THE CITY OFFICERS, EMPLOYEES AND AGENTS NOR ANY PERSONS EXECUTING THE LEASE AGREEMENT SHALL BE LIABLE PERSONALLY ON THE LEASE AGREEMENT OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THE AUTHORIZATION, EXECUTION OR DELIVERY THEREOF.

THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS IS NOT SECURED BY A MORTGAGE ON THE LEASED PROPERTY OR ANY OTHER PROPERTY, REAL OR PERSONAL, OF THE CITY.

OFFERING AND DELIVERY OF THE CERTIFICATES

The Certificates are issued when, as and if executed and delivered to and received by the Underwriter, subject to the approval of legality by Greenberg Traurig, LLP, Santa Monica, California, Special Counsel. Certain legal matters will be passed upon for the City and the Authority by its counsel. Certain legal matters will be passed upon for the City by its Disclosure Counsel, The Weist Law Firm, A Professional Law Corporation, Scotts Valley, California. It is anticipated that the Certificates will be available for delivery in New York, New York on or about July 31, 2008.

THE CITY

The City is located in San Mateo County (the "County") on the California coast approximately 10 miles south of the City of San Francisco. The estimated population of the City as of 2006 is approximately 40,401. The City was incorporated on November 22, 1957 under the general laws of the State of California and has a council-manager form of government. There are five Council Members who serve overlapping terms of four years, and the Council, in turn, selects one of the Council Members to serve as Mayor for one year. The legislative body selects a City Manager to administer the affairs of the City. The City provides public safety (police, fire and civil defense), highways and street, sanitation, health and social services, culture/recreation, public improvements, planning and zoning and general administrative services. See "THE CITY" and "APPENDIX C – GENERAL INFORMATION REGARDING THE CITY OF PACIFICA AND SURROUNDING AREA" herein.

THE AUTHORITY

The City of Pacifica Financing Authority (the "Authority") was created on October 14, 1996 by the City and the Redevelopment Agency of the City of Pacifica under a Joint Exercise of Powers Agreement to assist the City and the Redevelopment Agency in financing capital improvement projects. The members of the City Council serve as the governing board of the Authority. The Joint Exercise of Powers Agreement was entered into under the provisions of the Joint Powers Act. The Authority is a separate entity constituting a public instrumentality of the State. See "THE AUTHORITY" herein.

ASSIGNMENT AGREEMENT

Pursuant to an Assignment Agreement, dated as of May 1, 2006 (the "Assignment Agreement"), by and between the Authority and the Trustee, the Authority will continue to assign to the Trustee, for the benefit of the Owners, certain of its rights under the Lease Agreement, including (i) its right to receive amounts payable by the City under the Lease Agreement, and (ii) its rights to enforce amounts payable under the Lease Agreement upon default.

LEASE PAYMENTS

In general, the City is required under the Lease Agreement to make aggregate Lease Payments each year in consideration of the use and occupancy of the Leased Property, from any legally available funds of the City or otherwise, in an amount designed to be sufficient to pay, when due, the annual principal and interest due with respect to the outstanding Certificates delivered pursuant to the Trust Agreement, subject to abatement of such payments resulting from damage, destruction or condemnation of all or a portion of the Leased Property. The City has covenanted under the Lease Agreement that as long as the Leased Property is available for the City's use and occupancy, it will take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary appropriations therefor. See "RISK FACTORS" and "APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS" herein.

The Lease Agreement is, in the opinion of Special Counsel, a valid and binding obligation of the City enforceable against the City in accordance with its terms, except to the extent enforceability thereof may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereinafter enacted and may be subject to the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases. See "RISK FACTORS – Limited Recourse on Default" herein.

THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

ADDITIONAL PAYMENTS

In addition to the Lease Payments, the City is obligated under the Lease Agreement to pay when due, as additional rental for the Leased Property under the Lease Agreement, all costs and expenses incurred by the City under the Lease Agreement or under the Trust Agreement, or incurred by the Authority to comply with the provisions of the Trust Agreement, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), annual compensation due to the Trustee and all of its reasonable costs and expenses (including amounts payable to the Trustee by virtue of indemnification) payable as a result of the performance of and compliance with its duties under the Trust Agreement, and all reasonable costs and expenses of attorneys, auditors, engineers and accountants engaged by the Authority or the Trustee in connection with the Leased Property or the performance of their duties under the Lease Agreement or under the Trust Agreement (the "Additional Payments").

CERTIFICATE RESERVE FUND

A Certificate Reserve Fund has been established under the Trust Agreement to be held by the Trustee to further secure the timely payment of principal and interest with respect to the Certificates. Except as described below, amounts in the Certificate Reserve Fund are to be used only to make Lease Payments with respect to the Certificates to the extent the amounts in the Lease Payment Fund are insufficient for

such purpose. In the event that the Certificate Reserve Fund is less than the Reserve Requirement, all interest or income received on the investment of the Certificate Reserve Fund is required to be retained in the Certificate Reserve Fund and to the extent the Reserve Requirement is satisfied, all surplus interest or income received on the investment of the Certificate Reserve Fund will be applied to the Lease Payment Fund. See SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Certificate Reserve Fund” herein.

In addition, the Financial Guaranty Insurer has made a commitment to issue a financial guaranty insurance policy for the Certificate Reserve Fund with respect to the Certificates (the “Reserve Fund Insurance Policy”) in an amount equal to the Reserve Requirement. See SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Certificate Reserve Fund” herein.

MAINTENANCE, UTILITIES, TAXES AND ASSESSMENTS

Throughout the term of the Lease Agreement, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property are the sole responsibility of the City, and the City has agreed to pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof.

The City has also agreed to pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City is obligated to pay only such installments as are required to be paid during the term of the Lease Agreement as and when the same become due.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority notifies the City that, in its reasonable opinion, by nonpayment of any such items the interest of the Authority in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

MODIFICATION OF LEASED PROPERTY

The City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of the Lease Agreement. The City has agreed not to permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City under the Lease Agreement; provided that if any such lien is established and the City first notifies the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased

Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

PUBLIC LIABILITY AND PROPERTY DAMAGE INSURANCE

The City has agreed to maintain or cause to be maintained, throughout the term of this Lease Agreement, comprehensive general insurance in protection of the Authority, the City and their respective members, officers, agents, employees and assigns. Such insurance must provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such insurance must provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of a program of self-insurance by the City, or in the form of the participation by the City in a joint powers authority or other program providing pooled insurance. The City will apply the proceeds of such insurance toward extinguishment or satisfaction of the liability with respect to which the net proceeds are paid.

CASUALTY INSURANCE

The City has agreed to procure and maintain, or cause to be procured and maintained, at all times throughout the term of the Lease Agreement, casualty insurance against loss or damage to the insured buildings, facilities and other improvements constituting any part of the Leased Property, in an amount at least equal to the lesser of (a) the replacement value of such buildings, facilities and improvements, or (b) the aggregate principal amount of the Outstanding Certificates. Such insurance must, as nearly as practicable, cover loss or damage by fire, explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and must include earthquake coverage if such coverage is available at reasonable cost from reputable insurers in the reasonable determination of the City, whose determination is final and conclusive. Such insurance may be subject to such deductibles as the City deems prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance.

RENTAL INTERRUPTION INSURANCE

The City will procure and maintain, or cause to be procured and maintained, at all times throughout the term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the buildings, facilities and other improvements constituting any part of the Leased Property, as a result of any of the hazards covered in the insurance required by the Lease Agreement, in an amount at least equal to the maximum Lease Payments coming due and payable during any two consecutive Fiscal Years during the remaining term of the Lease Agreement. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-

insurance. The Net Proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

TITLE INSURANCE

The City will, at its expense, cause the Site Lease, the Assignment Agreement and the Lease Agreement to be recorded in the office of the San Mateo County Recorder on or before the delivery of the Certificates. Concurrent with such recordation, the City will obtain a CLTA title insurance policy insuring the City's leasehold estate in the Leased Property, in an amount at least equal to the aggregate principal amount of the Certificates. All Net Proceeds received under such title insurance policy will be deposited with the Trustee in the Lease Payment Fund and credited towards the prepayment of the Lease Payments.

TERMINATION OR ABATEMENT DUE TO EMINENT DOMAIN

If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement will cease with respect thereto as of the day possession is so taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, (a) the Lease will continue in full force and effect with respect thereto and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) there will be a partial abatement of Lease Payments allocated thereto, in an amount to be determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.

Notwithstanding the foregoing, the Lease Payments will not be abated to the extent that amounts in the Certificate Reserve Fund or the proceeds of Gas Tax Revenues are available to pay Lease Payments which would otherwise be abated, it having been declared by the City that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

ABATEMENT DUE TO DAMAGE OR DESTRUCTION

The amount of Lease Payments will be abated during any period in which by reason of damage or destruction (other than by eminent domain which was described above) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof. The amount of such abatement shall be determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property not damaged or destroyed. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement will continue in full force and effect and the City has waived any right to terminate the Lease agreement by virtue of any such damage and destruction.

Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the Lease agreement to the extent that the proceeds of hazard insurance, rental interruption insurance or amounts in the Certificate Reserve Fund, or the proceeds of Gas Tax Revenues, are available to pay Lease Payments which would otherwise be abated, it having been declared by the City that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in the following information constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the City’s forecasts in any way, regardless of the level of optimism communicated in the information.

FINANCIAL INFORMATION

For certain financial information with respect to the City, see “THE CITY” and “APPENDIX A – AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2006-2007” herein. For a discussion of certain amendments to the Constitution of the State and recent initiatives, and their impact on the City, see the heading “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS” and “RISK FACTORS” herein.

THE FINANCING PLAN

THE ORIGINAL CERTIFICATES

The Original Certificates were executed and delivered on May 16, 2006, in the principal amount of \$15,725,000, of which \$15,725,000 remains outstanding and will be prepaid with the proceeds of the Certificates. The Original Certificates were executed and delivered primarily to provide funds for the refunding of three (3) separate prior City debt obligations which were originally issued to finance the acquisition, construction and reimbursement of certain capital improvement projects of the City (collectively, the “Original Improvements”).

THE 2008 IMPROVEMENTS

A portion of the proceeds of the Certificates will be used to fund the Construction Fund, in the amount set forth in Table 1, to partially fund one or more capital improvement projects of the City, which include (i) the reconstruction of certain City streets, including sidewalks, curbs and curb ramps; (ii) installation of retaining walls; (iii) pavement rehabilitation; (iv) street light replacement; (iv) drainage improvements; and (v) other City approved public infrastructure and public facilities (the “2008 Improvements”).

THE FIXED RATE CONVERSION

The Original Certificates were initially executed and delivered at an Auction Rate, bearing variable rates of interest established in accordance with certain Auction Procedures set forth in the Original Trust Agreement (the “Auction Mode”). In addition to financing the costs of the 2008 Improvements, the Certificates are primarily being reoffered to finance the conversion of the Original Certificates from an Auction Mode to a Fixed Rate (as defined in the Original Trust Agreement), resulting in the interest rate

applicable to the Certificates becoming fixed to the respective maturity dates of the Certificates at the interest rates indicated on the inside front cover page hereof, as specifically set forth in the Trust Agreement (the "Conversion"). Such interest will be payable on January 1 and July 1 of each year, commencing January 1, 2009.

In accordance with the Original Trust Agreement, all Original Certificates, whether or not tendered for purchase on or prior to Conversion Date, will be deemed purchased on the Conversion Date at a price of one hundred percent (100%) of the principal amount thereof, plus accrued and unpaid interest to such date, as set forth in the Trust Agreement. Prior to Conversion, a portion of the proceeds of the Certificates, in an amount necessary to convert the Original Certificates in full on the Conversion Date, will be deposited and invested in strict accordance with the Conversion Fund Escrow Agreement (as defined in the Trust Agreement), and will be held in trust as collateral for the Certificates until the Conversion Date, all as specifically set forth in the Trust Agreement.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale and delivery of the Certificates are projected to be applied as summarized in the following table:

**Table 1
CITY OF PACIFICA
(2008 CONVERSION OF 2006 AUCTION RATE CERTIFICATES)**

ESTIMATED SOURCES AND USES OF PROCEEDS	
SOURCES	
<u>Sources of Funds:</u>	
Principal Amount of Certificates	\$19,815,000.00
Less: Original Issue Discount	<u>(298,299.05)</u>
Total Sources of Funds	<u>\$19,516,700.95</u>
USES	
<u>Uses of Funds:</u>	
Construction Fund	\$1,500,000.00
Capitalized Interest	401,279.34
Escrow Fund	15,882,250.00
Swap Termination Payment	1,106,844.00
Costs of Issuance ⁽¹⁾	<u>626,327.61</u>
Total Uses of Funds	<u>\$19,516,700.95</u>

(1) Includes fees and expenses of Special Counsel, Disclosure Counsel and Trustee, Underwriter's Discount, Certificate Insurance Policy premium, rating agency fees, printing costs of the Reoffering Memorandum, contingency, and certain other miscellaneous expenses.

THE PROJECT

IN GENERAL

Pursuant to the Site Lease, the City will lease the Leased Property to the Authority, and pursuant to the Lease Agreement, the Authority will, in turn, lease the Leased Property back to the City in return for the Lease Payments. Pursuant to the Agency Agreement, the Authority will appoint the City as its agent to implement the development of the 2008 Improvements. Pursuant to the Assignment Agreement, the Authority is assigning to the Trustee, for the benefit of the Owners, certain of its rights under the Lease Agreement, including (i) its right to receive amounts payable by the City under the Lease Agreement, and (ii) its rights to enforce amounts payable under the Lease Agreement upon default (the "Project").

THE LEASED PROPERTY

The Leased Property consists of the land and improvements which comprise the existing Public Safety Building and the Community Center. Such property is described as follows:

Public Safety Building. The Public Safety Building located at 2705 Coast Highway in the City, including the site and all related improvements, constitutes a portion of the Leased Property. The City owns fee title to the land on which the Public Safety Building is located, which consists of approximately 5.1 acres. The Public Safety Building consists of a single building of approximately 20,000 square feet, and includes a radio communications center, emergency operating center and public use room, facilities for processing and storage of evidence and property, prisoner processing and short-term holding facility, police records processing and storage facilities, police administrative offices, parking and vehicle fueling areas, and related facilities. Construction of the Public Safety Building was completed in October 2003 and the total cost of the construction project was approximately \$10 million. Based on the purchase price of the land plus the 2003 insurance value of the improvements, as adjusted for inflation, the City estimates that the value of the Public Safety Building is approximately \$12.4 million.

Community Center. The Community Center, located at Coast Highway and Crespi Drive in the City, including the site and all related improvements, constitutes a portion of the Leased Property. The City owns fee title to the land on which the Community Center is located, which consists of approximately 5 acres. The Community Center consists of a single building of approximately 18,000 square feet, which is used by the City for various community-related purposes. Based on the 2003 land value plus the 2003 insurance value of the improvements, as adjusted for inflation, the City estimates that the value of the Community Center is approximately \$5.2 million.

PURPOSE OF THE CERTIFICATES

The purpose of the Certificates is to provide funds which will, together with other available moneys, are anticipated to be used to (i) fund an escrow to cause the mandatory tender of all outstanding Original Certificates necessary to cause the Fixed Rate Conversion thereof, (ii) provide funds relating to the acquisition, construction and equipping of the 2008 Improvements, (iii) fund certain costs relating to termination of a swap agreement relating to the Original Certificates, (iv) fund capitalized interest, (v) fund or otherwise satisfy the Reserve Fund Requirement, and (vi) pay the costs incurred in connection with the execution, delivery and sale of the Certificates. See "THE FINANCING PLAN" herein.

THE CERTIFICATES

General

The Certificates will be executed in the aggregate principal amount of \$19,815,000. The Certificates will be dated the date of delivery (the "Date of Delivery"), and will be executed as registered Certificates, without coupons, in denominations of \$5,000 principal amount or any integral multiple thereof.

Interest with respect to the Certificates will be payable each January 1 and July 1, commencing January 1, 2009 (each, a "Certificate Payment Date"), at the rate per annum set forth on the inside front cover page hereof. If a Certificate is executed: (i) as of a Certificate Payment Date, interest with respect thereto will be payable from the date thereof; (ii) after the close of business on the fifteenth day of the month preceding each Certificate Payment Date (whether or not a business day) (each, a "Record Date") and before the following Certificate Payment Date, interest with respect thereto will be payable from such following Certificate Payment Date; or (iii) prior to or on December 15, 2008, interest with respect thereto will be payable from the Date of Delivery.

Interest with respect to the Certificates will be computed on the basis of a 360-day year comprised of twelve 30-day months. Owners of Certificates in an aggregate principal amount of \$1,000,000 or more may, by providing written request to the Trustee, receive interest with respect to the Certificates by wire transfer to a bank account within the United States that is on record with the Trustee as of the Record Date.

The Certificates evidence and represent fractional and undivided interests of the Owners thereof in the Lease Payments to be made by the City. To the extent Lease Payments are abated or not made under the Lease, all Certificate Owners will receive a proportionate reduction in their payments. If the Lease is prepaid in part, for any reason, the Certificate Owner will be entitled only to the remaining Lease Payments.

Principal and premium, if any, with respect to the Certificates will be payable upon surrender by the Owners thereof at the principal office of the Trustee. Interest with respect to the Certificates will be payable by check mailed by first class mail to the Owners of record at the address shown on the Certificate registration books maintained by the Trustee for such purpose.

SOURCES OF PAYMENT FOR THE CERTIFICATES

Upon Conversion, each Certificate represents the direct, undivided fractional interest of the Owners in the Lease Payments to be made by the City under the Lease Agreement. Prior to Conversion, a portion of the proceeds of the Certificates, in an amount necessary to convert the Original Certificates in full on the Conversion Date, will be deposited with the Trustee and invested in strict accordance with the Conversion Fund Escrow Agreement (as defined in the Trust Agreement), and will be held in trust as collateral security for the Certificates until the Conversion Date, all as specifically set forth in the Trust Agreement. See "THE FINANCING PLAN" and "APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS" herein.

The Authority, pursuant to the Assignment Agreement, will assign substantially all of its rights under the Lease Agreement, including its right to receive Lease Payments from the City as well as its right to enforce the Lease Agreement, to the Trustee for the benefit of the registered owners of the Certificates.

The City is required under the Lease Agreement, subject to abatement as described in the Lease Agreement, to make Lease Payments in each year in consideration for the use and occupancy of the Leased Property from any source of legally available funds in an amount sufficient to pay, when due, the annual principal, prepayment price (expressed as a percentage of the principal amount of the Certificates to be prepaid), if any, and interest with respect to the Certificates. See “RISK FACTORS – Abatement” herein.

The City has covenanted under the Lease Agreement to take such action as may be necessary to include all Lease Payments in its annual budget, and to make the necessary annual appropriations therefore. The Lease Payments are equivalent to the annual principal and interest represented by the Certificates. The obligation of the City to make Lease Payments under the Lease Agreement is as set forth herein and does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to pay Lease Payments does not constitute a debt of the City, the State of California, or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. Pursuant to the terms of the Lease Agreement, the covenant of the City to budget for and make necessary appropriations for the payment of the Lease Payments will be deemed a ministerial duty imposed by law.

PLEDGE OF GAS TAX REVENUES

The City and the Authority have determined that 25.235% (the “Allocable Share”) of each Lease Payment is payable from and ratably secured by a pledge of and lien on (the “Revenue Pledge”) the Gas Tax Revenues (as defined in the Trust Agreement). As part of the Revenue Pledge the City has covenanted to deposit all of the Gas Tax Revenues into a special fund to be held and administered by the City. On or before each Lease Payment Date, the City will withdraw from such special fund and pay to the Trustee the Allocable Share of the Lease Payment and Additional Payments which are then coming due and payable. See “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Administration and Maintenance of Gas Tax Revenues” and “RISK FACTORS – Gas Tax Revenues Uncertain” herein.

ASSIGNMENT OF RIGHTS IN LEASE AGREEMENT

The Authority has, pursuant to the Assignment Agreement, transferred, assigned and set over to the Trustee for the benefit of the Owners and the Certificate Insurer, certain of its rights in the Lease Agreement, including, but not limited to, all of the Authority’s rights to receive and collect all of the Lease Payments and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease Agreement and the Trust Agreement.

All Lease Payments and such other amounts to which the Authority may at any time be entitled shall be paid directly to the Trustee, and all of the Lease Payments collected or received by the Authority will be deemed to be held and to have been collected or received by the Authority as the agent of the Trustee, and if received by the Authority at any time will be deposited with the Trustee on the same day, if practicable but in no event later than one (1) Business Day after the receipt thereof, and all such Lease Payments and such other amounts will be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund.

BUDGET AND APPROPRIATION OF LEASE PAYMENTS

During the term of the Lease Agreement, so long as the Leased Property or a component thereof, is available for the City's use, the City is required under the terms of the Lease Agreement to make Lease Payments for the Leased Property or a component thereof from any source of legally available funds of the City. The City has covenanted in the Lease Agreement to take such action as may be necessary to include (from all lawfully available money of the City) all Lease Payments due under the Lease Agreement as a separate line item in each of its annual budgets during the term of the Lease Agreement and to make the necessary annual appropriations for the actual amount of all such Lease Payments due and any other payments due under the Lease Agreement. The covenants of the City will be deemed to be duties imposed by law, and it will be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform such covenants. See "RISK FACTORS" herein.

The Trustee has no obligation or liability to the Owners of the Certificates for the obligation of the City to make Lease Payments or for the payment of the principal or interest or prepayment premiums, if any, represented by the Certificates; but rather, the Trustee's sole obligations are to administer, for the benefit of the City, the Authority and the Owners of the Certificates, the various funds and accounts established under the Trust Agreement and to receive and apply money which it receives for credit to such funds, as provided in the Trust Agreement, including the application of moneys received for the payment of principal and interest due with respect to the Certificates.

SUBSTITUTION OF LEASED PROPERTY

The City has the option under the Lease Agreement at any time with the prior written consent of the Certificate Insurer, to substitute other real property (the "Substitute Property") for the Leased Property, or any portion thereof (the "Former Property"), or any portion thereof, provided that the City must satisfy certain requirements, including the following:

- (a) No Event of Default (as defined in the Lease Agreement) has occurred and is continuing;
- (b) The City files with the Authority, the Trustee and the Certificate Insurer, and caused to be recorded in the office of the San Mateo County Recorder sufficient memorialization of, an amendment to the Lease Agreement which adds a description of such Substitute Property and deletes therefrom the description of such Former Property;
- (c) The City has filed with the Authority, the Trustee and the Certificate Insurer an appraisal of an M.A.I. appraiser demonstrating that the fair market value of the Substitute Property is at least equal to the fair market value of the Former Property;
- (d) The City has obtained a CLTA policy of title insurance which insures the City's leasehold estate hereunder in such Substitute Property, subject only to Permitted Encumbrances, in an amount at least equal to the estimated fair market value thereof;
- (e) The City has certified in writing to the Authority, the Trustee and the Certificate Insurer that such Substitute Property serves the municipal purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California, and has been

determined to be essential to the proper, efficient and economic operation of the City and to serve an essential governmental function of the City;

- (f) The Substitute Property does not cause the City to violate any of its covenants, representations and warranties made in the Lease Agreement or in the Trust Agreement; and
- (g) The City has mailed written notice of such substitution to each rating agency which then maintains a rating on the Certificates.

RELEASE OF PROPERTY

The City has the option at any time and from time to time to release any portion of the Leased Property from the Lease Agreement and the Site Lease (the "Released Property") provided that the City has satisfied all of the following requirements which are hereby declared to be conditions precedent to such release:

- (a) No Event of Default has occurred and is continuing;
- (b) The City has filed with the Authority and the Trustee, and caused to be recorded in the office of the San Mateo County Recorder sufficient memorialization of, an amendment hereof which removes the Released Property from the Lease Agreement and the Site Lease;
- (c) The City has certified in writing to the Authority and the Trustee that the fair market value of the property which remains subject to the Lease Agreement and the Site Lease following such removal is at least equal to the aggregate original principal amount of the Certificates, and the fair rental value of the property which remains subject to the Lease Agreement and the Site Lease following such removal is at least equal to the Lease Payments thereafter coming due and payable under the Lease Agreement; and
- (d) The City has mailed written notice of such release to each rating agency which then maintains a rating on the Certificates.

Upon the satisfaction of all such conditions precedent, the term of the Lease Agreement will thereupon end as to the Released Property. The City is not entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such release. The Authority and the City will execute, deliver and cause to be recorded all documents required to discharge the Lease Agreement and the Site Lease of record against the Released Property.

TRUSTEE, CERTIFICATE REGISTRAR

Deutsche Bank National Trust Company, located in San Francisco, California, will act as the Trustee. As long as DTC's book-entry method is used for the Certificates, the Trustee will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Certificates called for prepayment of any other action premised on such notice.

The Trustee, the City, the Authority, the Certificate Insurer and the Underwriter of the Certificates have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interest in the Certificates.

DEFEASANCE

If all or a specified portion of Certificates shall be paid and discharged in any one or more of the following ways:

- (i) by paying or causing to be paid the principal and interest and prepayment premiums (if any) with respect to all outstanding Certificates, as and when the same become due and payable; or
- (ii) by irrevocably depositing with the Trustee, or an escrow holder selected by the City, in trust for the payment of Lease Payments as they become due,

then, notwithstanding that any Certificates will not have been surrendered for payment, all obligations of the City, the Trustee and the Authority with respect to all Outstanding Certificates will cease and terminate, except only the obligation of the Trustee to pay or cause to be paid to the owners of the Certificates all sums due and the obligation of the City to pay the Trustee the amounts owing to the Trustee pursuant to the Trust Agreement.

TRANSFER AND EXCHANGE OF CERTIFICATES

The Trustee will keep or cause to be kept a Certificate Register, which shall at all times upon responsible notice be open to inspection by the City and the Authority; and, upon presentation for such purpose, the Trustee will, register or transfer or cause to be registered or transferred, on the Certificate Register, Certificates as provided by the Trust Agreement.

In the event that the book-entry system as described above is no longer used with respect to the Certificates, the following provision will govern the registration, transfer, and exchange of the Certificates.

Any Certificate may be transferred upon the Registration Books by the person in whose name it is registered upon surrender of such Certificate for cancellation at the Principal Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever a Certificate is surrendered for registration of transfer, or exchange, the Trustee will execute and deliver a new Certificate or Certificates for like aggregate principal amount in authorized denominations. The Trustee may require the payment by the Certificate Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The City will pay the cost of printing Certificates and any services rendered or expenses incurred by the Trustee in connection with any transfer. The Trustee will not be required to transfer or exchange any Certificates during the period between the date fifteen (15) days prior to the date of selection of Certificates for prepayment and such date of selection; or any Certificates selected for prepayment.

Certificates may be exchanged, upon surrender thereof, at the Principal Office of the Trustee for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity.

MUTILATED, LOST, DESTROYED, OR STOLEN CERTIFICATES

In the event that the book-entry system as described herein under the section entitled "BOOK-ENTRY ONLY SYSTEM" is no longer used with respect to the Certificates, the following provision will govern the registration, transfer, and exchange of the Certificates.

If any Certificate shall become mutilated, the Trustee, at the expense of the owner of said Certificate, shall execute and deliver a new Certificate of like tenor, maturity and amount in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and destroyed in accordance with its retention policy then in effect, with a certificate of destruction furnished to the City. If any Certificate are lost, destroyed or stolen, evidence of such loss, destruction or theft must be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and such Owner provides an indemnity to the Trustee satisfactory to the Trustee, the Trustee, at the expense of the Certificate Owner, will execute and deliver a new Certificate of like tenor, maturity and amount and numbered as the Trustee shall determine in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of the expenses by the Owner that may be incurred by the Trustee, the City or the Authority in connection with the issuance of a new Certificate. Any Certificate executed and delivered in lieu of any Certificate alleged to be lost, destroyed or stolen will be equally and fractionally entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement. The Trustee will not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered or for the purpose of determining any percentage of Certificates Outstanding, but both the original and replacement Certificate will be treated as one and the same. In lieu of executing and of delivering a new Certificate in exchange for a Certificate which has been mutilated, lost, destroyed or stolen, and which has matured or has been called for prepayment, the Trustee may make payment with respect to such Certificate upon receipt of the aforementioned indemnity.

MAINTENANCE, UTILITIES, TAXES AND ASSESSMENTS

Throughout the term of the Lease, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property are the sole responsibility of the City, and the City has agreed pay for or otherwise arrange for the payment of all utility services supplied to the Leased Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof.

The City has also agreed to pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Leased Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City is obligated to pay only such installments as are required to be paid during the term of the Lease Agreement as and when the same become due.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal

therefrom unless the Authority notifies the City that, in its reasonable opinion, by nonpayment of any such items the interest of the Authority in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

MODIFICATION OF LEASED PROPERTY

The City has the right, at its own expense, to make additions, modifications and improvements to the Leased Property or any portion thereof. All additions, modifications and improvements to the Leased Property will thereafter comprise part of the Leased Property and become subject to the provisions of the Lease Agreement. Such additions, modifications and improvements may not in any way damage the Leased Property, or cause the Leased Property to be used for purposes other than those authorized under the provisions of state and federal law; and the Leased Property, upon completion of any additions, modifications and improvements made thereto under the Lease Agreement, must be of a value which is not substantially less than the value thereof immediately prior to the making of such additions, modifications and improvements. The City has agreed not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the City under the Lease Agreement; provided that if any such lien is established and the City first notifies the Authority of the City's intention to do so, the City may in good faith contest any lien filed or established against the Leased Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and shall provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the City.

PUBLIC LIABILITY AND PROPERTY DAMAGE INSURANCE

The City has agreed to maintain or cause to be maintained, throughout the term of the Lease Agreement, comprehensive general insurance in protection of the Authority, the City and their respective members, officers, agents, employees and assigns. Such insurance must provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such insurance must provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of a program of self-insurance by the City, or in the form of the participation by the City in a joint powers authority or other program providing pooled insurance. The City will apply the proceeds of such insurance toward extinguishment or satisfaction of the liability with respect to which the net proceeds are paid.

CASUALTY INSURANCE

The City has agreed to procure and maintain, or cause to be procured and maintained, at all times throughout the term of the Lease Agreement, casualty insurance against loss or damage to the insured buildings, facilities and other improvements constituting any part of the Leased Property, in an amount at least equal to the lesser of (a) the replacement value of such buildings, facilities and improvements, or (b)

the aggregate principal amount of the Outstanding Certificates. Such insurance must, as nearly as practicable, cover loss or damage by fire, explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and must include earthquake coverage if such coverage is available at reasonable cost from reputable insurers in the reasonable determination of the City, whose determination is final and conclusive. Such insurance may be subject to such deductibles as the City deems prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance.

RENTAL INTERRUPTION INSURANCE

The City has agreed to procure and maintain, or cause to be procured and maintained, at all times throughout the term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the buildings, facilities and other improvements constituting any part of the Leased Property, as a result of any of the hazards covered in the insurance required by the Lease Agreement, in an amount at least equal to the maximum Lease Payments coming due and payable during any two consecutive Fiscal Years during the remaining term of the Lease Agreement. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

TITLE INSURANCE

The City will, at its expense, cause the Site Lease, the Assignment Agreement and the Lease Agreement to be recorded in the office of the San Mateo County Recorder on or before the delivery of the Certificates. Concurrent with such recordation, the City will obtain a CLTA title insurance policy insuring the City's leasehold estate in the Leased Property, in an amount at least equal to the aggregate principal amount of the Certificates. All Net Proceeds received under such title insurance policy will be deposited with the Trustee in the Lease Payment Fund and credited towards the prepayment of the Lease Payments.

TERMINATION OR ABATEMENT DUE TO EMINENT DOMAIN

If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement will cease with respect thereto as of the day possession is so taken. If less than all of the Leased Property is taken permanently, or if the Leased Property is taken temporarily, under the power of eminent domain, (a) the Lease will continue in full force and effect with respect thereto and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) there will be a partial abatement of Lease Payments allocated thereto, in an amount to be determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portions of the Leased Property.

Notwithstanding the foregoing, the Lease Payments will not be abated to the extent that amounts in the Certificate Reserve Fund or the proceeds of Gas Tax Revenues are available to pay Lease Payments which would otherwise be abated, it having been declared by the City that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

ABATEMENT DUE TO DAMAGE OR DESTRUCTION

The amount of Lease Payments will be abated during any period in which by reason of damage or destruction (other than by eminent domain which was described above) there is substantial interference with the use and occupancy by the City of the Leased Property or any portion thereof. The amount of such abatement shall be determined by the City such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property not damaged or destroyed. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement will continue in full force and effect and the City has waived any right to terminate the Lease agreement by virtue of any such damage and destruction.

Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the Lease Agreement to the extent that the proceeds of hazard insurance, rental interruption insurance, amounts in the Certificate Reserve Fund, or the Allocable Share of Gas Tax Revenues, are available to pay Lease Payments which would otherwise be abated, it having been declared by the City that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

REENTERING AND RELETTING

If the City defaults in the performance of its obligations under the Lease Agreement, the Trustee, as assignee of the Authority, may re-enter and relet the Leased Property and may enforce the Lease Agreement and hold the City liable for all Lease Payments on an annual basis while re-entering and reletting the Leased Property. Such re-entry and reletting shall not effect a surrender of the Lease Agreement. The City has agreed to pay all costs, loss or damage howsoever occurring.

PREPAYMENT PROVISIONS

OPTIONAL PREPAYMENT

The Certificates maturing on or before January 1, 2016 are not subject to call and prepayment prior to maturity. The Certificates maturing on or after January 1, 2017 shall be subject to call and prepayment prior to maturity, at the option of the City, from the proceeds of optional prepayments of Lease Payments made by the City pursuant to the Lease Agreement, among maturities as shall be determined by the City, and by lot within each maturity, as a whole or in part, on any date on or after January 1, 2016, at the optional prepayment prices set forth below, calculated as a percentage of the principal amount thereof, with accrued interest to the date of prepayment:

<u>Prepayment Period</u>	<u>Prepayment Price</u>
January 1, 2016 through December 31, 2017	102%
January 1, 2017 through December 31, 2018	101%
January 1, 2018 and thereafter	100%

EXTRAORDINARY PREPAYMENT

The Certificates may be prepaid, in whole or in part, in any integral multiple of an Authorized Denomination, on any Interest Payment Date, from Net Proceeds received by the City of insurance, or condemnation awards with respect to the Leased Property, which Net Proceeds are deposited in the Lease Payment Fund and credited towards the prepayment of the Lease Payments made by the City pursuant to the Lease Agreement, at a prepayment price equal to the principal amount of the Certificates to be prepaid, together with accrued interest to the date fixed for prepayment, without premium.

MANDATORY SINKING FUND PREPAYMENT

The Certificates maturing on January 1, 2013 are subject to mandatory sinking fund prepayment, in part, as set forth below on January 1 in the years set forth below to the extent of the principal components of scheduled Lease Payments required to be paid by the City pursuant to the Lease Agreement with respect to each such prepayment date, commencing January 1, 2012 at a prepayment price equal to the principal amount thereof, together with accrued interest thereon to the date of prepayment, without premium, as follows:

Sinking Fund Prepayment Date (January 1)	Principal Amount of Certificates to be Prepaid
2012	\$525,000
2013 (Maturity)	525,000

In the event that the Trustee shall prepay Certificates maturing on January 1, 2014 in part but not in whole, the amount of the Certificates to be prepaid in each subsequent year will be reduced proportionately to correspond to the principal components of the Lease Payments remaining following such prepayment, determined as set forth in the Lease Agreement such that approximately equal Lease Payments prevail following each such prepayment.

The Certificates maturing on January 1, 2016 are subject to mandatory sinking fund prepayment, in part, as set forth below on January 1 in the years set forth below to the extent of the principal components of scheduled Lease Payments required to be paid by the City pursuant to the Lease Agreement with respect to each such prepayment date, commencing January 1, 2014 at a prepayment price equal to the principal amount thereof, together with accrued interest thereon to the date of prepayment, without premium, as follows:

Sinking Fund Prepayment Date (January 1)	Principal Amount of Certificates to be Prepaid
2014	\$505,000
2015	555,000
2016 (Maturity)	530,000

In the event that the Trustee shall prepay Certificates maturing on January 1, 2016 in part but not in whole, the amount of the Certificates to be prepaid in each subsequent year will be reduced proportionately to correspond to the principal components of the Lease Payments remaining following such prepayment,

determined as set forth in the Lease Agreement such that approximately equal Lease Payments prevail following each such prepayment.

The Certificates maturing on January 1, 2022 are subject to mandatory sinking fund prepayment, in part, as set forth below on January 1 in the years set forth below to the extent of the principal components of scheduled Lease Payments required to be paid by the City pursuant to the Lease Agreement with respect to each such prepayment date, commencing January 1, 2021 at a prepayment price equal to the principal amount thereof, together with accrued interest thereon to the date of prepayment, without premium, as follows:

Sinking Fund Prepayment Date (January1)	Principal Amount of Certificates to be Prepaid
2021	\$600,000
2022 (Maturity)	675,000

In the event that the Trustee shall prepay Certificates maturing on January 1, 2022 in part but not in whole, the amount of the Certificates to be prepaid in each subsequent year will be reduced proportionately to correspond to the principal components of the Lease Payments remaining following such prepayment, determined as set forth in the Lease Agreement such that approximately equal Lease Payments prevail following each such prepayment.

The Certificates maturing on January 1, 2037 are subject to mandatory sinking fund prepayment, in part, as set forth below on January 1 in the years set forth below to the extent of the principal components of scheduled Lease Payments required to be paid by the City pursuant to the Lease Agreement with respect to each such prepayment date, commencing January 1, 2031 at a prepayment price equal to the principal amount thereof, together with accrued interest thereon to the date of prepayment, without premium, as follows:

Sinking Fund Prepayment Date (January1)	Principal Amount of Certificates to be Prepaid
2031	\$850,000
2032	880,000
2033	930,000
2034	930,000
2035	980,000
2036	1,005,000
2037 (Maturity)	1,025,000

In the event that the Trustee shall prepay Certificates maturing on January 1, 2037 in part but not in whole, the amount of the Certificates to be prepaid in each subsequent year will be reduced proportionately to correspond to the principal components of the Lease Payments remaining following such prepayment, determined as set forth in the Lease Agreement such that approximately equal Lease Payments prevail following each such prepayment.

SELECTION OF CERTIFICATES FOR PREPAYMENT

All or a portion of any Certificate may be prepaid, but only in a principal amount equal to an Authorized Denomination. In the event that part, but not all, of the Certificates are to be redeemed (except for mandatory sinking fund prepayment), the Certificates to be redeemed will be selected by the Trustee among maturities as designated in writing by the City and by lot within a maturity; provided, however, that, as shall be set forth in a Written Request of the City, the Certificates may be redeemed by any maturity or maturities selected by the City to correspond with Lease Payments prepaid by the City, and by lot within a maturity. The Trustee will promptly notify the City in writing of the numbers of the Certificates so selected for prepayment on such date. For purposes of such selection, any Certificate may be redeemed in part in Authorized Denominations.

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

NOTICE OF PREPAYMENT

The Trustee will give to the Certificate Owners notice of the prepayment of the Certificates. Such notice will be given not less than thirty (30) and no more than sixty (60) days prior to the date fixed for prepayment to each Owner of the Certificate or Certificates to be redeemed. When prepayment of the Certificates is authorized pursuant to the Trust Agreement, the Trustee will give notice, at the expense of the City, of the prepayment of the Certificates.

While the Certificates are subject to DTC's Book-Entry system, the Trustee will be required to give notice of prepayment only to DTC as provided in the letter agreement between the City and DTC, and the Trustee will not be required to give any such notice of prepayment to any other person or entity other than certain securities depositories and information repositories as identified in the Trust Agreement. DTC and the Participants will have sole responsibility for providing any such notice of prepayment to the beneficial owners of the Certificates to be prepaid. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Certificates to be prepaid, of a notice of prepayment or its content or effect will not affect the validity of the notice of prepayment, or alter the effect of prepayment described below under "Effect of Prepayment."

During any period in which the Certificates are not subject to the Book-Entry system, notice of prepayment of any Certificates to be prepaid will be given to the respective Owners of Certificates designated for prepayment by first-class mail, postage prepaid, at their addresses appearing on the registration books of the Trustee, at least 30 but not more than 60 days prior to the prepayment date. Such notice must also be given to each of certain specified securities depositories and to certain other specified services.

EFFECT OF PREPAYMENT

If notice of prepayment has been duly given as provided in the Trust Agreement and moneys for the payment of the prepayment price of the Certificates to be prepaid are held by the Trustee, then on the prepayment date designated in such notice, the Certificates so called for prepayment will become payable at the prepayment price specified in such notice; and from and after the date so designated, interest evidenced

by the Certificates so called for prepayment will cease to accrue, such Certificates will cease to be entitled to any benefit or security under the Trust Agreement and the Owners of such Certificates will have no rights in respect thereof except to receive payment of the prepayment price thereof, and such moneys will be pledged to such prepayment. All Certificates prepaid pursuant to the provisions of the Trust Agreement will be canceled by the Trustee and will not be redelivered.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

NATURE OF THE CERTIFICATES

Each Certificate evidences and represents a direct, undivided fractional interest in the principal component of the Lease Payments due under the Lease Agreement on the payment date or prepayment date of such Certificate, and the interest component of all Lease Payments (based on the stated interest rate with respect to such Certificate) to accrue from its date of delivery to its payment date or prepayment date, as the case may be. Under the Assignment Agreement, the Authority will assign to the Trustee for the benefit of the Owners of the Certificates, the Authority's right to receive Lease Payments to be paid by the City, to enforce collection of the Lease Payments, and to receive the Available Proceeds of any insurance or eminent award with respect to the Leased Property. The City will pay Lease Payments directly to the Trustee, as assignee of the Authority. See "Lease Payments" below.

SOURCE OF PAYMENTS; BUDGET AND APPROPRIATION

The Lease Payments and Additional Payments due under the Lease Agreement are payable from any source of available funds of the City. The City has covenanted in the Lease Agreement to take such actions as may be necessary to include all estimated Lease Payments and all estimated Additional Payments due under the Lease Agreement in each of its final approved budgets. The City has further covenanted to make all necessary appropriations (including any supplemental appropriations) from any source of legally available funds of the City for all the actual amount of Lease Payments and Additional Payments which come due and payable during the period covered by such budget.

PLEDGE OF GAS TAX REVENUES

The City and the Authority have determined that 25.235% (the "Allocable Share") of each Lease Payment is payable from and ratably secured by a pledge of and lien on (the "Revenue Pledge") the Gas Tax Revenues (as defined in the Trust Agreement). As part of the Revenue Pledge the City has covenanted to deposit all of the Gas Tax Revenues into a special fund to be held and administered by the City. On or before each Lease Payment Date, the City will withdraw from such special fund and pay to the Trustee the Allocable Share of the Lease Payment and Additional Payments which are then coming due and payable. See "RISK FACTORS – Gas Tax Revenues Uncertain" herein.

LEASE PAYMENTS

The Lease Agreement requires the City to pay the Lease Payments which are evidenced by the Certificates, for use of the Leased Property. The Lease Payments shall be payable on the Interest Payment Dates, and the amount of each Lease Payment due on any Interest Payment Date shall be equal to the aggregate amount of principal and interest coming due and payable on the Certificates on such Interest

Payment Date as determined in accordance with the Trust Agreement. The Lease Payment coming due and payable on any Interest Payment Date shall be deposited by the City with the Trustee on the Lease Payment Date immediately preceding such Interest Payment Date. See "LEASE PAYMENT SCHEDULE" above for a description of the amount of the Lease Payments.

THE OBLIGATION OF THE CITY TO PAY THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

ADDITIONAL PAYMENTS

In addition to the Lease Payments, the City is obligated under the Lease Agreement to pay when due, as additional rental for the Leased Property under the Lease Agreement, all costs and expenses incurred by the City under the Lease Agreement or under the Trust Agreement, or incurred by the Authority to comply with the provisions of the Trust Agreement, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), annual compensation due to the Trustee and all of its reasonable costs and expenses (including amounts payable to the Trustee by virtue of indemnification) payable as a result of the performance of and compliance with its duties under the Trust Agreement, and all reasonable costs and expenses of attorneys, auditors, engineers and accountants engaged by the Authority or the Trustee in connection with the Leased Property or the performance of their duties under the Lease Agreement or under the Trust Agreement.

THE LEASE PAYMENT FUND

The Trustee will establish a fund designated as the "Lease Payment Fund" as a fund separate and apart from all other funds and accounts held by the Trustee. All moneys at any time deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates and the Insurer. So long as any Certificates are Outstanding, neither the City nor the Authority shall have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as set forth in the Trust Agreement.

Within the Lease Payment Fund the Trustee will establish an account designated as the "Capitalized Interest Account" as an account separate and apart from all other funds and accounts held by the Trustee. The funds in the Capitalized Interest Account will be applied to satisfy interest with respect to the Lease Payments as provided in the Lease Agreement, and to satisfy the Trustee's fees and costs incurred in connection with the Certificates to the extent funds within the Delivery Costs Fund are insufficient.

There will be deposited in the Lease Payment Fund all Lease Payments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Lease Agreement or pursuant to the Trust Agreement (except moneys deposited for Certificate Reserve Fund purposes). There shall be deposited in the Capitalized Interest Account of the Lease Payment Fund the proceeds of sale of the Certificates required to be deposited therein pursuant to the Trust Agreement representing the interest component coming due on the first Interest Payment Date.

ADMINISTRATION AND MAINTENANCE OF GAS TAX REVENUES

Under the Lease Agreement, the City is obligated to hold and administer the Gas Tax Revenues in such a manner that permits the Allocable Share of the Lease Payments and Additional Payments to be paid from the Gas Tax Revenues when due. Subject to such general covenant to pay the Allocable Share, the City has full discretion to expend Gas Tax Revenues for any authorized purposes from time to time, including but not limited to the payment of authorized costs of street improvements. The City has covenanted to take all actions as may be required to receive and collect the full amount of Gas Tax Revenues to which the City is entitled under the laws of the State of California, at all times during the Term of the Lease Agreement.

The City has the right from time to time to issue its bonds, notes or other obligations, or enter into leases, installment sale agreements or other contracts, which are secured by a Revenue Pledge of and lien on the Gas Tax Revenues which is on a parity with the lien established under the Lease Agreement, so long as the amount of Gas Tax Revenues received for the preceding Fiscal Year are at least equal to 150% of the maximum amount of Lease Payments and debt service on all such bonds, notes, leases, installment sale agreements, obligations or contracts coming due in the current or any future Fiscal Year. See “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS” and “RISK FACTORS – Gas Tax Revenues Uncertain” herein.

ACTION ON DEFAULT

If the City defaults under the Lease Agreement, the Trustee, as assignee of the Authority, may exercise any and all remedies available under law or granted under the Lease Agreement; provided, however, that notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there is no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. The Authority and the Trustee (as assignee of the Authority) have the right to re-enter or re-let the Leased Property and the right to terminate the Lease Agreement. See “RISK FACTORS – Limited Recourse on Default” herein. For a description of the events of default and permitted remedies of the Trustee (as assignee of the Authority) contained in the Lease Agreement and the Trust Agreement, see “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS” herein.

CERTIFICATE RESERVE FUND

The Trustee will establish a fund designated as the “Certificate Reserve Fund” as a fund separate and apart from all other funds and accounts held by the Trustee. All moneys at any time deposited by the Trustee in the Certificate Reserve Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates and the Insurer. So long as any Certificates are Outstanding, neither the City nor the Authority will have any beneficial right or interest in the Certificate Reserve Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as set forth in the Trust Agreement.

The Trust Agreement provides that on the Closing Date, the Certificate Reserve Fund will initially be satisfied with the acquisition of a debt service surety bond to be issued by the Certificate Insurer (the “Reserve Fund Surety Bond”). By the terms of the Reserve Fund Surety Bond, the Trustee will be entitled to draw amounts thereunder in the event and to the extent a payment is required to be made from the

Reserve Fund. see “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Trust Agreement” herein.

If the Certificate Reserve Fund Requirement is maintained in the Certificate Reserve Fund at any time in the form of a combination of cash and the Reserve Fund Surety Bond, the Trustee shall apply the amount of such cash to make any payment required to be made from the Certificate Reserve Fund before the Trustee shall draw any moneys under the Reserve Fund Surety Bond for such purpose. If the Trustee at any time draws funds under the Reserve Fund Surety Bond to make any payment then required to be made from the Certificate Reserve Fund, the Lease Payments thereafter received by the Trustee, to the extent remaining after making provision for payment of principal or interest represented by the Certificates then due and payable, must be used first to reinstate the Reserve Fund Surety Bond (including the amount drawn thereunder and including accrued interest on such draw at the rate set forth in the Reserve Fund Surety Bond) and second, to replenish the amount of cash in the Certificate Reserve Fund.

Interest earnings, if any, accruing in the Certificate Reserve Fund and amounts deposited in the Certificate Reserve Fund in excess of the Certificate Reserve Fund Requirement will be transferred first, to the Delivery Costs Fund to fund any unfunded costs of Conversion, then to the Lease Payment Fund.

Amounts available in the Certificate Reserve Fund will be used and withdrawn by the Trustee solely for the purposes set forth in the Trust Agreement. If, on any Interest Payment Date, the amount on deposit in the Lease Payment Fund is insufficient to pay the interest due with respect to the Certificates on such Interest Payment Date, the Trustee will transfer from the Certificate Reserve Fund and deposit in the Lease Payment Fund an amount sufficient to make up such deficiency. If, on any Payment Date, the amount on deposit in the Lease Payment Fund is insufficient to pay the principal due with respect to the Certificates on such date, the Trustee will transfer from the Certificate Reserve Fund and deposit in the Lease Payment Fund an amount sufficient to make up such deficiency. Moneys, if any, on deposit in the Certificate Reserve Fund will be withdrawn and applied by the Trustee for the final payment on the Certificates.

In any event of any transfer from the Certificate Reserve Fund, the Trustee will, within five (5) days thereafter, provide written notice to the City and the Insurer of the amount and the date of such transfer. If the sum of the amount on deposit in the Certificate Reserve Fund is less than the Certificate Reserve Fund Requirement, the Lease Payments thereafter received from the City not needed to pay the interest or principal components payable to the Owners on the next Interest Payment Date will be used to increase the amount on deposit in the Certificate Reserve Fund to an amount which will equal the Certificate Reserve Fund Requirement.

APPLICATION OF MONEYS

The Trustee will, on each Payment Date, draw from the Lease Payment Fund, an amount equal to the aggregate principal, prepayment price (but not premium) and interest due with respect to the Certificates on such Payment Date. The Trustee will make all payments on account of principal, prepayment price and interest with respect to the Certificates first from funds derived from the Lease Payment Fund, then from the Certificate Reserve Fund. The Trustee will make all payments on account of principal, prepayment price and interest with respect to the Certificates directly to the Owners thereof.

Amounts on hand in the Lease Payment Fund will be applied to the payment of the principal and interest with respect to the Certificates to Certificate Owners. If on any Interest Payment Date amounts on

deposit in the Lease Payment Fund are insufficient to pay the full amount of principal and interest then due and payable with respect to the Certificates then the Trustee will withdraw moneys from the Certificate Reserve Fund and apply such amounts first to the payment of interest past due, *pro rata* if necessary, and second to the payment of principal past due, *pro rata*, if necessary.

When amounts on deposit in the Capitalized Interest Account of the Lease Payment Fund are depleted, the Trustee will close such account and all payments shall be made through the use of the Lease Payment Fund. Any surplus remaining in the Lease Payment Fund after prepayment or payment in full of (i) all Certificates, including premiums and accrued interest (if any), and (ii) any applicable fees and expenses to the Trustee and any amounts due to the Insurer, will be withdrawn by the Trustee and remitted to the City.

BOOK-ENTRY ONLY SYSTEM

GENERAL

The following description of the procedures and record-keeping with respect to the beneficial ownership interests in the Certificates, payment of principal, interest and other payments with respect to the Certificates to Owners, confirmation and transfer of beneficial ownership interests in such Certificates and other related transactions by and between the Depository Trust Company (“DTC”), New York, New York, and the Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and the Owners should not rely on the following information with respect to such matters, but, instead should confirm the same with DTC or the Owners, as the case may be.

DTC will act as the initial depository for the Certificates. Cede & Co., will be the initial Nominee of DTC. The Certificates will be initially executed and delivered in the form of a single, fully registered Certificate for each maturity (which may be typewritten). Upon initial execution and delivery, the ownership of such Certificate(s) will be registered in the Certificate Register in the name of the Nominee identified below as the nominee of DTC.

LIMITED PURPOSE TRUST COMPANY

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also

subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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 Standard & Poor’s highest rating: AAA. 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 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC’s records. The ownership interest of each actual purchaser of each Certificate (“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 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Certificates 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 Certificates may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Certificates, such as prepayments, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Prepayment notices will be sent to DTC. If less than all of the Certificates within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Prepayment proceeds, distributions, and dividend payments on the Certificates 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 City or Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), Trustee, or City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of City or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

AS LONG AS CEDE & CO., OR ITS SUCCESSOR AS A NOMINEE OF DTC, IS THE OWNER OF THE CERTIFICATES, REFERENCES HEREIN TO THE OWNERS OF THE CERTIFICATES SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE CERTIFICATES. THE BENEFICIAL OWNERS WILL NOT RECEIVE CERTIFICATES REPRESENTING THEIR BENEFICIAL OWNERSHIP INTERESTS IN THE CERTIFICATES. IT IS ANTICIPATED THAT EACH BENEFICIAL OWNER WILL RECEIVE A WRITTEN CONFIRMATION OF THE OWNERSHIP INTEREST ACQUIRED BY SUCH BENEFICIAL OWNER IN THE CERTIFICATES FROM THE PERSON OR ENTITY FROM WHOM SUCH OWNERSHIP INTEREST IS ACQUIRED.

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

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

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

Set forth below is a brief summary of certain information concerning Ambac Assurance Corporation (the "Certificate Insurer") and the terms of the Insurer's financial guaranty insurance policy (the "Certificate Insurance Policy"). Information with respect to the Insurer has been supplied to the City by the Certificate Insurer. The following discussion does not purport to be complete and is qualified in its entirety by reference to the Certificate Policy. No representation is made by the City as to the accuracy of adequacy of the following information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. The following information has been furnished by the Insurer for use in the Reoffering Memorandum. Reference is made to APPENDIX F hereto for a specimen of the Certificate Insurance Policy.

THE CERTIFICATE INSURANCE POLICY

PAYMENT PURSUANT TO CERTIFICATE INSURANCE POLICY

The Certificate Insurer has previously issued a Certificate Insurance Policy, effective as of the date of issuance of the Original Certificates. Under the terms of the Certificate Insurance Policy, the Certificate Insurer will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the Certificates that will become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Certificate Insurance Policy). The Certificate Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which The Certificate Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Certificates and, once issued, cannot be canceled by the Certificate Insurer.

The Certificate Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Certificates become subject to mandatory prepayment and insufficient funds are available for prepayment of all outstanding Certificates, the Certificate Insurer will remain obligated to pay the principal of and interest on outstanding Certificates on the originally scheduled interest and principal payment dates, including mandatory sinking fund prepayment dates. In the event of any acceleration of the principal of the Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that the Certificate Insurer elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Certificate Insurer's obligations under the Certificate Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on the Certificates that has become Due for Payment and that is made to a Owner by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from the Certificate Insurer to the extent of such recovery if sufficient funds are not otherwise available.

The Certificate Insurance Policy does **not** insure any risk other than Nonpayment (as set forth in the Certificate Insurance Policy). Specifically, the Certificate Insurance Policy does **not** cover:

1. Payment on acceleration, as a result of a call for prepayment (other than mandatory sinking fund prepayment) or as a result of any other advancement of maturity;
2. Payment of any prepayment, prepayment or acceleration premium; and
3. Nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Certificate Insurance Policy, payment of principal requires surrender of the Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of the Certificate Insurer to the extent of the payment under the Certificate Insurance Policy. Payment of interest pursuant to the Certificate Insurance Policy requires proof of Owner entitlement to interest payments and an appropriate assignment of the Owner's right to payment to the Certificate Insurer.

Upon payment of the insurance benefits, The Certificate Insurer will become the owner of the Certificate(s), appurtenant coupon, if any, or right to payment of the principal of or interest on such Certificate(s) and will be fully subrogated to the surrendering Owner's rights to payment.

The Certificate Insurance Policy does not insure against loss relating to payments to the purchase price of the Certificates upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of the Certificates upon tender by a registered owner thereof.

In the event that the Certificate Insurer were to become insolvent, any claims arising under the Certificate Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

THE CERTIFICATE INSURER

The Certificate Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **\$12,282,000,000** (unaudited) and statutory capital of approximately **\$6,806,000,000** (unaudited) as of **March 31, 2008**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve.

The Certificate Insurer has been assigned the following financial strength ratings by the following rating agencies: Aa3, with negative outlook, by Moody's Investors Service, Inc., and AA, on CreditWatch with negative implications, by Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

The Certificate Insurer has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by the Certificate Insurer will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by the Certificate Insurer under policy provisions substantially identical to those contained in the Certificate Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor. **No representation is made by the Certificate Insurer regarding the federal income tax treatment of payments that are made by the Certificate Insurer under the terms of the Certificate Insurance Policy due to non-appropriation of funds by the Lessee.**

The Certificate Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, this Reoffering Memorandum other than the information supplied by the Certificate Insurer and presented under the heading "THE CERTIFICATE INSURANCE POLICY."

AVAILABLE INFORMATION

The parent company of the Certificate Insurer, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These reports, proxy statements and other information can be read and copied at the SEC’s public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company.

These reports, proxy statements and other information can also be read at the Certificate Insurer’s internet website at www.ambac.com and at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of the Certificate Insurer’s financial statements prepared on the basis of accounting practices prescribed or permitted by the State of Wisconsin Office of the Commissioner of Insurance are available without charge from the Certificate Insurer. The address the Certificate Insurer’s administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Reoffering Memorandum:

1. The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and filed on February 29, 2008;
2. The Company’s Current Report on Form 8-K dated and filed on March 7, 2008;
3. The Company’s Current Reports on Form 8-K dated and filed on March 12, 2008;
4. The Company’s Current Report on Form 8-K dated and filed on April 23, 2008; and
5. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2008 and filed on May 12, 2008.
6. The Company’s Current Report on Form 8-K dated and filed on May 9, 2008;
7. The Company’s Current Report on Form 8-K dated and filed on May 28, 2008;
8. The Company’s Current Report on Form 8-K dated and filed on June 4, 2008;
9. The Company’s Current Report on Form 8-K dated and filed on June 5, 2008;
10. The Company’s Current Report on Form 8-K dated and filed on June 19, 2008;
11. The Company’s Current Report on Form 8-K dated and filed on June 20, 2008;

12. The Company's Current Report on Form 8-K dated June 26, 2008 and filed on June 27, 2008; and
13. The Company's Current Report on Form 8-K dated July 7, 2008 and filed on July 8, 2008.

The Certificate Insurer's consolidated financial statements and all other information relating to the Certificate Insurer and subsidiaries included in the Company's periodic reports filed with the SEC subsequent to the date of this Reoffering Memorandum and prior to the date of closing of the Certificates shall, to the extent filed (rather than furnished pursuant to Item 9 of Form 8-K), be deemed to be incorporated by reference into this Reoffering Memorandum and to be a part hereof from the respective dates of filing of such reports.

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

Copies of all information regarding the Certificate Insurer that is incorporated by reference in this Reoffering Memorandum are available for inspection in the same manner as described above in "Available Information."

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Reoffering Memorandum will be available for inspection in the same manner as described above in "Available Information."

RISK FACTORS

The purchase of the Certificates involves certain investment risks that are discussed throughout this Reoffering Memorandum. Accordingly, the following factors, along with the other information in the Reoffering Memorandum, should be considered by potential investors in making an independent evaluation regarding the prudence of purchasing any Certificates. However, such listed factors do not purport to be an exhausting listing of risks and other considerations that may be relevant to an investment in the Certificates. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Certificates. There can be no assurance that other risk factors not discussed herein will not become material in the future.

FINANCIAL CONDITION OF THE CITY

With respect to the financial condition of the City as of June 30, 2007, see "APPENDIX A – AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2006-2007" herein.

SECURITY FOR THE CERTIFICATES; LIMITED OBLIGATION OF THE CITY

THE OBLIGATION OF THE CITY TO BUDGET FOR AND TO PAY THE LEASE PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY OR THE

STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES A DEBT OF THE CITY, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION OF THE STATE OF CALIFORNIA OR A PLEDGE OF THE FULL FAITH AND CREDIT OF SUCH PARTIES. NEITHER BOARD OF TRUSTEE NOR ANY PERSONS EXECUTING THE CERTIFICATES, NOR ANY OFFICER OR EMPLOYEE OF THE CITY SHALL BE PERSONALLY LIABLE ON THE CERTIFICATES OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THE EXECUTION THEREOF.

Except as noted herein, although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Lease Agreement to pay the Lease Payments from any source of legally available funds and the City has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Lease Payments due under the Lease Agreement in its annual budgets and to make necessary annual appropriations for all such rental payments. The City is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Lease Payments. However, the City may incur obligations payable from general revenues which have a priority over the Lease Payments, and the Lease Agreement does not prohibit the City from incurring additional obligations payable from general revenues on a parity with the Lease Payments. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other municipal services before making Lease Payments and other payments due under the Lease Agreement, except from amounts on deposit in the Lease Payment Fund. The City's ability to collect, budget and appropriate various revenues is subject to current and future State laws and constitutional provisions, and it is possible that the interpretation and application of these provisions could result in an inability of the City to pay Lease Payments when.

NO LIMITATION ON INCURRING ADDITIONAL OBLIGATIONS

The City has the capacity to enter into other obligations which may constitute additional charges against its general revenues. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other activities before making Lease Payments and other payments due under the Lease Agreement. No assurance is given that the City would not fund any such other activities.

ABATEMENT

In the event of substantial interference with the City's right to use and occupy any portion of the Leased Property by reason of damage to, or destruction or condemnation of the Leased Property, or any defects on title to the Leased Property which causes the City not to have the use and possession of all or a substantial use of the Leased Property, the City's obligation to make Lease Payments will be subject to abatement. See "THE CERTIFICATES – Budget and Appropriation of Lease Payments," herein. In the event that such portion of the Leased Property, if damaged or destroyed by an insured casualty, could not be

replaced during the period of time in which proceeds of the City's rental interruption insurance will be available in lieu of Lease Payments, plus the period for which funds are available from the funds and accounts established under the Trust Agreement, or in the event that casualty insurance proceeds are insufficient to provide for complete repair or replacement of such portion of the Leased Property or prepayment of the Certificates, there could be insufficient funds to make payments with respect to the Certificates and therefore to pay Owners in full.

Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the Lease Agreement by reason of damage, destruction, noncompletion or unavailability of all or a portion of the Leased Property to the extent that: (i) the fair rental value of the portions of the Leased Property not damaged, destroyed, or otherwise unavailable for use and occupancy by the City is equal to or greater than the unpaid principal component of the Lease Payments; (ii) proceeds of Gas Tax Revenues, to the extent of the Allocable Share, are available to pay Lease Payments or (iii) (A) the proceeds of rental interruption insurance or (B) amounts in the Insurance and Condemnation Fund and/or the Lease Payment fund are available to pay Lease Payments which would otherwise be abated.

LIMITED RECOURSE ON DEFAULT

If the City defaults on its obligations to make Lease Payments, the Insurer assumes the risk of nonpayment. However, should the Insurer fail to honor its obligations under the Certificate Insurance Policy, then the Trustee, as assignee of the Authority, may exercise its remedies under the Lease Agreement and hold the City liable for all Lease Payments on an annual basis and will have the right to re-enter and re-let the Leased Property. In the event such re-letting occurs, the City would be liable for any resulting deficiency in Lease Payments. Alternatively, the Trustee may terminate the Lease Agreement and proceed against the City to recover damages pursuant to the Lease Agreement.

No assurances can be given that the Trustee would be able to re-let the Leased Property so as to provide rental income sufficient to make principal and interest payments with respect to the Certificates in a timely manner, and the Trustee is not empowered to sell the fee interest in the Leased Property for the benefit of the Owners of the Certificates. Due to the essential government function of the property it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting of the Leased Property. Any suit for money damages would be subject to limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Moreover, there can be no assurance that such re-letting will not adversely affect the exclusion of any interest component of Lease Payments from federal or state income taxation.

IN THE EVENT OF A DEFAULT UNDER THE LEASE AGREEMENT, THERE IS NO AVAILABLE REMEDY OF ACCELERATION OF THE TOTAL LEASE PAYMENTS DUE OVER THE TERM OF THE LEASE AGREEMENT. THE CITY WILL ONLY BE LIABLE FOR LEASE PAYMENTS ON AN ANNUAL BASIS AS THEY COME DUE, AND THE TRUSTEE WOULD BE REQUIRED TO SEEK SEPARATE JUDGMENTS FOR THE LEASE PAYMENTS AS THEY COME DUE. IN ADDITION, ANY SUCH SUIT FOR MONEY DAMAGES COULD BE SUBJECT TO LIMITATIONS ON LEGAL REMEDIES AGAINST PUBLIC AGENCIES IN CALIFORNIA, INCLUDING A LIMITATION ON ENFORCEMENT OF JUDGMENTS AGAINST FUNDS NEEDED TO SERVE THE PUBLIC WELFARE AND INTEREST AND A LIMITATION ON ENFORCEMENT OF JUDGMENTS AGAINST FUNDS OF A FISCAL YEAR OTHER THAN THE FISCAL YEAR IN WHICH THE LEASE PAYMENTS WERE DUE.

THE CERTIFICATE INSURER AND THE CERTIFICATE INSURANCE POLICY

Recent Developments Concerning Certificate Insurer. When the Original Certificates were issued and delivered, payment of the principal of and interest on the Original Certificates when due was insured by the Policy issued by the Certificate Insurer, which Policy remains in effect for the Certificates by virtue of the Conversion. However, recent developments which have been the subject of substantial discussion in the financial press and which affect the bond insurance business, including that of the Certificate Insurer, have had a serious adverse effect on the financial condition of a number of bond insurers, weakening their credit status as reflected in their credit ratings, including a recent downgrade of the Certificate Insurer. The Certificate Insurer has recently been assigned the following financial strength ratings by the following rating agencies: Aa3, with negative outlook, by Moody's Investors Service, Inc., and AA, on CreditWatch with negative implications, by Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

No review of the business or affairs of the Certificate Insurer has been conducted in connection with the change in mode of the Original Certificates to the Certificates. This Reoffering Memorandum does not contain any financial information about the Certificate Insurer and does not refer to any such information that may be available elsewhere, except information provided by the Certificate Insurer. No assurance can be given by the City or the Authority as to the Certificate Insurer's ability to pay claims under the Certificate Insurance Policy. See "THE CERTIFICATE INSURANCE POLICY" herein and APPENDIX F hereto for further information concerning the Certificate Insurer and the Certificate Insurance Policy, including instructions for obtaining certain financial information concerning the Certificates Insurer.

Therefore, when making an investment decision on the Certificates a prospective Owner of Certificates should look principally to the Underlying Rating and ability of the City to pay principal and interest on the Certificates and not simply to the Certificate Insurer's ability to pay claims under the Certificate Insurance Policy.

Creditworthiness of the Certificate Insurer. The long-term ratings on the Certificates are dependent, in part, on the claims paying ability or financial strength ratings, as applicable, of the Certificate Insurer. The Certificate Insurer's current claims paying ability or financial strength ratings are predicated upon a number of factors which could change over time and could result in continued downgrading of the ratings on the Certificates insured by the Certificate Insurer. Such further downgrades could adversely affect the market price for, and marketability of, the Certificates. The Certificate Insurer is not contractually bound to maintain its present claims paying ability or financial strength ratings in the future.

In the event that the Certificate Insurer is unable to make payments of principal of and interest on the Certificates as such payments become due, the Certificates are payable solely from moneys received by the Trustee pursuant to the Trust Agreement.

The Certificate Insurer's obligations under the Certificate Insurance Policy is a general obligation of the Certificate Insurer. Default by the Certificate Insurer may result in insufficient funds being available to pay the principal of and interest on the Certificates. In such event, the remedies available to the Trustee may be limited by, among other things, certain risks related to bankruptcy proceedings, and may also have been altered prior to a default by the Certificate Insurer, which has the right, acting with the Trustee, without Certificate Owner consent, to amend the applicable provisions of the Trust Agreement governing defaults and remedies and to direct the Trustee to direct certain remedies.

Certificate Insurer Rights and Remedies. Both before and after the occurrence or nonoccurrence of a payment or other default by the City in respect of the Certificates, the Certificate Insurer may be entitled to exercise certain rights and remedies in a manner that could adversely affect the interests of the Owners of Certificates.

While the Certificate Insurance Policy remains in effect, and so long as the Certificate Insurer is not in default with respect to its obligations thereunder, the Certificate Insurer will be entitled to consent to changes in documents, control the exercise of remedies by the Trustee and exercise certain other rights in lieu of the exercise of the same or similar rights by the Owners of the Certificates.

Under certain circumstances, the interests of the Certificate Insurer and the interests of the Owners of the Certificates may not be aligned with respect to the exercise of these rights and remedies. Consequently, such rights of the Certificate Insurer and the manner in which they are exercised could adversely affect the interests of the Owners of the Certificates. In the event that the Certificate Insurer is required to pay principal of or interest with respect to the Certificates, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Certificates.

GAS TAX REVENUES UNCERTAIN

Recent Legislation

On February 16, 2008, Governor Arnold Schwarzenegger signed legislation designed to trim expenses and delay a variety of payments in the FY2007-08 year as a first significant step toward addressing the State's projected \$16 billion shortfall through the FY2008-09 year. Among the cash management solutions signed into law is a delay in five monthly Gas Tax Revenues disbursements for local streets and roads.

The new law (ABX3 7) delays payment of approximately \$500 million of payments of Gas Tax Revenues (also called the Gasoline Excise Tax or the Highway Users Tax allocated among local governments and state transportation funds pursuant to California Streets & Highways Code §§2104-2108) payments to cities and counties, about \$100 million per month over five months beginning in April 2008. The funds will be repaid in full without interest in September 2008.

The authority for such a delay in the payment of gas tax revenues is found in Section 6 Article XIX of the California Constitution, which permits borrowing of these funds under certain conditions but requires repayment either within 30 days of the adoption of the budget bill for the subsequent fiscal year or - under specific conditions - within three years.

The City estimates that the five month delay in Gas Tax Revenues allocations will impact the loss of interest income and budgetary adjustments. The allocations made pursuant to Streets and Highways Code Sections 2105, 2106, and 2107 are normally made monthly. Consequently the monthly amounts will be about one fifth of the amount shown. Allocations made pursuant to Streets and Highways Code Section 2107.5 are usually made once per year in July or August. The new law delaying the Highway User Tax payments stipulates that the entire amount deferred will be repaid in September 2008.

Subject to Fluctuation

The City has no control over the amount of Gas Tax Revenues to be received since it is based upon consumption of gasoline statewide and it has no ability to increase the tax rate. Also, the City has no control over any revision in the tax rate or collection procedures set by the State. The collection of taxes imposed on the purchase of motor vehicle fuels is necessarily subject to fluctuations in spending which is affected by, among other things, general economic cycles. Gas Tax Revenues may increase along with the increasing fuel prices brought about by inflation, but collections also are vulnerable to adverse economic conditions and reduced spending and may decrease as a result. Consequently, the rate of collection of taxes imposed on the purchase of motor vehicle fuels and, particularly Gas Tax Revenues, may be expected to correspond generally to economic cycles, patterns of usage of automobiles and truck transport, alternative transportation and energy sources as may be developed, and changes in population and density, among other factors. The City has no control over general economic cycles, alternative energy sources or changes in usage over time, and is unable to predict what economic factors, demands, changes in use or cycles of collection will occur while the Certificates remain outstanding.

GEOLOGIC, TOPOGRAPHIC AND CLIMATE CONDITIONS

The value of the Leased Property, along with all other capital improvements of the City, can be adversely affected by a variety of natural events and conditions. These include, without limitations:

- geologic conditions such as seismic activity and earthquakes;
- topographic conditions such as earth movements, subsidence, avalanches and floods; and
- climatic conditions such as droughts.

The City, like much of California, is subject to storms, floods, earth movements and seismic activity that could negatively affect the value of the Leased Property, as well as other assets of the City. The possibility of the occurrence of some of these conditions and events has not been taken into account in the design of the Leased Property and has not been taken into account in the designs of other public improvements which may be acquired or constructed by the City or other public agencies. The City expects that one or more of these conditions will occur from time to time, and, even if design criteria have been implemented to mitigate certain geologic events, such conditions may nevertheless result in damage to the Leased Property.

HAZARDOUS SUBSTANCES

In general, the City as the owners and operators of the Leased Property may be required by law to remedy conditions of the Leased Property relating to released or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar.

Under many of these laws, the owner or operator of a property is obligated to remedy a hazardous substance condition whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect therefore, should any of the Leased Property be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, and therefore could impair the City's ability to make Lease Payments.

The City is not aware that the Leased Property has such a current liability. However, it is possible that such liabilities do currently exist and that the City is not aware of them. Further, it is possible that liabilities may arise in the future with respect to the Leased Property resulting from the current existence on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of the Leased Property.

ENVIRONMENTAL REGULATION

The City is subject to the environmental regulations of the State and the United States in the operation of its water, wastewater solid and air emission waste activities. These laws and regulations are subject to change, and the City may be required to expend substantial funds to meet the requirements of such regulatory authorities. Failure to comply with these laws and regulations may result in the imposition of administrative, civil and criminal penalties, which, if material, could impair the City's ability to make Lease Payments.

SUBSTITUTION OR RELEASE OF PROPERTY

The Lease Agreement provides that upon the satisfaction of the other conditions specified therein, the City may substitute other public facilities or real property for all or any portion of the Leased Property. No substitution for all or any portion of the Leased Property will be permitted under the Lease Agreement unless a certified real estate appraiser selected by the City certifies that the substituted real property (i) has a fair market rental value greater than or equal to the fair market rental value of the property to be released so that the Lease Payments secured by the Leased Property to be released being payable by the City pursuant to the Lease Agreement will not be reduced and (ii) has an equivalent or greater useful life as the Leased Property to be released and that the useful life of the substituted Leased Property exceeds the remaining term of the Lease Payments.

In addition, the Lease Agreement provides that upon the satisfaction of certain conditions specified therein, the City may release a portion of the Leased Property from the Site Lease and the Lease Agreement. Such replacement or release could have an adverse impact on the security for the Certificates, particularly if an event requiring abatement of Lease Payments were to occur subsequent to such substitution.

CALIFORNIA ECONOMY

Like all California cities, the City receives a significant portion of its funding from appropriations by the State of California. As a result of the ongoing State budget crisis, the decreases in the revenues presently being experienced by the State could affect appropriations made by the State to the City and other municipalities within California. The continued deterioration of California's economy could result in declining appropriations to the City to such an extent that the City may not have sufficient funds available to make its regularly scheduled payments of principle and interest on the Certificates.

LOSS OF TAX EXEMPTION

As discussed under the heading “TAX MATTERS,” the interest represented by the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Certificates, as a result of acts or omissions of the City in violation of its representations or covenants in the Trust Agreement, the Lease Agreement or other Principal Legal Documents. Should such an event of taxability occur, the Certificates would not be subject to a special prepayment and would remain Outstanding until maturity or until prepaid under the prepayment provisions contained in the Trust Agreement. See “PREPAYMENT PROVISIONS” herein.

PROPOSED TAX LEGISLATION

Wide variations of bills are being proposed in Congress and at the State level to change the Internal Revenue Code’s treatment of taxing personal, corporate and other income which may reduce tax exempt benefits available to such taxpayers from their purchase of municipal debt obligations. The City cannot and does not know the effect of the many possible financial effects on such parties that could result from enactment of any such bills or other regulatory actions proposing to change the Internal Revenue Code. Potential Owners should consult with their investment advisors in evaluating the impact of such potential changes.

INSURANCE

The City is obligated to obtain and keep in force various forms of insurance or, subject to the Lease Agreement, self insurance, subject to deductibles, for repair or replacement of the Leased Property in the event of damage or destruction of the Leased Property. The City makes no representation to the ability of any insurer to fulfill its obligations under any insurance policy and no assurance can be given as to the adequacy of such insurance to fund necessary repair or replacement of the Leased Property.

DTC-BENEFICIAL OWNERS

Beneficial Owners of the Certificates may experience some delay in the receipt of distributions of principal and interest represented by the Certificates since such distributions will be forwarded by the Trustee to DTC and DTC will credit such distributions to the accounts of the Participants which will there after credit them to the accounts of the Beneficial Owner either directly or indirectly through indirect Participants. Neither the City nor the Trustee will have any responsibility or obligation to assure that any such notice or payment is forwarded by DTC to any Participants or by any Participant to any Beneficial Owner. In addition, since transactions regarding the Certificates can be effected only through DTC Participants, indirect participants and certain banks, the ability of a Beneficial Owner to pledge the Certificates to persons or entities that do not participate in the DTC system, or otherwise to take actions with respect to such Certificates, may be limited due to lack of a physical certificate. Beneficial owners will be permitted to exercise the rights of registered Owners only indirectly through DTC and the Participants. See “THE CERTIFICATES – Book-Entry Only System,” herein.

LIMITATIONS OF REMEDIES

In addition to the limitations on remedies contained on the Lease Agreement, the enforceability of the rights and remedies of the owners of the Certificates and the obligations of the City may become

subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies: the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights. In the event of a bankruptcy of the City, any provision of the Lease Agreement which makes the bankruptcy of the City an event of default may be invalidated and the enforceability of the pledge pursuant to the Lease Agreement is limited in accordance with the provisions of Chapter 9 of the United States Bankruptcy Code.

PREPAYMENT PROVISION

The Certificates are subject to extraordinary prepayment (see "PREPAYMENT PROVISIONS" herein) under certain circumstances.

UNCONVENTIONAL MORTGAGE STRUCTURES

From 2002 through the first half of 2006, the California housing market experienced significant price appreciation with accelerating demand. One factor contributing to the recent housing boom in California was the use of unconventional mortgage structures, such as a cross between a fixed and adjustable rate mortgage, having a low initial (or "teaser") fixed interest rate for several years that converts to an adjustable interest rate determined by an index plus a fixed margin, and interest-only mortgages, where the borrower pays only interest for a set period of time and then pays down the principal plus interest. Homeowners who financed the purchase of their homes with such mortgages can expect their monthly mortgage payments to increase after the initial period.

As the initial low-interest or interest-only periods related to such unconventional mortgage have expired, some homeowners have not been able to maintain payments on their existing loans or to obtain refinancing loans for their homes. Foreclosure proceedings in California have also increased dramatically in 2007 and 2008. Recently there has been a general softening of the California housing market, as evidenced by a decrease in home sale prices, increasing inventory of new homes, slowing demand, and the tightening of credit by lenders. The City has not undertaken to assess the financial condition of the current owners of the residential properties within the City and expresses no view concerning these matters. The City cannot predict and expresses no view whether or how such factors may affect the City's finances and the potential impact on the City's budget.

RISK OF TAX AUDIT

In December 1999, as a part of a larger reorganization of the Internal Revenue Service (the "IRS"), the IRS commenced operation of its Tax Exempt and Government Entities Division (the "TE/GE Division"), as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations (which would include securities such as

the Certificates) is expected to increase significantly under the TE/GE Division. There is no assurance that if an IRS examination of the Certificates was undertaken that it would not adversely affect the market value of the Certificates. Neither the Authority nor the City is currently the subject of any ongoing audit nor has either been notified by the IRS regarding the possibility of any such audit.

RELIANCE ON STATE BUDGET

The City's General Fund revenues consist of payments collected by the State and passed-through to local governments or collected by the County and allocated to local governments by State law. There can be no assurance that current or future State budget difficulties will not adversely affect the City's revenues or its ability to make payments on the Certificates.

CHANGES IN LAW

There can be no assurance that the electorate of the State will not at some future time adopt additional initiatives or that the Legislature will not enact legislation that will amend the laws or the Constitution of the State resulting in a reduction of the general fund revenues of the City and consequently, having an adverse effect on the security for the Certificates.

LIQUIDITY RISK

No assurance can be given that an active trading market for the Certificates will develop or, if one develops, that it will be maintained, in addition, further adverse developments affecting the Certificate Insurer or other bond insurers, or credit markets generally, could cause trading prices to decline in any market that develops for the Certificates, even if those developments do not affect the City's financial condition or its ability to pay debt service on the Certificates. Consequently, should such further adverse developments arise in the future, Owners of Certificate who wish to sell their Certificates in the secondary market may not be able to do so on the terms or at the times they wish and consequently may lose a portion of their investment.

OTHER RISKS

The remedies available to the Owners of the Certificates upon an event of default under the Trust Agreement, or other documents described herein are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies set forth in the Trust Agreement and the various documents relating to the Leased Property may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Certificates will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by the application of equitable principles.

THE AUTHORITY

The City of Pacifica Financing Authority (the "Authority") was created on October 14, 1996, by the City and the Redevelopment Agency of the City of Pacifica under a Joint Exercise of Powers Agreement, to assist the City and the Redevelopment Agency in financing capital improvement projects. The members of

the City Council serve as the governing board of the Authority. The Joint Exercise of Powers Agreement was entered into under the provisions of the Joint Powers Act. The Authority is a separate entity constituting a public instrumentality of the State of California, and is empowered to purchase personal and real property and to sell or lease such property, to contract for construction and improvement and to execute operating agreements regarding such property. No assets of the Authority have been pledged, or are available to pay the Certificates. The lien represented by the Lease Agreement on the Leased Property, as defined herein, does not create a legal or equitable pledge, charge, lien or encumbrance upon any of the Authority's property or upon its income, receipts or revenue, except the Lease Payment, as defined herein.

THE CITY

GENERAL INFORMATION

The City is located in San Mateo County (the "County") on the California coast approximately 10 miles south of the City of San Francisco. The estimated population of the City as of 2007 is approximately 39,251. See "THE CITY" herein. The City is framed by the ridges of the Coast Range on the east and the Pacific Ocean on the west. The terrain is comprised of a combination of secluded valleys and open hillsides set against a coastline of long beaches and rugged headlands.

The geographically distinct portions of Pacifica are linked by Highway 1 and Sharp Park Boulevard. Highway 1 is also the corridor between San Francisco and Half Moon Bay. Sharp Park Boulevard connects to Interstate 280 and also links the City with other portions of the San Francisco peninsula to the east. Due to the City's close proximity to the Pacific Ocean, it enjoys a moderate climate with temperatures ranging from 50 to 70 degrees. See "APPENDIX C – GENERAL INFORMATION REGARDING THE CITY OF PACIFICA AND SURROUNDING AREA" herein.

MUNICIPAL GOVERNMENT

The City was incorporated on November 22, 1957 under the general laws of the State of California. The City has a council-manager form of government. The legislative body selects a City Manager to administer the affairs of the City. Under this type of government, the City Council is the policymaking body and the City Manager is responsible for carrying out Council policy. The City provides the following services: public safety (police, fire and civil defense), highways and street, sanitation, health and social services, culture/recreation, public improvements, planning and zoning and general administrative services.

THE CITY COUNSEL

The City is governed by a five-member City Council (the "Council"), with each Council member of which serving overlapping terms of four years (each a "Council Member"). Each Council Member is elected from the City at large. Municipal (local) elections are held in November of even numbered years. The Council selects a Mayor annually, who serves as presiding officer during all City Council meetings and study sessions. Council duties include, among other things, appointing a City Manager, City Attorney and members of City Committees and Commissions, adopting a yearly budget, and establishing basic policy for the City. Current Council Members, together with their office and the date their term expires, are listed below:

<u>Council Member</u>	<u>Office</u>	<u>Term Expires</u>
James M. Vreeland	Mayor	2010
Julie Lancelle	Mayor Pro Tem	2010
Peter DeJarnatt	Member	2008
Sue Digre	Member	2010
Calvin Hinton	Member	2008

EMPLOYEE RETIREMENT PLANS

The City of Pacifica has three defined benefit pension plans (Miscellaneous Plan, Safety Fire Plan and the Safety Police Plan, (the "Plans"). The Plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

The Plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California.

A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

Active plan members in the Miscellaneous Plan, the Safety Fire Plan and the Safety Police Plan are required to contribute 7%, 9% and 9%, respectively, of their annual covered salary. The City "picks up" the tax deferred contributions required of City employees on their behalf and for their account. The City is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration.

The required employer contribution rates for fiscal 2005/06 are as follows: 14.944% for miscellaneous employees; 32.358% for fire employees and 37.843% for police employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

For fiscal year 2006/07, the City's combined annual pension cost was \$4,799,722, the City actually contributed \$3,553,422 and members contributed \$1,246,300. The required contribution for fiscal year 2006/07 was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases of 3.25% to 14.45% depending on age, service, and type of employment for the miscellaneous members (for Safety Fire Plan and Safety Police Plan, salary increases range from 3.25% to 13.15%).

Both (a) and (b) include an inflation component of 3.0% and a payroll growth factor of 3.25% for all three groups, but do not include any post retirement benefit increases. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over three year period. The Plan's unfunded actuarial excess assets are being amortized as a level percentage of projected payrolls on a closed basis. The amortization period varies between the three

different plans of the City. For the fiscal year 2006/07, the average remaining amortization periods were 23 years for Miscellaneous Plan, 15 years for Safety Fire Plan, and 17 years for Safety Police Plan.

CITY FINANCES

The following selected financial information provides a brief overview of the City's finances. This financial information has been extracted from the City's audited financial statements and, in some cases, from unaudited information provided by the City's Finance Department. The most recent audited financial statements of the City with an unqualified auditor's opinion of Moss, Levy & Hartzheim LLP, Beverly Hills, California (the "Auditor") is attached hereto as Appendix A.

Such audited financial statements have been included in this Reoffering Memorandum in reliance upon the report of the Auditor. The Auditor has not undertaken to update the audited financial statements of the City or its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Reoffering Memorandum.

ACCOUNTING POLICIES AND FINANCIAL REPORTING

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government 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 the spending activities are controlled. The basis of accounting for all funds is more fully explained in the "Notes to Financial Statements" contained in Appendix A.

The City Council employs, at the beginning of each fiscal year, an independent certified public accountant who, at such time or times as specified by the City Council, at least annually, and at such other times as he or she determines, examines the combined financial statements of the City in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary. As soon as practicable after the end of the fiscal year, a final audit and report is submitted by such accountant to the City Council and a copy of the financial statements as of the close of the fiscal year is published. The City's Independent Auditor's Report for fiscal year 2006-07 was prepared by Moss, Levy & Hartzheim LLP, Beverly Hills, California.

GENERAL FUND FINANCIAL SUMMARY

The Lease Agreement provides that the City will make Lease Payments in full from any source of legally available funds of the City. The following provides financial information taken primarily from the City's audited financial statements for fiscal years 2004-05 through 2006-07. See "APPENDIX A – Audited Financial Statements for Fiscal Year 2006-2007" for the City's audited financial statements for fiscal year 2006-07.

Set forth below are excerpts from the City's general fund financial statements for fiscal years 2004-05 through 2006-07, the three most recent fiscal years for which audited financial statements are available.

Table 2
CITY OF PACIFICA
(2008 CONVERSION OF 2006 AUCTION RATE CERTIFICATES)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BLANCES			
	Audited 2004-05	Audited 2005-06	Audited 2006-07
REVENUES			
Taxes	\$12,354,599	\$13,789,083	\$14,626,847
Licenses and Permits	368,211	310,587	417,566
Fines and Forfeitures	144,315	138,662	217,699
Use of Money and Property	162,540	170,743	219,362
Intergovernmental Revenues	3,601,291	5,029,559	4,557,066
Charges for Services	3,056,540	1,420,372	1,654,244
Recreation		565,454	559,350
Other Revenues	1,294,855	2,111,391	1,555,866
Total Revenues	\$20,982,351	\$23,535,851	\$23,808,000
EXPENDITURES:			
General Government	3,778,230	5,318,938	4,451,785
Finance and Central Services	800,168	--	--
Public Safety	12,004,766	13,028,511	14,395,175
Community Development	1,086,803	941,097	974,113
Public Works	716,586	1,331,978	1,539,624
Parks, Beaches and Recreation	1,270,705	3,008,962	3,317,703
Capital Outlay	--	652,740	182,277
Debt Service	(798,440)	--	--
Special Projects	1,644,889	--	--
Total Expenditures	\$20,503,707	\$24,282,226	\$2,860,677
REVENUE OVER (UNDER)			
EXPENDITURES	\$478,644	(\$746,375)	(\$1,052,677)
OTHER FINANCING SOURCES (USES)			
Transfers In	895,000	1,827,500	2,434,443
Transfers Out	(779,000)	(1,680,765)	(1,60,000)
Total Other Financing Sources (Uses)	116,000	146,735	744,443
NET CHANGE IN FUND BALANCES	594,644	(599,640)	(308,234)
FUND BALANCE-BEGINNING (JULY 1)	5,689,242	6,554,787	5,998,951
PRIOR PERIOD ADJUSTMENT	270,901	43,804	(24,675)
FUND BALANCE-RESTATE (JULY 1)	5,960,143	6,598,591	5,974,276
FUND BALANCE-ENDING (JULY 1)	\$6,554,787	\$5,998,951	\$5,666,042

Source: City of Pacifica Audited Financial Statements

BUDGETARY PROCESS

Budgets are legally adopted and formal budgetary integration is employed as a management control device during the fiscal year for all governmental fund types. Reported budgeted amounts shown in the table below represent the original legally adopted budget as amended. The City Council may amend the budget only by a duly adopted minute resolution during a regular meeting, providing that sufficient moneys are available and that expenditures of proceeds of taxes will not be increased beyond the constitutional appropriation limit as imposed by Article XIII B of the State Constitution.

TAX RECEIPTS

Taxes received by the City include property taxes, sales and use taxes, franchise taxes, utility users taxes and others. Of such taxes, property taxes (approximately 61% of the City’s 2006-07 tax revenues) sales and use taxes (approximately 8% of 2006-07 tax revenues), and franchise taxes (approximately 11% of 2006-07 tax revenues) constitute major sources of General Fund revenues. The City believes that none of the general taxes currently imposed by or for the benefit of the City are affected by Proposition 62 or Proposition 218. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 62” and “– Proposition 218” herein.

The following table sets forth tax revenues received by the City for fiscal years 2002-03 through 2006-07 by source:

**Table 3
CITY OF PACIFICA
(2008 CONVERSION OF 2006 AUCTION RATE CERTIFICATES)**

MAJOR SOURCES OF GENERAL FUND REVENUES					
<u>Source:</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Property Taxes	\$6,072,495	\$5,987,200	\$6,936,026	\$8,126,936	\$9,016,273
Sales & Use Taxes	1,464,690	1,475,500	1,539,825	1,116,191	1,096,165
Franchise Tax	1,253,779	1,340,000	1,421,984	1,458,418	1,539,123
Other Taxes	<u>2,153,848</u>	<u>2,450,560</u>	<u>2,404,124</u>	<u>2,954,388</u>	<u>3,204,164</u>
Total	<u>\$10,944,812</u>	<u>\$11,253,260</u>	<u>\$12,301,959</u>	<u>\$13,655,933</u>	<u>\$14,855,725</u>

Source: The City’s Comprehensive Annual Reports

PROPERTY TAXES

Property taxes represent the largest source of General Fund revenue. It has also been the primary revenue source affected by voter initiatives and legislative actions. With approval of Proposition 13, property tax revenues were first curtailed over 20 years ago when they were reduced by two-thirds and thereafter limited to 2% annual increases or the CPI, whichever was less. More recently, certain property taxes have been shifted to schools by the State Legislature, a shift that resulted in a loss of revenue to the City of \$10,044,955 between fiscal years 1999-00 through 2005-06.

Assessed Valuation. All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from ad valorem property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS,” above.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year.

For assessment and collection purposes, property is classified as either “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all property not attached to land such as personal property or business property. Boats and airplanes are examples of unsecured property.

Unsecured property is assessed on the unsecured roll. The following table shows assessed valuations and tax levies for fiscal years 1998-99 through 2006-07. Because the City participates in San Mateo County’s Teeter Plan (see “County Tax Loss Reserve Account (‘Teeter Plan’)” below), the City receives one hundred percent of taxes levied.

**Table 4
CITY OF PACIFICA
(2008 CONVERSION OF 2006 AUCTION RATE CERTIFICATES)**

ASSESSED VALUE OF TAXABLE PROPERTY AND TOTAL CURRENT TAX LEVY					
<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Rdv Increment</u>	<u>Total After Rdv Increment</u>
2003-04	\$3,047,791,927	\$0	\$49,312,591	\$3,097,104,518	\$3,077,972,511
2004-05	3,283,822,849	0	40,824,129	3,324,646,978	3,304,145,364
2005-06	3,577,232,380	0	42,065,250	3,619,297,630	3,598,780,211
2006-07	3,909,172,006	0	42,215,781	3,951,387,787	3,924,546,899
2007-08	4,212,629,886	0	44,442,493	4,257,072,379	4,228,505,606

Source: California Municipal Statistics, Inc.

County Tax Loss Reserve Account (“Teeter Plan”). San Mateo County has elected to follow the procedures of Sections 4701 et seq. of the California Revenue and Taxation Code, known as the “Teeter Plan,” as to general taxes entered and collected on the secured tax roll.

Under the Teeter Plan, the County remits tax revenues to the respective taxing agencies, without regard to the amounts actually collected and without regard to any delinquencies. The County also remits to the City any supplemental property taxes collected above the original amounts levied as a result of resale or property improvements completed throughout the year.

The County has established a special fund known as the Tax Loss Reserve Fund for the purpose of insuring the County against delinquencies. All collections as a result of delinquencies, including interest and penalties, are retained by the County and are used to restore the balance in such fund to its necessary balance, if required. The effect of the Teeter Plan is that the Tax Revenues will be remitted to the City by the County based on the amount of taxes actually levied, such that the City will receive 100% of the amounts due to it whether or not any tax payments are delinquent. The City has participated in the Teeter Plan since fiscal year 1993-94 and, although no assurance can be given, the City expects that the County will continue to follow, and that the City will continue to participate in, the Teeter Plan during the term of the Certificates.

Largest Taxpayers. The twenty largest assessed property owner taxpayers in the District for the fiscal year 2007-2008 are shown in Table 5 below.

Table 5
CITY OF PACIFICA
(2008 CONVERSION OF 2006 AUCTION RATE CERTIFICATES)

LARGEST 2007-08 LOCAL SECURED TAXPAYERS			
<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2007-08 Assessed Valuation</u>	<u>% of Total (1)</u>
1. FPA BAF Lands End Associates LP	Apartments	\$ 46,609,920	1.11%
2. PK III Fairmont SC LP	Shopping Center	33,000,000	0.78
3. Linda Mar SC LP	Shopping Center	30,244,425	0.72
4. Aimco Pacifica Park Apartments LLC	Apartments	19,200,000	0.46
5. Marymount Summit LLC	Apartments	17,595,000	0.42
6. Olson 737 Pacifica 1 LLC	Vacant	15,472,100	0.37
7. Aimco Horizons West Apartments LLC	Apartments	15,080,556	0.36
8. Harry B. Lewis	Apartments	13,633,730	0.32
9. Bay Apartment Communities Inc.	Apartments	12,905,006	0.31
10. LBN Properties LP	Apartments	12,319,140	0.29
11. Aimco Esplanade Ave. Apartments LLC	Apartments	12,100,000	0.29
12. Millard W. Tong	Apartments	10,543,868	0.25
13. GRG/Pacific Ventures II Ltd.	Apartments	9,483,021	0.23
14. Marymount Gateway Apts. LLC	Apartments	8,712,787	0.21
15. Rockaway Beach Ltd.	Vacant	7,650,000	0.18
16. MHC San Francisco RV Resort	Mobilehome Park	6,762,590	0.16
17. Poolswat A. Chakkapark	Hotel	6,552,692	0.16
18. Lighthouse Hotel LLC	Hotel	5,348,710	0.13
19. Palmetto 1300 LLC	Mobilehome Park	5,056,564	0.12
20. O'Brien Group at Pacific LP	Vacant	<u>5,030,000</u>	<u>0.12</u>
Totals		\$293,300,109	6.96%

Source: California Municipal Statistics, Inc.

Parcels by Land Use. The following Table 6 presents an analysis of the City's secured assessed valuation by land use for fiscal year 2007-08.

Table 6
CITY OF PACIFICA
(2008 CONVERSION OF 2006 AUCTION RATE CERTIFICATES)

SECURED ASSESSED VALUATION AND PARCELS BY LAND USE				
	2007-08 <u>Assessed Valuation</u> ⁽¹⁾	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
Non-Residential:				
Rural/Undeveloped	\$ 13,575,868	0.32%	45	0.36%
Commercial	160,053,451	3.80	196	1.55
Industrial	15,761,409	0.37	14	0.11
Recreational	1,841,275	0.04	6	0.05
Government/Social/Institutional	<u>2,347,805</u>	<u>0.06</u>	<u>121</u>	<u>0.95</u>
Subtotal Non-Residential	\$193,579,808	4.60%	382	3.01%
Residential:				
Single Family Residence	\$3,418,409,818	81.15%	10,846	85.58%
Condominium/Townhouse	124,929,439	2.97	327	2.58
Hotel/Motel	20,516,319	0.49	6	0.05
Mobile Home Park	11,819,154	0.28	7	0.06
2-4 Residential Units	111,793,831	2.65	239	1.89
5+ Residential Units/Apartments	260,050,704	6.17	105	0.83
Miscellaneous Residential	<u>363,305</u>	<u>0.01</u>	<u>36</u>	<u>0.28</u>
Subtotal Residential	\$3,947,882,570	93.72%	11,566	91.26%
Vacant Parcels	\$71,167,508	1.69%	725	5.72%
Total	\$4,212,629,886	100.00%	12,673	100.00%

Source: California Municipal Statistics, Inc.

(1) Local Secured Assessed Valuation; excluding tax-exempt property.

The following Table 7 presents an analysis of the City's Per Parcel Assessed Valuation of Single Family Homes for fiscal year 2007-08.

Table 7
CITY OF PACIFICA
(2008 CONVERSION OF 2006 AUCTION RATE CERTIFICATES)

PER PARCEL ASSESSED VALUATION OF SINGLE FAMILY HOMES						
	No. of <u>Parcels</u>	2007-08 <u>Assessed Valuation</u>		<u>Average</u> <u>Assessed Valuation</u>	<u>Median</u> <u>Assessed Valuation</u>	
Single Family Residential	10,846	\$3,418,409,818		\$315,177	\$271,730	
<u>2007-08</u> <u>Assessed Valuation</u>	<u>No. of</u> <u>Parcels (1)</u>	<u>% of</u> <u>Total</u>	<u>Cumulative</u> <u>% of Total</u>	<u>Total</u> <u>Valuation</u>	<u>% of</u> <u>Total</u>	<u>Cumulative</u> <u>% of Total</u>
\$0 - \$24,999	2	0.018%	0.018%	\$ 23,595	0.001%	0.001%
\$25,000 - \$49,999	147	1.355	1.374	6,561,991	0.192	0.193
\$50,000 - \$74,999	1,508	13.904	15.278	95,051,188	2.781	2.973
\$75,000 - \$99,999	847	7.809	23.087	72,697,309	2.127	5.100
\$100,000 - \$124,999	483	4.453	27.540	54,393,435	1.591	6.691
\$125,000 - \$149,999	405	3.734	31.274	55,709,029	1.630	8.321
\$150,000 - \$174,999	402	3.706	34.981	65,377,639	1.913	10.233
\$175,000 - \$199,999	397	3.660	38.641	74,621,929	2.183	12.416
\$200,000 - \$224,999	396	3.651	42.292	84,087,217	2.460	14.876
\$225,000 - \$249,999	407	3.753	46.045	96,703,010	2.829	17.705
\$250,000 - \$274,999	498	4.592	50.636	131,302,905	3.841	21.546
\$275,000 - \$299,999	530	4.887	55.523	152,080,351	4.449	25.995
\$300,000 - \$324,999	465	4.287	59.810	145,484,997	4.256	30.251
\$325,000 - \$349,999	405	3.734	63.544	136,491,676	3.993	34.244
\$350,000 - \$374,999	361	3.328	66.873	130,770,591	3.825	38.069
\$375,000 - \$399,999	292	2.692	69.565	113,059,697	3.307	41.376
\$400,000 - \$424,999	252	2.323	71.888	103,968,845	3.041	44.418
\$425,000 - \$449,999	241	2.222	74.110	105,695,032	3.092	47.510
\$450,000 - \$474,999	227	2.093	76.203	104,876,631	3.068	50.578
\$475,000 - \$499,999	285	2.628	78.831	138,901,983	4.063	54.641
\$500,000 and greater	<u>2,296</u>	<u>21.169</u>	100.000	<u>1,550,550,768</u>	<u>45.359</u>	100.000
Total	10,846	100.000%		\$3,418,409,818	100.000%	

Source: California Municipal Statistics, Inc.

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

SALES AND USE TAXES

Sales and use taxes represent the second largest source of tax revenue to the City. A sales tax is imposed on retail sales or consumption of personal property. The tax rate is established by the State Legislature. Effective October 1, 2005, the aggregate tax rate in the State is 7.25%. An additional 1.0% is collected in San Mateo County for transportation purposes. The State collects and administers the tax, and makes distributions on taxes collected within the City as follows:

Table 8
CITY OF PACIFICA
(2008 CONVERSION OF 2006 AUCTION RATE CERTIFICATES)

SALES TAX RATES	
State General Fund	6.00%
Local Public Safety Fund	0.50
San Mateo County Transit District	0.50
County Transportation Fund	0.25
City	<u>1.00</u>
Total	8.25%

Investment of City Funds

The City invests its funds in accordance with the City’s Investment Policy. In accordance with Section 53600 et seq. of the California Government Code, idle cash management and investment transactions are the responsibility of the City Treasurer. The City’s Investment Policy sets forth the policies and procedures applicable to the investment of City funds, and designates eligible investments. The Investment Policy sets forth a stated objective, among others, of insuring the safety of invested funds by limiting credit and interest rate risks.

Eligible investments are limited to Certificates of Deposit, Bankers Acceptances, U.S. Treasury Bills and Notes, Government Agency Securities, Mutual Funds, Repurchase Agreements, Commercial Paper, State of California Local Agency Investment Fund, San Mateo County Treasurer’s Pool, Passbook Savings Accounts and Interest Bearing Checking Accounts. Funds are invested in the following order of priority: (i) Safety of Principal, (ii) Liquidity, and (iii) Return of Investment.

The Finance Director of the City is required to provide a quarterly report to the City Manager and the City Council showing the type of investment, date of maturity, amount invested, current market value, rate of interest, and other such information as may be required by the City Council.

DIRECT AND OVERLAPPING BONDED DEBT

The following statement of the City’s direct and overlapping bonded indebtedness, as of April 1, 2008 was prepared by California Municipal Statistics, Inc., San Francisco, California (the “Debt Report”). The Debt Report is included for general information purposes only. The City has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the City in whole or in part. Such long-term obligations generally are not payable from revenues of the City (except as indicated) nor are they necessarily obligations secured by land within the City. In many cases, long-term obligations issued by public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report area as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the debt report and whose territory overlaps the City in whole or in part; (2) the second column shows the percentage that the City's assessed valuation represents of the total assessed valuation of each public agency identified in column 1; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt to property in the City, as determined by multiplying the total outstanding debt of each agency by the percentage of the City's assessed valuation represented in column 2.

Table 9
CITY OF PACIFICA
(2008 CONVERSION OF 2006 AUCTION RATE CERTIFICATES)

STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT		
2007-08 Assessed Valuation:	\$4,257,072,379	
Redevelopment Incremental Valuation:	28,566,773	
Adjusted Assessed Valuation:	\$4,228,505,606	
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 7/1/08</u>
San Mateo Community College District	3.523%	\$22,921,342
Jefferson Union High School District	32.459	23,959,611
Jefferson School District	1.444	733,263
Pacifica Union School District (Laguna Salada)	99.843	<u>27,188,612</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$74,802,828
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
San Mateo County General Fund Obligations	3.523%	\$13,374,535
San Mateo County Board of Education Certificates of Participation	3.523	470,144
San Mateo County Flood Control District Certificates of Participation	0.384	92,218
City of Pacifica Certificates of Participation	100.	<u>15,725,000</u> (1)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$29,661,897
COMBINED TOTAL DEBT		\$104,464,725 (2)
(1) Excludes certificates of participation to be sold.		
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.		
<u>Ratios to 2007-08 Assessed Valuation:</u>		
Total Overlapping Tax and Assessment Debt.....	1.76%	
<u>Ratios to Adjusted Assessed Valuation:</u>		
COMBINED DIRECT DEBT (\$15,725,000) 0.37%		
Combined Total Debt	2.47%	
<u>STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: \$0</u>		

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND 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 of the State Constitution limits the amount of *ad valorem* taxes on real property to 1% of “full cash value” as determined by the county assessor. Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the fiscal year 1975-76 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,” subject to exemptions in certain circumstances of property transfer or reconstruction. The “full cash value” is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIII A requires a vote of two-thirds of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or special transaction tax on real property. Article XIII A exempts from the 1% tax limitations any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, and (b) as a result of the amendment approved by California voters on June 3, 1986, on any bonded indebtedness approved by two-thirds of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978. In addition, Article XIII A requires the approval of two-thirds of all members of the State Legislature to change any State taxes for the purpose of increasing tax revenues.

COURT CHALLENGES TO ARTICLE XIII A

The United States Supreme Court in 1989 struck down as a violation of equal protection certain property tax assessment practices in West Virginia which had resulted in vastly different assessments of similar properties. Since Article XIII A provides that property may only be reassessed to reflect increasing value not to exceed 2% per year, except upon change of ownership or new construction, recent purchasers may pay substantially higher property taxes than long-time owners of comparable property in a community. The Supreme Court in West Virginia case expressly declined to comment in any way on the constitutionality of Article XIII A.

Three lawsuits challenging the assessment provisions of Article XIII A were filed in California and dismissed by the Trial Courts. In December of 1990 the State Courts of Appeal upheld Article XIII A in two of these three cases and the third appeal, upholding Proposition 13, was resolved in April of 1991. On February 28, 1991, the California Supreme Court declined to hear the further appeals of the two cases decided by the state Courts of Appeal. The United States Supreme Court accepted for review, *Nordlinger v. Lynch*, a suit which challenged Article XIII A. In June of 1992, the Supreme Court announced its decision upholding the Constitutionality of Proposition 13. The Supreme Court held that the acquisition value property tax system established by Proposition 13 does not violate the Constitution’s equal protection clause.

LEGISLATION IMPLEMENTING ARTICLE XIII

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

That portion of annual property tax revenues generated by increase in assessed valuations within each tax rate area within a county, subject to redevelopment agency, if any, claims on tax increment and subject to change in organizations, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions. Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local Agency continues as part of its allocation in future years.

Beginning in fiscal year 1981-82, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 of assessed value. All taxable property is now shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

PROPOSITION 62

An initiative (“Proposition 62”) was adopted by the voters at the December 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the City be approved by a two-thirds vote of the governmental entity’s legislative body and by a majority vote of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the addition of the initiative or be terminated by December 15, 1988.

California Appellate Court cases have been overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995, in *Santa Clara County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court’s decision, such as what remedies exist for taxpayers subject to the tax not in compliance with Proposition 62, and whether the decision applies to charter cities.

ARTICLE XIII B

In a special election on December 6, 1979, the voters approved Proposition 4, which added Article XIII B to the California Constitution. Article XIII B became effective July 1, 1979, and provided that state and local government appropriations from certain revenue sources each year could not exceed the appropriations limit related to such revenue beginning in fiscal year 1978-79, with annual adjustments for changes in the cost of living and the change in population. Any surplus revenues were required to be returned to the taxpayers. The measure also provided for emergency situations, revisions of the appropriations limit by a vote of the electorate, nonimpairment of bonds, reorganizations of governmental entities, and other miscellaneous provisions. Article XIII B has been subsequently modified details of which are described below.

AMENDMENTS TO ARTICLE XIII B

Article XIII B of the State Constitution, as subsequently amended by Proposition 98 and 111, respectively, 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 in population, and for transfers in the financial responsibility for providing services and for certain declared emergencies.

As amended through voter approval of Proposition 111 in June 1990, for fiscal years beginning on or after July 1, 1990, the appropriations limit of each school or community college district shall be the appropriations limit for the fiscal year 1986-87 adjust annually for changes made from that fiscal year in the cost of living and in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in cost of living is, at such entity's option, either (a) the percentage change in California per capita personal income, or (b) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The change in population is blended average of overall state and population growth and the change in school attendance at local school and community college district.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds or taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (a) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (b) in investment of tax revenues and (c) certain State subventions received by local governments.

Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. State legislation implementing Proposition 111 provides for the exclusion from the appropriations subject to limitation "an appropriation for a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds one hundred thousand dollars."

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four (4) years.

Article XIII B includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be approved during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

ARTICLE XIII C AND ARTICLE XIII D

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the “right to vote on Taxes Act.” Proposition 218 added to the California Constitution Articles XIII C and XIII D, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIII C established that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges.

Article XIII C further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The City has not historically been funded through the imposition of special taxes of general taxes not already subject to 2/3 voter approval. Proposition 218 could restrict the City’s ability to raise future revenues and could subject existing sources of revenue to reduction or repeal.

UNITARY PROPERTY

Some amount of property tax revenue of the City is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (“unitary property”). Under the State Constitution, such property is assessed by the State Board of Equalization (“SBE”) as part of a “going concern” rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes on the prior year.

Until fiscal year 2000-01, SBE assessment of investor-owned gas and electric companies incumbent local exchange companies, AT&T Corp., and AT&T Communications of California, inc., will be subject to a court-approved agreement dated May 1, 1992 (the "Settlement Agreement"), among those companies, the SBE and all California Counties, the Settlement Agreement arose from litigation against SBE in which the court held that the SBE's valuation approaches had overvalued AT&T's unitary property, and ordered AT&T's statewide assessed value to be reduced from approximately \$1.75 billion to approximately \$1.1 billion, the Settlement Agreement provides that its valuation method is not intended to be precedent for calculation fair market value of unitary property in years following its expiration.

While the settlement Agreement had been in effect, the California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, non-utility companies may affect how those assets are assessed, and which local agencies are to receive the property tax revenues, or whether legislation maybe proposed or adapted in response to industry restructuring, or whether any future litigation may affect the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the City. The City is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the City.

PROPOSITION 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State's authority over local government revenue sources. Under Proposition 1A, the State could not reduce (i) local sales tax rates or alter the method of allocation, (ii) shift property taxes from local government to schools or community college districts, (iii) make changes in how property tax revenues are shared among local governments without two-thirds approval of both houses of the State legislature, and (iv) decrease Vehicle License Fees revenue without providing local governments with equal replacement funding. Beginning in 2008-09, the State may shift to schools and community college districts a limited amount of local government property tax revenue if (i) that the governor proclaims that the shift is needed due to a severe financial hardship of the State, (ii) the State Legislature approves the shift with a two-thirds vote of both houses, and (iii) certain other conditions are met. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates.

FUTURE INITIATIVES

Article XIII A, Article XIII B, and Propositions 1A, 1D, 37, 62, 111, and 218, were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting City revenues or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

APPROVAL OF LEGAL PROCEEDINGS

Delivery of the Certificates is subject to receipt of an opinion of Greenberg Traurig, LLP, Santa Monica, California, acting as Special Counsel, as to the legality and enforceability of the Lease Agreement and the Trust Agreement. A copy of such legal opinion will be delivered with each Certificate. Certain matters will be passed upon for the City and the Authority by its counsel and for the City by its Disclosure Counsel, The Weist Law Firm, A Professional Law Corporation, Scotts Valley, California.

Special Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Special Counsel as of the date thereof. Special Counsel assumes no duty to update or supplement its opinions to reflect any changes in law that may thereafter occur or become effective. Moreover, Special Counsel's opinions are not a guarantee of a particular result, and are not binding on the IRS or the courts; rather, such opinions represent Special Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinions.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Certificates, the City and the Authority will certify that there is no action, suit, litigation, inquiry or investigation before or by any court, governmental agency, public board or body served, or to the best knowledge of the City or the Authority threatened, against the City or the Authority or the titles of their officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Certificates or the payment of Lease Payments or challenging, directly or indirectly, the validity or enforceability of the proceedings to lease the Property back from the Authority, the Trust Agreement, the Lease, the Assignment Agreement, the Agency Agreement or the Site Lease.

Except as otherwise described above, to the best of the knowledge of the City, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the City to restrain or enjoin the authorization, execution or delivery of the Certificates, or the pledge of the Lease Payments or the collection of payments to be made pursuant to the Trust Agreement, or the ownership and operations of the Leased Property, or in any way contesting or affecting validity of the Certificates, the Trust Agreement, the Lease Agreement or the agreement for the sale of the Certificates or in any way contesting the transactions described in this Reoffering Memorandum.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the Owners of the Certificates upon an Event of Default under the Lease Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay, and such remedies may not be readily available or may be limited. For example, acceleration is not available in such instance.

TAX MATTERS

In the opinion of Greenberg Traurig, LLP, Santa Monica, California, Special Counsel, subject, however, to certain qualifications described herein, under existing law, and assuming compliance after the date of initial delivery of the Certificates with certain covenants set forth in the documents and instruments pertaining to the Certificates and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, the portion of Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; although, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. In the further opinion of Special Counsel, the portion of the Lease Payments designated as and comprising interest and received by the Owners of the Certificates is exempt from personal income taxes imposed by the State of California.

The opinions set forth in the preceding paragraph are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the delivery of the Lease Agreement in order that such interest 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 such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Lease Agreement.

Owners of the Certificates should also be aware that the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates may have federal or state tax consequences other than as described above. Special Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Lease Agreement and the Certificates other than as expressly described above. Furthermore, Special Counsel expresses no opinion with respect to the federal income tax consequences of any payments received with respect to the Certificates following termination of the Lease Agreement as the result of non-appropriation of funds or the occurrence of an event of default thereunder. The proposed form of the opinion of Special Counsel is attached as APPENDIX D.

FINANCIAL REPORT

The City's financial statements for the Fiscal Year ended June 30, 2007 were prepared by Moss, Levy & Hartzheim LLP, Beverly Hills, California, and excerpts from such report are contained in APPENDIX A hereto. The financial report should be read in its entirety. At the time of the execution and delivery of the Certificates, the City will certify that there has been no material adverse change in the City's financial position since June 30, 2007. The information set forth herein does not purport to be a summary of the City's financial report.

FINANCIAL GUARANTY INDUSTRY – RECENT EVENTS

Fitch, Moody's and Standard and Poor's (collectively referred to herein as the "Rating Agencies") have each released statements on the health of the financial guaranty industry that cite financial guarantors' exposure to subprime mortgage risk as an area of stress for the financial guaranty industry. In various

releases, the Ratings Agencies have each outlined the processes that they intend to follow in evaluating the effect of this risk on their respective ratings of financial guarantors.

For some financial guarantors the result of such evaluations has been or could be a rating affirmation, a change in rating outlook, a review for downgrade, or a downgrade. The Certificate Insurer has been recently downgraded by the Rating Agencies. Potential investors are directed to the Rating Agencies for additional information on their respective evaluations of the financial guaranty industry and individual financial guarantors, particularly with regard to the Certificate Insurer. See “RISK FACTORS – The Certificate Insurer and the Certificate Insurance Policy” herein.

RATINGS

Standard & Poor’s Rating Group is expected to assign the Certificates ratings of “AA,” on the basis of the Certificate Insurance. S&P has assigned an underlying rating of “A” to the Certificates, without regard to the Policy.

The ratings reflect only the views of the rating agencies, and any explanation of the significance of such ratings should be obtained from the rating agencies at the following addresses: Moody’s Investors Service, 99 Church Street, New York, New York 10007 and Standard & Poor’s, a Division of McGraw-Hill Companies, 55 Water Street, 45th Floor, New York, NY 10041. Generally, rating agencies base their ratings on such information and, materials and on investigations, studies and assumptions made by the rating agencies themselves. See “RISK FACTORS – The Certificate Insurer and the Certificate Insurance Policy” herein.

The City has no obligation to maintain the current ratings on the Certificates or any of their other outstanding debt, and there is no assurance that ratings will continue for any given period of time or that they will not be revised further downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such further downward revision or withdrawal could have an adverse effect on the market price of the Certificates.

The City, the Authority, the Trustee and the Underwriter have undertaken no responsibility either to bring to the attention of the Owners of the Certificates any proposed change or withdrawal of the ratings or to oppose any such proposed revision or withdrawal. The Owners of the Certificates assume the risk that the Certificate Insurer may not maintain its current rating. See “FINANCIAL GUARANTY INDUSTRY – RECENT EVENTS” above for information concerning recent developments in the financial guaranty industry.

The above ratings are not recommendations to buy, sell or hold the Certificates, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Rating agencies have recently issued press releases or reports stating that they are examining the potential effects of downturns in the market for structured finance (“SF”) instruments, including collateralized debt obligations (“CDOs”) and residential mortgage backed securities (“RMBS”), on the claims-paying ability of bond insurance companies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Certificates. See “RISK FACTORS – Unconventional Mortgage Structures and – Risk Factors Effecting Certificate Insurance” herein.

CONTINUING DISCLOSURE

The City has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and beneficial owners of the Certificates to provide certain financial information and operating data relating to the City by not later than nine months following the end of the City's Fiscal Year (currently, the City's fiscal year ends on June 30) (the "Annual Report"), commencing with the report of Fiscal Year ending June 30, 2008, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the City with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in "APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE," hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b) (5) promulgated under the Securities Exchange Act of 1934, as amended. The City has not failed to make any filings in connection with prior obligations under the Rule.

UNDERWRITER

The Certificates are being purchased for reoffering by Nollenberger Capital Partners Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Certificates at the aggregate purchase price of \$19,219,475.95, which represents the \$19,815,000.00 par amount of Certificates being issued less Underwriter's discount of \$297,225.00, and less net Original Issue Discount of \$298,299.05. The Contract of Purchase relating to the Certificates provides that the Underwriter will purchase all of the Certificates, if any are purchased. Such obligation is subject to various conditions set forth in the Contract of Purchase.

FORWARD-LOOKING STATEMENTS

The statements contained in this Reoffering Memorandum, and in any other information provided by the City, that are not purely historical are forward-looking statements, including statements regarding the expectations of the City, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Reoffering Memorandum are based on information available to the City on the date thereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the actual results of the City could differ materially from those in such forward-looking statements.

The forward-looking statements in this Reoffering Memorandum are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Reoffering Memorandum would prove to be accurate.

GENERAL INFORMATION

The descriptions in this Reoffering Memorandum do not purport to be complete and all such descriptions or references are qualified in their entirety by reference to the complete form of the Principal Legal Documents or other documents or source they summarize. Statements made in this Reoffering Memorandum involving estimates or projections, whether or not expressly identified as such, should not be construed to be statements of fact or as representations that such estimates or projections will ever be attained or will approximate actual results.

Any summaries or excerpts of constitutional provisions, statutes, ordinances or other documents do not purport to be complete statements of same and are made subject to all of the provisions thereof. Reference should be made to such original sources in all respects. The Certificates are payable solely from Lease Payments as described herein, and such information is not intended to imply that any other revenues or monies of the City are pledged to pay the principal of and interest on the Certificates.

MISCELLANEOUS

The foregoing and subsequent summaries or descriptions to provisions of the Site Lease, the Lease Agreement, the Trust Agreement, the Agency Agreement and the Assignment Agreement are brief outlines of certain provisions thereof. Such outlines do not purport to be complete. For full and complete statements of such provisions, reference is made to said documents. Insofar as any statement made in this Reoffering Memorandum involves matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not a representation of fact. No representation is made that any of such statements made will be realized. Neither this Reoffering Memorandum nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Certificates.

EXECUTION AND DELIVERY

All information contained in this Reoffering Memorandum pertaining to the City and the Authority, has been prepared and furnished by the City. The execution and delivery of the Reoffering Memorandum has been duly approved and authorized by the City and the Authority.

CITY OF PACIFICA

By: /s/ Stephen A. Rhodes
City Manager

CITY OF PACIFICA FINANCING AUTHORITY

By: /s/ Ann E. Ritzma
Treasurer/Auditor

APPENDIX A

AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2006-2007

CITY OF PACIFICA

CALIFORNIA

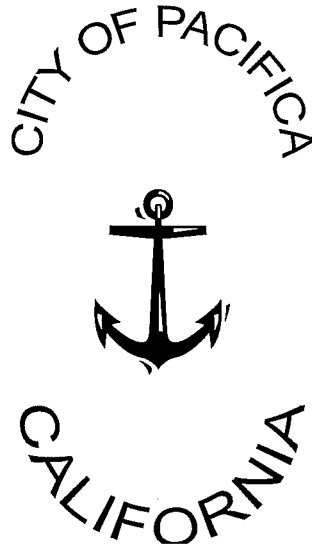
COMPREHENSIVE

ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2007

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For Fiscal Year Ended June 30, 2007



PREPARED BY
THE FINANCE DEPARTMENT

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Administrative Services Director

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Assistant Finance Director

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CITY OF PACIFICA
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2007

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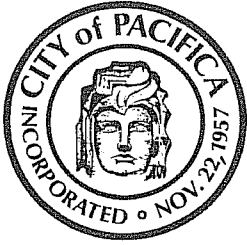
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CITY HALL

170 Santa Maria Avenue • Pacifica, California 94044-2506

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January 30, 2008

Honorable Mayor, Members of the City Council,
City Manager and Citizens of the City of Pacifica, California

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Pacifica, California, for the fiscal year ended June 30, 2007 as prepared by the City's Finance Department.

State law requires that the accounts and fiscal affairs of each municipal corporation be examined annually by an independent certified public accountant. We have complied with this requirement, and the auditor's report as provided by Moss, Levy & Hartzheim, along with the basic financial statements of the City, is herein submitted.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Report to the City of Pacifica for its comprehensive annual financial report for the fiscal year ended June 30, 2006. In order to be awarded a Certificate of Achievement, a government entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility.

This report consists of management's representations concerning the finances of the City of Pacifica. Consequently, management assumes full responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, management 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 generally accepted accounting principles (GAAP). 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, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, I assert that, to the best of my knowledge and belief, this financial report is complete and reliable in all material respects. Further, every attempt has been made to conform to the highest standards of public financial reporting as set forth by the following organizations:

- Governmental Accounting Standards Board (GASB);
- American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing;
- Government Finance Officers Association of the United States and Canada; and
- California Society of Municipal Finance Officers.

The City's independent audit was meant to provide reasonable assurance that its financial statements are free of material misstatement. This 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 auditor has issued an unqualified opinion of the City's financial statements indicating they are fairly presented in conformity with GAAP.

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

In addition to meeting the requirements set forth by State law, the audit was also designed to meet the requirements of the Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133. The standards governing Single Audit engagements require the auditor to report on the City's internal controls and compliance with certain legal requirements with special emphasis on the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

CITY OF PACIFICA PROFILE

The City of Pacifica is a full service city located on the Pacific Coast in San Mateo County directly south of San Francisco. Located within the Bay Area Peninsula, it is framed by the ridges of the Coast Range on the east, Montara Mountains on the south, and the Pacific Ocean on the west. The City of Pacifica encompasses roughly 12.6 square miles (of which approximately one third is publicly owned open space), is largely built out, and serves a population of approximately 39,000. A combination of residential, office and commercial retail businesses, and natural open space, comprise the makeup of the City. The City of Pacifica, while located in the midst of a major metropolitan region, is a unique family-oriented coastal community that prides itself on fostering a "small town" feel. The City's geographic setting; its proximity to San Francisco and the San Francisco International Airport, along with its natural open space and coastal beauty, make it a desirable place to live and work.

The City of Pacifica is a General Law City incorporated in 1957 and operates under the Council-Manager form of government. Legislative authority is vested in a five-member City Council elected at large for four-year overlapping terms. The Mayor is selected each year by a majority vote of the other Council members. The City Council members also serve as the governing board members of the Pacifica Redevelopment Agency, and the City Manager serves as its Executive Director. The Council appoints the City Manager and the City Attorney. Key advisory commissions include Planning and Parks, Beaches and Recreation.

The City provides the following services to its residents: public safety (police and fire), highways and streets, sanitation, parks, beaches, and recreation, social services, planning and zoning, and leadership through general administrative services. The City is part of a countywide paramedic program that became fully operational during Fiscal Year 1998-99. Water, garbage, gas and electric utilities are provided directly through private agencies not under City operations.

FACTORS AFFECTING FINANCIAL CONDITION

Local economy--Pacifica's coastal location on the Bay Area Peninsula with its natural open space and coastal beauty, along with its proximity to the San Francisco International Airport and its visitor-serving resources, continues to be an asset for development in the City. The Bay Area continues to be one of the major growth areas of the country. Due to its diverse economic base and geographically contained commerce, the City of Pacifica has weathered, and continues to weather, the economic uncertainties.

While residential development has reached near build out conditions, several new projects are being constructed. Commercial development potential is high in Pacifica as several commercially zoned sites are in various phases of the permit process; other commercial sites remain undeveloped or underdeveloped. The City and the Pacifica Chamber of Commerce are active in encouraging resident and visitor-serving business startups.

The Pacifica Redevelopment Area in West Rockaway Beach is complete within the Phase I area. All infrastructure improvements have been completed including streetscape, underground utilities, public plaza, landscaping and public art. One of the major sites has been fully developed and is now on line as a revenue producing enterprise.

Phase II of the redevelopment area consists of the Rockaway Quarry. With the completion of the new wastewater treatment plant, and rehabilitated wetlands, the City Council is now turning its attention to the commercial development of the quarry land. The wastewater treatment plant is a state-of-the-art sewage treatment facility providing high quality reusable water at a rate of 4 million gallons per day. The discharge is being used to nourish a new wetlands area and provide irrigation for public benefit.

Cash management—The City adheres to the provisions of the California Government Code section 53601 regarding investment of idle cash. The City Council annually reviews the investment policy and any changes thereto. The City of Pacifica's Investment Policy has received official certification by the Association of Public Treasurers, United States & Canada (APT US & C). The City maximizes its yield on short-term/low risk investments by pooling the cash of all funds. The Investment Policy allows any cash temporarily idle during the year to be invested in U.S. Government Agency securities and the State Local Agency Investment Fund. The portfolio yield at June 30, 2006 fiscal year end was approximately 5.25%.

In addition, the City maintains budgetary controls, the objective of which is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City's governing body. Activities of the general fund, special revenue funds, debt service fund, and internal service funds are included in the annual appropriated budget. The Capital Projects budget reflects existing projects that do not lapse at year-end, but are carried forward until completion of the project.

The City Council conducts public hearings before adopting the budget, thus giving the public an opportunity to be heard. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is maintained at the department level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of department balances are not released until additional appropriations are made available.

Open encumbrances are reported as reservations of fund balance at June 30, 2007. These encumbrances are re-approved by the Council and added to the budget for the upcoming fiscal year. Unexpended budget appropriations lapse at the end of the fiscal year with the exception of capital improvement projects.

The City Manager is responsible for the preparation of the budget, and along with the Director of Administrative Services, is responsible for monitoring the budget for legal compliance.

Risk management--The city is exposed to numerous risks of loss related to tort claims, theft, damage and destruction of City assets and property, errors and omissions, injuries to employees and the public and natural disasters. A combination of self-insurance and commercial coverage is used by the City to manage its risk. During FY 2006-2007, the City maintained a risk management program for Workers' Compensation, employment, general liability and property damage. As part of the comprehensive plan, resources have been accumulated in the self-insurance (Internal Service) fund to meet potential losses. In addition, a safety committee of City employees meets and reviews all accidents and recommends preventive measures to minimize future accident-related losses. Further details on the types and amounts of coverage are addressed in Notes 8 and 9 of the notes to the financial statements.

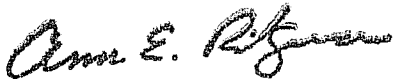
Pension benefits--The City provides for retirement benefits to its employees through participation in the California Public Employees Retirement System (PERS), an agent multiple-employer defined benefit pension plan. Each year, an independent actuary is engaged by PERS to calculate the amount of annual contribution the City must make to ensure the plan will meet its obligations to pay retired employees on a timely basis. As a matter of policy, the City fully funds its annual required contribution as determined by the actuary. Due to a combination of enhanced retirement benefits and significant investment losses by PERS early in the decade, the City will be absorbing a significant ongoing annual unfunded liability contribution for the foreseeable future. Additional detail and trend information is explained in Note 7 of the notes to the financial statements.

ACKNOWLEDGEMENTS

Preparation of the Comprehensive Annual Financial Report was made possible by the dedicated service of the entire staff of the City of Pacifica Finance Department, including: Sandra McClellan, Assistant Finance Director; Ed Vandehey, Information Technology Manager; Gillian Cadgene, Administrative Assistant; Carol Luebben, Account Technician III, Vivian Penaredondo, Account Technician III, Paula Forencich, Account Technician II and, Manuel Ferrer, Systems Specialist. Each member of the department has my sincere appreciation for the contributions made in the preparation of this report.

I would also like to thank the members of the Pacifica City Council and City Manager for their interest and support in planning and conducting the financial operations of the City in a responsible and conservative manner in the best interests of the Citizens of Pacifica.

Respectfully submitted,



Ann E. Ritzma
Administrative Services Director



Sandra McClellan
Assistant Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Pacifica
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Oliver S. Cox

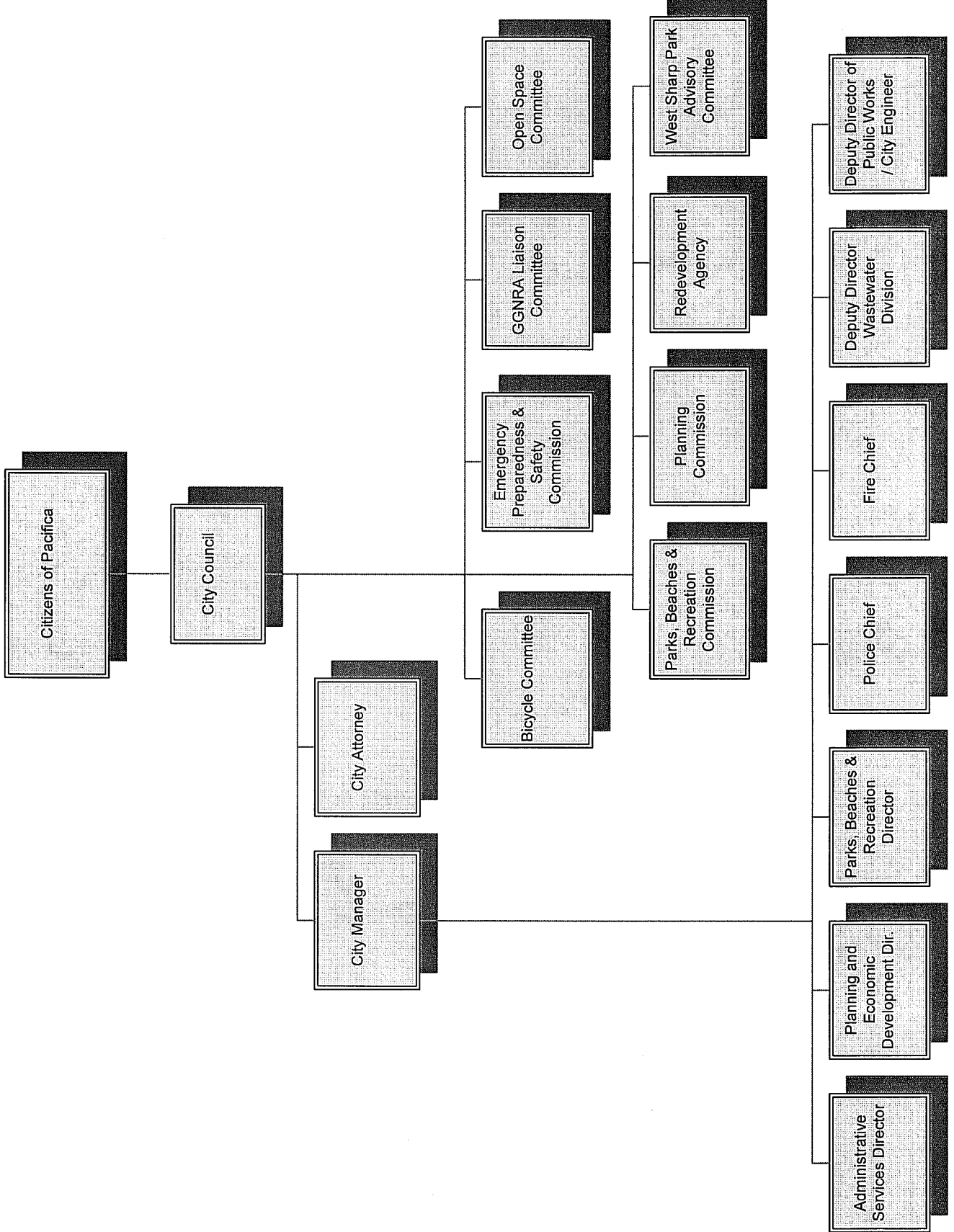
President

Jeffrey R. Emer

Executive Director

City of Pacifica, California

◀ Fiscal Year 2006-2007 ▶



CITY OF PACIFICA, CALIFORNIA

HONORABLE PETER DEJARNATT.
Mayor

JAMES M. VREELAND, JR.
Mayor Pro Tem

SUE DIGRE CALVIN HINTON
JULIE LANCELLE
Members of City Council

* * * * *

WILLIAM NORTON
City Manager

* * * * *

OTHER ADMINISTRATIVE OFFICERS

CECILIA QUICK	City Attorney
ANN RITZMA	Administrative Services Director
JAMES SAUNDERS	Police Chief
RON MYERS	Fire Chief
MICHAEL CRABTREE	Director of Planning & Building
SCOTT HOLMES	Director of Public Works
MARI BRUMM-MERRILL	Director of Parks, Beaches & Recreation

* * * * *

OFFICIAL BOARDS AND COMMISSIONS

DISASTER PREPAREDNESS COMMISSION

PARKS, BEACHES AND RECREATION COMMISSION

PLANNING COMMISSION

HEALTH AND SAFETY COMMISSION

OPEN SPACE COMMITTEE

AIRPORT NOISE ABATEMENT COMMITTEE

WEST SHARP PARK ADVISORY COMMITTEE

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FINANCIAL SECTION

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MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:
RONALD A. LEVY, C.P.A.
CRAIG A. HARTZHEIM, C.P.A.
HADLEY Y. HUI, C.P.A.
Consultant:
ROBERT M. MOSS (Retired C.P.A.)

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Pacifica
Pacifica, California

We have audited the accompanying financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pacifica (City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the 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, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2008, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

OFFICES: BEVERLY HILLS • SANTA MARIA

MEMBER: AMERICAN INSTITUTE OF C.P.A.'s • CALIFORNIA SOCIETY OF C.P.A.'s • CALIFORNIA SOCIETY OF MUNICIPAL FINANCE OFFICERS • CALIFORNIA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS

The accompanying required supplementary information, Management's Discussion and Analysis, PERS schedule of funding progress, and general fund budgetary comparison schedule is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The general capital improvement capital projects fund budgetary comparison schedule, redevelopment agency - Rockaway Beach capital projects fund budgetary comparison schedule, debt service fund budgetary comparison schedule, combining and individual nonmajor fund financial statements and schedules, introductory section, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The general capital improvement capital projects fund budgetary comparison schedule, redevelopment agency - Rockaway Beach capital projects fund budgetary comparison schedule, and the combining and individual nonmajor fund financial statements and schedules, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim LLP
Beverly Hills, California
January 31, 2008

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the City of Pacifica provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the transmittal letter and financial statements identified in the accompanying table of contents.

Using the Accompanying Financial Statements

This annual Comprehensive Annual Financial Report (CAFR) consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included in the accompanying report are fund financial statements. For governmental activities, the fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

After the introductory section, the annual report consists of five parts – *the independent auditor's report and management's discussion and analysis* (this section), *basic financial statements including notes, required supplementary information*, an optional section that presents *combining statements* for non-major governmental funds and internal service funds, and *statistical information section*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations in *more detail* than the government-wide statements.
 - The *governmental fund* statements tell how *general government* services like public safety were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities the government operates like businesses, such as the sewer system.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that provides additional financial and budgetary information.

Reporting the City as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities & Changes in Net Assets report information about the City as a whole, and about its activities in a way that helps answer this question.

These statements include *all* assets and liabilities using the *full accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases and decreases* in the City's net assets is one indicator of

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

whether the City's *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Assets and the Statement of Activities & Changes in Net Assets, we divide the City's services into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here. Sales taxes, property taxes, state subventions, and other revenues, which finance most of the governmental activities.
- Business-type activities – The City charges a user fee to customers to help it cover all or most of the cost of the services accounted for in these funds.

Reporting the City's Most Significant Funds

The **fund financial statements** provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. City Council establishes many other funds to help control and manage money for particular purposes, or to show that administrative responsibilities are being met for using certain taxes, grants, or other money. The City's two kinds of funds – *governmental and proprietary* – use different accounting approaches.

- *Governmental funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year end that are available for spending. These funds are reported using the *modified accrual* basis of accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services provided. Governmental fund information 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. We describe the relationship or differences between *governmental activities* as reported in the Statement of Activities & Changes in Net Assets, and *governmental funds* as reported in the Statement of Net Assets, in a reconciliation of governmental funds statement.

The governmental funds financial statements and reconciliation may be found on pages 20 to 23 of this report.

- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities & Changes in Net Assets. The City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements, but provide more detail and additional information such as cash flows for the proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide services and supplies exclusively to the City's other programs and activities. These revenues are eliminated in the City-wide financial statements, and any related profits or losses are returned to the activities which created them, along with any residual net assets of the internal service funds.

The proprietary fund financial statements may be found on pages 27 to 30 of this report.

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Notes to the Financial Statements

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

The notes to the Financial Statements may be found on pages 33 to 58 of this report.

Economic Future:

The State of California declared a fiscal crisis and will be, over the coming months, determining how to deal with significant financial shortfalls. The City of Pacifica will inevitably be impacted by the State's crisis. There are several discussions regarding possible impacts that include the temporary reduction of each City's property taxes (Proposition 1A), loss of grant funding for social services, education and or public safety programming and reductions to County funding which may result in lost funding for cities. The most recent analysis from the California State Department of Finance and the League of California Cities on the Governor's Budget proposal suggests that the State may delay payments of the gas tax for the months of April through September to all cities. The result is the State will gain the interest on the gas tax and the cities will have to wait for their revenue. The City of Pacifica would "wait" for \$320,000 over the five month period.

The City can also anticipate a reduction in revenue from interest earned in the Local Agency Investment Fund (LAIF). The City of Pacifica, as well as many of other cities, deposits funds with LAIF. Not only does the City anticipate reduced interest from investments but also the probable reduction in property tax revenue as recently acquired properties begin to request reassessment through the County. The "trickle down effect" of the economic slow down will continue to influence the City's revenue from property taxes to permitting for remodeling.

The City began budget reductions in March of 2007 to address the FY 2006/07 deficit. Even after the cuts, the City continued a conservative approach to managing revenues and expenditures. The City's "soft hiring freeze" has forced vacant positions to remain open for several months to capture savings in salaries and benefits. Additionally, each department has been meeting quarterly with the City Manager and Administrative Services Director to insure that expenditures do not exceed the budget.

For future budget years, the City of Pacifica is preparing to address several new mandated and necessary expenditures. Pacifica, along with all cities, is obligated to address its liability in regards to Other Post-Employment Benefits (OPEB), which include pension and retiree medical. The City is currently working with an actuary to determine the liability and explore the pre-funding options prior to the 2009 deadline. On the horizon is the need to address a major capital project at the Waste Water Treatment Plant for the replacement of the UV disinfection system. The City is working with PGE and the California Energy Commission to determine possible funding strategies for this project. The City must also continue to address long-term debt obligations it has for the construction of the sewage treatment plant, police station and other capital projects.

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Accounting Standards Board (GASB) Statement No. 45 requires that Cities account for post retirement health benefits on our annual financial statements with implementation required in fiscal year 2008-2009. The City has contracted with an actuarial firm that will conduct the actuarial study in the early part of 2008. The City is currently on a “pay as you go” budgeting method of accounting for retiree health costs. The City does not anticipate an unmanageable result of the study because the City, unlike many cities, does not pay the full cost of health insurance for retired employees.

Highlights of the past year are as follows:

- Total City assets exceeded its liabilities by \$71.3 million. Of this amount, only \$2,750 represents unrestricted net assets.
- Statement of governmental activities show revenues at \$31.5 million compared with total expenses of \$30.5 million resulting in an increase in total net assets from operations for the current fiscal year of approximately \$1 million.
- Total Governmental Fund balances were \$6.8 million at fiscal year-end, a decrease of \$1 million from the previous year.
- General fund revenues were \$23.8 million compared with general fund expenses of \$24.8 million, transfers in of \$2.4 million compared with transfers out of \$1.7 million, resulting in a net decrease in fund balance of \$308,234 less a prior year adjustment of -\$24,675, for an ending fund balance of \$5,666,042, as shown on page 24 of this report.

Analysis of Net Assets

Net assets are a measure of a government’s financial position and, over time, a trend of increasing or decreasing net assets is an indicator of the financial health of the organization. The City of Pacifica’s assets exceeded liabilities by \$71,336,087. A statement of net assets is presented in the following table.

Statement of Net Assets
June 30, 2007

Table 1

	Governmental Activities	Governmental Activities	Business - Type Activities	Business - Type Activities	Primary Government	Primary Government
	2006	2007	2006	2007	2006	2007
Current and other Assets	\$ 16,633,517	\$ 15,936,755	\$ 2,843,427	\$ 1,848,184	\$ 19,476,944	\$ 17,784,939
Capital Assets	54,848,651	66,198,007	51,177,950	50,576,583	116,026,601	116,774,590
Total Assets	81,482,168	82,134,762	54,021,377	52,424,767	135,503,545	134,559,529
Long-term Debt Outstanding	21,875,165	21,525,802	39,366,898	39,272,431	61,242,063	60,798,233
Other Liabilities	2,155,174	1,949,630	1,036,115	475,579	3,191,289	2,425,209
Total Liabilities	24,030,339	23,475,432	40,403,013	39,748,010	64,433,352	63,223,442
Net Assets:						
Invested in Capital , Net of Debt	48,249,125	50,585,199	13,514,529	12,423,925	61,763,654	63,009,124
Restricted	6,738,596	7,370,411	946,455	953,800	7,685,051	8,324,211
Unrestricted	2,464,108	703,720	(842,620)	(700,968)	1,621,488	2,752
Total Net Assets	\$ 57,451,829	\$ 58,659,330	\$ 13,618,364	\$ 12,676,757	\$ 71,070,193	\$ 71,336,087

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets invested in capital assets (e.g., land, buildings, equipment and infrastructure) of \$63,009,124 (page 17) represents the cost of these assets, less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt must be provided for from sources other than the related assets, because the capital assets themselves cannot be used to repay these debts.

Restricted net assets of \$8,324,211 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$2,752 may be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Net assets increased by a total of \$265,894. This growth in the City's net assets is made up of an increase of \$1,079,826 plus a prior period adjustment of \$127,675 from governmental activities offset by a decrease of \$741,991 from business-type activities, and a decrease of \$199,616 from a business-type prior period adjustment. The governmental activities net assets increased 2% from \$57,451,829 at June 30, 2006 to \$58,659,330 at the end of June 2007. The net assets of the City's business-type activities decreased 6.9% (\$941,607) from \$13,618,364 in 2006 to \$12,676,757 in 2007, as shown in Table 2 below. Net assets of Total Primary Government activities, which includes both Governmental Activities and Business-Type Activities moved from \$71,070,193 in 2006, to \$71,336,087 in 2007, resulting in an increase in total net assets of .37% or \$265,894.

The net assets (financial position) of the City changed as a result of the revenue and expense fluctuations by \$265,894, which included a prior period adjustment of \$71,941, as shown in the table below for the governmental and business-type activities of the City.

A summary of the Government-wide Statement of Activities & Changes in Net Assets follows:

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Activities & Changes in Net Assets - Year Ended June 30, 2007

Table 2

	Governmental	Governmental	Business-Type	Business-Type	Total Primary	Total Primary	Total
	Activities	Activities	Activities	Activities	Government	Government	%
	2006	2007	2006	2007	2006	2007	Change
Program Revenues:							
Charges for Services	\$ 4,638,286	\$ 4,905,970	\$ 8,721,125	\$ 9,137,785	\$ 13,359,411	\$ 14,043,755	5%
Operating Grants	2,626,473	2,967,049			2,626,473	2,967,049	13%
Capital Grants	3,338,214	3,639,686			3,338,214	3,639,686	9%
General Revenues:							
Property Taxes	8,126,936	9,016,273			8,126,936	9,016,273	11%
Sales and Use Taxes	1,116,191	1,096,165			1,116,191	1,096,165	-2%
Franchise taxes	1,458,418	1,539,123			1,458,418	1,539,123	6%
Other Taxes	3,824,787	3,720,047			3,824,787	3,720,047	-3%
Licenses & Permits	-	-			-	-	
Fines & Forfeitures	-	-			-	-	
Use of Money & Property	321,272	568,021	26,569	14,881	347,841	582,902	68%
Intergovernmental revenues - unrestricted	-	-			-	-	
Motor Vehicle in Lieu-unrestricted	3,522,799	2,917,076			3,522,799	2,917,076	100%
Intergovernmental revenues -restricted	-	-			-	-	
Other General Revenues	868,120	369,309	17,116	4,688	885,236	373,997	-58%
Transfers	1,017,500	815,000	(1,017,500)	(815,000)	-	-	0%
Total Revenues	30,858,996	31,553,719	7,747,310	8,342,354	38,606,306	39,896,073	3%
Program Expenses							
General Government	5,923,892	5,798,391			5,923,892	5,798,391	-2%
Finance and Central Services	-	-			-	-	
Planning & Development	1,799,035	1,178,590			1,799,035	1,178,590	-34%
Public Safety	13,639,116	14,980,984			13,639,116	14,980,984	10%
Public Works	3,606,841	4,264,011			3,606,841	4,264,011	18%
Parks, Beaches & Recreation	3,084,327	3,405,149			3,084,327	3,405,149	10%
Sewer Operations			8,725,772	9,084,345	8,725,772	9,084,345	4%
Debt Services	811,419	846,768			811,419	846,768	4%
Special Projects & Non-Departmental	-	-			-	-	
Total Expenses	28,864,630	30,473,893	8,725,772	9,084,345	37,590,402	39,558,238	5%
Prior period adjustment	4,543,065	127,675	35,213	(199,616)	4,578,278	(71,941)	-102%
Increase(Decrease) Net Assets	1,994,366	1,079,826	(978,462)	(741,991)	1,015,904	337,835	-67%
Beginning Net Assets	55,457,463	57,451,829	14,561,613	13,618,364	70,019,076	71,070,193	2%
Ending Net Assets	\$ 57,451,829	\$ 58,659,330	\$ 13,618,364	\$ 12,676,757	\$ 71,070,193	\$ 71,336,087	0%

Governmental Activities

Revenues for the City's governmental activities increased by \$694,723, from \$30,858,996 in 2006 to \$31,553,719 in 2007. Total Primary Government revenue increased by \$1,289,767, from \$38,606,306 in

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

2006 to \$39,896,073 in 2007. Total governmental program expenses increased by \$1,609,263 from \$28,864,630 in 2006 to \$30,473,893 in 2007. The cost of all primary *governmental activities* in fiscal

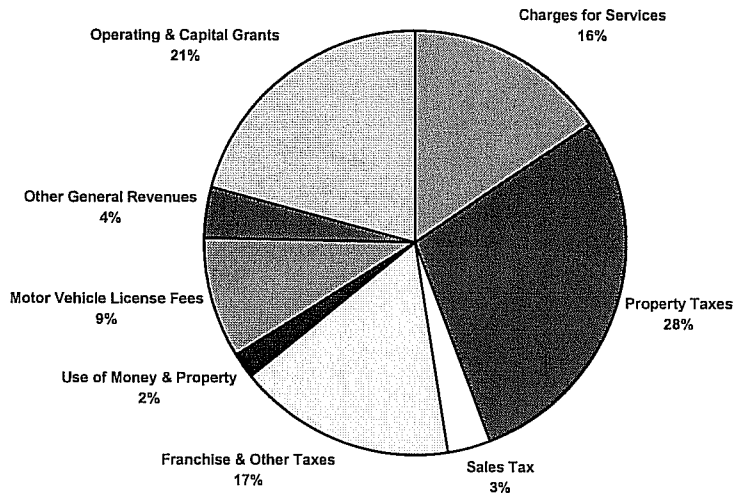
year 2005-2006 was \$37.6 million compared to \$39.6 million for the 2006-2007 year. The amount that taxpayers ultimately financed for these activities through City taxes was \$18.7 million, as some of the costs were paid for by those who directly benefited from the programs (\$14 million), or by other governments and organizations that subsidized certain programs with grants and contributions (\$6.6 million). The net changes in assets for both governmental and business type activities from the previous fiscal year amounted to a \$337,835 increase in total net assets.

The reasons for significant changes in the revenues and expenses of the City's governmental activities presented above are as follows:

- The City's "Property Taxes" came in \$889,300 higher than the previous year. "Motor Vehicle License Fees" came in \$605,700 lower than the previous year, due to the prior year having had an extra loan pay-back from the State. The City received ERAF refunds from the State that were \$380,000 over the amount budgeted.
- Capital Grant revenues were higher than the previous year by \$301,500.
- Operating Grant revenues were \$340,500 more than the previous year.
- Other Tax revenue came in \$105,000 lower than the previous year.
- Public safety expenses came in \$1,342,000 higher than the previous fiscal year, \$830,000 due to salary and benefits.
- Planning program expenses were higher than the previous year by \$620,500. Public Works came in lower by \$657,000.
- Parks, beaches & recreation program expenses were higher than the previous year by \$321,000.
- General Government expenses, which includes General, with the addition of Finance and Central Services, and Non-Departmental, was higher in total than the previous year by \$125,501.
- The Sewer Operations expenses came in higher than the previous year by \$641,400, due mainly to capital improvement projects.

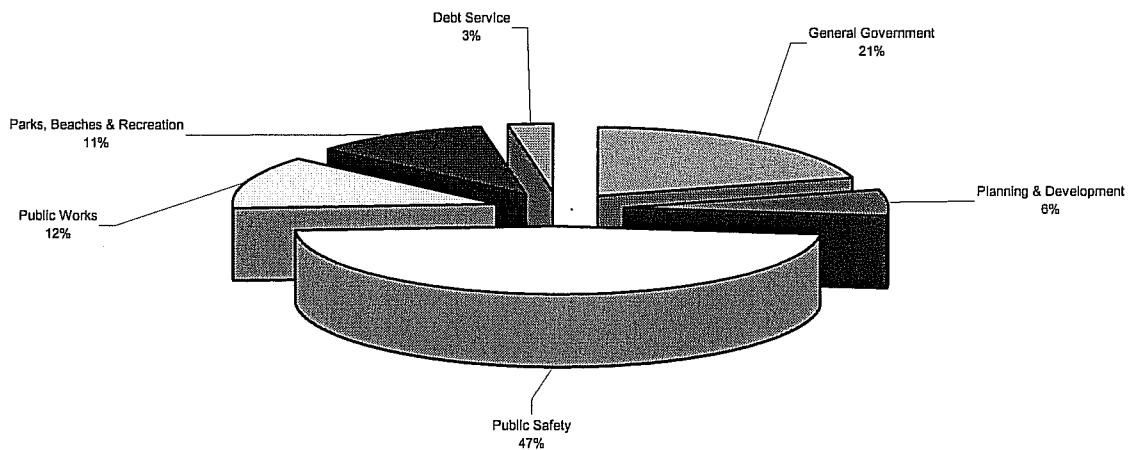
CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENTAL ACTIVITIES REVENUE SOURCES



The chart of revenues by source above, illustrates that property taxes at 28.6% of total governmental activity revenue is the single largest source of operating revenue for the City. It is also one of the most stable and consistent growth revenues. The major components of this revenue category are: Property taxes, vehicle in-lieu, sales and use tax, franchise fees, utility user fees, charges for services, and grants and intergovernmental revenues.

GOVERNMENTAL ACTIVITIES EXPENSES



The chart of expenses graphically portrayed above shows the relative proportion of expenses by function, as listed in the Statement of Activities and Changes in Net Assets on page 8 of the MD&A.

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

The decrease in business-type activities' net assets of \$941,607 represents activity in the Sewer Enterprise Fund. The principal source of revenue for this fund is charges for usage, which is assessed on the basis of equivalent residential units (ERU). Revenues from the City's sewer operations (see Table 3) increased by 4.8 percent (\$416,660) from \$8,721,125 in June 2006 to \$9,137,785 in 2007. There was a 9.2 percent increase in the sewer charge rate approved by Council in June 2007. Sewer expenses, including both operating and non-operating expenses, increased from \$8,725,772 in 2006 to \$9,084,345 in 2007. The approximately \$360,000 increase in expenses is primarily attributable to higher personnel and administrative expenses. There is an inverse relationship between the level of consumption of water and the sewer rates. Bond interest expense and major maintenance expenses are recorded in this fund.

Enterprise Sewer Fund

Table 3

	2006	2007	Difference
Operating Revenues	\$8,721,125	\$9,137,785	\$416,660
Operating Expenses	\$8,725,772	\$9,084,345	\$358,573
Income(Loss)	\$ (4,647)	\$ 53,440	\$ 58,087

The internal service funds consist of motor pool and self-insurance general government costs.

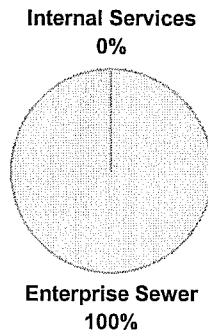
Internal Service Funds

Table 4

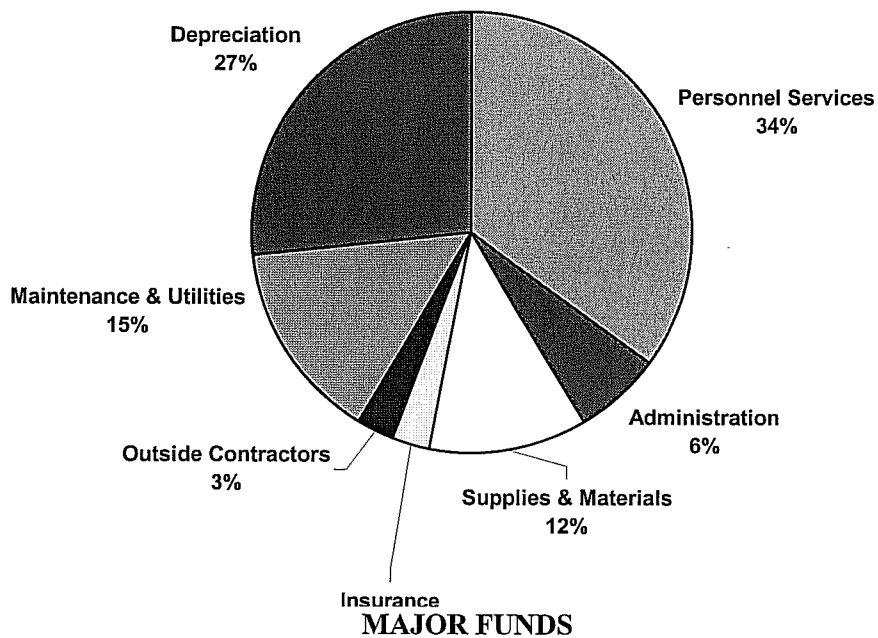
	2006	2007	Difference
Operating Revenues	\$1,668,027	\$2,142,217	\$474,190
Operating Expenses	\$2,054,562	\$2,165,732	(\$111,170)
Income(Loss)	(\$ 386,535)	(\$ 23,515)	\$363,020

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues for Business-Type Activities



Expenses for Business-Type Activities



As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

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

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

At the end of the fiscal year 2006-2007, the City's governmental funds reported combined ending fund balances of \$6,844,357, including reserved and undesignated funds.

General Fund

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance of the general fund was \$5,666,042, representing a net change in general fund balance of (\$308,234) plus a prior period adjustment of (\$24,675). As a measure of the general fund's liquidity, it is useful to compare the total fund balance to total fund expenditure, which shows that fund balance is 22.8 percent of general fund expenditures. Total "General Fund" revenue, as shown on page 24, this year was \$23,808,000 compared to \$23,535,851 in the prior year, a \$272,149 increase/difference. Some contributors of the increase/difference are described below:

- Property Taxes increased \$838,000, an 11% increase from home sales.
- Motor Vehicle License Fees decreased \$578,000, difference from a loan pay-out the previous year.
- Charges for Services increased by \$234,000 due to slight increases in fees, and increase in activity.
- Other Revenues, decrease of \$555,500, due to sale of property in the prior fiscal year.
- Intergovernmental Revenues decreased by \$472,500, prior fiscal year we had received a Coastal Commission Grant of \$250,000, and SB-813 decreased by about \$70,000 from the prior fiscal year.
- Licenses and permits, increase of \$107,000.
- Fines and forfeitures, increase of \$80,000.
- Use of money and property, increase of \$50,000.

General Fund expenditures of \$24,860,677 increased by \$578,451 over the previous year, primarily due to increased wage and benefit costs. Differences shown below:

- Public Safety expenditures increased by \$1,366,664, salary and benefits increase.
- Public Works expenditures increased by \$207,646, salary and benefits increase.
- Parks, Beaches & Recreation expenditures increased by \$308,741, salary and benefit increases along with increased programs.
- Capital outlay decreased by \$470,500, there was a \$300,000 prior year purchase of police vehicles.
- General Government expenditures, decreased by \$867,200, decreased Special Project spending.
- Planning & Development expenditures increased by \$33,000.

Total General Fund Expenditures exceeded Revenues by \$1,052,677.

Enterprise Fund

Total net assets for the Sewer Fund at the end of the fiscal year were \$12,676,757. The total change in net assets for the Sewer Fund was (\$941,607), including prior period adjustment of (\$199,616). Unrestricted net assets of the Enterprise Sewer Fund at the end of the year amounted to (\$700,968). Restricted assets, which were specific to debt service, were \$953,800. Additional factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

RDA – Rockaway Beach

This fund accounts for the revenues and expenditures related to redevelopment projects in the RDA project area of Rockaway Beach. The Redevelopment Area consists of 600 square acres. The Quarry is approximately 85 square acres of the RDA.

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt Service Fund

All governmental activities debt service costs are budgeted in the fund responsible for the debt and transferred to the Debt Service Fund for payment. Total governmental activities debt is \$17,450,000 with \$1,725,000 of Redevelopment Agency debt and \$15,725,000 of general fund debt.

General Fund Budget Modifications

- Differences between the original fiscal year 2006-2007 budget and the final amended fiscal year 2006-2007 budget of the General Fund were relatively minor with a net increase of \$142,950. This net decrease is an adjustment to intergovernmental revenue from additional grant funding for Parks, Beaches, and Recreation.

Major deviations between the final budget of the General Fund and its actual operating results were as follows:

- General Government, including Non-Departmental Services - Budgeted \$4,166,720, expended \$4,451,785, over budget by \$285,065, mainly due to extra project legal expenses.
- Public Safety - Budget \$13,660,517, expended \$14,395,175, over budget by \$734,658, mainly due to Fire and Police Emergency services overtime and benefits.
- Total Community Development - Budgeted \$982,737, expended \$974,113, under budget by \$8,624.
- Public Works - Budget \$1,581,079, expended \$1,539,624, under budget by \$41,455.
- Parks & Recreation - Budget \$3,204,622, expended \$3,317,703, over budget by \$113,081
- Capital Outlay - Budget \$180,428, expended \$182,277, over budget by \$1,849.

Total general fund revenue final budget was \$23,240,895 but came in at \$23,808,000, \$567,105 over budget. Total general fund final expenditure budget was \$23,776,103 with actual expenditures of \$24,860,677. Over budget expenditure deviation was \$1,084,574, for a net deficit of expenditures over revenue of \$517,469 before transfers in and out as shown on page 62 and 63 of this report.

Transfers

Transfers to the General Fund are generally made to match restricted revenue with related costs that have been recorded in the General Fund. An example of this type of transfer could be transfers-out of the General Fund to the Internal Service Fund for insurance costs or to the Debt Fund for general obligation debt payments.

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

	Capital Assets (in thousands)					
	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Land and Improvements	\$ 40,136	\$40,136	\$ 4,014	\$4,014	\$ 44,150	\$44,150
Buildings and Improvements	15,592	15,657	73,449	74,197	89,041	89,854
Collection System	-	-	3,520	4,068	3,520	4,068
Machinery and Equipment	574	618	636	813	1,210	1,431
Vehicles and Equipment	4,516	4,814	-	-	4,516	4,814
Infrastructure	11,862	14,671	-	-	11,862	14,671
Construction in Progress	688	144	-	-	688	144
Depreciation	<u>(8,519)</u>	<u>(9,842)</u>	<u>(30,441)</u>	<u>(32,516)</u>	<u>(38,960)</u>	<u>(42,358)</u>
Total	<u>\$ 64,849</u>	<u>\$66,198</u>	<u>\$ 51,178</u>	<u>\$50,576</u>	<u>\$116,027</u>	<u>\$116,774</u>

Major additions to capital assets during the year ended June 30, 2007 included:

- Continued progress toward completion of the San Pedro Flood Control Project
- GASB 34 Infrastructure valuations.
- Sharp Park WWTP Redesign
- Pier Rehab
- Capistrano Bridge

For more detailed information on the City's capital assets, refer to the Notes to the Financial Statements, Note 5.

Long-Term Debt

At the end of the current fiscal year, Governmental Activities had bonded debt outstanding in the amount of \$17,450,000, all backed by the full faith and credit of the government. For more detailed information on long-term debt activity, refer to the Notes to the Financial Statements, Note 6.

Outstanding Debt

2006 Certificate of Participation	\$15,725,000
2004 RDA Tax Allocation Bond	<u>1,690,000</u>
Total Bonded Debt Outstanding	<u>\$17,415,000</u>

The City maintains an "A" rating from Standard & Poor's on the General Obligation debt.

CITY OF PACIFICA, CALIFORNIA
MANAGEMENT'S DISCUSSION AND ANALYSIS

State statutes limit the amount of general obligation debt a city may issue to 25 percent of its total assessed valuation. The governmental debt obligation balance at the end of 2007 is \$15,725,000. Based on the total assessed valuation of \$3,951,616,388 the current debt limitation for the City is \$145,185,615 (3.75% of \$3,951,616,388), which is significantly more than the City's outstanding general obligation debt. The City has incurred additional non-bond related Note Payable in the amount of \$1,034,348; \$250,000 for second deed of trust due August 25, 2035; and \$350,000 for fourth deed of trust due August 28, 2035.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Services Department @ City of Pacifica, 170 Santa Maria Avenue, Pacifica, CA 94044, 650/738-7396.

CITY OF PACIFICA
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
ASSETS			
Cash and investments	\$ 9,028,211	\$ 37,186	\$ 9,065,397
Cash and investments with fiscal agents	211,566	1,124,358	1,335,924
Taxes receivable	1,341,724		1,341,724
Accounts receivable	102,854	345,938	448,792
Interest receivable	249,525		249,525
Grants receivable	1,069,264		1,069,264
Notes receivable, net	600,000		600,000
Internal balances	700,000	(700,000)	
Prepaid items	24,546	100	24,646
Deposits receivable	783,506		783,506
Inventories	23,367	164,020	187,387
Deferred charges - net of accumulated amortization	483,888	827,061	1,310,949
Deferred loss on refunding - net of accumulated amortization	1,318,304	49,521	1,367,825
Capital assets not being depreciated	40,279,873	4,014,412	44,294,285
Capital assets, net of accumulated depreciation	<u>25,918,134</u>	<u>46,562,171</u>	<u>72,480,305</u>
 Total assets	 <u>82,134,762</u>	 <u>52,424,767</u>	 <u>134,559,529</u>
LIABILITIES			
Accounts payable	941,370	257,159	1,198,529
Accrued liabilities	470,258	47,862	518,120
Interest payable	67,425	170,558	237,983
Refundable deposits	469,077		469,077
Unearned revenue	1,500		1,500
Noncurrent liabilities:			
Due within one year	2,343,777	176,225	2,520,002
Due in more than one year	<u>19,182,025</u>	<u>39,096,206</u>	<u>58,278,231</u>
 Total liabilities	 <u>23,475,432</u>	 <u>39,748,010</u>	 <u>63,223,442</u>
NET ASSETS			
Invested in capital assets, net of related debt	50,585,199	12,423,925	63,009,124
Restricted for:			
Restricted for construction of capital assets	1,910,741		1,910,741
Restricted for debt service	282,214	953,800	1,236,014
Restricted for streets, highways, and other related purposes	4,302,514		4,302,514
Restricted for low/mod housing	530,101		530,101
Restricted for public safety	344,841		344,841
Unrestricted	<u>703,720</u>	<u>(700,968)</u>	<u>2,752</u>
 Total net assets	 <u>\$ 58,659,330</u>	 <u>\$ 12,676,757</u>	 <u>\$ 71,336,087</u>

The accompanying notes are an integral part of these basic financial statements.

CITY OF PACIFICA
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>
Governmental activities:				
General government	\$ 5,798,391	\$ 96,106	\$ 245,954	\$ -
Public safety	14,980,984	1,157,322	349,916	
Community development	1,178,590	732,372		
Public works	4,264,011	1,376,379	1,285,649	3,434,190
Parks, beaches, and recreation	3,405,149	1,543,791	1,085,530	205,496
Interest on long-term debt	846,768			
Total governmental activities	30,473,893	4,905,970	2,967,049	3,639,686
Business-type activities:				
Sewer	9,084,345	9,137,785		
Total business-type activities	9,084,345	9,137,785		
Total government	\$ 39,558,238	\$ 14,043,755	\$ 2,967,049	\$ 3,639,686

General Revenues
Taxes
 Property taxes
 Sales and use taxes
 Franchise taxes
 Other taxes
Motor vehicle in lieu - unrestricted
Investment earnings
Miscellaneous
Transfers

Total general revenues and transfers

Change in net assets

Net Assets, July 1, 2006
Prior Period Adjustments
Net Assets, July 1, 2006, Restated,

Net Assets, June 30, 2007

The accompanying notes are an integral part of these basic financial statements.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Totals
\$ (5,456,331)	\$ -	\$ (5,456,331)
(13,473,746)		(13,473,746)
(446,218)		(446,218)
1,832,207		1,832,207
(570,332)		(570,332)
(846,768)		(846,768)
<u>(18,961,188)</u>		<u>(18,961,188)</u>
	53,440	53,440
	53,440	53,440
<u>(18,961,188)</u>	<u>53,440</u>	<u>(18,907,748)</u>
9,016,273		9,016,273
1,096,165		1,096,165
1,539,123		1,539,123
3,720,047		3,720,047
2,917,076		2,917,076
568,021	14,881	582,902
369,309	4,688	373,997
815,000	(815,000)	
<u>20,041,014</u>	<u>(795,431)</u>	<u>19,245,583</u>
<u>1,079,826</u>	<u>(741,991)</u>	<u>337,835</u>
57,451,829	13,618,364	71,070,193
127,675	(199,616)	(71,941)
<u>57,579,504</u>	<u>13,418,748</u>	<u>70,998,252</u>
<u>\$ 58,659,330</u>	<u>\$ 12,676,757</u>	<u>\$ 71,336,087</u>

CITY OF PACIFICA
Balance Sheet
Governmental Funds
June 30, 2007

	<u>Capital Projects Funds</u>			<u>Debt Service Fund</u>
	<u>General</u>	<u>General Capital Improvement</u>	<u>Redevelopment Agency Rockaway Beach</u>	<u>Debt Service</u>
Assets				
Cash and investments	\$ 217,033	\$ 3,555,219	\$ 90,095	\$ 346,660
Cash and investments with fiscal agents			210,912	654
Taxes receivable	1,025,348	12,375		
Accounts receivable	98,421			
Interest receivable	108,030	27,183		
Grants receivable	204,170	544,704		
Notes receivable, net				
Due from other funds	1,865,131			
Prepaid items	22,101			2,325
Deposits receivable	783,506			
Inventories	5,717			
Advances receivable	5,777,282			
	<u>5,777,282</u>			
Total Assets	<u>\$ 10,106,739</u>	<u>\$ 4,139,481</u>	<u>\$ 301,007</u>	<u>\$ 349,639</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 291,277	\$ 451,271	\$ 10,968	\$ -
Accrued liabilities	417,936	951		
Refundable deposits	469,077			
Due to other funds		2,218,700		
Unearned revenues	3,262,407			
Advances payable			5,537,897	
			<u>5,537,897</u>	
Total Liabilities	<u>4,440,697</u>	<u>2,670,922</u>	<u>5,548,865</u>	
Fund Balances:				
Reserved for encumbrances	16,743			
Reserved for prepaid items	22,101			2,325
Reserved for medical equipment	5,000			
Reserved for inventories	5,717			
Reserved for notes and loans				
Reserved for advances	2,514,875			
Reserved for general operations	2,244,231			
Reserved for community development	116,174			
Reserved for NARC forfeiture	37,600			
Reserved for capital projects		1,240,208		
Reserved for debt service				347,314
Unreserved	703,601	228,351	(5,247,858)	
Unreserved, reported in nonmajor:				
Special revenue funds				
Capital projects funds				
	<u>703,601</u>	<u>228,351</u>	<u>(5,247,858)</u>	
Total Fund Balances	<u>5,666,042</u>	<u>1,468,559</u>	<u>(5,247,858)</u>	<u>349,639</u>
Total Liabilities and Fund Balances	<u>\$ 10,106,739</u>	<u>\$ 4,139,481</u>	<u>\$ 301,007</u>	<u>\$ 349,639</u>

The accompanying notes are an integral part of these basic financial statements.

Other Governmental Funds	Totals
\$ 2,752,822	\$ 6,961,829
	211,566
304,001	1,341,724
3,326	101,747
114,312	249,525
320,390	1,069,264
600,000	600,000
2,218,700	4,083,831
120	24,546
	783,506
	5,717
	5,777,282
<u>\$ 6,313,671</u>	<u>\$ 21,210,537</u>
\$ 145,226	\$ 898,742
41,642	460,529
	469,077
1,165,131	3,383,831
114,312	3,376,719
<u>239,385</u>	<u>5,777,282</u>
<u>1,705,696</u>	<u>14,366,180</u>
	16,743
120	24,546
	5,000
	5,717
600,000	600,000
	2,514,875
	2,244,231
	116,174
	37,600
	1,240,208
	347,314
	(4,315,906)
2,359,490	2,359,490
<u>1,648,365</u>	<u>1,648,365</u>
<u>4,607,975</u>	<u>6,844,357</u>
<u>\$ 6,313,671</u>	<u>\$ 21,210,537</u>

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CITY OF PACIFICA
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
June 30, 2007

Fund Balances - Governmental Funds \$ 6,844,357

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

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

Capital assets	\$ 70,532,696	
Less: accumulated depreciation	<u>(6,179,584)</u>	
		64,353,112

Interest accrued on notes and advances are not available to pay for current expenditures and, therefore are offset by deferred revenue in the Governmental Funds. 3,375,219

Deferred charges represent costs associated with the issuance of long-term debts which are deferred and amortized over the period which the debts are outstanding. The costs are reported as expenditures of the current period in the Governmental Funds.

Deferred charges - 2004 Tax Allocation Bond - net of accumulated amortization	86,223	
Deferred charges - 2006 Certificates of Participation - net of accumulated amortization	<u>397,665</u>	
		483,888

Deferred loss on refunding, net of accumulated amortization has not been reported in the Governmental Funds. This was capitalized and amortized over the life of the new debt or old debt whichever is shorter in the Statement of Net Assets. 1,318,304

Interest payable on long-term debt is not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet. (67,425)

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

Compensated absences	(1,345,242)	
2002 CHFA Loan	(875,378)	
2004 Tax Allocation Bond	(1,690,000)	
2006 Certificates of Participation	<u>(15,725,000)</u>	
		(19,635,620)

Internal service funds are used by management to charge costs of certain activities, such as equipment replacement, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 1,987,495

Net Assets of Governmental Activities \$ 58,659,330

The accompanying notes are an integral part of these basic financial statements.

CITY OF PACIFICA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Capital Projects Funds		Debt Service Fund
		General Capital Improvement	Redevelopment Agency Rockaway Beach	Debt Service
Revenues				
Taxes	\$ 14,626,847	\$ -	\$ 228,878	\$ -
Licenses and permits	417,566	53,381		
Fines and forfeitures	217,699			
Use of money and property	219,362	104,584	11,330	2,628
Intergovernmental	4,557,066	870,841	38,658	
Charges for current services	1,654,244			
Recreation programs	559,350			
Other	1,555,866	275,630		190,000
Total Revenues	23,808,000	1,304,436	278,866	192,628
Expenditures				
Current				
General government	4,451,785		220,905	
Public safety	14,395,175			
Community development	974,113	18,286		
Public works	1,539,624			
Parks, beaches, and recreation	3,317,703			
Non-departmental				
Capital outlay	182,277	1,847,799		
Debt service				
Principal			35,000	158,970
Interest and fiscal charges			323,792	649,418
Total Expenditures	24,860,677	1,866,085	579,697	808,388
Excess (Deficit) of Revenues over Expenditures	(1,052,677)	(561,649)	(300,831)	(615,760)
Other Financing Sources (Uses)				
Transfers in	2,434,443	790,000		623,400
Transfers out	(1,690,000)			
Total Other Financing Sources (Uses)	744,443	790,000		623,400
Net Changes in Fund Balances	(308,234)	228,351	(300,831)	7,640
Fund Balances, July 1, 2006	5,998,951	1,240,208	(4,947,027)	341,999
Prior Period Adjustments	(24,675)			
Fund Balances, July 1, 2006, Restated	5,974,276	1,240,208	(4,947,027)	341,999
Fund Balances, June 30, 2007	\$ 5,666,042	\$ 1,468,559	\$ (5,247,858)	\$ 349,639

The accompanying notes are an integral part of these basic financial statements.

Other Governmental Funds	Totals
\$ 57,220	\$14,912,945
	470,947
	217,699
125,855	463,759
3,134,589	8,601,154
1,228,929	2,883,173
	559,350
<u>508,188</u>	<u>2,529,684</u>
<u>5,054,781</u>	<u>30,638,711</u>
	4,672,690
172,255	14,567,430
135,140	1,127,539
1,931,172	3,470,796
	3,317,703
1,027,370	1,027,370
564,932	2,595,008
	193,970
<u>15,661</u>	<u>988,871</u>
<u>3,846,530</u>	<u>31,961,377</u>
<u>1,208,251</u>	<u>(1,322,666)</u>
50,000	3,897,843
<u>(1,812,843)</u>	<u>(3,502,843)</u>
<u>(1,762,843)</u>	<u>395,000</u>
<u>(554,592)</u>	<u>(927,666)</u>
5,180,258	7,814,389
<u>(17,691)</u>	<u>(42,366)</u>
<u>5,162,567</u>	<u>7,772,023</u>
<u>\$ 4,607,975</u>	<u>\$ 6,844,357</u>

CITY OF PACIFICA
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2007

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

Net change in fund balances \$ (927,666)

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

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

Capital outlay expenditures are therefore added back to fund balances	\$ 2,364,067	
Depreciation expense not reported in governmental funds	<u>(1,130,757)</u>	
		1,233,310

Interest in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		212,863
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Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but in the Statement of Net Assets, the costs are deferred and amortized throughout the period during which the related debt is outstanding. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Issuance cost and discount amortized during the period	(17,795)	
Repayment of debt principal	<u>193,970</u>	
		176,175

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

Deferred loss on refunding amortized during the period	(64,835)	
Interest payable	29,871	
Compensated absences	<u>(58,384)</u>	
		(93,348)

The internal service fund is used by management to charge costs of certain activities such as, equipment replacement, to individual funds. The net revenues (expenses) of the internal service fund is reported with governmental activities.		<u>478,492</u>
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Change in net assets of governmental activities		<u>\$ 1,079,826</u>
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The accompanying notes are an integral part of these basic financial statements.

CITY OF PACIFICA
Statement of Net Assets
Proprietary Funds
June 30, 2007

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
	<u>Sewer Utility</u>	
Assets		
Current Assets:		
Cash and investments	\$ 37,186	\$ 2,066,382
Cash and investments with fiscal agents	1,124,358	
Accounts receivable	345,938	1,107
Prepaid items	100	
Inventories	164,020	17,650
	<u>1,671,602</u>	<u>2,085,139</u>
Total Current Assets		
Noncurrent Assets:		
Deferred charges (net of accumulated amortization)	827,061	
Deferred loss on refunding (net of accumulated amortization)	49,521	
Capital assets, not being depreciated	4,014,412	258,774
Capital assets, being depreciated (net of accumulated depreciation)	46,562,171	1,586,121
	<u>51,453,165</u>	<u>1,844,895</u>
Total Noncurrent Assets		
Total Assets	<u>53,124,767</u>	<u>3,930,034</u>
Liabilities		
Current Liabilities:		
Accounts payable	257,159	42,628
Accrued liabilities	47,862	9,729
Interest payable	170,558	
Due to other funds	700,000	
Claims payable		1,663,372
Bonds payable	140,000	
	<u>1,315,579</u>	<u>1,715,729</u>
Total Current Liabilities		
Noncurrent Liabilities:		
Claims payable		217,156
Compensated absences	243,191	9,654
Loans payable	25,359,240	
Bonds payable	13,530,000	
	<u>39,132,431</u>	<u>226,810</u>
Total Noncurrent Liabilities		
Total Liabilities	<u>40,448,010</u>	<u>1,942,539</u>
Net Assets		
Invested in capital assets, net of related debt	12,423,925	1,844,895
Restricted for debt service	953,800	
Unrestricted	(700,968)	142,600
	<u>\$ 12,676,757</u>	<u>\$ 1,987,495</u>
Total Net Assets		

The accompanying notes are an integral part of these basic financial statements.

CITY OF PACIFICA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
June 30, 2007

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
	<u>Sewer Utility</u>	
Operating Revenues		
Charges for services	\$ 9,046,479	\$ 1,267,940
Other operating income	91,306	874,277
Total Operating Revenues	<u>9,137,785</u>	<u>2,142,217</u>
Operating Expenses		
Personnel services	2,718,339	249,959
Administration	490,432	6,030
Supplies and materials	918,101	464,309
Insurance	214,000	473,885
Outside contractors	217,168	135,688
Maintenance	204,861	5,610
Utilities	928,909	
Insurance claims		454,271
Depreciation	2,074,694	375,980
Total Operating Expenses	<u>7,766,504</u>	<u>2,165,732</u>
Operating Income (Loss)	<u>1,371,281</u>	<u>(23,515)</u>
Non-Operating Revenues (Expenses)		
Investment earnings	14,881	82,007
Recoveries and settlements	4,688	
Interest and fiscal charges	(688,605)	
Amortization	(629,236)	
Total Non-Operating Revenues (Expenses)	<u>(1,298,272)</u>	<u>82,007</u>
Income (Loss) Before Transfers	73,009	58,492
Transfers		
Transfers in		420,000
Transfers out	(815,000)	
Changes in Net Assets	<u>(741,991)</u>	<u>478,492</u>
Net Assets, July 1, 2006	13,618,364	1,338,962
Prior Period Adjustments	(199,616)	170,041
Net Assets, July 1, 2006, Restated	<u>13,418,748</u>	<u>1,509,003</u>
Net Assets, June 30, 2007	<u>\$ 12,676,757</u>	<u>\$ 1,987,495</u>

The accompanying notes are an integral part of these basic financial statements.

CITY OF PACIFICA
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2007

	Business-type Activities	Governmental Activities
	Enterprise Fund	Internal Service Funds
	Sewer Utility	
Cash Flows from Operating Activities		
Receipts from customers	\$ 8,539,566	\$ 2,180,390
Payments to suppliers and users	(3,290,479)	(1,207,527)
Payments for claims		(673,899)
Payments to employees	(2,667,672)	(236,475)
Net Cash Provided by Operating Activities	2,581,415	62,489
Cash Flows from Noncapital Financing Activities		
Recoveries and settlements	4,688	
Interfund loans	700,000	
Transfers in		420,000
Transfers out	(815,000)	
Net Cash Provided (Used) by Noncapital Financing Activities	(110,312)	420,000
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(1,672,942)	(321,985)
Principal payments on bonds and notes	(140,000)	
Interest paid	(689,777)	
Net Cash (Used) by Capital and Related Financing Activities	(2,502,719)	(321,985)
Cash Flows from Investing Activities		
Interest received	14,881	82,007
Net Cash Provided by Investing Activities	14,881	82,007
Net Increase (Decrease) in Cash and Cash Equivalents	(16,735)	242,511
Cash and Cash Equivalents at the Beginning of the Fiscal Year	1,178,279	1,823,871
Cash and Cash Equivalents at the End of the Fiscal Year	\$ 1,161,544	\$ 2,066,382
Reconciliation of Cash and Cash Equivalents to Statement of Net Assets:		
Cash and investments	\$ 37,186	\$ 2,066,382
Cash and investments with fiscal agents	1,124,358	
Total Cash and Cash Equivalents	\$ 1,161,544	\$ 2,066,382

The accompanying notes are an integral part of these basic financial statements.

CITY OF PACIFICA
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2007
(Continued)

	Business-type Activities	Governmental Activities
	Enterprise Fund	Internal Service Funds
	Sewer Utility	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	\$ 1,371,281	\$ (23,515)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	2,074,694	375,980
(Increase) Decrease in Operating Assets:		
Accounts receivable	(344,537)	38,173
Prepaid items	(43)	
Inventories	(6,149)	3,355
Increase (Decrease) in Operating Liabilities:		
Accounts payable	(310,816)	(125,360)
Accrued liabilities	5,134	7,633
Unearned revenue	(253,682)	
Claims payable		(219,628)
Compensated absences	45,533	5,851
	\$ 2,581,415	\$ 62,489
Net Cash Provided by Operating Activities	\$ 2,581,415	\$ 62,489

The accompanying notes are an integral part of these basic financial statements.

CITY OF PACIFICA
Fiduciary Fund
Statement of Net Assets
June 30, 2007

	Davies Trust Fund
Assets	
Cash and investments	\$ 4,006,887
Accounts receivable	14,812
	4,021,699
Total assets	4,021,699
Liabilities	
Accounts payable	646
	646
Total liabilities	646
Net Assets	
Unrestricted	4,021,053
	4,021,053
Total net assets	\$ 4,021,053

The accompanying notes are an integral part of these basic financial statements.

CITY OF PACIFICA
 Fiduciary Fund
 Statement of Changes in Fiduciary Net Assets
 June 30, 2007

	Davies Trust Fund
Additions:	
Investment revenue	\$ 174,980
Donation	3,900,000
Total additions	4,074,980
Deductions:	
Parks, beaches, and recreation	53,927
Total deductions	53,927
Change in net assets	4,021,053
Net Assets - July 1, 2006	
Net Assets - June 30, 2007	\$ 4,021,053

The accompanying notes are an integral part of these basic financial statements.

CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies:

The basic financial statements of the City of Pacifica (City) have been prepared in conformity with accounting principles generally accepted in the United States of America ("USGAAP") as applied to governmental agencies. The Governmental Accounting Standards Boards ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting principles are described below.

A. Reporting Entity

The City of Pacifica was incorporated November 22, 1957 under the general laws of the State of California and enjoys all the rights and privileges applicable to a General Law City. The City operates under a Council-Manager form of government. There are five Council Members who serve overlapping terms of four years, and the Council, in turn, elects one of the Council Members to serve as Mayor for one year. This legislative body selects a City Manager to administer the affairs of the City. The City provides the following services: public safety (police, fire, and civil defense), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

As required by accounting principles generally accepted in the United States of America, the accompanying financial statements include the financial activities of the City and its blended component unit, the Redevelopment Agency of the City of Pacifica (Redevelopment Agency). The City Council serves in separate session as the governing body of the Redevelopment Agency and is financially accountable, although the Agency is a legal entity apart from the City. The financial activities of the Redevelopment Agency are, in substance, a part of the City's operations and are included in the accompanying financial statements utilizing the "blending method".

The Redevelopment Agency was established September 24, 1979 pursuant to Ordinance Number 267-C.S. Its purpose is to prepare and carry out plans for the improvement, rehabilitation, and development of blighted areas within the territorial limits of the City of Pacifica. The Redevelopment Agency is reported as a Special Revenue Fund. Individual component unit financial statements can be obtained for the City's Redevelopment Agency from the City's Finance Department located in City Hall.

The City participates in the ABAG Plan Corporation, a public entity risk pool, whose financial activities are not included in the basic financial statements as it is administered by a board, separate from and independent, of the City (See Note 8).

Discretely Presented Component Units. There are no entities which meet the *Governmental Accounting Standards Board Statement No. 14* as amended by GASB Statement No. 39, criteria for discrete disclosure within these financial statements.

B. Basis of Presentation

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

CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued):

C. Government-wide Financial Statements

The City's government-wide financial statements include a Statement of Net Assets, and a Statement of Activities. These statements present summaries of governmental activities and business-type activities for the City, accompanied by a total column. These financial statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are financed generally through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities (Sewer Utility Enterprise Fund) are financed generally through user fees.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and therefore are clearly identifiable to a particular function. Program revenues include three categories: (1) charges for services, (2) operating grants and contributions and (3) capital grants and contributions. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* ("GASB No. 34") in regards to interfund activities, payables and receivables.

D. 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 assets as presented in these statements to the net assets presented in the government-wide financial statements.

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

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Change in Net Assets, and a Statement of Cash Flows for all proprietary funds. The internal service funds are 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 Assets. The Statement of Revenues, Expenses, and Change in Net Assets presents increases (revenues) and decreases (expenses) in total net assets. 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 liabilities are incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operation 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.

CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued):

D. Financial Statements (Continued)

Fiduciary Fund Financial Statements include a statement of net assets and a statement of changes in fiduciary net assets. Fiduciary funds represent agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has only one fiduciary fund, the Davies Trust fund.

E. Major Funds

GASB 34 defines major funds and requires that the City's major governmental funds be identified and presented separately in the Fund financial statements. All other governmental funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type. Major funds are defined as governmental funds which have either assets, liabilities, revenues or expenditures equal to or greater than ten percent of their fund-type total and five percent of the grand total. The general fund is always a major fund. Although no such funds were selected in fiscal year 2007, the City may select other governmental funds it believes should be presented as major funds. The major governmental funds of the City are:

- **General Fund** – The General Fund is used to account for the resources to carry out basic governmental activities of the City such as general government, public safety, public works, community development, and parks, beaches, and recreation, which are not required to be accounted for in another fund.
- **General Capital Improvement Capital Projects Fund** - This fund is used to account for revenues derived from fees and apportionments from General Fund to be used for the acquisition, construction, and improvement of major capital facilities of the City.
- **Redevelopment Agency Rockaway Beach Capital Project Fund** – This fund is used to account for expenditures and financing of various redevelopment agency projects.
- **Debt Service Fund** - This fund is used to account for the accumulation and the disbursement of monies need to comply with the interest and redemption requirements of the City's debt.

The City reports the following major proprietary fund:

- **The Sewer Utility Enterprise Fund** – This fund accounts for the operation and maintenance of the City's wastewater collection system including operating costs of the wastewater collection system and water recycling plant.

Additionally, the City reports the following fund types:

- **The Internal Service Funds** account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units on a cost reimbursement basis.
- **The Trust Fund** is used to account for a donation by a private individual which is restricted for specific purposes. These funds are not included in the government-wide financial statements.

F. Basis of Accounting

The Government-wide, Proprietary funds, and fiduciary funds financial statements required by GASB 34 are reported using the *economic resources* measurement focus and the *accrual basis* of accounting. Accordingly, all of the City's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets.

CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued):

F. Basis of Accounting (Continued)

Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred regardless of when the related cash flows take place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary funds financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The Governmental fund financial statements are reported using the *current financial resources* measurement focus, and the *modified accrual basis* of accounting. Accordingly, only current assets and liabilities (except for long-term advances from the City) are included in the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

The City considers all revenues reported in the governmental funds to be available if the revenue are collected within sixty days after fiscal year end. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property taxes, sales taxes, intergovernmental revenues, other taxes and investment earnings. Expenditures are recorded in the accounting period in which the related fund liability is incurred, except for principal and interest on long-term debt and compensated absences, which are recognized as expenditures to the extent that they have matured. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving value in exchange, include taxes, grants, entitlements and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

G. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the City considered cash and cash equivalents (investments with maturities of three months or less at the time of purchase) as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The City follows the practice of pooling the cash of all funds, including the City's Enterprise and Internal Service Funds.

CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued):

H. Investments

Investments are reported at fair value, except for investments that are not transferable and have terms that are not affected by change in market rates are reported at cost.

Changes in fair value that occur during a fiscal year are recognized as revenues from use of money reported for that fiscal year. Revenues from use of money include interest earnings, change in fair value, gains or losses realized upon the liquidation, maturity, or sale of investment and rental income. Changes in the fair value of investments during this fiscal year were calculated and booked.

I. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/interfund payables (i.e., the current portion of interfund loans) or advances to/from other funds (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as interfund receivables or interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

All trade, tax, and note receivables are shown net of an allowance for uncollectible accounts if applicable, and estimated refunds due.

J. Inventories and Prepaid Items

General fund inventories are recorded as expenditures when consumed, rather than when purchased. These inventories are stated at cost, using the first-in, first-out (FIFO) method. Inventories in the proprietary funds are stated at the lower of cost or market, and consist of expendable materials and supplies.

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

Inventories and prepaid items, as reported in the fund financial statements, are offset by a reservation of fund balance for noncurrent assets in governmental funds, to indicate that they do not constitute resources available for appropriation.

K. Deferred Charges and Deferred Loss on Refunding

The costs of issuance of debt and discounts are being amortized on the straight line method over the life of the debt on the government-wide statements.

The City had incurred a loss on the refunding of its debt. The deferred loss is being amortized on the straight line method over the lesser of the remaining period of the old debt or the remaining period of the new debt on the government-wide statements.

L. Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value on the date donated. Depreciation of capital assets is charged as an expense each year, and the total amount of accumulated depreciation taken over the years, is reported on the Statement of Net Assets as a reduction in the book value of capital assets.

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 - Summary of Significant Accounting Policies (Continued):

M. Unearned Revenues

Unearned revenues in governmental funds arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenue also arises when resources are received by the City before it has a legal claim to them (i.e., when grant monies are received prior to the incurrence of qualifying expenditures).

N. Compensated Absences

City employees accrue vacation, sick, holiday, and compensatory time off benefits. An employee may accumulate vacation time equal to an amount that can be earned in a two and a half year period. No cash compensation is payable for accrued vacations until the employee terminates employment. Sick leave is compensated in cash only upon an employee's retirement. Maximum limit per employee is \$3,000 or one quarter of employee's sick leave credit, whichever is lower. It is the City's policy to allow employees to accumulate compensatory time instead of drawing overtime. This accumulation may subsequently be translated into cash or time taken.

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured (such as vacation time, estimated to be paid upon retirement by the end of the fiscal year with expendable available financial resources). Each fiscal year, an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. The General Fund is primarily responsible for the repayment of the governmental portion of compensated absences.

O. Property Tax Revenues

California Constitution Article XIII A limits the combined property tax rate to one percent of a property's assessed valuation. Additional taxes may be imposed with voter approval. Assessed value is calculated at one hundred percent of a property's fair value, as defined by Article XIII A, and may be increased no more than two percent per year unless a change in ownership occurs. The County of San Mateo collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to adjustments for voter-approved debt. The City receives property taxes pursuant to an arrangement with the County known as the “Teeter Plan,” whereby the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the City. The City recognizes property tax revenues (including tax increment revenues) to the extent of each year's tax allocation received or to be received within 60 days after the end of each fiscal year.

Incremental property tax revenues represent property taxes in a project area arising from increased assessed valuations over base valuations established at the inception of a project. Incremental property taxes from a project area accrue to the Agency until all liabilities of the project have been repaid (including cumulative funds provided by the City of Pacifica). After all such indebtedness has been repaid, all property taxes from a project area accrue to the various taxing authorities.

The County assesses properties, bills for, collects, and distributes property taxes per the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	January 1	January 1
Lien/Levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 April 10	August 31

CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (Continued):

O. Property Tax Revenues (Continued)

The term "Unsecured" refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on property being taxed.

P. Net Assets

Government-wide Net Assets consist of the following:

Invested in capital assets, net of related debt – This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that was attributed to the acquisition, construction or improvement of the assets.

Restricted net assets – This amount is restricted by external creditors, grantors, contributors or laws or regulations of other governments.

Unrestricted net assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

Governmental Fund Balance consist of the following: Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws that require a portion of the fund balance to be segregated or identify the portion of the fund not available for future expenditures.

Q. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

NOTE 2 - Stewardship, Compliance, and Accountability:

Budgetary information

The City operates under the general law of the State of California, and annually adopts a budget to be effective July 1 for the ensuing fiscal year. The City Manager submits a Preliminary Budget to the City Council on or about May 15 each year. This Preliminary Budget is the fiscal plan for the ensuing twelve months starting July 1, and includes proposals for expenditures for operations and capital improvement, and the resources to meet them. City Council conducts public hearings at Council Chambers before adopting the budget. The Council approves total appropriations at the department level in the General Fund, and at the fund level in other funds. The Budget is adopted by City resolution prior to June 30.

The appropriated budget is prepared by fund, function, and department. The City Manager is authorized to transfer budget appropriations within departments in conformance with the adopted policies set by the City Council. All other transfers must be approved by the City Council. Any revisions that alter the total expenditures of any department must be approved by the City Council. Expenditures are budgeted at, and may not legally exceed, the department level for the General Fund and the fund level for Special Revenue, Debt Service, Capital Projects and Internal Service Funds. Budgeted amounts shown are as originally adopted, or as amended by the City Council during the year. During the year, several supplementary appropriations were necessary.

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 2 - Stewardship, Compliance, and Accountability (Continued):

Budgetary information (Continued)

Budgets for General, Special Revenue, Debt Service, Capital Projects, and Internal Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (USGAAP). Except for Capital Project Funds, appropriations lapse at fiscal year end and are rebudgeted for the coming year. Capital Projects are budgeted for on a project basis rather than an annual basis; unexpended project authority is carried forward until the project is completed.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances outstanding at year-end are recorded as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Excess of expenditures over appropriations

For the fiscal year ended June 30, 2007, expenditures exceeded the budgeted expenditures in the following funds:

Funds	Expenditures in excess of budget
Major Funds	
General Fund:	
General government	\$ 285,065
Public safety	\$ 734,658
Parks, beaches & recreation	\$ 113,081
Capital outlay	\$ 1,849
Rockaway Beach Capital Projects Fund:	
General government	\$ 32,535
Debt service: Interest and fiscal charges	\$ 462
Debt Service Fund:	
Debt service: Principal	\$ 158,970
Debt service: Interest and fiscal charges	\$ 26,018
Nonmajor Funds	
Special Revenue Funds	
Supplemental Law Enforcement Services:	
Public safety	\$ 16,366
Redevelopment Agency Low/Mod Housing:	
Community development	\$ 20
Capital Project Funds	
Parks and Playfield:	
Community development	\$ 246

The excess expenditures were funded by available financial resources.

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 - Cash and Investments:

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 9,065,397
Cash and investments with fiscal agents	1,335,924
Statement of fiduciary net assets:	
Cash and investments	<u>4,006,887</u>
Total cash and investments	<u>\$ 14,408,208</u>

Cash and investments as of June 30, 2007 consist of the following:

Petty cash	\$ 3,445
Deposits with financial institutions	271,047
Investments	<u>14,133,716</u>
Total cash and investments	<u>\$ 14,408,208</u>

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage/ Investment of Portfolio	Maximum Investment in One Issuer
Commercial Paper	270 days	25%	15%
Bankers Acceptances	180 days	30%	15%
U.S. Treasury Obligations	5 years	Unlimited	None
U.S. Government Agency Issues	5 years	Unlimited	None
Negotiable Certificates of Deposit	5 years	30%	15%
Medium Term Corporate Notes	5 years	30%	15%
Money Market Fund (U.S. Treasury)	N/A	Unlimited	None
San Mateo County Pooled Investment Funds	N/A	Unlimited	None
State of California Local Agency Investment Funds (State Pool)	N/A	\$ 40,000,000	\$ 40,000,000
Banks and Savings and Loan Time Deposits	N/A	25%	15%

Investments Authorized by Debt Agreements

Investment of debt proceeds held by trustees is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 - Cash and Investments (Continued):

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issue
Municipal Bonds (AAA or AA)	None	None	None
Commercial Paper (A or better)	270 days	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Time Deposits	None	None	None
Time Deposits (Unsecured)	30 days	None	None
Money Market Funds (AAA or AA)	None	None	None
Investment Contracts (AAA or AA)	None	None	None
Local Agency Investment Fund	None	None	None
Certificates of Deposit (A or better)	1 year	None	None
Bankers Acceptances (A or better)	1 year	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to change in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments and those held by trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Totals	Remaining Maturity (in Months)	
		12 Months Or Less	13 Months Or More
State Investment Pool Held by Trustees:	\$ 9,347,789	\$ 9,347,789	\$ -
Money Market Funds	4,785,927	4,785,927	
Totals	<u>\$ 14,133,716</u>	<u>\$ 14,133,716</u>	<u>\$ -</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City's investments (including investments held by trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above). The City does not hold any specific investments that need to be reported here.

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 - Cash and Investments (Continued):

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End	
				AAA	Not Rated
State Investment Pool Held by Trustees:	\$ 9,347,789	N/A	\$ -	\$ -	\$ 9,347,789
Money Market Funds	<u>4,785,927</u>	N/A		<u>4,785,927</u>	
Totals	<u>\$ 14,133,716</u>		<u>\$ -</u>	<u>\$ 4,785,927</u>	<u>\$ 9,347,789</u>

Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. The City has no investments in any one issuer (other than money market funds) that represent 5% or more of total City investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, \$912,119 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 - Cash and Investments (Continued):

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 4 - Notes Receivable:

Notes receivable at June 30, 2007 consist of the following:

	Note Receivable Balance	Accrued Interest Balance
Senior note, secured by second deed of trust, due on August 25, 2035	\$ 250,000	\$ 47,630
Junior note, secured by fourth deed of trust, due on August 28, 2035	350,000	66,682
Total, secured	600,000	114,312
Note receivable, unsecured	1,034,348	
Less allowance for doubtful account	(1,034,348)	
Total, unsecured	—	—
Total, net	\$ 600,000	\$ 114,312

The Agency has two notes due from National Church Residences of Pacifica Ca., an Ohio nonprofit corporation ("NCR"). The notes totaling \$600,000 are secured by Deeds of Trust and an assignment of rents, bear annual interest at 3% simple, and are repayable from "available surplus cash" as defined in the promissory notes.

In addition, the City has a note due from NCR totaling \$1,034,348. This note is unsecured, bears annual interest at 3% simple, and is repayable in annual installments which commenced on August 1, 2001 and end on August 1, 2010. Repayments vary from \$85,000 to \$260,000. The City received \$0 during the current fiscal year. The City has recorded an allowance for the total amount of this note as of June 30, 2007.

NOTE 5 - Capital Assets:

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

GASB Statement No.34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. The purpose of the depreciation is to spread the cost of the capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 5 - Capital Assets (Continued):

each year represents that year's pro-rata share of the cost of the capital assets. Depreciation is provided using the straight-line method over its expected useful life. Capital assets with a value of \$5,000 or more are capitalized.

The City has assigned the useful lives listed below to capital assets: Buildings and improvements (25-30 years); Police Vehicles (4 years); Other Vehicles (5-25 years); Machineries and Equipment (5-15 years); Collection System (20 years); and Infrastructure (15-30 years).

The following is a summary of capital assets for governmental activities as of June 30, 2007:

	Governmental Activities	Internal Service	Total
Capital assets not being depreciated:			
Land	\$ 39,877,205	\$ 258,774	\$ 40,135,979
Construction in progress	143,894		143,894
	<u>40,021,099</u>	<u>258,774</u>	<u>40,279,873</u>
Depreciable capital assets:			
Buildings and improvements	15,317,047	339,927	15,656,974
Vehicles		4,814,368	4,814,368
Machineries and equipments	523,542	94,070	617,612
Infrastructure	14,671,008		14,671,008
Total	<u>30,511,597</u>	<u>5,248,365</u>	<u>35,759,962</u>
Less: accumulated depreciation	6,179,584	3,662,244	9,841,828
Depreciable capital assets, net	<u>24,332,013</u>	<u>1,586,121</u>	<u>25,918,134</u>
Total capital assets, net	<u>\$ 64,353,112</u>	<u>\$ 1,844,895</u>	<u>\$ 66,198,007</u>

Combined Governmental capital asset activity for the fiscal year was as follows:

	June 30, 2006	Increases	Decreases	Transfers	Prior Period Adjustments	June 30, 2007
Capital assets not being depreciated:						
Land	\$ 40,135,979	\$ -	\$ -	\$ -	\$ -	\$ 40,135,979
Construction in progress	688,089	143,894		(688,089)		143,894
	<u>40,824,068</u>	<u>143,894</u>		<u>(688,089)</u>		<u>40,279,873</u>
Depreciable capital assets:						
Buildings and improvements	15,591,882	65,092				15,656,974
Vehicles	4,516,460	312,274	(256,414)		242,048	4,814,368
Machineries and equipments	573,663	43,949				617,612
Infrastructure	11,862,076	2,120,843		688,089		14,671,008
Total	<u>32,544,081</u>	<u>2,542,158</u>	<u>(256,414)</u>	<u>688,089</u>	<u>242,048</u>	<u>35,759,962</u>
Less: accumulated depreciation for						
Buildings and improvements	3,910,646	521,898				4,432,544
Vehicles	3,270,447	360,891	(256,414)		72,007	3,446,931
Machineries and equipments	308,762	78,247				387,009
Infrastructure	1,029,643	545,701				1,575,344
	<u>8,519,498</u>	<u>1,506,737</u>	<u>(256,414)</u>		<u>72,007</u>	<u>9,841,828</u>
Depreciable capital assets, net	<u>24,024,583</u>	<u>1,035,421</u>		<u>688,089</u>	<u>170,041</u>	<u>25,918,134</u>
Total capital assets, net	<u>\$ 64,848,651</u>	<u>\$ 1,179,315</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,041</u>	<u>\$ 66,198,007</u>

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 5 - Capital Assets (Continued):

Depreciation expense for governmental activities was charged to functions as follows:

Governmental activities:	
General government	\$ 31,521
Public safety	589,686
Community development	54,069
Public works	736,543
Parks, beaches, and recreation	<u>94,918</u>
	<u>\$ 1,506,737</u>

The following is a summary of capital assets for business-type activities as of June 30, 2007:

	June 30, 2006	Increases	Decreases	Prior Period Adjustments	June 30, 2007
Capital assets not being depreciated:					
Land	\$ 4,014,412	\$ -	\$ -	\$ -	\$ 4,014,412
	<u>4,014,412</u>				<u>4,014,412</u>
Depreciable capital assets:					
Buildings and improvements	73,449,030	748,078			74,197,108
Collection system	3,519,684	547,858			4,067,542
Machineries and equipments	635,791	377,006		(199,616)	813,181
Total	<u>77,604,505</u>	<u>1,672,942</u>		<u>(199,616)</u>	<u>79,077,831</u>
Less: accumulated depreciation for:					
Buildings and improvements	28,451,134	1,869,385			30,320,519
Collection system	1,657,479	153,111			1,810,590
Machineries and equipments	332,353	52,198			384,551
	<u>30,440,966</u>	<u>2,074,694</u>			<u>32,515,660</u>
Depreciable capital assets, net	<u>47,163,539</u>	<u>(401,752)</u>		<u>(199,616)</u>	<u>46,562,171</u>
Total capital assets, net	<u>\$ 51,177,951</u>	<u>\$ (401,752)</u>	<u>\$ -</u>	<u>\$ (199,616)</u>	<u>\$ 50,576,583</u>

CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6 - Long-Term Debt:

The City generally incurs debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The City's debt issues and transactions related to both governmental and business-type activities are summarized below and discussed in detail subsequently.

<u>Governmental Activities</u>	Balance, June 30, 2006	Additions	Retirements	Balance, June 30, 2007	Due in One year
Certificates of Participation:					
2006 COP	\$ 15,725,000	\$ -	\$ -	\$ 15,725,000	\$ -
Total COP payable	<u>15,725,000</u>			<u>15,725,000</u>	
Tax allocation bonds:					
2004 Tax allocation bonds	<u>1,725,000</u>		<u>35,000</u>	<u>1,690,000</u>	<u>35,000</u>
Note payable:					
2002 CHFA Loan	<u>1,034,348</u>		<u>158,970</u>	<u>875,378</u>	<u>223,739</u>
Other liabilities:					
Claims payable	2,100,156	454,271	673,899	1,880,528	1,663,372
Compensated absences	<u>1,290,661</u>	<u>485,901</u>	<u>421,666</u>	<u>1,354,896</u>	<u>421,666</u>
Total other liabilities	<u>3,390,817</u>	<u>940,172</u>	<u>1,095,565</u>	<u>3,235,424</u>	<u>2,085,038</u>
	<u>\$ 21,875,165</u>	<u>\$ 940,172</u>	<u>\$ 1,289,535</u>	<u>\$ 21,525,802</u>	<u>\$ 2,343,777</u>

<u>Business-type Activities</u>	Balance, June 30, 2006	Additions	Retirements	Balance, June 30, 2007	Due in One year
Revenue bonds:					
2004 Wastewater					
Revenue Refunding	\$ 9,250,000	\$ -	\$ -	\$ 9,250,000	\$ -
2001B Water & Wastewater					
Revenue Refunding	<u>4,560,000</u>		<u>140,000</u>	<u>4,420,000</u>	<u>140,000</u>
Total revenue bonds	<u>13,810,000</u>		<u>140,000</u>	<u>13,670,000</u>	<u>140,000</u>
Note payable:					
State Water Resources Control Board	<u>25,359,240</u>			<u>25,359,240</u>	
Other liabilities:					
Compensated absences	<u>197,658</u>	<u>81,758</u>	<u>36,225</u>	<u>243,191</u>	<u>36,225</u>
	<u>\$ 39,366,898</u>	<u>\$ 81,758</u>	<u>\$ 176,225</u>	<u>\$ 39,272,431</u>	<u>\$ 176,225</u>

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 6 - Long-Term Debt (Continued):

The following is a list of long-term debt issues outstanding at June 30, 2007:

2006 Certificates of Participation: On May 9, 2006, the City of Pacifica issued Certificates of Participation (COP) in the amount of \$15,725,000 (par value) payable annually beginning February 5, 2009 and with an interest rate of 3.875% payable each 35 days beginning June 15, 2006. The purpose of the COP is to provide funds to (i) refinance the City's 1999 COP (street improvement project), (ii) refinance the City's 2000 COP (public safety building project), (iii) refinance the City's 2003 COP (public safety building project), (iv) finance the construction of additional public capital improvements to be designated by the City Council in the amount of \$2,000,000, (v) acquire a debt service surety bond for the COP, and (vi) pay certain costs incurred in connection with the execution and delivery of the COP.

The lease payments, swap payments and additional payments due under the lease agreement are payable from any source of available funds of the City and the City has determined that 31.5488% of each lease payment is allocable to the refinancing of the City's obligations under the 1999 COP. The portion of lease payments and the corresponding portion of the swap payments which are allocable to the 1999 COP are payable from and are ratably secured by a pledge of and lien on the Gas Tax revenues.

\$13,298,931 from the 2006 COP was placed in an irrevocable trust that is to be used to service the future debt requirements of the 1999, 2000, and 2003 COPs. The refunding resulted in an increase of the total debt service by \$3,232,710 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$1,070,200.

The City defeased the 1999, 2000, and 2003 COPs by placing the proceeds of the new COP in an irrevocable trust to provide for all future debt service payments on the old COPs. Accordingly, the trust account assets and the liability for the defeased COPs are not included in the City's financial statements. At June 30, 2007, the 1999, 2000, and 2003 COPs outstanding balances which are considered defeased were \$4,410,000, \$5,360,000, and \$2,450,000 respectively.

Annual debt service requirements, to maturity, for the 2006 Certificates of Participation are as follows:

Fiscal year Ended	Principal	Interest	Total
2008	\$ -	\$ 643,196	\$ 643,196
2009	325,000	579,092	904,092
2010	275,000	627,416	902,416
2011	350,000	558,027	908,027
2012	350,000	596,231	946,231
2013 to 2017	1,825,000	2,620,856	4,445,856
2018 to 2022	2,300,000	2,222,827	4,522,827
2023 to 2027	2,800,000	1,739,374	4,539,374
2028 to 2032	3,400,000	1,144,938	4,544,938
2033 to 2037	4,100,000	429,051	4,529,051
	<u>\$ 15,725,000</u>	<u>\$ 11,161,008</u>	<u>\$ 26,886,008</u>

CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6 - Long-Term Debt (Continued):

2004 Tax Allocation Bonds: During August 2004, the Redevelopment Agency of the City of Pacifica issued \$1,725,000 in Rockaway Beach Redevelopment Project 2004 Tax Allocation Bonds at interest rates varying from 2.9% to 5.75%. The net proceeds of the bonds were issued to refinance redevelopment activities by repaying a portion of the loan made by the City to the Agency and to establish a reserve fund. Interest on the bonds will be payable semiannually on January 1 and July 1 each year, commencing January 1, 2005. The bonds mature on July 1, 2031.

Annual debt service requirements, to maturity, for the 2004 Tax Allocation Bonds are as follows:

Fiscal year Ended	Principal	Interest	Total
2008	\$ 35,000	\$ 90,469	\$ 125,469
2009	35,000	89,191	124,191
2010	40,000	87,696	127,696
2011	40,000	86,026	126,026
2012	40,000	84,286	124,286
2013 to 2017	245,000	388,650	633,650
2018 to 2022	310,000	316,432	626,432
2023 to 2027	405,000	215,594	620,594
2028 to 2032	540,000	81,363	621,363
	<u>\$ 1,690,000</u>	<u>\$ 1,439,707</u>	<u>\$ 3,129,707</u>

2001 CHFA Loan: During August 2001, the City (along with State and County agencies) entered into an agreement to lend and borrow funds to assist with the purchase of land and buildings suitable for the utilization of low-income senior housing (Oceanview Apartments). The property was purchased by the City and immediately transferred to National Church Residences (NCR), a non-profit organization. The City loaned \$600,000 (see below), and also acted as the pass-through agency for a loan totaling \$1,450,000 from the California Housing Financing Agency (CHFA). The loan from CHFA is technically a loan to the City, and will be repaid by the City with payments received from NCR. Although all loans associated with this project will be repaid as surplus cash allows, the following reflects the anticipated repayment schedule:

Fiscal year Ended	Principal	Interest	Total
2008	\$ 223,739	\$ 26,261	\$ 250,000
2009	215,451	19,549	235,000
2010	246,914	13,086	260,000
2011	189,274	5,678	194,952
	<u>\$ 875,378</u>	<u>\$ 64,574</u>	<u>\$ 939,952</u>

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 6 - Long-Term Debt (Continued):

2004 Wastewater Revenue Refunding Bonds: During July 2004, the City of Pacifica issued \$9,250,000 in 2004 Wastewater Revenue Refunding Bonds at interest rates varying from 5% to 5.25%. The net proceeds of the bonds were issued to refund a portion of the State of California Water Resource Control Board Loan (payments due through July 31, 2007) and to establish a reserve fund. The bonds were issued with an original issue premium which is being amortized over the term of the bonds. Interest on the bonds will be payable semiannually on April 1 and October 1 each year, commencing April 1, 2005. The bonds mature on October 1, 2026.

Annual debt service requirements, to maturity, for the 2004 Wastewater Revenue Refunding Bonds are as follows:

Fiscal year Ended	Principal	Interest	Total
2008	\$ -	\$ 472,588	472,588
2009		472,588	472,588
2010		472,588	472,588
2011		472,588	472,588
2012		472,588	472,588
2013 to 2017		2,362,937	2,362,937
2018 to 2022		2,362,937	2,362,937
2023 to 2027	9,250,000	1,055,719	10,305,719
	<u>\$ 9,250,000</u>	<u>\$ 8,144,533</u>	<u>\$ 17,394,533</u>

2001B Sewer Revenue Bonds: The City of Pacifica Financing Authority refinanced \$4,635,000 of outstanding 1996 Sewer Revenue Bonds by issuing \$4,970,000 in new bonds at interest rates varying from 3.00% to 5.125%. The economic gain realized on the refinancing had a net present value of \$342,973 or 7.2664% of par on the prior issue at the time of refinancing. The original bonds were issued to partly finance the City's new Wastewater Treatment Plant. The remaining long term financing was arranged through the State's Revolving Loan Fund. The bonds are totally callable, without premium, on any interest date on or after October 1, 2012.

Annual debt service requirements, to maturity, for the 2001B Sewer Revenue Bonds are as follows:

Fiscal year Ended	Principal	Interest	Total
2008	\$ 140,000	\$ 207,161	\$ 347,161
2009	150,000	201,864	351,864
2010	155,000	196,106	351,106
2011	160,000	189,961	349,961
2012	165,000	183,379	348,379
2013 to 2017	940,000	798,219	1,738,219
2018 to 2022	1,185,000	540,449	1,725,449
2023 to 2027	1,525,000	198,297	1,723,297
	<u>\$ 4,420,000</u>	<u>\$ 2,515,436</u>	<u>\$ 6,935,436</u>

CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6 - Long-Term Debt (Continued):

State of California Water Resource Control Board Loan: On February 20, 1997, the State of California Water Resource Control Board allocated to the City of Pacifica Sewer Enterprise Fund a State Revolving Loan Fund commitment totaling \$41,304,818 for design and construction of a new wastewater treatment facility. Repayment of the loan began one year after completion of the project and will be repaid over a period of 20 years. This is a stated zero interest loan, with 83.333% of expenses reimbursed under the revolving loan fund and the remaining 16.667% paid by the City of Pacifica. Interest did not accrue during the construction phase.

During July 2004, the City issued \$9,250,000 in 2004 Wastewater Revenue Refunding Bonds to advance refund a portion of the State of California Water Resource Control Board Loan (payments due through July 1, 2007). The net proceeds were deposited in an irrevocable trust with an escrow agent to provide debt service payments.

For financial reporting purposes, the portion of loan payments that are due through July 1, 2007 has been considered defeased and therefore removed as a liability from the City. As of June 30, 2007, the amount of defeased debt outstanding but removed from the long-term debt amounted to \$3,134,403.

Annual debt service requirements, to maturity, for the State of California Water Resource Control Board Loan are as follows:

Fiscal year Ended	Principal	Interest	Total
2008	\$ -	\$ -	\$ -
2009	1,609,734	456,185	2,065,919
2010	1,637,501	428,418	2,065,919
2011	1,667,040	398,879	2,065,919
2012	1,697,112	368,807	2,065,919
2013 to 2017	8,955,968	1,373,625	10,329,593
2018 to 2022	9,791,885	536,166	10,328,051
	<u>\$ 25,359,240</u>	<u>\$ 3,562,080</u>	<u>\$ 28,921,320</u>

NOTE 7 - Employee Retirement Plans:

Plan Description:

The City of Pacifica has three defined benefit pension plans (Miscellaneous Plan, Safety Fire Plan and the Safety Police Plan, (the "Plans"). The Plans provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

The Plans are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California.

A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 7 - Employee Retirement Plans (Continued):

Funding Policies:

Active plan members in the Miscellaneous Plan, the Safety Fire Plan and the Safety Police Plan are required to contribute 7%, 9% and 9%, respectively, of their annual covered salary. The City "picks up" the tax deferred contributions required of City employees on their behalf and for their account. The City is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for fiscal 2005/06 are as follows: 14.944% for miscellaneous employees; 32.358% for fire employees and 37.843% for police employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost:

For fiscal year 2006/07, the City's combined annual pension cost was \$4,799,722, the City actually contributed \$3,553,422 and members contributed \$1,246,300. The required contribution for fiscal year 2006/07 was determined as part of the June 30, 2004 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases of 3.25% to 14.45% depending on age, service, and type of employment for the miscellaneous members (for Safety Fire Plan and Safety Police Plan, salary increases range from 3.25% to 13.15%). Both (a) and (b) include an inflation component of 3.0% and a payroll growth factor of 3.25% for all three groups, but do not include any post retirement benefit increases. The actuarial value of the Plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over three year period. The Plan's unfunded actuarial excess assets are being amortized as a level percentage of projected payrolls on a closed basis. The amortization period varies between the three different plans of the City. For the fiscal year 2006/07, the average remaining amortization periods were 23 years for Miscellaneous Plan, 15 years for Safety Fire Plan, and 17 years for Safety Police Plan.

Miscellaneous Plan:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2005	\$ 1,048,583	100%	\$ -
6/30/2006	\$ 1,323,153	100%	\$ -
6/30/2007	\$ 1,172,639	100%	\$ -

Fire Safety Plan:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2005	\$ 796,054	100%	\$ -
6/30/2006	\$ 1,003,805	100%	\$ -
6/30/2007	\$ 1,060,739	100%	\$ -

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 7 - Employee Retirement Plans (Continued):

Police Safety Plan:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2005	\$ 864,563	100%	\$ -
6/30/2006	\$ 1,120,895	100%	\$ -
6/30/2007	\$ 1,320,044	100%	\$ -

NOTE 8 - Public Entity Risk Pool:

The City participates in one public entity risk pool through a formally organized and separate entity. As a separate legal entity, this entity exercises full power and authority within the scope of the related agreement including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the separate entity are not those of the City.

ABAG PLAN CORPORATION

On July 1, 1986, the City became a member of the Association of Bay Area Governments (ABAG) Pooled Liability Assurance Network (PLAN). PLAN is a not-for-profit organization established to provide certain levels of liability insurance coverage, claims and risk management services, and legal defense to thirty San Francisco Bay Area cities. PLAN is governed by a Board of Directors comprised of officials appointed by each participating member and is administered by the Association of Bay Area Governments (ABAG).

The City paid premiums of \$498,567 during fiscal year 2006-2007 for general liability and property coverage in excess of the City's self-insured retention as described in Note 9. Members may receive rebates when declared by ABAG or, in the event excess liability claims against ABAG exceed available resources, may be required to make additional contributions.

ABAG is considered a risk-sharing pool whereby all its members share in the cost of losses for other members. Condensed accrual basis audited financial information of PLAN as of and for the fiscal year ended June 30, 2007 is as follows:

Total assets	\$ 47,963,844
Total liabilities	<u>17,879,751</u>
Net assets	<u><u>\$ 30,084,093</u></u>
Total revenues	\$ 11,747,470
Total expenses	<u>4,362,654</u>
Net income (loss)	<u><u>\$ 7,384,816</u></u>

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 9 - Self Insurance Fund:

On July 1, 1988, the City established a program of self insurance with respect to Employee's Dental Insurance, in accordance with the provisions of a Memorandum of Understanding between the City and all full-time employees. This program is administered by TLC Administrators and provides claims review and processing. The maximum benefit per employee per plan year varies between \$1,500 and \$2,000; the maximum benefit per dependent per plan year is also between \$1,500 and \$2,000.

The City's general liability, property damage, and workers' compensation claims are insured by either commercial insurance carriers or by participation in a public risk-sharing pool (ABAG PLAN Corporation, Note 8), both of which are subject to the City's self-insurance retention which varies by type of coverage. The coverages are as follows:

<u>Self-Insured Coverage</u>	<u>Policy Limit</u>	<u>Retention</u>
General Liability & Property Damage	\$ 10,000,000	\$ 50,000
Workers Compensation	*	*

* Workers' Compensation coverage estimates are currently unavailable due to retention levels of \$1 million or higher, and premium increases of 100% or higher. The City has never experienced an excess claim but the City is currently exploring alternative excess coverage. Settled claims have not exceeded the City's policy limits in any of the past three fiscal years.

The City maintains an internal service fund to account for these insurance programs. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Accrued insurance losses of \$956,792 and \$923,736 were recorded at June 30, 2007 for the workers' compensation and general liability programs respectively.

Changes in the total reported liability resulted from the following:

	Fiscal Year Ended June 30,	
	<u>2006</u>	<u>2007</u>
July 1 liability	\$ 1,946,031	\$ 2,100,156
Claims & change in estimate	799,035	454,271
Payments for claims	(644,910)	(673,899)
June 30 Liability	<u>\$ 2,100,156</u>	<u>\$ 1,880,528</u>

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 10 - Interfund Transactions:

Due To/From Other Funds

Current interfund balances arise in the normal course of business, to fund projects until the borrowing fund receives revenues to repay the lending fund and to assist funds with negative cash balance at the fiscal year end. The following is a summary of Interfund balances as of June 30, 2007:

<u>Funds</u>	<u>Due from other funds</u>	<u>Due to other funds</u>
Major Governmental Funds		
General Fund	\$ 1,865,131	\$ -
General Capital Improvement Fund		2,218,700
Major Enterprise Fund		
Sewer Utility		700,000
Nonmajor Governmental Funds		
Special Revenue Funds		
Supplemental Law Enforcement Services Fund		\$ 6,022
Gas Tax Fund	2,218,700	15,000
NPDES Stormwater Fund		191,686
Disaster Accounting Fund		732,423
Capital Projects Fund		
Highway 1 Improvement Fund		220,000
Total	<u>\$ 4,083,831</u>	<u>\$ 4,083,831</u>

Advances Receivable/Payable

The City of Pacifica loans money to the Redevelopment Agency Rockaway Beach Fund to be used for any expenses necessary or incidental to carrying out the Redevelopment Plan. At June 30, 2007, outstanding loans totaling \$5,537,897 (\$2,341,185 in advances and \$3,196,712 of accrued interest) have been made from the General Fund and are to be repaid as practical to the City from incremental tax revenues of the project area and sales of redevelopment property. Interest accrues on the original advance at 8.5%.

The City of Pacifica participated in the financing of a low-cost senior apartment complex during fiscal year 2000-2001. The Agency made a \$600,000 long-term loan through the RDA Low/Mod Housing Fund to National Church Residences (see Note 4). Since the Housing Fund did not have the full \$600,000, the City's General Fund had loaned the Housing Fund \$258,000 at a variable simple interest rate dependent upon the State of California's investment pool rate. The current loan interest rate between the City's General Fund and the Housing Fund is 7%. The total balance at June 30, 2007 is \$239,385 (\$175,190 in advances and \$64,195 in accrued interest).

Transfers

Transfers report the nonreciprocal contribution of resources of one fund to another. The purpose of the majority of transfers is to reimburse a fund which has made expenditure on behalf of another fund. Less often a transfer may be made to open or close a fund.

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 10 - Interfund Transactions (Continued):

The following is a summary of transfers for the fiscal year ended June 30, 2007:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds		
General Fund	\$ 2,434,443	\$ 1,690,000
General Capital Improvement Fund	790,000	
Debt Service Fund	623,400	
Nonmajor Governmental Funds		
Special Revenue Funds		
Fire Assessment Fund		870,000
Gas Tax Fund	50,000	148,400
Disaster Accounting Fund		794,443
Major Enterprise Fund		
Sewer Utility Fund		815,000
Internal Service Funds		
Motor Pool Fund	300,000	
Self Insurance Fund	120,000	
	<u>\$ 4,317,843</u>	<u>\$ 4,317,843</u>

NOTE 11 - Net Assets and Fund Balances:

GASB Statement No. 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

The government-wide statement of net assets for governmental activities reports \$7,370,411 of restricted net assets and the government-wide statement of net assets for business-type activities reports \$953,800 of restricted net assets.

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent amounts that are legally restricted to a specific use or are not available for appropriation of expenditure. The remaining portion is unreserved. Portions of the unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized or may not result in expenditures.

Fund with Deficit Fund Balances/Net Assets

Major Governmental Fund	
RDA-Rockaway Beach	\$ (5,247,858)
Nonmajor Governmental Funds	
Special Revenue Funds	
Supplemental Law Enforcement Services Fund	\$ (7,533)
NPDES Stormwater Fund	\$ (192,180)
Disaster Accounting Fund	\$ (819,483)
Internal Service Fund:	
Self Insurance	\$ (499,993)

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 12 - Contingencies:

The City is the defendant in several lawsuits which, when aggregated, could result in a substantial loss to the City. In the case of *North Pacifica LLC v. City of Pacifica*, United States District Court, Northern District of California, Case No. C 01 4823 EMC, filed December 7, 2001. After the trial judgment in the favor of North Pacifica LLC in the sum of \$156,741 as of May 4, 2005 and subsequently awarded attorney fees and costs in the sum of \$595,201. The City has filed a notice of appeal on May 27, 2005 and Northern Pacifica has subsequently filed a cross appeal. The City has deposited the amount of \$783,506 in the federal district court to cover the amount of the judgment and attorneys' fees pending appeal. It is presently impossible to predict the outcome of this case. No provision for this liability has been made in the accompanying basic financial statements.

In October 2007, the City was notified by the California Department of Education (CDE) that as a result of the Child Development financial and compliance audit, the State was due in excess of \$800,000. The City has responded to this demand for payment, and is currently awaiting CDE's response in regards to a hearing to be held in July 2008. The City does not expect to have to return any monies to CDE, and if any is due, the City expects such amount would be immaterial.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal Government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

NOTE 13 - Prior Period Adjustments:

Government-wide statements

Governmental activities

<u>Amounts</u>	
\$ 170,041	Understatement of capital assets
19,800	Understatement of deferred charges
<u>(62,166)</u>	Overstatement of grants receivable
<u>\$ 127,675</u>	

Business-type activities:

<u>Amounts</u>	
<u>\$ (199,616)</u>	Overstatement of capital assets
<u>\$ (199,616)</u>	

**CITY OF PACIFICA
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 13 - Prior Period Adjustments:

Governmental fund statements

Funds	Amounts	
General Fund:	<u>\$ (24,675)</u>	Overstatement of advances receivable
Parks and Playfield Capital Project Fund:	<u>(62,166)</u>	Overstatement of grants receivable
Redevelopment Agency Low/Mod	19,800	Understatement of deferred charges
Housing Special Revenue Fund:	<u>24,675</u>	Overstatement of advances payable
	<u>44,475</u>	
 Total Governmental Fund	 <u><u>\$ (42,366)</u></u>	

Proprietary Fund Statements

Funds	Amounts	
Sewer Utility Fund:	\$ (199,616)	Overstatement of capital assets
Internal Service Fund:		
Motor Pool Fund:	<u>170,041</u>	Understatement of capital assets
 Total Proprietary Funds	 <u><u>\$ (29,575)</u></u>	

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REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF PACIFICA
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues				
Taxes				
Property	\$ 8,220,000	\$ 8,220,000	\$ 8,730,175	\$ 510,175
Sales	1,100,000	1,100,000	1,096,165	(3,835)
Franchise	1,470,000	1,470,000	1,539,123	69,123
Other	3,300,000	3,300,000	3,261,384	(38,616)
Licenses and permits	331,600	331,600	417,566	85,966
Fines and forfeitures	135,000	135,000	217,699	82,699
Use of money and property	412,000	412,000	219,362	(192,638)
Intergovernmental	4,472,045	4,614,995	4,557,066	(57,929)
Charges for current services	1,465,700	1,465,700	1,654,244	188,544
Recreation programs	523,500	523,500	559,350	35,850
Other	1,668,100	1,668,100	1,555,866	(112,234)
Total Revenues	<u>23,097,945</u>	<u>23,240,895</u>	<u>23,808,000</u>	<u>567,105</u>
Expenditures				
Current				
General government				
City council	133,180	133,180	148,235	(15,055)
City manager	500,092	500,092	542,432	(42,340)
Human resources	459,444	459,444	475,933	(16,489)
City attorney	1,165,363	1,165,363	1,160,201	5,162
Finance	954,886	954,886	1,047,424	(92,538)
Non-departmental	953,755	953,755	1,077,560	(123,805)
Total General Government	<u>4,166,720</u>	<u>4,166,720</u>	<u>4,451,785</u>	<u>(285,065)</u>
Public safety				
Police	7,920,318	7,920,318	8,285,698	(365,380)
Fire	5,740,199	5,740,199	6,109,477	(369,278)
Total Public Safety	<u>13,660,517</u>	<u>13,660,517</u>	<u>14,395,175</u>	<u>(734,658)</u>
Community development				
Planning	982,737	982,737	957,474	25,263
Code enforcement			13,786	(13,786)
Economic development			2,853	(2,853)
Total Community Development	<u>982,737</u>	<u>982,737</u>	<u>974,113</u>	<u>8,624</u>
Public works				
Engineering services	404,355	404,355	285,326	119,029
Street and traffic maintenance	318,190	318,190	327,745	(9,555)
Building maintenance and improvement	327,748	327,748	328,650	(902)
Fishing pier/rest stop maintenance	119,572	119,572	122,519	(2,947)
City parks and playfields	411,214	411,214	475,384	(64,170)
Total Public Works	<u>1,581,079</u>	<u>1,581,079</u>	<u>1,539,624</u>	<u>41,455</u>

Continued

CITY OF PACIFICA
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2007
Continued

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Expenditures				
Current				
Parks, beaches, and recreation				
Parks, beaches, and recreation	203,681	203,681	218,726	(15,045)
Community center programs	174,884	174,884	179,111	(4,227)
Cultural arts	17,426	17,426	18,187	(761)
Elementary age recreation	100,646	100,646	93,332	7,314
Teens and j-teens recreation	71,427	71,427	64,039	7,388
Adult sports	26,269	26,269	23,523	2,746
Senior	125,194	125,194	131,446	(6,252)
Instructional class	137,228	137,228	148,240	(11,012)
Recreation swimming	240,484	240,484	243,439	(2,955)
Swim team	144,841	144,841	154,785	(9,944)
Special community recreation	70,404	70,404	71,974	(1,570)
Special projects	1,892,138	1,892,138	1,970,901	(78,763)
Total Parks, Beaches, and Recreation	3,204,622	3,204,622	3,317,703	(113,081)
Capital outlay	180,428	180,428	182,277	(1,849)
Total Expenditures	23,776,103	23,776,103	24,860,677	(1,084,574)
Excess (Deficit) of Revenues over Expenditures	(678,158)	(535,208)	(1,052,677)	(517,469)
Other Financing Sources (Uses)				
Transfers in	1,930,000	1,930,000	2,434,443	504,443
Transfers out	(2,144,771)	(2,144,771)	(1,690,000)	454,771
Total Other Financing Sources (Uses)	(214,771)	(214,771)	744,443	959,214
Net Change in Fund Balance	(892,929)	(749,979)	(308,234)	441,745
Fund Balance, July 1, 2006	5,998,951	5,998,951	5,998,951	
Prior Period Adjustments			(24,675)	(24,675)
Fund Balance, July 1, 2006, Restated	5,998,951	5,998,951	5,974,276	(24,675)
Fund Balance, June 30, 2007	<u>\$ 5,106,022</u>	<u>\$ 5,248,972</u>	<u>\$ 5,666,042</u>	<u>\$ 417,070</u>

CITY OF PACIFICA
Required Supplementary Information - PERS
Schedule of Funding Progress - Unaudited

Miscellaneous Plan

Actuarial Valuation Date	Entry Age Normal Accrual Liability (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	Unfunded (Overfunded) % of Covered Payroll ((a-b)/c)
6/30/04	\$ 38,800,397	\$ 32,557,921	\$ 6,242,476	83.9%	\$ 6,719,069	92.9%
6/30/05	41,956,417	36,889,060	5,067,357	87.9%	7,194,271	70.4%
6/30/06	45,986,918	41,554,909	4,432,009	90.4%	7,653,657	57.9%

Fire Safety Plan (Risk Pool)

Actuarial Valuation Date	Entry Age Normal Accrual Liability (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	Unfunded (Overfunded) % of Covered Payroll ((a-b)/c)
6/30/04	\$1,252,474,736	\$1,026,500,742	\$ 225,973,994	82.0%	\$ 154,903,754	145.9%
6/30/05	1,325,510,754	1,105,298,221	220,212,533	83.4%	161,446,071	136.4%
6/30/06	1,473,284,852	1,252,059,468	221,225,384	85.0%	177,088,890	124.9%

Police Safety Plan (Risk Pool)

Actuarial Valuation Date	Entry Age Normal Accrual Liability (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) (a-b)	Funded Ratio (b/a)	Covered Payroll (c)	Unfunded (Overfunded) % of Covered Payroll ((a-b)/c)
6/30/04	\$5,383,921,942	\$4,424,586,846	\$ 959,335,096	82.2%	\$ 575,296,434	166.8%
6/30/05	6,367,049,264	5,295,150,375	1,071,898,889	83.2%	664,147,796	161.4%
6/30/06	7,278,049,834	6,102,615,567	1,175,434,267	83.8%	754,730,438	155.7%

OTHER SUPPLEMENTARY INFORMATION

CITY OF PACIFICA
Budgetary Comparison Schedule
General Capital Improvement Capital Projects Fund
For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues			
Licenses and permits	\$ 60,000	\$ 53,381	\$ (6,619)
Use of money and property		104,584	104,584
Intergovernmental	970,000	870,841	(99,159)
Other	275,000	275,630	630
Total Revenues	<u>1,305,000</u>	<u>1,304,436</u>	<u>(564)</u>
Expenditures			
Current			
Community Development	20,541	18,286	2,255
Capital outlay	5,195,923	1,847,799	3,348,124
Total Expenditures	<u>5,216,464</u>	<u>1,866,085</u>	<u>3,350,379</u>
Excess (Deficit) of Revenues over Expenditures	<u>(3,911,464)</u>	<u>(561,649)</u>	<u>3,349,815</u>
Other Financing Sources (Uses)			
Transfers in	690,000	790,000	100,000
Total Other Financing Sources (Uses)	<u>690,000</u>	<u>790,000</u>	<u>100,000</u>
Net Change in Fund Balance	(3,221,464)	228,351	3,449,815
Fund Balance, July 1, 2006	<u>1,240,208</u>	<u>1,240,208</u>	
Fund Balance, June 30, 2007	<u>\$ (1,981,256)</u>	<u>\$ 1,468,559</u>	<u>\$ 3,449,815</u>

CITY OF PACIFICA
Budgetary Comparison Schedule
Redevelopment Agency - Rockaway Beach Capital Projects Fund
For the Fiscal Year Ended June 30, 2007

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Taxes			
Property taxes	\$ 196,000	\$ 228,878	\$ 32,878
Use of money and property	400	11,330	10,930
Intergovernmental	500	38,658	38,158
Total Revenues	<u>196,900</u>	<u>278,866</u>	<u>81,966</u>
Expenditures			
Current			
General Government	188,370	220,905	(32,535)
Capital outlay	50,000		50,000
Debt service			
Principal	35,000	35,000	
Interest and fiscal charges	323,330	323,792	(462)
Total Expenditures	<u>596,700</u>	<u>579,697</u>	<u>17,003</u>
Net Change in Fund Balance	(399,800)	(300,831)	98,969
Fund Balance, July 1, 2006	<u>(4,947,027)</u>	<u>(4,947,027)</u>	
Fund Balance, June 30, 2007	<u>\$ (5,346,827)</u>	<u>\$ (5,247,858)</u>	<u>\$ 98,969</u>

CITY OF PACIFICA
Budgetary Comparison Schedule
Debt Service Fund
For the Fiscal Year Ended June 30, 2007

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues			
Use of money and property	\$ 3,000	\$ 2,628	\$ (372)
Other	190,000	190,000	
Total Revenues	<u>193,000</u>	<u>192,628</u>	<u>(372)</u>
Expenditures			
Debt service			
Principal		158,970	(158,970)
Interest and fiscal charges	623,400	649,418	(26,018)
Total Expenditures	<u>623,400</u>	<u>808,388</u>	<u>(184,988)</u>
Excess (Deficit) of Revenues over Expenditures	<u>(430,400)</u>	<u>(615,760)</u>	<u>(185,360)</u>
Other Financing Sources (Uses)			
Transfers in	623,400	623,400	
Total Other Financing Sources (Uses)	<u>623,400</u>	<u>623,400</u>	
Net Change in Fund Balance	193,000	7,640	(185,360)
Fund Balance, July 1, 2006	<u>341,999</u>	<u>341,999</u>	
Fund Balance, June 30, 2007	<u>\$ 534,999</u>	<u>\$ 349,639</u>	<u>\$ (185,360)</u>

CITY OF PACIFICA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Assets			
Cash and investments	\$ 1,003,303	\$ 1,749,519	\$ 2,752,822
Receivables:			
Taxes	304,001		304,001
Accounts	3,326		3,326
Interest	114,312		114,312
Grants	196,000	124,390	320,390
Notes, net	600,000		600,000
Due from other funds	2,218,700		2,218,700
Prepaid items	120		120
	<u>\$ 4,439,762</u>	<u>\$ 1,873,909</u>	<u>\$ 6,313,671</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 141,297	\$ 3,929	\$ 145,226
Accrued liabilities	40,027	1,615	41,642
Due to other funds	945,131	220,000	1,165,131
Unearned revenues	114,312		114,312
Advances payable	239,385		239,385
	<u>1,480,152</u>	<u>225,544</u>	<u>1,705,696</u>
Fund Balances:			
Reserved for prepaid items	120		120
Reserved for notes and loans	600,000		600,000
Unreserved	2,359,490	1,648,365	4,007,855
	<u>2,959,610</u>	<u>1,648,365</u>	<u>4,607,975</u>
Total Fund Balances	<u>2,959,610</u>	<u>1,648,365</u>	<u>4,607,975</u>
Total Liabilities and Fund Balances	<u>\$ 4,439,762</u>	<u>\$ 1,873,909</u>	<u>\$ 6,313,671</u>

CITY OF PACIFICA
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
June 30, 2007

	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues			
Taxes			
Property taxes	\$ 57,220	\$ -	\$ 57,220
Use of money and property	61,032	64,823	125,855
Intergovernmental	3,118,667	15,922	3,134,589
Charges for current services	1,228,929		1,228,929
Other	18,235	489,953	508,188
Total Revenues	<u>4,484,083</u>	<u>570,698</u>	<u>5,054,781</u>
Expenditures			
Current			
General government			
Public safety	172,255		172,255
Community development	6,220	128,920	135,140
Public works	1,900,802	30,370	1,931,172
Non-departmental	1,027,370		1,027,370
Capital outlay	499,451	65,481	564,932
Debt service			
Interest and fiscal charges	15,661		15,661
Total Expenditures	<u>3,621,759</u>	<u>224,771</u>	<u>3,846,530</u>
Excess (Deficit) of Revenues over Expenditures	<u>862,324</u>	<u>345,927</u>	<u>1,208,251</u>
Other Financing Sources (Uses)			
Transfers in	50,000		50,000
Transfers out	(1,812,843)		(1,812,843)
Total Other Financing Sources (Uses)	<u>(1,762,843)</u>		<u>(1,762,843)</u>
Net Change in Fund Balances	<u>(900,519)</u>	<u>345,927</u>	<u>(554,592)</u>
Fund Balances, July 1, 2006	3,815,654	1,364,604	5,180,258
Prior Period Adjustments	44,475	(62,166)	(17,691)
Fund Balances, July 1, 2006, Restated	<u>3,860,129</u>	<u>1,302,438</u>	<u>5,162,567</u>
Fund Balances, June 30, 2007	<u>\$ 2,959,610</u>	<u>\$ 1,648,365</u>	<u>\$ 4,607,975</u>

NONMAJOR SPECIAL REVENUE FUNDS

Special Revenue Funds are created in accordance with Federal, State, or City regulations which require that monies apportioned from these specific funds be spent only for certain designated purposes. Funds included in this fund category are:

SUPPLEMENTAL LAW ENFORCEMENT SERVICES FUND - This fund was created to account for revenues and expenditures associated with money allocated by the legislature to all cities and counties throughout the state to supplement front line law enforcement services.

FIRE ASSESSMENT FUND - This fund was created to account for revenues and expenditures associated with money collected through the special fire assessment to supplement costs associated with the Fire Department.

GAS TAX FUND - This fund was established to receive and expend the City's allocation of the State Gasoline Taxes. Each City is allocated funds on a population basis in accordance with Sections 2105, 2106, 2107, and 2107.5 of the California Street and Highway Code. Population is determined by the latest Federal Census or survey requested and certified by the Cities and conducted by the State Department of Finance. Expenditures may be made for construction or purchasing of right-of-way on minor streets. Expenditures of money apportioned under Section 2107 may be made for any street purpose. Under Section 2107.5 a flat allocation of \$6,000 per year is granted the City for street engineering.

NPDES STORMWATER FUND - The NPDES (National Pollution Discharge Elimination System) Stormwater Fund was established in fiscal year 1994-95 to account for revenues and expenditures associated with Federal and State mandated stormwater operations.

PLANNED LOCAL DRAINAGE FUND - Revenues are derived from fees levied on new construction in local districts. Funds can be utilized only for the drainage system in those particular districts.

REDEVELOPMENT AGENCY LOW/MOD HOUSING FUND - This fund was established to comply with Section 33334.6 of the California Health and Safety Code and accounts for the twenty percent (20%) set aside from the West Rockaway Beach Redevelopment Project Area tax increment revenue for Low and Moderate Income Housing.

DISASTER ACCOUNTING FUND - This fund was established to account for all revenues received and expenditures incurred due to natural and man-made disasters.

CITY OF PACIFICA
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2007

	<u>Supplemental Law Enforcement Services</u>	<u>Fire Assessment</u>	<u>Gas Tax</u>	<u>NPDES Stormwater</u>
Assets				
Cash and investments	\$ -	\$ 328,850	\$ 260,633	\$ -
Receivables:				
Taxes		39,514	257,256	7,231
Accounts			3,326	
Interest				
Grants			196,000	
Notes, net				
Due from other funds			2,218,700	
Prepaid items			120	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ -</u>	<u>\$ 368,364</u>	<u>\$ 2,936,035</u>	<u>\$ 7,231</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 53,975	\$ 262
Accrued liabilities	1,511	15,990	15,063	7,463
Due to other funds	6,022		15,000	191,686
Unearned revenues				
Advances payable				
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>7,533</u>	<u>15,990</u>	<u>84,038</u>	<u>199,411</u>
Fund Balances:				
Reserved for prepaid items			120	
Reserved for notes and loans				
Unreserved	<u>(7,533)</u>	<u>352,374</u>	<u>2,851,877</u>	<u>(192,180)</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>(7,533)</u>	<u>352,374</u>	<u>2,851,997</u>	<u>(192,180)</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 368,364</u>	<u>\$ 2,936,035</u>	<u>\$ 7,231</u>

Planned Local Drainage	Redevelopment Agency Low/Mod Housing	Disaster Accounting	Total
\$ 244,334	\$ 169,486	\$ -	\$ 1,003,303
			304,001
			3,326
	114,312		114,312
			196,000
	600,000		600,000
			2,218,700
			120
<u>\$ 244,334</u>	<u>\$ 883,798</u>	<u>\$ -</u>	<u>\$ 4,439,762</u>
		\$ 87,060	\$ 141,297
			40,027
		732,423	945,131
	114,312		114,312
	239,385		239,385
	<u>353,697</u>	<u>819,483</u>	<u>1,480,152</u>
			120
	600,000		600,000
<u>244,334</u>	<u>(69,899)</u>	<u>(819,483)</u>	<u>2,359,490</u>
<u>244,334</u>	<u>530,101</u>	<u>(819,483)</u>	<u>2,959,610</u>
<u>\$ 244,334</u>	<u>\$ 883,798</u>	<u>\$ -</u>	<u>\$ 4,439,762</u>

CITY OF PACIFICA
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Special Revenue Funds
June 30, 2007

	Supplemental			
	Law Enforcement Services	Fire Assessment	Gas Tax	NPDES Stormwater
Revenues				
Taxes				
Property taxes	\$ -	\$ -	\$ -	\$ -
Use of money and property	2,172	11,305	30,175	
Intergovernmental	100,000		1,973,340	33,393
Charges for current services		1,036,379		175,996
Other			18,175	
Total Revenues	<u>102,172</u>	<u>1,047,684</u>	<u>2,021,690</u>	<u>209,389</u>
Expenditures				
Current				
Public safety	153,492	18,763		
Community development				
Public works			1,564,543	328,142
Non-departmental				
Capital outlay			499,451	
Debt service				
Interest and fiscal charges				
Total Expenditures	<u>153,492</u>	<u>18,763</u>	<u>2,063,994</u>	<u>328,142</u>
Excess (Deficit) of Revenues over Expenditures	<u>(51,320)</u>	<u>1,028,921</u>	<u>(42,304)</u>	<u>(118,753)</u>
Other Financing Sources (Uses)				
Transfers in			50,000	
Transfers out		(870,000)	(148,400)	
Total Other Financing Sources (Uses)		<u>(870,000)</u>	<u>(98,400)</u>	
Net Change in Fund Balances	<u>(51,320)</u>	<u>158,921</u>	<u>(140,704)</u>	<u>(118,753)</u>
Fund Balances, July 1, 2006	43,787	193,453	2,992,701	(73,427)
Prior Period Adjustments				
Fund Balance, July 1, 2006, Restated	<u>43,787</u>	<u>193,453</u>	<u>2,992,701</u>	<u>(73,427)</u>
Fund Balances, June 30, 2007	<u>\$ (7,533)</u>	<u>\$ 352,374</u>	<u>\$ 2,851,997</u>	<u>\$ (192,180)</u>

<u>Planned Local Drainage</u>	<u>Redevelopment Agency Low/Mod Housing</u>	<u>Disaster Accounting</u>	<u>Total</u>
\$ -	\$ 57,220	\$ -	\$ 57,220
11,275	6,105		61,032
	9,664	1,002,270	3,118,667
16,554			1,228,929
		60	18,235
<u>27,829</u>	<u>72,989</u>	<u>1,002,330</u>	<u>4,484,083</u>
			172,255
	6,220		6,220
8,117			1,900,802
		1,027,370	1,027,370
			499,451
	15,661		15,661
<u>8,117</u>	<u>21,881</u>	<u>1,027,370</u>	<u>3,621,759</u>
<u>19,712</u>	<u>51,108</u>	<u>(25,040)</u>	<u>862,324</u>
			50,000
		(794,443)	(1,812,843)
		(794,443)	(1,762,843)
<u>19,712</u>	<u>51,108</u>	<u>(819,483)</u>	<u>(900,519)</u>
224,622	434,518		3,815,654
	44,475		44,475
<u>224,622</u>	<u>478,993</u>		<u>3,860,129</u>
<u>\$ 244,334</u>	<u>\$ 530,101</u>	<u>\$ (819,483)</u>	<u>\$ 2,959,610</u>

CITY OF PACIFICA
Combining Schedule of Revenues, Expenditures,
and Changes in Fund Balances
Budget and Actual - Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2007

	Supplemental Law Enforcement Services		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes			
Property taxes	\$ -	\$ -	\$ -
Use of money and property		2,172	2,172
Intergovernmental	100,000	100,000	
Charges for current services			
Other			
Total Revenues	<u>100,000</u>	<u>102,172</u>	<u>2,172</u>
Expenditures:			
Current:			
Public safety	137,126	153,492	(16,366)
Community development			
Public works			
Non-departmental			
Capital outlay			
Debt service			
Interest and fiscal charges			
Total Expenditures	<u>137,126</u>	<u>153,492</u>	<u>(16,366)</u>
Excess (Deficit) of Revenues over Expenditures	<u>(37,126)</u>	<u>(51,320)</u>	<u>(14,194)</u>
Other Financing Sources (Uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net Change in Fund Balances	<u>(37,126)</u>	<u>(51,320)</u>	<u>(14,194)</u>
Fund Balances, July 1, 2006	43,787	43,787	
Prior Period Adjustments			
Fund Balance, July 1, 2006, Restated	<u>43,787</u>	<u>43,787</u>	
Fund Balances, June 30, 2007	<u>\$ 6,661</u>	<u>\$ (7,533)</u>	<u>\$ (14,194)</u>

Fire Assessment			Gas Tax		
Final Budget	Actual	Variance Positive (Negative)	Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
400	11,305	10,905		30,175	30,175
1,020,000	1,036,379	16,379	2,666,200	1,973,340	(692,860)
				18,175	18,175
<u>1,020,400</u>	<u>1,047,684</u>	<u>27,284</u>	<u>2,666,200</u>	<u>2,021,690</u>	<u>(644,510)</u>
148,000	18,763	129,237			
			2,139,264	1,564,543	574,721
			2,146,337	499,451	1,646,886
<u>148,000</u>	<u>18,763</u>	<u>129,237</u>	<u>4,285,601</u>	<u>2,063,994</u>	<u>2,221,607</u>
<u>872,400</u>	<u>1,028,921</u>	<u>156,521</u>	<u>(1,619,401)</u>	<u>(42,304)</u>	<u>1,577,097</u>
<u>(870,000)</u>	<u>(870,000)</u>		50,000	50,000	251,524
			<u>(399,924)</u>	<u>(148,400)</u>	
<u>(870,000)</u>	<u>(870,000)</u>		<u>(349,924)</u>	<u>(98,400)</u>	<u>251,524</u>
<u>2,400</u>	<u>158,921</u>	<u>156,521</u>	<u>(1,969,325)</u>	<u>(140,704)</u>	<u>1,828,621</u>
193,453	193,453		2,992,701	2,992,701	
<u>193,453</u>	<u>193,453</u>		<u>2,992,701</u>	<u>2,992,701</u>	
<u>\$ 195,853</u>	<u>\$ 352,374</u>	<u>\$ 156,521</u>	<u>\$ 1,023,376</u>	<u>\$ 2,851,997</u>	<u>\$ 1,828,621</u>

CITY OF PACIFICA
Combining Schedule of Revenues, Expenditures,
and Changes in Fund Balances
Budget and Actual - Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2007
(Continued)

	NPDES Stormwater		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes			
Property taxes	\$ -	\$ -	\$ -
Use of money and property			
Intergovernmental	31,200	33,393	2,193
Charges for current services	176,000	175,996	(4)
Other			
Total Revenues	<u>207,200</u>	<u>209,389</u>	<u>2,189</u>
Expenditures:			
Current:			
Public safety			
Community development			
Public works	363,077	328,142	34,935
Non-departmental			
Capital outlay			
Debt service			
Interest and fiscal charges			
Total Expenditures	<u>363,077</u>	<u>328,142</u>	<u>34,935</u>
Excess (Deficit) of Revenues over Expenditures	<u>(155,877)</u>	<u>(118,753)</u>	<u>37,124</u>
Other Financing Sources (Uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net Change in Fund Balances	<u>(155,877)</u>	<u>(118,753)</u>	<u>37,124</u>
Fund Balances, July 1, 2006	(73,427)	(73,427)	
Prior Period Adjustments			
Fund Balance, July 1, 2006, Restated	<u>(73,427)</u>	<u>(73,427)</u>	
Fund Balances, June 30, 2007	<u>\$ (229,304)</u>	<u>\$ (192,180)</u>	<u>\$ 37,124</u>

<u>Planned Local Drainage</u>			<u>Redevelopment Agency Low/Mod Housing</u>		
<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
\$ -	\$ -	\$ -	\$ 49,000	\$ 57,220	\$ 8,220
	11,275	11,275	100	6,105	6,005
			125	9,664	9,539
5,000	16,554	11,554			
<u>5,000</u>	<u>27,829</u>	<u>22,829</u>	<u>49,225</u>	<u>72,989</u>	<u>23,764</u>
			6,200	6,220	(20)
235,855	8,117	227,738			
			17,000	15,661	1,339
<u>235,855</u>	<u>8,117</u>	<u>227,738</u>	<u>23,200</u>	<u>21,881</u>	<u>1,319</u>
<u>(230,855)</u>	<u>19,712</u>	<u>250,567</u>	<u>26,025</u>	<u>51,108</u>	<u>25,083</u>
<u>(230,855)</u>	<u>19,712</u>	<u>250,567</u>	<u>26,025</u>	<u>51,108</u>	<u>25,083</u>
224,622	224,622		434,518	434,518	
				44,475	44,475
<u>224,622</u>	<u>224,622</u>		<u>434,518</u>	<u>478,993</u>	<u>44,475</u>
<u>\$ (6,233)</u>	<u>\$ 244,334</u>	<u>\$ 250,567</u>	<u>\$ 460,543</u>	<u>\$ 530,101</u>	<u>\$ 69,558</u>

(continued)

CITY OF PACIFICA
Combining Schedule of Revenues, Expenditures,
and Changes in Fund Balances
Budget and Actual - Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2007
(Continued)

	Disaster Accounting		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes			
Property taxes	\$ -	\$ -	\$ -
Use of money and property			
Intergovernmental		1,002,270	1,002,270
Charges for current services			
Other		60	60
Total Revenues		<u>1,002,330</u>	<u>1,002,330</u>
Expenditures:			
Current:			
Public safety			
Community development			
Public works			
Non-departmental	2,092,820	1,027,370	1,065,450
Capital outlay			
Debt service			
Interest and fiscal charges			
Total Expenditures	<u>2,092,820</u>	<u>1,027,370</u>	<u>1,065,450</u>
Excess (Deficit) of Revenues over Expenditures	<u>(2,092,820)</u>	<u>(25,040)</u>	<u>2,067,780</u>
Other Financing Sources (Uses):			
Transfers in			
Transfers out		(794,443)	(794,443)
Total other financing sources (uses)		<u>(794,443)</u>	<u>(794,443)</u>
Net Change in Fund Balances	<u>(2,092,820)</u>	<u>(819,483)</u>	<u>1,273,337</u>
Fund Balances, July 1, 2006			
Prior Period Adjustments			
Fund Balance, July 1, 2006, Restated			
Fund Balances, June 30, 2007	<u>\$ (2,092,820)</u>	<u>\$ (819,483)</u>	<u>\$ 1,273,337</u>

Total		
Final Budget	Actual	Variance Positive (Negative)
\$ 49,000	\$ 57,220	\$ 8,220
500	61,032	60,532
2,797,525	3,118,667	321,142
1,201,000	1,228,929	27,929
	18,235	18,235
<u>4,048,025</u>	<u>4,484,083</u>	<u>436,058</u>
285,126	172,255	112,871
6,200	6,220	(20)
2,738,196	1,900,802	837,394
2,092,820	1,027,370	1,065,450
2,146,337	499,451	1,646,886
<u>17,000</u>	<u>15,661</u>	<u>1,339</u>
<u>7,285,679</u>	<u>3,621,759</u>	<u>3,663,920</u>
<u>(3,237,654)</u>	<u>862,324</u>	<u>4,099,978</u>
50,000	50,000	
<u>(1,269,924)</u>	<u>(1,812,843)</u>	<u>(542,919)</u>
<u>(1,219,924)</u>	<u>(1,762,843)</u>	<u>(542,919)</u>
<u>(4,457,578)</u>	<u>(900,519)</u>	<u>3,557,059</u>
3,815,654	3,815,654	
	44,475	44,475
<u>3,815,654</u>	<u>3,860,129</u>	<u>44,475</u>
<u>\$ (641,924)</u>	<u>\$ 2,959,610</u>	<u>\$ 3,601,534</u>

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NONMAJOR CAPITAL PROJECTS FUNDS

Capital Projects Funds are established to account for financial resources to be used for the acquisition, construction, and improvement of major capital facilities of the City. Appropriations are made from the fund annually.

HIGHWAY ONE IMPROVEMENT FUND - This fund is financed by traffic impact mitigation fees as outlined in the Pacifica Municipal Code (Section 8-15.01 to Section 8-15.06).

MANOR DRIVE IMPROVEMENT FUND - This fund was established to account for the Manor Drive/Palmetto Avenue/Oceana Boulevard intersection construction and is financed by traffic impact mitigation fees as outlined in the Pacifica Municipal Code (Section 8-18.01 to Section 8-18.06).

AIRCRAFT NOISE PROJECT FUND - This fund was established to record the financial transactions of an Aircraft Noise Abatement Project funded with Federal and San Francisco Airport grants.

PARKS AND PLAYFIELDS FUND - This fund was financed by Parkland Dedication Fees as outlined in the Pacifica Municipal Code (Section 8-19.01 to Section 8-19.03).

CITY OF PACIFICA
Combining Balance Sheet
Nonmajor Capital Projects Funds
June 30, 2007

	<u>Highway 1 Improvement</u>	<u>Manor Drive Improvement</u>	<u>Aircraft Noise Project</u>	<u>Parks and Playfield</u>
Assets				
Cash and investments	\$ 652,141	\$ 890,737	\$ 8,555	\$ 198,086
Receivable:				
Grants	<u>124,390</u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 776,531</u>	<u>\$ 890,737</u>	<u>\$ 8,555</u>	<u>\$ 198,086</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 3,627	\$ -	\$ 300	\$ 2
Accrued liabilities	1,077		302	236
Due to other funds	<u>220,000</u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>224,704</u>	<u> </u>	<u>602</u>	<u>238</u>
Fund Balances:				
Unreserved	<u>551,827</u>	<u>890,737</u>	<u>7,953</u>	<u>197,848</u>
Total Fund Balances	<u>551,827</u>	<u>890,737</u>	<u>7,953</u>	<u>197,848</u>
Total Liabilities and Fund Balances	<u>\$ 776,531</u>	<u>\$ 890,737</u>	<u>\$ 8,555</u>	<u>\$ 198,086</u>

Total

\$ 1,749,519

124,390

\$ 1,873,909

\$ 3,929

1,615

220,000

225,544

1,648,365

1,648,365

\$ 1,873,909

CITY OF PACIFICA
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Capital Projects Funds
June 30, 2007

	Highway 1 Improvement	Manor Drive Improvement	Aircraft Noise Project	Parks and Playfield
Revenues				
Use of money and property	\$ 25,289	\$ 33,157	\$ 3,342	\$ 3,035
Intergovernmental	15,922			
Other	100,894	183,443	120	205,496
Total Revenues	<u>142,105</u>	<u>216,600</u>	<u>3,462</u>	<u>208,531</u>
Expenditures				
Current				
Community development			128,674	246
Public works	30,370			
Capital outlay	52,237			13,244
Total Expenditures	<u>82,607</u>		<u>128,674</u>	<u>13,490</u>
Net Change in Fund Balances	<u>59,498</u>	<u>216,600</u>	<u>(125,212)</u>	<u>195,041</u>
Fund Balances, July 1, 2006	492,329	674,137	133,165	64,973
Prior Period Adjustments				(62,166)
Fund Balance, July 1, 2006, Restated	<u>492,329</u>	<u>674,137</u>	<u>133,165</u>	<u>2,807</u>
Fund Balances, June 30, 2007	<u>\$ 551,827</u>	<u>\$ 890,737</u>	<u>\$ 7,953</u>	<u>\$ 197,848</u>

Total

\$ 64,823
15,922
489,953

570,698

128,920
30,370
65,481

224,771

345,927

1,364,604
(62,166)
1,302,438

\$ 1,648,365

CITY OF PACIFICA
Combining Schedule of Revenues, Expenditures,
and Changes in Fund Balances
Budget and Actual - Nonmajor Capital Projects Funds
For the Fiscal Year Ended June 30, 2007

	Highway 1 Improvement		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ -	\$ 25,289	\$ 25,289
Intergovernmental	1,980,000	15,922	(1,964,078)
Other	60,000	100,894	40,894
Total Revenues	2,040,000	142,105	(1,897,895)
Expenditures:			
Current:			
Community development			
Public works	42,889	30,370	12,519
Capital outlay	2,112,520	52,237	2,060,283
Total Expenditures	2,155,409	82,607	2,072,802
Net Change in Fund Balances	(115,409)	59,498	174,907
Fund Balances, July 1, 2006	492,329	492,329	
Prior Period Adjustments			
Fund Balance, July 1, 2006, Restated	492,329	492,329	
Fund Balances, June 30, 2007	\$ 376,920	\$ 551,827	\$ 174,907

Manor Drive Improvement			Aircraft Noise Project		
<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
\$ -	\$ 33,157	\$ 33,157	\$ -	\$ 3,342	\$ 3,342
40,000	183,443	143,443		120	120
40,000	216,600	176,600		3,462	3,462
			207,064	128,674	78,390
480,000		480,000			
480,000		480,000	207,064	128,674	78,390
(440,000)	216,600	656,600	(207,064)	(125,212)	81,852
674,137	674,137		133,165	133,165	
674,137	674,137		133,165	133,165	
<u>\$ 234,137</u>	<u>\$ 890,737</u>	<u>\$ 656,600</u>	<u>\$ (73,899)</u>	<u>\$ 7,953</u>	<u>\$ 81,852</u>

CITY OF PACIFICA
Combining Schedule of Revenues, Expenditures,
and Changes in Fund Balances
Budget and Actual - Nonmajor Capital Projects Funds
For the Fiscal Year Ended June 30, 2007
(Continued)

	Parks and Playfield		
	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ -	\$ 3,035	\$ 3,035
Intergovernmental			
Other	95,000	205,496	110,496
Total Revenues	<u>95,000</u>	<u>208,531</u>	<u>113,531</u>
Expenditures:			
Current:			
Community development		246	(246)
Public works			
Capital outlay	302,560	13,244	289,316
Total Expenditures	<u>302,560</u>	<u>13,490</u>	<u>289,070</u>
Net Change in Fund Balances	<u>(207,560)</u>	<u>195,041</u>	<u>402,601</u>
Fund Balances, July 1, 2006	64,973	64,973	
Prior Period Adjustments		(62,166)	(62,166)
Fund Balance, July 1, 2005, Restated	<u>64,973</u>	<u>2,807</u>	<u>(62,166)</u>
Fund Balances, June 30, 2007	<u>\$ (142,587)</u>	<u>\$ 197,848</u>	<u>\$ 340,435</u>

Total		
Final Budget	Actual	Variance Positive (Negative)
\$ -	\$ 64,823	\$ 64,823
1,980,000	15,922	(1,964,078)
<u>195,000</u>	<u>489,953</u>	<u>294,953</u>
<u>2,175,000</u>	<u>570,698</u>	<u>(1,604,302)</u>
207,064	128,920	78,144
522,889	30,370	492,519
<u>2,415,080</u>	<u>65,481</u>	<u>2,349,599</u>
<u>3,145,033</u>	<u>224,771</u>	<u>2,920,262</u>
<u>(970,033)</u>	<u>345,927</u>	<u>1,315,960</u>
1,364,604	1,364,604	
	(62,166)	(62,166)
<u>1,364,604</u>	<u>1,302,438</u>	<u>(62,166)</u>
<u>\$ 394,571</u>	<u>\$ 1,648,365</u>	<u>\$ 1,253,794</u>

INTERNAL SERVICE FUNDS

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

MOTOR POOL FUND - City of Pacifica operates a central garage, which provides services to various City departments on a cost reimbursement basis. Revenues for the fund are derived from rentals to the departments for usage of the equipment. The fund can be used only for the operation and replacement of the equipment.

SELF INSURANCE FUND - City of Pacifica established Self Insurance Funds to cover Employee Dental Insurance, Workers' Compensation, General Liability, Property, and Automobile Liability Insurance. Expenses are restricted to payments of claims, the premium for umbrella insurance, administration costs, and expenditures relating to the Safety Committee.

CITY OF PACIFICA
Combining Statement of Net Assets
Internal Service Funds
June 30, 2007

	<u>Motor Pool</u>	<u>Self Insurance</u>	<u>Total</u>
Assets			
Current Assets:			
Cash and investments	\$ 671,838	\$ 1,394,544	\$ 2,066,382
Receivable:			
Accounts	1,107		1,107
Inventories	17,650		17,650
Total Current Assets	<u>690,595</u>	<u>1,394,544</u>	<u>2,085,139</u>
Noncurrent Assets:			
Capital assets, not being depreciated	258,774		258,774
Capital assets, being depreciated (net of accumulated depreciation)	<u>1,586,121</u>		<u>1,586,121</u>
Total Noncurrent Assets	<u>1,844,895</u>		<u>1,844,895</u>
Total Assets	<u>2,535,490</u>	<u>1,394,544</u>	<u>3,930,034</u>
Liabilities			
Current Liabilities:			
Accounts payable	28,619	14,009	42,628
Accrued liabilities	9,729		9,729
Claims payable		<u>1,663,372</u>	<u>1,663,372</u>
Total Current Liabilities	<u>38,348</u>	<u>1,677,381</u>	<u>1,715,729</u>
Noncurrent Liabilities:			
Claims payable		217,156	217,156
Compensated absences	<u>9,654</u>		<u>9,654</u>
Total Noncurrent Liabilities	<u>9,654</u>	<u>217,156</u>	<u>226,810</u>
Total Liabilities	<u>48,002</u>	<u>1,894,537</u>	<u>1,942,539</u>
Net Assets			
Net Assets:			
Invested in capital assets, net of related debt	1,844,895		1,844,895
Unrestricted	<u>642,593</u>	<u>(499,993)</u>	<u>142,600</u>
Total Net Assets	<u>\$ 2,487,488</u>	<u>\$ (499,993)</u>	<u>\$ 1,987,495</u>

CITY OF PACIFICA
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Internal Service Funds
June 30, 2007

	<u>Motor Pool</u>	<u>Self Insurance</u>	<u>Total</u>
Operating Revenues			
Charges for services	\$ 1,109,460	\$ 158,480	\$ 1,267,940
Other operating income	54,003	820,274	874,277
	<u>1,163,463</u>	<u>978,754</u>	<u>2,142,217</u>
Total Operating Revenues			
Operating Expenses			
Personnel services	249,959		249,959
Administration	6,030		6,030
Supplies and materials	464,309		464,309
Insurance		473,885	473,885
Outside contractors		135,688	135,688
Maintenance	5,610		5,610
Insurance claims		454,271	454,271
Depreciation	375,980		375,980
	<u>1,101,888</u>	<u>1,063,844</u>	<u>2,165,732</u>
Total Operating Expenses			
Operating Income (Loss)	<u>61,575</u>	<u>(85,090)</u>	<u>(23,515)</u>
Non-Operating Revenues (Expenses)			
Investment earnings	22,471	59,536	82,007
	<u>22,471</u>	<u>59,536</u>	<u>82,007</u>
Total Non-Operating Revenues (Expenses)			
Income (Loss) Before Transfers	84,046	(25,554)	58,492
Transfers			
Transfers in	300,000	120,000	420,000
	<u>384,046</u>	<u>94,446</u>	<u>478,492</u>
Changes in Net Assets			
Net Assets, July 1, 2006	1,933,401	(594,439)	1,338,962
Prior Period Adjustments	170,041		170,041
Net Assets, July 1, 2006, Restated	<u>2,103,442</u>	<u>(594,439)</u>	<u>1,509,003</u>
Net Assets, June 30, 2007	<u>\$ 2,487,488</u>	<u>\$ (499,993)</u>	<u>\$ 1,987,495</u>

CITY OF PACIFICA
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2007

	Motor Pool	Self Insurance	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 1,181,418	\$ 998,972	\$ 2,180,390
Payments to suppliers and users	(538,336)	(669,191)	(1,207,527)
Payments for claims		(673,899)	(673,899)
Payments to employees	(236,475)		(236,475)
Net Cash Provided (Used) by Operating Activities	<u>406,607</u>	<u>(344,118)</u>	<u>62,489</u>
Cash Flows from Noncapital Financing Activities			
Transfers in	<u>300,000</u>	<u>120,000</u>	<u>420,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>300,000</u>	<u>120,000</u>	<u>420,000</u>
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	<u>(321,985)</u>		<u>(321,985)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(321,985)</u>		<u>(321,985)</u>
Cash Flows from Investing Activities			
Interest received	<u>22,471</u>	<u>59,536</u>	<u>82,007</u>
Net Cash Provided by Investing Activities	<u>22,471</u>	<u>59,536</u>	<u>82,007</u>
Net Increase in Cash and Cash Equivalents	407,093	(164,582)	242,511
Cash and Cash Equivalents at the Beginning of the Fiscal Year	<u>264,745</u>	<u>1,559,126</u>	<u>1,823,871</u>
Cash and Cash Equivalents at the End of the Fiscal Year	<u>\$ 671,838</u>	<u>\$ 1,394,544</u>	<u>\$ 2,066,382</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Assets:			
Cash and investments	<u>\$ 671,838</u>	<u>\$ 1,394,544</u>	<u>\$ 2,066,382</u>
Total Cash and Cash Equivalents	<u>\$ 671,838</u>	<u>\$ 1,394,544</u>	<u>\$ 2,066,382</u>

CITY OF PACIFICA
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2007
(Continued)

	<u>Motor Pool</u>	<u>Self Insurance</u>	<u>Total</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by			
Operating Activities:			
Operating income (loss)	\$ 61,575	\$ (85,090)	\$ (23,515)
Adjustments to Reconcile Operating Income (Loss) to Net Cash			
Provided (Used) by Operating Activities:			
Depreciation	375,980		375,980
(Increase) Decrease in Operating Assets:			
Accounts receivable	17,955	20,218	38,173
Inventories	3,355		3,355
Increase (Decrease) in Operating Liabilities:			
Accounts payable	(65,742)	(59,618)	(125,360)
Accrued liabilities	7,633		7,633
Claims payable		(219,628)	(219,628)
Compensated absences	5,851		5,851
	<u>5,851</u>	<u>(219,628)</u>	<u>5,851</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 406,607</u>	<u>\$ (344,118)</u>	<u>\$ 62,489</u>

STATISTICAL SECTION

STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well being have changed over time:

1. Net Assets by Component
2. Changes in Net Assets
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds
5. Taxable Sales by Category
6. Direct and Overlapping Sales Tax Rates
7. Tax Revenues by Source

Revenue Capacity

This schedule contains information to help the reader assess the City's most significant local revenue source, the property tax:

1. Assessed Value of Taxable Property

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Direct and Overlapping Property Tax Rates
2. Principal Property Taxpayers
3. Property Tax Levies and Collections
4. Ratio of Outstanding Debt by Type
5. Ratio of General Bonded Debt Outstanding
6. Computation of Direct and Overlapping Governmental Activities Debt
7. Computation of Legal Bonded Debt Margin
8. Bonded Debt Pledged Revenue Coverage:
 - a. Sewer Revenue Bonds
9. Direct and Estimated Overlapping Bonded Debt

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

1. Demographic and Economic Statistics
2. Principal Employers

STATISTICAL SECTION (Continued)
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Operating Information

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:

1. Full-Time Equivalent City Government Employees by Function/Program
2. Operating Indicators by Function/Program
3. Capital Asset Statistics by Function/Program
4. Sewer Rates

Sources

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 in 2003; schedules presenting government-wide information include information beginning in that year.

**CITY OF PACIFICA
NET ASSETS BY COMPONENT
LAST FOUR FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental activities				
Invested in capital assets, net of related debt	\$ 42,946,985	\$45,118,985	\$ 46,962,267	\$ 50,585,199
Restricted	378,983	486,190	6,738,596	7,370,411
Unrestricted	<u>6,293,586</u>	<u>5,309,223</u>	<u>3,750,966</u>	<u>703,720</u>
Total governmental activities net assets	<u>\$ 49,619,554</u>	<u>\$50,914,398</u>	<u>\$ 57,451,829</u>	<u>\$ 58,659,330</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 16,322,393	\$ 7,143,196	\$ 14,632,714	\$ 12,423,925
Restricted	-	7,064,036	946,455	953,800
Unrestricted	<u>(1,693,848)</u>	<u>354,381</u>	<u>(1,960,805)</u>	<u>(700,968)</u>
Total business-type activities net assets	<u>\$ 14,628,545</u>	<u>\$14,561,613</u>	<u>\$ 13,618,364</u>	<u>\$ 12,676,757</u>
Primary Government				
Invested in capital assets, net of related debt	\$ 59,269,378	\$52,262,181	\$ 61,594,981	\$ 63,009,124
Restricted	378,983	7,550,226	7,685,051	8,324,211
Unrestricted	<u>4,599,738</u>	<u>5,663,604</u>	<u>1,790,161</u>	<u>2,752</u>
Total primary government net assets	<u>\$ 64,248,099</u>	<u>\$65,476,011</u>	<u>\$ 71,070,193</u>	<u>\$ 71,336,087</u>

Notes:

The City began reporting in the GASB 34 format in 2003.

For the purpose of compliance with GASB 44 Statistical Section, cities are not required to re-format financial information prior to GASB34 implementation.

Source: City Comprehensive Annual Financial Report

**CITY OF PACIFICA
CHANGES IN NET ASSETS
LAST FOUR FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Expenses:				
Governmental Activities:				
General Government	\$ 3,537,595	\$ 4,875,872	\$ 5,923,892	\$ 5,798,391
Public Safety	12,272,560	12,929,514	13,639,116	14,980,984
Planning & Development	1,098,731	1,300,773	1,799,035	1,178,590
Public Works	2,974,028	2,941,376	3,606,841	4,264,011
Parks, Beaches & Recreation	3,288,100	3,515,702	3,084,327	3,405,149
Interest on Long-term Debt	1,053,184	900,171	811,419	846,768
Total Governmental Activities Expenses	<u>\$ 24,224,198</u>	<u>\$ 26,463,408</u>	<u>\$ 28,864,630</u>	<u>\$ 30,473,893</u>
Business-Type Activities:				
Sewer	8,325,027	8,922,794	9,453,272	9,084,345
Total Business-Type Activities Expenses	<u>\$ 8,325,027</u>	<u>\$ 8,922,794</u>	<u>\$ 9,453,272</u>	<u>\$ 9,084,345</u>
Total Primary Government Expenses	<u>\$ 32,549,225</u>	<u>\$ 35,386,202</u>	<u>\$ 38,317,902</u>	<u>\$ 39,558,238</u>
Program Revenues:				
Governmental Activities:				
Charges for Services:				
General Government	\$ 286,777	\$ 732,954	\$ 80,269	\$ 96,106
Public Safety	890,685	1,031,754	922,034	1,157,322
Planning & Development	212,137	342,241	599,540	732,372
Public Works	120,281	147,094	1,529,607	1,376,379
Parks, Beaches & Recreation	1,336,628	1,347,009	1,506,836	1,543,791
Operating Grants & Contributions	1,902,808	1,311,733	2,626,473	2,967,049
Capital Grants & Contributions	4,258,677	2,272,460	3,338,214	3,639,686
Total Governmental Activities Program Revenues	<u>\$ 9,007,993</u>	<u>\$ 7,185,245</u>	<u>\$ 10,602,973</u>	<u>\$ 11,512,705</u>
Business-Type Activities:				
Charges for Services:				
Sewer	\$ 7,067,579	\$ 8,108,045	\$ 8,721,125	\$ 9,137,785
Total Business-Type Activities Program Revenue	<u>\$ 7,067,579</u>	<u>\$ 8,108,045</u>	<u>\$ 8,721,125</u>	<u>\$ 9,137,785</u>
Total Primary Government Program Revenues	<u>\$ 16,075,572</u>	<u>\$ 15,293,290</u>	<u>\$ 19,324,098</u>	<u>\$ 20,650,490</u>
Net Revenues (Expenses):				
Governmental Activities	\$ (15,216,205)	\$ (19,278,163)	\$ (18,261,657)	\$ (18,961,188)
Business-Type Activities	(1,257,448)	(814,749)	(732,147)	53,440
Total Net Revenues (Expenses)	<u>\$ (16,473,653)</u>	<u>\$ (20,092,912)</u>	<u>\$ (18,993,804)</u>	<u>\$ (18,907,748)</u>
General Revenues and Other Change in Net Assets				
Governmental Activities:				
Taxes:				
Property Taxes	6,621,915	7,409,350	8,126,936	9,016,273
Sales Tax	1,317,336	1,330,597	1,116,191	1,096,165
Franchise Tax	1,345,348	1,131,838	1,458,418	1,539,123
Other Taxes	3,699,996	5,310,469	4,552,287	3,720,047
Motor vehicle in lieu - unrestricted	1,738,636	2,370,539	3,522,799	2,917,076
Use of Money/Property	367,649	233,313	321,272	568,021
Miscellaneous	1,647,146	3,028,201	868,120	369,309
Transfers			290,000	815,000
Total Governmental Activities	<u>\$ 16,738,026</u>	<u>\$ 20,814,307</u>	<u>\$ 20,256,023</u>	<u>\$ 20,041,014</u>
Business-Type Activities:				
Use of Money/Property	\$ 3,988	\$ 54,158	\$ 26,569	\$ 14,881
Miscellaneous	244,864	100,126	17,116	4,688
Transfers			(290,000)	(815,000)
Total Business-Type Activities	<u>\$ 248,852</u>	<u>\$ 154,284</u>	<u>\$ (246,315)</u>	<u>\$ (795,431)</u>
Total Primary Government	<u>\$ 16,986,878</u>	<u>\$ 20,968,591</u>	<u>\$ 20,009,708</u>	<u>\$ 19,245,583</u>
Changes in Net Assets:				
Governmental Activities	\$ 1,521,821	\$ 1,536,144	\$ 1,994,366	\$ 1,079,826
Business-Type Activities	(1,008,596)	(660,465)	(978,462)	(741,991)
Total Primary Government	<u>\$ 513,225</u>	<u>\$ 875,679</u>	<u>\$ 1,015,904</u>	<u>\$ 337,835</u>

Notes:

The City began reporting in the GASB 34 format in 2003.

For the purpose of compliance with GASB 44 Statistical Section, cities are not required to re-format financial information prior to GASB 34.

Source: City Financial Reports

**CITY OF PACIFICA
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST FOUR FISCAL YEARS (IN \$000's)
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Fund				
Reserved	\$ 5,303	\$ 4,530	\$ 5,103	\$ 4,962
Unreserved	387	2,025	896	704
Total General Fund	<u>\$ 5,690</u>	<u>\$ 6,555</u>	<u>\$ 5,999</u>	<u>\$ 5,666</u>
All Other Governmental Funds				
Reserved	4,832	1,085	2,182	2,190
Unreserved, reported in:				
Special revenue funds	(2,526)	1,797	3,216	2,359
Capital projects funds	524	328	(3,583)	(3,371)
Debt service funds	24	23	-	-
Total All Other Governmental Funds	<u>\$ 2,854</u>	<u>\$ 3,233</u>	<u>\$ 1,815</u>	<u>\$ 1,178</u>
Total Governmental Funds	<u>\$ 8,544</u>	<u>\$ 9,788</u>	<u>\$ 7,814</u>	<u>\$ 6,844</u>

Notes:

The increase/decrease of fund balance of the General Fund and the reserved fund balance of the Debt Service fund are explained in the Management Discussion and Analysis.

The City of Pacifica has elected to show only four years of data for this schedule.

Source: City Financial Reports

CITY OF PACIFICA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST FOUR FISCAL YEARS (IN \$000's)
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
REVENUES				
Taxes	\$ 12,984	\$ 15,183	\$ 14,025	\$ 14,913
Licenses and Permits	416	400	335	471
Fines and Forfeitures	187	144	139	218
Use of Money and Property	347	233	317	464
Intergovernmental Revenues	6,604	5,875	9,194	8,601
Charges for Services	2,018	3,057	2,630	2,883
Recreation Programs			565	559
Other Revenues	2,802	2,664	3,328	2,530
Total Revenues	\$ 25,358	\$ 27,556	\$ 30,533	\$ 30,639
EXPENDITURES				
Current:				
General Government	\$ 3,383	\$ 4,692	\$ 5,356	\$ 4,673
Public Safety	11,365	12,120	13,182	14,567
Planning & Development	1,080	1,284	1,751	1,127
Public Works	2,346	2,190	3,285	3,471
Parks, Beaches & Recreation	3,073	2,916	3,009	3,318
Non-departmental				1,027
Capital Outlay	4,536	3,003	3,303	2,595
Debt Service:				
Principal Retirement	314	347	375	194
Interest and Other Charges	1,050	813	1,393	989
Total Expenditures	\$ 27,147	\$ 27,365	\$ 31,654	\$ 31,961
Excess of Revenues Over/(Under) expenditures	\$ (1,789)	\$ 191	\$ (1,121)	\$ (1,322)
Other financing sources (uses):				
Transfers In	\$ 1,057	\$ 1,830	\$ 4,631	\$ 3,898
Transfers (Out)	(1,057)	(2,030)	(4,931)	(3,503)
Other Sources/Uses:				
Issuance of Debt		1,725	15,725	
Issuance Discount			(106)	
Refunded to debt escrow agent			(13,299)	
Debt Issuance Cost		(97)		
Proceeds of long-term debt	185			
Total other financing sources (uses)	\$ 185	\$ 1,428	\$ 2,020	\$ 395
Net change in fund balances	\$ (1,604)	\$ 1,619	\$ 899	\$ (927)
Debt serviced as a percentage of noncapital expenditures	6.03%	4.76%	6.24%	4.03%

Notes:

Above amounts include General Fund, Special Revenue Funds, RDA, and Debt Service Fund.

The City of Pacifica has elected to show only four years of data for this schedule.

Source: Annual Financial Statements, City of Pacifica

Fiscal Year 2004-2005, the Redevelopment Agency issued debt in the amount of \$1,725,000 to pay against the loan from the General Fund.

**CITY OF PACIFICA
TAXABLE SALES BY CATEGORY
LAST TEN YEARS (IN \$000's)**

<u>Categories</u>	<u>Annual Years</u>									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Apparel Stores	\$ 6,464	\$ 5,951	\$ 5,561	\$ 7,479	\$ 8,277	\$ 8,598	\$ 8,518	\$ 9,013	\$ 9,410	\$ 8,833
General Merchandise	2	3	2	3	33	57	75	100	19	144
Food Stores	21,029	21,127	22,409	23,518	24,830	24,258	23,864	23,801	23,562	22,334
Eating & Drinking Places	22,495	20,106	20,729	23,608	23,807	24,310	24,750	25,378	26,160	26,981
Building Materials	4,756	4,594	5,329	6,034	6,618	7,601	7,156	6,869	6,714	6,750
Auto Dealers & Supplies	1,683	1,622	1,840	1,848	2,281	2,188	3,196	3,207	3,868	4,116
Service Stations	19,537	18,261	21,850	25,716	16,178	21,392	24,641	27,470	33,303	37,620
Other Retail Stores	17,341	17,017	17,334	20,120	18,371	18,448	18,002	17,416	19,709	21,097
All Other Outlets	22,795	23,878	26,571	26,482	27,012	25,979	25,323	28,147	19,144	28,968
Total	<u>\$ 116,102</u>	<u>\$ 112,559</u>	<u>\$ 121,625</u>	<u>\$ 134,808</u>	<u>\$ 127,407</u>	<u>\$ 132,831</u>	<u>\$ 135,525</u>	<u>\$ 141,401</u>	<u>\$ 141,889</u>	<u>\$ 156,843</u>

Notes:

Due to confidentiality issues, the names of the ten largest sales tax payers are not available.

The categories presented are intended to provide alternative information regarding the sources of the City's sales tax revenue.

Source: State of California Board of Equalization and the HdL Companies

**CITY OF PACIFICA
DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN YEARS**

<u>Annual Year</u>	<u>State Rate</u>	<u>City Direct Rate</u>	<u>San Mateo County Rate</u>	<u>City/County Public Safety</u>	<u>District Rate</u>	<u>Total</u>
1998	5.25%	0.75%	0.75%	0.50%	1.00%	8.25%
1999	5.25%	0.75%	0.75%	0.50%	1.00%	8.25%
2000	5.25%	0.75%	0.75%	0.50%	1.00%	8.25%
2001	5.25%	0.75%	0.75%	0.50%	1.00%	8.25%
2002	5.25%	0.75%	0.75%	0.50%	1.00%	8.25%
2003	5.25%	0.75%	0.75%	0.50%	1.00%	8.25%
2004	5.25%	0.75%	0.75%	0.50%	1.00%	8.25%
2005	5.25%	0.75%	0.75%	0.50%	1.00%	8.25%
2006	5.25%	0.75%	0.75%	0.50%	1.00%	8.25%
2007	5.25%	0.75%	0.75%	0.50%	1.00%	8.25%

Notes:

Sales tax in San Mateo County is 8.25%.

Proposition 172 approved by the voters in 1993 provides 1/2 cent sales tax for Public Safety Augmentation. San Mateo County Transportation Authority District is provided a 1/2 cent sales tax approved by the voters in 1989.

San Mateo County Transit District is provided a 1/2 cent sales tax approved by the voters in 1982.

Source: State Board of Equalization & HdL

**CITY OF PACIFICA
TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(IN \$000's)**

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses & Permits</u>	<u>Use of Money & Property</u>	<u>Inter-Governmental</u>	<u>Current Service Chgs.</u>	<u>Fines & Forfeitures</u>	<u>Other Revenues</u>	<u>TOTAL</u>
1997-1998	\$ 8,210,073	\$ 440,457	\$ 639,627	\$ 6,223,898	\$ 1,723,422	\$ 82,765	\$ 1,328,197	\$ 18,648,439
1998-1999	8,342,790	566,411	478,265	10,739,990	1,958,396	156,041	1,497,922	23,739,815
1999-2000	9,142,581	848,485	826,036	6,622,396	2,317,991	189,076	1,237,584	21,184,149
2000-2001	10,401,898	446,571	1,647,115	6,539,373	2,465,226	142,788	1,229,183	22,872,154
2001-2002	10,302,020	563,462	944,882	8,728,620	2,048,225	213,319	3,791,031	26,591,559
2002-2003	10,944,812	400,446	566,880	7,284,231	2,761,520	175,551	1,827,612	23,961,052
2003-2004	11,253,260	319,270	399,500	2,926,988	1,894,700	160,000	1,984,500	18,938,218
2004-2005	12,301,959	338,400	127,000	3,473,559	1,476,774	140,000	2,218,606	20,076,298
2005-2006	13,655,933	308,500	410,000	4,744,585	1,388,600	135,000	3,460,325	24,102,943
2006-2007	14,855,725	470,947	337,904	5,466,565	2,213,594	217,699	2,021,496	25,583,930
% Change 1998-2007	80.95%	6.92%	-47.17%	-12.17%	28.44%	163.03%	52.20%	37.19%

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Notes:

Above amounts include General Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Funds.
Above amounts exclude other financing sources.

Source: Annual Financial Statements, City of Pacifica and City's Comprehensive Annual Financial Reports

CITY OF PACIFICA, CALIFORNIA
ASSESSED VALUATION, TAX RATE, AND TAX LEVIES
 (Amounts Expressed in Thousands)
 LAST TEN FISCAL YEARS

Fiscal Year	LOCALLY ASSESSED						TOTALS							
	Secured			Unsecured			Total Before Exemptions			Exemptions/Net Totals				
	Land Value	Improvements	Personal Property	Land Value	Improvements	Personal Property	Land Value	Improvements	Personal Property	Grand Total	(1) H.O.P.T.R.	Other	Total Exemptions	Net Subject To Tax
1997-1998	\$ 771,613	\$ 1,181,810	\$ 1,024	\$ 1,534	\$ 10,914	\$ 13,162	\$ 773,147	\$ 1,192,724	\$ 14,186	\$ 1,980,057	\$ 61,089	\$ 16,725	\$ 77,814	\$ 1,902,243
1998-1999	818,968	1,216,283	1,768	1,421	11,173	12,694	820,389	1,227,456	14,462	2,062,308	61,541	16,807	78,348	1,983,960
1999-2000	916,784	1,318,129	1,357	1,421	12,117	13,542	918,205	1,330,246	14,899	2,263,350	61,736	20,003	81,739	2,181,611
2000-2001	1,010,655	1,420,407	1,496	5,338	12,973	18,615	1,015,993	1,433,380	20,111	2,469,484	61,254	21,562	82,816	2,386,668
2001-2002	1,112,535	1,528,239	2,218	4,889	13,169	17,313	1,117,424	1,541,408	19,531	2,678,363	62,857	21,269	84,126	2,594,237
2002-2003	1,220,448	1,631,688	2,535	5,057	12,296	16,333	1,225,505	1,643,983	18,868	2,888,356	60,594	40,812	101,406	2,786,951
2003-2004	1,326,705	1,757,984	2,126	5,463	14,228	29,749	1,332,169	1,772,211	31,874	3,136,254	60,723	39,150	99,873	3,036,381
2004-2005	1,447,923	1,874,276	1,971	5,429	16,341	19,159	1,453,352	1,890,618	21,130	3,365,099	59,325	40,452	99,778	3,265,322
2005-2006	1,601,167	2,018,013	1,775	5,641	17,610	18,927	1,606,808	2,035,623	20,702	3,663,133	58,989	43,835	102,824	3,560,309
2006-2007	1,798,645	2,157,278	3,106	5,628	17,463	19,243	1,804,274	2,174,741	22,349	4,001,364	58,740	49,975	108,715	3,892,649
% Change 1997-2006	133.10%	82.54%	203.32%	266.88%	60.01%	46.20%	133.37%	82.33%	57.54%	102.08%	-3.85%	198.80%	39.71%	104.63%

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(1) Homeowner's Property Tax Relief

Notes:

* California property tax assessments are "acquisition" based, rather than cyclical based. In California, the property tax system is acquisition based, meaning that all real property is assessed upon acquisition or when newly constructed, and assessed at a ratio of 100% of fair market value as of the event date. After the acquisition or new construction basis is determined, year to year increases in assessed value are limited to no more than 2%. In the event of an economic downturn, real property is assessed at the lower of its acquisition basis, increased by the maximum of 2% per year or the fair market value as of January 2, whichever is lower.

Source: County Tax Rolls - The County has never provided a breakdown between Residential, Commercial and Industrial Property. The Residential Property figures include all property in the City.

**CITY OF PACIFICA
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS**

Annual Year	City Direct Rate			Overlapping Rates			Total Direct Rate
	City Basic Rate	General Obligation Debt Service	Redevelopment Debt Service Rate	Pacifica School District	Jefferson School District	San Mateo County as Distributor	
1998	0%	0%	0.0%	0.0677%	0.0148%	1%	0.0000%
1999	0%	0%	0.0%	0.0658%	0.0193%	1%	0.0000%
2000	0%	0%	0.0%	0.0607%	0.0370%	1%	0.0000%
2001	0%	0%	0.0%	0.0589%	0.0181%	1%	0.0000%
2002	0%	0%	0.0%	0.0344%	0.0194%	1%	0.0000%
2003	0%	0%	0.0%	0.0259%	0.0187%	1%	0.0000%
2004	0%	0%	2.90%	0.0244%	0.0170%	1%	2.9000%
2005	0%	0%	2.90%	0.0417%	0.0153%	1%	2.9000%
2006	0%	0%	2.90%	0.0457%	0.0174%	1%	2.9000%
2007	0%	0%	2.90%	0.0411%	0.0361%	1%	2.9000%

Notes:

Under constitutional Amendment (Proposition 13) passed by voters in the State of California in June 1978, the tax rate (excluding bonded debt) is frozen at 1% of the full market value of property. This tax is collected by the County Tax Collector and distributed on a formula determined by the State Legislature. Local agencies levy only the tax rate for general obligation bonds, or in excess of 1% if two-thirds of the voters in the area authorize such a rate increase. All tax levies include Homeowner's Property Tax Relief and Business Inventory Property Tax Relief.

Source: City Financial Reports

**CITY OF PACIFICA
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
(in \$000's)**

Taxpayer	2007			1998		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
ERP Operating Ltd. Partnership				\$ 18,826	1	0.75%
Bay Apartment Communities, Inc.	\$ 12,905	8	0.31%	10,828	2	0.43%
Demartini / Linda Mar LLC				10,171	3	0.40%
Pan Pacific Realty Corporation				10,153	4	0.40%
Bangkok Metropolitan Bank				8,645	5	0.34%
Craig J. & Margaret A. London				8,141	6	0.32%
Kenneth D. McCloskey, et al				6,838	7	0.27%
Western Pacific Housing				6,474	8	0.26%
Shiuh-Kai Lee & Shu-Yin Jesse Wei				6,295	9	0.25%
McCloskey/Sebanco				5,304	10	0.21%
FPA BAF Lands End Associates	46,610	1	1.11%			
Linda Mar Shopping Center, LLP	30,244	2	0.72%			
AIMCO Park Pacifica Apartments	19,200	3	0.46%			
Marymount Summit ,LLC	17,595	4	0.42%			
Horizons West Apartments, LLC	15,081	5	0.36%			
PK III Fairmont Shopping Center	13,980	6	0.33%			
Harry B. Lewis, et al	13,634	7	0.32%			
National Church Residences	12,619	9	0.30%			
LBN Properties LP	12,319	10	0.29%			
Total	\$ 194,187		4.62%	\$ 91,675		3.63%

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Notes:

This schedule service a dual purpose of providing basic information about our jurisdictions most significant revenue payers and highlighting the degree to which a government is dependent on a small number of payers. This schedule includes the ten largest taxpayers up to 50% of the revenue base.

Source:

City of Pacifica from Tax Rolls provided by County Assessor's Office, County of San Mateo, California; April 1, 2007 and April 1, 1998

**CITY OF PACIFICA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS (IN \$000's)**

Fiscal Year Ending June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1998	\$ 3,995	\$ 3,888	97.32%	\$ 58	\$ 3,946	98.77%
1999	4,159	4,052	97.43%	64	4,116	98.97%
2000	4,537	4,454	98.17%	58	4,512	99.45%
2001	4,907	4,816	98.15%	59	4,875	99.35%
2002	5,304	5,226	98.53%	59	5,285	99.64%
2003	5,659	5,513	97.42%	57	5,570	98.43%
2004	6,120	6,090	99.51%	57	6,147	100.44%
2005	6,610	6,540	98.94%	(3)	6,537	98.90%
2006	7,064	6,924	98.02%	(0.5)	6,924	98.01%
2007	7,620	7,667	100.62%	(28.0)	7,639	100.25%
Change 1998-2007						
	90.74%	97.20%	3.39%	-148.28%	93.59%	1.49%

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Notes:

This Statement shows the period for which the tax is levied.

Includes Homeowner's Tax Relief (HOPTR).

Under constitutional Amendment (Proposition 13) passed by voters in the State of California in June 1978, the tax rate (excluding bonded debt) is frozen at 1% of the full market value of property. This tax is collected by the County Tax Collector and distributed on a formula determined by the State Legislature. Local agencies levy only the tax rate for general obligation bonds, or in excess of 1% if two-thirds of the voters in the area authorize such a rate increase. All tax levies include Homeowner's Property Tax Relief and Business Inventory Property Tax Relief.

* Information presented is most current at the time of preparation.

Source: City Financial Reports

**CITY OF PACIFICA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Governmental Activities

Fiscal Year Ending	Bank Loan	Notes Payable	Special Assessment	Certificates of Participation	Total Governmental Activities Debt
1998	\$ 895,000	\$ 41,000	\$ 241,000	\$ -	\$ 1,177,000
1999	690,000	15,946	125,000	5,000,000	5,830,946
2000	-	-	-	11,000,000	11,000,000
2001	-	1,450,000	-	10,875,000	12,325,000
2002	-	1,408,000	-	10,710,000	12,118,000
2003	-	1,350,755	-	13,170,000	14,520,755
2004	-	1,271,278	-	12,960,000	14,231,278
2005	-	1,164,416	1,000,000	12,720,000	14,884,416
2006	-	1,034,348	1,000,000	15,725,000	17,759,348
2007	-	875,378	1,000,000	15,725,000	17,600,378

Notes:

Details regarding the city's debt can be found in the notes to the financial statements.
The City issued \$11,000,000 of new certificates of participation in 1999, 2000 and 2002.

Sources: City's Comprehensive Annual Financial Reports 1998-2007

**CITY OF PACIFICA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year Ending	Business-Type Activities			Total Primary Government	Percentage of Personal Income	Debt Per Capita
	Sewer Bonds	Notes Payable	Total Business-Type Government			
1998	\$ 4,950,000	\$ -	\$ 4,950,000	\$ 6,127,000	0.34%	\$ 152
1999	4,875,000	-	4,875,000	10,705,946	0.58%	263
2000	4,800,000	-	4,800,000	15,800,000	0.82%	385
2001	4,720,000	-	4,720,000	17,045,000	0.92%	444
2002	4,776,000	34,279,000	39,055,000	51,173,000	2.64%	1,311
2003	4,764,000	32,915,605	37,679,605	52,200,360	2.64%	1,352
2004	4,825,000	31,513,886	36,338,886	50,570,164	2.51%	1,324
2005	13,945,000	30,019,447	43,964,447	58,848,863	2.80%	1,522
2006	13,810,000	25,359,240	39,169,240	56,928,588	2.63%	1,470
2007	13,670,000	25,359,240	39,029,240	56,629,618	2.47%	1,443

Notes:

This schedule displays the Enterprise Fund debt of the Wastewater Treatment Plant. Details regarding the city's debt can be found in the notes to the financial statements.

Sources:

The City's Comprehensive Annual Financial Reports 1998-2007.

CITY OF PACIFICA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS (in \$000's except per capita)

<u>Fiscal Year Ending</u>	<u>Net Bonded Debt</u>	<u>General Bonded Debt Outstanding</u>		<u>Percent of Assessed Value</u>	<u>Per Capita</u>
		<u>Redevelopment Bonds</u>	<u>Total</u>		
1998	\$ 478	\$ -	\$ 478	0.025%	\$ 12
1999	357	-	357	0.018%	9
2000	10,522	-	10,522	0.482%	256
2001	10,206	-	10,206	0.428%	266
2002	10,194	-	10,194	0.393%	261
2003	12,790	-	12,790	0.459%	331
2004	12,400	1,725	14,125	0.465%	370
2005	11,999	1,725	13,724	0.420%	354
2006	15,725	1,690	17,415	0.447%	450
2007	15,725	1,655	17,380	0.414%	443
% Change 1998-2007	3189.75%		3535.98%	1547.11%	3641.55%

Notes:

This statement compares total general bonded debt to estimated actual value of property and population. Details regarding the city's outstanding debt can be found in the notes to the financial statements. See Pages 106 and 109 for property tax data. Population data can be found on Page 116.

Assesed value has been used because the actual value of taxable property is not readily available in the State of California.

Source: City Financial Reports

**CITY OF PACIFICA
PROPERTY TAX RATES - DISTRICT
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
as of June 30, 2006
(Per \$100 of Assessed Valuation)**

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>San Mateo County</u>		<u>City of Pacifica</u>		<u>Pacifica School District</u>		<u>Jefferson School District</u>		<u>San Mateo Junior College</u>		<u>County Water District</u>		<u>TOTAL</u>	
1997-1998	1.0000	%	---	%	0.0695	%	0.0159	%	---	%	---	%	1.0854	%
1998-1999	1.0000		---		0.0677		0.0148		---		---		1.0825	
1999-2000	1.0000		---		0.0658		0.0193		---		---		1.0851	
2000-2001	1.0000		---		0.0607		0.0370		---		---		1.0977	
2001-2002	1.0000		---		0.0589		0.0181		---		---		1.0770	
2002-2003	1.0000		---		0.0344		0.0194		0.0079		---		1.0617	
2003-2004	1.0000		---		0.0259		0.0187		0.0065		---		1.0511	
2004-2005	1.0000		---		0.0244		0.0170		0.0065		---		1.0479	
2005-2006	1.0000		---		0.0417		0.0153		0.0065		---		1.0635	
2006-2007	1.0000		---		0.0457		0.0174		0.0184		---		1.0815	

Source: Tax Rolls Code - 16-001, Tax Collector's Office, County of San Mateo

**CITY OF PACIFICA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS (IN \$000's)**

	<u>FISCAL YEAR ENDING JUNE 30</u>									
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Assessed Valuation	\$ 1,908,243	\$1,986,960	\$2,181,611	\$2,386,668	\$2,594,237	\$2,786,951	\$3,282,694	\$ 3,560,309	\$3,951,616	\$4,199,006
Debt Limit	71,559	74,511	81,810	89,500	97,284	104,511	123,101	133,511	148,185	157,463
Total Net Debt Applicable to Limit	478	357	10,522	10,206	10,194	12,790	14,125	13,724	17,415	15,725
Legal Debt Margin	\$ 71,081	\$ 74,154	\$ 71,288	\$ 79,294	\$ 87,090	\$ 91,721	\$ 108,976	\$ 119,787	\$ 130,770	\$ 141,738
Total Net Debt applicable to the limit as a percentage of debt limit	0.67%	0.48%	12.86%	11.40%	10.48%	12.24%	11.47%	10.28%	11.75%	11.09%

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Notes:
Debt Limit is 3.75% of Assessed Value.

Source: City of Pacifica and San Mateo County Assessor's records

**CITY OF PACIFICA
PLEGDED REVENUE COVERAGE
LAST TEN YEARS (IN \$000's)**

Enterprise Fund Bonds

<u>Fiscal Year</u>	<u>Basic Rate</u>	<u>Less Operating Expenses</u>	<u>Net Available Revenue</u>	<u>Debt Services</u>		<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	
1998	\$ 5,362	\$ 4,457	\$ 905	\$ 50	\$ 221	3.34
1999	5,403	3,774	1,629	75	293	4.43
2000	5,652	4,016	1,636	75	290	4.48
2001	6,120	5,045	1,075	80	287	2.93
2002	6,228	6,881	(653)	85	283	-1.77
2003	6,328	7,953	(1,625)	1,488	821	-0.70
2004	7,252	6,750	502	125	225	1.43
2005	8,262	6,326	1,936	130	788	2.11
2006	8,898	6,231	2,667	135	1,229	1.96
2007	9,046	7,767	1,279	140	689	1.54

Special Assessment Bonds

<u>Fiscal Year</u>	<u>Debt Service (000's)</u>	
	<u>Principal</u>	<u>Interest</u>
1998	116	24
1999	125	13
2000	0	0
2001	0	0
2002	0	0
2003	0	0
2004	0	0
2005	0	0
2006	0	0
2007	0	0

Notes:

This schedule presents all non-general obligation long-term debt backed by pledged revenues. The coverage calculations presented in this schedule may differ from those required by specific bond indentures.

The City issued \$1,075,299 of Special Assessment Bonds in 1984 which were defeased in 1999.

Source: City Financial Reports

CITY OF PACIFICA, CALIFORNIA

DIRECT AND ESTIMATED OVERLAPPING BONDED DEBT

June 30, 2007

2007 Population Estimate	39,251
2006-2007 Assessed Valuation	\$3,892,647,987

	<u>Percent Applicable</u>	<u>Date Applicable June 30, 2007</u>
Direct Debt:		
2006 Certificates of Participation	100.00%	\$ 15,725,000
Total Direct Debt		<u>\$ 15,725,000</u>
Overlapping Debt:		
Pacifica School District S-1 Loan		\$ 28,511,712
Jefferson Union High School 95A - Refinanced		19,105,000
Jefferson Union High School 95E		5,260,000
San Mateo Community College District		<u>662,864,994</u>
Total Overlapping Debt:		<u>\$ 715,741,706</u>
Total Direct and Overlapping Debt:		<u>\$ 731,466,706</u>

<u>Ratios to Assessed Valuation</u>		<u>Per Capita</u>	
Direct Debt	0.404%	Assessed Valuation	\$ 99,173.22
		Direct Debt	400.63
Total Debt	18.791%	Total Debt	\$ 18,635.62

Source: County Controller, County of San Mateo, California

**CITY OF PACIFICA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS**

Calendar Year Ending	Population	Median Personal Income	Per Capita Personal Income	Unemployment Rate %
1998	40,381	44,145	28,975	2.4
1999	40,719	45,511	30,183	2.0
2000	41,028	46,876	31,088	1.6
2001	38,390	48,283	32,021	2.9
2002	39,046	49,731	32,982	5.0
2003	38,609	51,223	33,971	5.1
2004	38,186	52,760	34,990	5.0
2005	38,678	54,343	36,040	4.3
2006	38,739	55,973	37,121	4.2
2007	39,251	58,327	37,095	4.8

Notes:

The City of Pacifica is not a Standard Metropolitan Statistical Area (SMSA).

This information has not been tracked and the information provided here is extrapolated from the Census 2000.

The unemployment rates are from San Mateo County overall.

Source: U.S. Census Bureau 2000

**CITY OF PACIFICA
PRINCIPAL EMPLOYERS
CURRENT YEAR AND TEN YEARS AGO**

<u>Employer</u>	<u>2007</u>			<u>1998</u>		
	<u># of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u># of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Pacifica School District	307	1	N/A	Not Available		
City of Pacifica	287	2	N/A			
Safeway (2)	214	3	N/A			
Jefferson Union High School District	170	4	N/A			
Lucky (Save Mart Supermarkets)	125	5	N/A			
Rite Aid (2)	52	6	N/A			
Coastside Scavenger	50	7	N/A			
Ross Dress for Less	48	8	N/A			
North Coast County Water District	22	9	N/A			

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Notes:

The City does not track this information. Our business license tax is based on gross receipts.

The City of Pacifica is not a Standard Metropolitan Statistical Area (SMSA) so this information is not readily available.

Source: Business Registration Research

**CITY OF PACIFICA
FULL TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

<u>Function/Program</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Government										
Administration	5	7	7	8.2	8.2	8.2	7	7	7	6.5
Finance	6.5	6.5	7.5	8	8	8	7	8	8	7.5
Parks	28.5	51.76	51.75	51.75	51.75	54.75	54	38.75	38.75	39.75
Planning & Building	11.5*	5	5.5	4.8	5.8	4.8	4.8	7.8	8.8	9
Public Works	30	34	38	36	33	34	28.75	29	29	29
Engineering	*	2	2	1	4	4	4	4	4	4
Police										
Officers	42.5	42	43	40	41	42	37	37	36	38
Civilians	12.5	13.5	15.5	16.5	16.5	16.5	15.5	15.5	15.5	13.5
Fire										
Firefighters	25	30	31	30	30	32	32	31	31	30
Civilians	1.5	4.5	5	5	5	5.5	5.5	1.5	1.5	1.5
Redevelopment	0	0	0	0	0	0	0	0	0	0
Wastewater Division	20.5	22.5	20.5	20.5	20.5	21	21	19.75	19.75	19.75
Total	183.5	218.76	226.75	221.75	223.75	230.75	216.55	199.3	199.3	198.5

Notes:

A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave).

Full-time equivalent employment is calculated by dividing total labor hours by 2080.

* Engineering Department employees included in Planning & Building in 1997 and 1998.

Source: City Financial Reports

**CITY OF PACIFICA
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

FISCAL YEAR ENDING JUNE 30

Function/Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Government										
Building Permits Issued	1,380	1,546	1,431	1,409	1,408	1,380	1,360	1,219	1,200	1,263
Building Inspections Conducted	2,900	3,434	3,400	3,200	3,061	2,838	3,001	2,970	3,000	2,550
Police										
Physical Arrests	1,182	978	920	925	1,010	1,046	1,328	1,017	1,147	1,071
Parking Violations	2,720	3,544	3,445	6,680	8,024	5,745	4,955	3,511	3,624	2,998
Traffic Violations	2,891	4,131	3,668	2,679	3,000	4,878	3,846	2,502	2,271	2,531
Fire										
Emergency Responses	NA	NA	NA	NA	NA	NA	NA	3,615	3,465	3,185
Fires Extinguished	NA	NA	NA	NA	NA	NA	NA	85	135	136
Inspections	NA	NA	NA	NA	NA	NA	NA	1,413	1,442	1,453
Other Public Works										
Street Re-surfacing (miles)	1.9	0.7	4.8	6.1	7.5	4.3	-	-	-	0.6
Potholes Repaired	400	400	400	400	400	400	400	400	400	360
Parks, Beaches & Recreation										
Community Center Admissions	NA	NA	NA	NA	NA	NA	NA	estimated 115,000	estimated 120,000	130,000
Enterprise Fund WWTP										
New Connections	88.0	57.0	27.0	38.0	39.5	14.5	21.5	106.5	9.0	7.0
Avg Daily Sewage Treatment (Gallons)	3,470,000	3,300,000	3,457,000	3,668,000	3,604,000	3,630,000	3,507,000	3,830,000	3,920,000	3,500,000

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Notes:

The City has not tracked much of this information in past years

Source: Various City Departments

**CITY OF PACIFICA
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS**

FISCAL YEAR ENDING JUNE 30

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<u>Function/Program</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	11	12	12	12	10	10	13	12	12	12
Fire										
Stations	2	2	2	2	2	2	2	2	2	2
Public Works										
Streets (miles)	88.9	88.9	88.9	88.9	88.9	88.9	88.9	88.9	88.9	88.9
Highways (miles)	0	0	0	0	0	0	0	0	0	0
Streetlights	1770	1770	1770	1770	1770	1770	1770	1770	1770	1775
Traffic Signals	4	5	5	5	5	5	5	5	5	5
Parks, Beaches & Recreation										
Acreage	145.48	145.48	145.48	145.48	142.68	142.68	142.68	142.68	142.68	142.68
Playgrounds	13	13	13	13	13	13	13	13	13	13
Baseball Diamonds	5	5	5	5	5	5	5	5	5	5
Soccer/Football Fields	2	2	2	2	2	2	2	2	2	3
Community Centers	1	1	1	1	1	1	1	1	1	1
Wastewater										
Sanitary Sewers (miles)	130	130	130	130	130	130	165	165	165	165
Storm Sewers (miles)	90	90	90	90	90	90	90	90	90	90
Treatment Capacity (gallons)	3,470,000	3,300,000	3,457,000	3,668,000	3,604,000	3,630,000	3,507,000	3,830,000	3,920,000	4,000,000

Notes:

No capital asset indicators are available for the general government function.

Source: Various City Departments

**CITY OF PACIFICA
SEWER RATES
LAST TEN FISCAL YEARS**

Fiscal Year Ended 6/30	Minimum Annual Charge	Rate per 100 Cubic Feet
1998	186.72	3.89008
1999	190.28	3.96437
2000	210.24	4.37985
2001	205.18	4.27433
2002	224.36	4.67424
2003	225.48	4.69754
2004	258.54	5.38619
2005	310.98	6.47862
2006	333.16	6.94083
2007	352.08	7.33488

Notes:

Sewer rates on based on water usage. The North Coast County Water District invoices customers directly for water usage.

Source: City Records

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

The following are brief summaries of certain provisions of the Lease Agreement, the Assignment Agreement, the Site Lease and the Trust Agreement. These summaries are subject to all of the provisions of such documents and the discussions of such documents contained elsewhere in this Official Statement. These summaries do not purport to be a complete statement of said provisions and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request from the Trustee. Capitalized terms not otherwise defined therein have the meanings specified in the respective documents and in the event of any conflict between any of the summaries and the corresponding documents, the provisions of such documents shall control. Copies of said documents are available from the City and from the Trustee.

DEFINITIONS**

“Additional Payments” means the amounts payable by the City under the Lease Agreement.

“Assignment Agreement” means the Assignment Agreement, dated as of May 1, 2006, between the Authority as assignor and the Trustee as assignee, as originally executed or as thereafter amended under any duly authorized and executed amendments thereto.

“Authority” means the City of Pacifica Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State of California.

“Authority Representative” means the Chairman, Executive Director, Treasurer or Secretary of the Authority, or any other person authorized by resolution of the Authority to act on behalf of the Authority under or with respect to the Trust Agreement.

“Bond Counsel” means (a) Greenberg Traurig, LLP, or (b) any other attorney or firm of attorneys of nationally recognized expertise with respect to legal matters relating to obligations the interest on which is excludable from gross income under Section 103 of the Tax Code.

“Certificate Insurance Policy” means the policy of municipal bond insurance issued by the Certificate Insurer, insuring payment when due of principal and interest represented by the Certificates.

“Certificate Insurer” means Ambac Assurance Authority, a Wisconsin-domiciled stock insurance company, its successors and assigns, as issuer of the Certificate Insurance Policy.

“Certificates” means the \$19,815,000 aggregate principal amount of Fixed Rate Certificates of Participation (2008 Conversion of 2006 Certificates), executed and delivered and at any time Outstanding under the Trust Agreement.

“City” means the City of Pacifica, a municipal Authority duly organized and existing under the laws of the State of California.

**Additional Definitions are included in the Trust Agreement and other documents.

“City Representative” means the City Manager or the Director of Finance of the City, or any other person authorized by resolution of the City Council of the City to act on behalf of the City Under or with respect to the Lease and the Trust Agreement.

“Closing Date” means July 31, 2008, being the day when the Certificates, duly executed by the Trustee, are delivered to the Original Purchaser.

“Conversion Fund” means the fund by that name established and held by Trustee pursuant to the Trust Agreement.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Event of Default” means an event of default under the Lease, as defined in Section 8.1 thereof.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) any obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

“Fiscal Year” means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period by the City as its fiscal year under written notice filed with the Trustee.

“Insurance and Condemnation Fund” means the fund by that name to be established and held by the Trustee under Section 6.01 of the Trust Agreement.

“Interest Payment Date” means each May 1 and November 1 through and including the maturity date for the Certificates.

“Lease Payment Date” means, with respect to any Interest Payment Date, the fifth (5th) Business Day preceding such Interest Payment Date.

“Lease Payment Fund” means the fund by that name established and held by the Trustee under Section 5.02 of the Trust Agreement.

“Lease Payments” means all payments required to be paid by the City under Section 4.3(a) of the Lease Agreement, including any prepayment thereof under Article IX of the Lease Agreement.

“Leased Property” means all of the land which is more particularly described in Appendix A to the Lease, consisting of the land and improvements leased under the Prior Leases. If the City exercises its option under Section 4.6 of the Lease with respect to the substitution of property or its option under Section 4.7 of the Lease with respect to the release of property, the term “Leased Property” will thereupon be modified accordingly.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Proceeds” means any insurance proceeds or eminent domain award (including any proceeds of sale to a governmental entity under threat of the exercise of eminent domain powers), paid

with respect to the Leased Property, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

“Original Purchaser” means first purchaser of the Certificates upon their delivery by the Trustee on the Closing Date; initially Nollenberger Capital Partners, Inc.

“Outstanding”, when used as of any particular time with respect to Certificates, means (subject to the provisions of Section 13.05) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except (a) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Certificates deemed to have been paid under Section 13.01; and (c) Certificates in lieu of or in exchange for which other Certificates has been executed and delivered by the Trustee under Section 2.10.

“Owner”, when used with respect to a Certificate, means the person in whose name the ownership of such Certificate shall be registered on the Registration Books.

“Permitted Encumbrances” means, as of any time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may permit to remain unpaid under Article V of the Lease; (b) the Site Lease, the Lease and the Assignment Agreement; (c) any right or claim of any mechanic, laborer, materialmen, supplier or vendor which is secured by a lien on the Leased Property; (d) the exceptions disclosed in the title insurance policy with respect to the Leased Property issued as of the Closing Date by Old Republic Title Company which exceptions are acceptable to the Certificate Insurer; and (e) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record and which the City certifies in writing will not materially impair the use of the Leased Property for its intended purposes.

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

- (a) Federal Securities.
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) certificates of beneficial ownership of the Farmers Home Administration; (ii) Federal Housing Administration debentures; (iii) participation certificates of the General Services Administration; (iv) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (v) guaranteed Title XI financings of the U.S. Maritime Administration; and (vi) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development.
- (c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Authority; (iii) mortgaged-backed securities and senior debt obligations of the Federal National Mortgage Association; (iv) senior debt obligations of the Student

Loan Marketing Association; (v) obligations of the Resolution Funding Authority; and (vi) consolidated system-wide bonds and notes of the Farm Credit System.

- (d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of at least AAAm-G, AAAm or AAm, and a rating by Moody's of Aaa, Aa1 or Aa2 (such funds may include funds for which the Trustee, its affiliates, parent or subsidiaries provide investment advisory or other management services).
- (e) Certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral described in (a) or (b) above, which have a maturity not greater than one year from the date of investment and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+" or better by S&P and "Prime-1" by Moody's, which collateral must be held by a third party and provided that the Trustee must have a perfected first security interest in such collateral.
- (f) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF.
- (g) Investment agreements with a provider the long-term debt or claims paying ability of which, or in the case of a guaranteed Authority the long-term debt, or in the case of a monoline financial guaranty insurance company the claims paying ability, of the guarantor or the institution is rated in the highest two rating categories from S&P and Moody's at the time of investment, provided that
 - (i) if during the term of the agreement the provider's rating is suspended, withdrawn, drops below "AA-" but not below "A-" from S&P, or drops below "Aa3" but not below "A3" from Moody's, then the provider must either (A) deliver Federal Securities to a third-party collateral agent having a market value of at least 104%, marked to market not less than weekly, or (B) repay the principal of and accrued but unpaid interest on the investment; and
 - (ii) if during the term of the agreement the provider's rating is suspended, is withdrawn, drops below "A-" from S&P, or drops below "A3" from Moody's, the provider must, at the direction of the City, repay the principal of and accrued but unpaid interest on the investment.
- (h) Commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P.
- (i) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.
- (j) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's, and "A-1+" by S&P.

- (k) the Local Agency Investment Fund established under Section 164____.1 of the Government Code of the State of California, *provided, however*, that the Trustee must be allowed to make investments and withdrawals in its own name and the Trustee may restrict investments in the Local Agency Investment Fund if required to keep moneys available for the purposes of the Trust Agreement.

“Project” means the acquisition and construction of public capital improvements of the City which are financed from amounts on deposit in the Project Fund, as such public capital improvements are identified from time to time by the City in accordance with the Lease.

“Purchase Date” means each date on which Certificates are subject to optional or mandatory purchase pursuant to the Trust Agreement.

“Registration Books” means the records maintained by the Trustee under Section 2.13 for the registration of the ownership and transfer of ownership of the Certificates.

“Rental Period” means the Term of the Lease Agreement commencing as of May 1, 2006 and ending on January 1, 2037 except as otherwise provided in the Lease Agreement

“Reserve Fund” means the fund by that name established and held by the Trustee under Section 4.02.

“Reserve Requirement” means, as of the date of calculation thereof, an amount equal to \$1,572,500.

“Site Lease” means the First Amended and Restated Site Lease dated as of May 1, 2006, between the City as lessor and the Authority as lessee of the Leased Property, as originally executed or as thereafter amended under any duly authorized and executed amendments and supplements thereto.

“S&P” means Standard & Poor’s Authority, a division of the McGraw Hill Companies, of New York, New York, its successors and assigns.

“Term of the Lease Agreement” means the time during which the Lease is in effect, as provided in Section 4.2 thereof.

“Trust Agreement” means the Amended and Restated Trust Agreement, as originally executed or as thereafter amended under any amendments or supplements hereto which are permitted to be made under the Trust Agreement.

“Trustee” means Deutsche Bank National Trust Company, its affiliates, a State of California national banking association duly organized and existing under the laws of the United States of America, or any successor thereto acting as Trustee under the Trust Agreement.

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LEASE AGREEMENT

The following is a summary of certain provisions of the Lease Agreement. This summary does not purport to be complete or definitive and reference is made to the Lease Agreement for the complete terms thereof.

The First Amended and Restated Lease Agreement dated as of May 1, 2006 by and between the Authority, as lessor, and the City, as lessee, as amended by the Amendment to First Amended and Restated Lease Agreement dated as of July 1, 2008 (collectively, the "Lease Agreement").

Term

The Term of the Lease Agreement shall commence on the earlier of July 1 or on the date of recordation, and shall end on January 1, 2037, unless such term is extended as provided in the Lease Agreement. If on January 1, 2037, any Certificates remain Outstanding under the Trust Agreement, or the Trust Agreement shall not be discharged by its terms, or if the Lease Payment payable shall have been abated at any time and for any reason, then the Lease Agreement shall remain in full force and effect until all Certificates have been fully paid and the Lease Agreement shall be extended until there has been deposited with the Trustee an amount sufficient to pay all obligations due under the Lease Agreement and the Trust Agreement has been discharged by its terms, but in no event shall the Term of the Lease Agreement extend beyond the term of the Site Lease. If prior to January 1, 2037, the Trust Agreement shall be discharged by its terms, the Term of the Lease Agreement shall thereupon, simultaneously terminate.

Deposit of Moneys

On the Closing Date, the Authority shall cause to be deposited with the Trustee the proceeds of sale of the Certificates, which proceeds the Trustee shall apply in accordance with the provisions of the Trust Agreement.

Lease Payments; Abatement

Subject to the Lease Agreement, the City shall pay to the Authority, its successors and assigns, as Lease Payments for the use and occupancy of the Leased Property during the Rental Period, the Lease Payment (denominated into components of principal and interest) in the respective principal amounts and in the respective interest amounts provided in the Lease Agreement, to be due and payable on the respective Lease Payment Dates and to be deposited by the City with the Trustee in immediately payable funds on the respective Lease Payment Dates which in all events shall be no more than three (3) days prior to each Payment Date or such other time as the Trustee shall determine appropriate. In addition to such base rental, the City shall pay, as Additional Payments the amounts as set forth in the Lease Agreement.

Any amount held in the Lease Payment Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payment in part but not in whole pursuant to the Lease Agreement and other than amounts required for payment of past due principal or interest represented by any Certificates not yet surrendered) shall be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund and available for such purpose are at least equal to the Lease Payment then required to be paid.

The Lease Payment payable in any Rental Period shall be for the use of the Leased Property during such Rental Period.

The obligation of the City to pay the Lease Payment other than as set forth in the Trust Agreement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to pay Lease Payment does not constitute a debt of the City, the State of California or any of its political subdivisions within the meaning of any constitution or statutory debt limitation or restriction.

The Lease Payment shall be abated during any period in which, by reason of damage, destruction, non-completion or other event (other than by eminent domain which is provided for in the Lease Agreement), there is substantial interference with the use and occupancy by the City of the Facility or any portion thereof (other than any portions of the Facility described in the Lease Agreement) but not any specific portions of the Facility as shall be agreed upon by the City and the Authority, approved by the Certificate Insurer such that the resulting Lease Payment represent fair consideration for the use and occupancy of the portions of the Facility not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the City. The parties agree that the amounts of the Lease Payment under such circumstances shall not be less than the amounts of the unpaid Lease Payment as are then set forth in the Lease Agreement, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Facility not damaged or destroyed, based upon the written opinion delivered to the Certificate Insurer and the Trustee of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, in which event the Lease Payment shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such damage, destruction, noncompletion or other event and ending with the substantial completion of the work of repair or reconstruction or of completion of the Facility or of the regained availability of use and occupancy. In the event of any such damage, destruction, non-completion or non-availability, the Lease Agreement shall continue in full force and effect and the City waives any right to terminate the Lease Agreement by virtue of any such damage, destruction, non-completion or unavailability.

Notwithstanding the foregoing, there shall be no abatement of Lease Payment under this Section 6.3 by reason of damage, destruction, non-completion or unavailability of all or a portion of the Facility to the extent that: (i) the fair rental value of the portions of the Facility not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the City (giving due consideration to the factors identified in the Lease Agreement), based upon the written opinion delivered to the Certificate Insurer and the Trustee of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, is equal to or greater than the unpaid principal component of the Lease Payment; or (ii) the proceeds of rental interruption insurance, or amounts in the Certificate Reserve Fund and/or the Insurance and Condemnation Fund and/or the Lease Payment Fund are available to pay Lease Payment which would otherwise be abated under the Lease Agreement, it being hereby declared that such proceeds and amounts constitute special funds for the payment of the Lease Payment.

Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the Lease to the extent that the proceeds of Gas Tax Revenues are available to pay Lease Payments which would otherwise be abated, it having been declared by the City that such proceeds and amounts constitute a special fund for the payment of the Lease Payments.

Additional Payments

In addition to the Lease Payments, the City shall pay when due all costs and expenses incurred by the City under the Trust Agreement, or incurred by the Authority in complying with the provisions of the Trust Agreement, including all costs of issuance of the Certificates (to the extent not paid from amounts on deposit in the Conversion Fund), annual compensation due to the Trustee and all their reasonable

costs and expenses payable for performance under the Trust Agreement, and all reasonable costs and expenses of attorneys, auditors, engineers and accountants engaged by the Authority or Trustee in connection with the Leased Property or the performance under the Trust Agreement.

Property Insurance; Eminent Domain

The City will maintain or cause to be maintained throughout the Term of the Lease Agreement, with respect to the Facility the following insurance against risk of physical damage.

Public Liability and Property Damage. The City shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, comprehensive general insurance in protection of the Authority, the City, and their respective members, officers, agents, employees and assigns. Such insurance shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Such insurance shall provide coverage in such liability limits and be subject to such deductibles as the City deems adequate and prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of a program of self-insurance by the City, or in the form of the participation by the City in a joint powers authority or other program providing pooled insurance. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the proceeds of such insurance shall have been paid.

Fire and Extended Coverage. The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, insurance against loss or damage to the insured buildings, facilities and other improvements constituting any part of the Leased Property, in an amount at least equal to the lesser of (a) replacement value of such buildings, facilities and improvements, or (b) the aggregate principal amount of the Outstanding Certificates. Such insurance must, as nearly as practicable, cover loss or damage by fire, explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, and must include earthquake coverage if such coverage is available at reasonable cost from reputable insurers in the reasonable determination of the City, whose determination is final and conclusive. Such insurance may be subject to such deductibles as the City deems prudent. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance.

Rental Interruption. The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the buildings, facilities and other improvements constituting any part of the Leased Property, as a result of any of the hazards covered in the insurance required by the Lease Agreement, in an amount at least equal to the maximum Lease Payments coming due and payable during any two consecutive Fiscal Years during the remaining term of the Lease Agreement. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the City, and may be maintained in whole or in part in the form of the participation by the City in a joint powers authority or other program providing pooled insurance; provided that such insurance may not be maintained by the City in the form of self-insurance. The Net Proceeds of such insurance, if any, shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited towards the payment of the Lease Payments allocable to the insured improvements as the same become due and payable.

Title Insurance. On the Closing Date, the City shall provide, at its own expense, a CLTA title insurance policy covering, and in the amount of not less than the principal component of the Certificates,

insuring the City's leasehold estate in the Leased Property, subject only to Permitted Encumbrances. All Net Proceeds of such insurance shall be applied as provided under the Lease Agreement.

Insurance Net Proceeds

Each policy of casualty, rental interruption and title insurance maintained shall name the Trustee as loss payee to provide that all proceeds are payable to the Trustee.

Assignment and Subleasing

The City may not assign the Lease Agreement without the prior written consent of the Certificate Insurer. The City may sublease the Leased Property, or any portion thereof, but only with the prior written consent of the Certificate Insurer, subject to all of the following conditions: (i) the Lease Agreement and the obligation of the City to make Lease Payment shall remain obligations of the City; (ii) the City shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Authority, and the Trustee a true and complete copy of such sublease; (iii) no such sublease by the City shall cause the Leased Property to be used for a purpose not authorized under the provisions of the laws of the State; and (iv) the City shall furnish the Authority, the Certificate Insurer and the Trustee with a written opinion of Bond Counsel stating that such sublease does not cause the interest components of the Lease Payment to become includable in gross income for purposes of federal income taxes or to become personal income taxation by the State.

Amendment of Lease Agreement

Substitution of Leased Property. The City shall have the option at any time and from time to time during the Term of the Lease Agreement to substitute other real property (a "Substitute Property") for the Leased Property, or a portion thereof, (the "Former Property"), provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such substitution: (i) no Event of Default has occurred and is continuing; (ii) the City shall file with the Authority, the Certificate Insurer and caused to be recorded with the San Mateo County Recorder sufficient memorialization of, an amendment which adds to Appendix A of the Lease Agreement a description of such Substitute Property and deletes the Former Property; (iii) the City delivers to the Trustee, the Certificate Insurer and the Authority an M.A.I. appraisal demonstrating the fair market value of the Substitute Site is at least equal to the fair market value of the Former Property; (iv) the City has obtained a CLTA title policy insuring the City's leasehold in an amount at least equal to the fair market value of the Substitute Property; (v) the City has certified in writing to the Authority, Trustee and Certificate Insurer that the Substitute Property services municipal purposes of the City and constitutes property which the City is permitted to lease under the State; (vi) the Substitute Property does not cause the City to violate any of its covenants, representations and warranties in the Trust Agreement; and (vii) the City has mailed written notice of such substitution to each rating agency which then maintains a rating on the Certificates.

Release of Property. The City has the option at any time and from time to time to release any portion of the Leased Property and the Site Lease (the "Released Property"), provided that the City shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such release: (i) no Event of Default has occurred and is continuing; (ii) the City shall file with the Authority, the Certificate Insurer and caused to be recorded with the San Mateo County Recorder sufficient memorialization of, an amendment removing the Released Property from the Lease and Site Lease; (iii) the City has certified in writing to the Authority and Trustee that the fair market value of the property which remains subject to the Lease and the Site Lease is at least equal to the aggregate original principal amount of the Certificates, and the fair rental value of the property which remains subject to the Lease and the Site Lease is at least equal to the Lease Payments thereafter coming due and payable;

and (iv) the City has mailed written notice of such release to each rating agency which then maintains a rating on the Certificates.

General. Without the prior written consent of the Trustee and the Certificate Insurer, the City and the Authority shall not alter, modify or cancel, or agree or consent to alter, modify or cancel the Lease Agreement, except in connection with a substitution or release permitted by the Lease Agreement and as may be permitted by the Trust Agreement.

Default and Remedies

The following constitute "Events of Default" under the Lease Agreement:

(a) Failure by the City to pay any Lease Payment or other payment required to be paid under the Lease Agreement at the time specified therein.

(b) Failure by the City to keep, observe or perform any other term, covenant, condition or agreement on its part to be observed or performed in the Lease Agreement or the Trust Agreement, other than as referred to in the Lease Agreement, for a period of thirty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority, the Trustee, the Certificate Insurer; provided, however, that if City notifies the Authority and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within 60 days, the failure will not constitute an Event of Default if the City commences to cure the failure within such 60 day period and thereafter diligently and in good faith cures such failure in a reasonable period of time;

(c) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

Whenever any Event of Default shall have occurred, it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; *provided, however,* that notwithstanding anything in the Trust Agreement to the contrary, there shall be no right under any circumstances to accelerate the Lease Payment or otherwise declare any Lease Payment not then in default to be immediately due and payable. Each and every covenant hereof to be kept and performed by the City is expressly made a condition and upon the breach thereof the Authority may exercise any and all rights of entry and re-entry upon the Leased Property, and also with or without such entry, may terminate the Lease Agreement provided, that no such termination shall be effected either by operation of law or acts of the parties hereto, except only in the manner expressly provided in the Lease Agreement. In the event of such default and notwithstanding any re-entry by the Authority, the City shall, as expressly provided in the Lease Agreement, continue to remain liable for the payment of the Lease Payment and/or damages for breach of the Lease Agreement and the performance of all conditions therein contained and, in any event such rent and/or damages shall be payable to the Authority at the time and in the manner as provided under the Lease Agreement, to wit:

(a) In the event the Authority does not elect to terminate the Lease Agreement in the manner therein provided for in subparagraph (b) thereof, the City agrees to and shall remain liable for the payment of all Lease Payment and the performance of all conditions therein contained and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Facility, or, in the event the Authority does not re-lease the Facility, then for the full amount of all Lease Payment to the end of the

Term of the Lease Agreement, but said Lease Payment and/or deficiency shall be payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payment, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Leased Property or the exercise of any other remedy by the Authority. The City irrevocably appointed the Authority as the agent and attorney-in-fact of the City to enter upon and re-lease the Leased Property in the Event of Default by the City in the performance of any covenants therein contained to be performed by the City and to remove all personal property whatsoever situated upon the Facility to place such property in storage or other suitable place in San Mateo County, for the account of and at the expense of the City, and the City exempted and agreed to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Leased Property and the removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions therein contained. The City agreed that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-lease the Leased Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Authority in effecting such re-leasing shall constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease Agreement shall vest in the Authority to be effected in the sole and exclusive manner provided for the Lease Agreement. The City agrees to surrender and quit possession of the Leased Property upon demand of the Authority for purposes of enabling the Leased Property to be re-let. Any rental obtained by the Authority in excess of the unpaid Lease Payment shall be deposited with the Trustee in the Lease Payment Fund, to be applied as a credit against future Lease Payments.

(b) If an Event of Default occurs and is continuing, the Authority may terminate the Lease Agreement and release all or any portion of the Leased Property. In the event of the termination of the Lease Agreement by the Authority and in the manner hereinafter provided on account of default by the City (and notwithstanding any re-entry upon the Leased Property by the Authority in any manner whatsoever or the re-leasing or sale of the Leased Property), the City nevertheless agrees to pay to the Authority all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as provided in the case of payment of Lease Payments and Additional Payments. Any surplus received by the Authority from such re-leasing shall be deposited in the Lease Payment Fund. Neither notice to pay rent or to deliver up possession of the premises given pursuant to law nor any proceeding in unlawful detainer taken by the Authority shall of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the City shall be or become effective by operation of law, or otherwise, unless and until the Authority shall have given written notice to the City of the election on the part of the Authority to terminate the Lease Agreement. The City agrees that no surrender of the Leased Payments or of the remainder of the Term of the Lease or any termination of the Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Authority by such written notice.

(c) If an Event of Default occurs and continues, the Authority may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due or to enforce any other of its rights.

Security Deposit

Notwithstanding any other provision of the Lease Agreement, the City may on any date secure the payment of the Lease Payments in whole or in part by depositing with the Trustee an amount of cash which, together with other available amounts on deposit in the funds and accounts established under the Trust Agreement, is either (a) sufficient to pay such Lease payments, including the principal and interest components thereof, in accordance with the Lease Payment schedule attached to the Lease Agreement,

or (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the opinion of an independent certified public accountant, which opinion must be addressed and delivered to the Trustee and the Certificate Insurer, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay such Lease Payments when due under Section 4.3(a), as the City instructs at the time of said deposit.

If the City posts a security deposit as provided above with respect to all unpaid Lease Payments and if the City has paid or caused to be paid any and all additional payments then due under the Lease Agreement, (a) the Term of the Lease Agreement will continue, (b) all obligations of the City under the Lease Agreement, and all security provided by the Lease Agreement for said obligations, will cease and terminate, excepting only the obligation of the City to make, or cause to be made, all of the Lease Payments from such security deposit, and (c) title to the Leased Property will vest in the City on the date of said deposit automatically and without further action by the City or the Authority. Said security deposit constitutes a special fund for the payment of Lease Payments in accordance with the provisions of the Lease Agreement.

Other Provisions

The City shall, with the prior written consent of the Certificate Insurer at its own expense, have the right to remodel the Facility or to make additions, modifications and improvements to the Facility. All additions, modifications and improvements shall thereafter comprise part of the Facility and be subject to the provisions of the Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Facility, substantially alter its nature, cause the interest component of Lease Payment to be included in gross income for purposes of federal income taxes or cause it to be used for purposes other than those authorized under the provisions of State and federal law; and the Facility, upon completion of any additions, modifications and improvements made thereto, shall be of a value which is not substantially less than the value of the Facility immediately prior to the making of such additions, modifications and improvements.

The City is responsible for the improvement, repair, and maintenance of the Facility and shall pay or arrange for payment of the cost of repair and replacement resulting from ordinary wear and tear.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting the Facility or the respective interests or estates therein; *provided that* with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority, the Trustee or the Certificate Insurer shall notify the City that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Authority in the Facility will be materially endangered or the Facility or any part thereof will be subject to loss or forfeiture, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority, the Trustee and the Certificate Insurer with full security against any loss which may result from nonpayment, in form satisfactory to the Authority, the Certificate Insurer and the Trustee.

The Authority makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City of the facility or any other representation or warranty with respect to the Facility. In no event shall the Authority or its assigns be liable for incidental, indirect, special or consequential damages in

connection with or arising out of the site and facility lease, the Lease Agreement or the Trust Agreement for the existence, furnishing, functioning or the City's use of the Facility.

The City agrees that the Authority and any Authority Representative, the Authority's successors or assigns and the Certificate Insurer, shall have the right at all reasonable times to enter upon and to examine and inspect the Facility to cause its proper maintenance in the event of failure by the City to perform its obligations.

Termination

As described above, the Lease Agreement terminates (i) upon the payment or prepayment by the City of all Lease Payments due during the Term of the Lease Agreement, (ii) upon the occurrence of an Event of Default by the City and the Authority's or its assignee's election to terminate the Lease Agreement, or (iii) upon taking the Facility in whole pursuant to eminent domain proceedings or in part to such extent that the remaining portion of the Facility is no longer useful for the purposes originally intended.

ASSIGNMENT AGREEMENT

The following is a summary of certain provisions of the Assignment Agreement. This summary does not purport to be complete or definitive and reference is made to the Assignment Agreement for the complete terms thereof.

The Amended and Restated Assignment Agreement, dated as of July 1, 2008, is entered into between the Authority and the Trustee, pursuant to which the Authority assigns and transfers to the Trustee, for the benefit of the Owners of the Certificates, the rights of the Authority under the Lease Agreement, including, but not limited to, the right to receive Lease Payments under the Lease Agreement, and the rights and remedies of the Authority under the Lease Agreement to enforce payment of Lease Payments and other amounts or otherwise to protect and enforce the Lease Agreement in the Event of Default by the City.

SITE LEASE

The following is a summary of certain provisions of the Site Lease. This summary does not purport to be complete or definitive and reference is made to the Site Lease for the complete terms thereof.

The Site Lease is entered into between the City, as lessor, and the Authority, as lessee. The term of the Site Lease began on the date of commencement of the Term of the Lease Agreement and will expire on January 8, 2037, unless such term is extended, or unless such term is terminated early in accordance with the Site Lease.

To facilitate the completion of the Improvements, the City leased the Leased Property to the Authority in return for payment by the Authority of an advance rental payment equal to the total principal amount of the Certificates and the Authority's agreement to, in turn, lease the Leased Property and that portion of the Project located on the Leased Property to the City pursuant to the Lease Agreement. The City and the Authority agreed that by reason of the sale of the Certificates and deposit of proceeds pursuant to the provisions of the Trust Agreement, the advance rental payment referenced in the

preceding sentence was deemed to have been paid. The City shall apply such rental payment to, among other items, the payment of amounts necessary to complete the Project.

The Authority shall use the Leased Property solely for the purpose of securing the construction and installation of the Improvements and purposes incidental thereto; *provided, however*, that in the event of default by the City under the Lease Agreement, the Authority and its assigns may exercise the remedies provided in the Lease Agreement. Title to all Improvements made on the Leased Property shall vest in the City.

TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement. This summary does not purport to be complete or definitive and reference is made to the Trust Agreement for the complete terms thereof.

The Trustee is appointed pursuant to the Trust Agreement to act as a depository of amounts held thereunder. The Trust Agreement authorizes the Trustee to prepare, execute and deliver the Certificates. Transfers of the Certificates are to be registered in a Register maintained by the Trustee. The Trust Agreement sets forth the terms of the Certificates, the nature and extent of security, the various rights of the Owners, the rights, duties and immunities of the Trustee and the rights and obligations of the City and Authority. Certain provisions of the Trust Agreement are summarized below.

Funds

The Trust Agreement creates several funds to be maintained by the Trustee for the benefit of the Authority and the City.

Conversion Fund. The Trustee shall establish a special fund designated as the "Conversion Fund", shall keep such fund separate and apart from all other funds and moneys held by it and shall administer such fund as provided in the Conversion Escrow Agreement. There shall be deposited in the Conversion Fund the proceeds of sale of the Certificates required to be deposited therein pursuant to the Trust Agreement.

Delivery Costs Fund. A portion of the proceeds from the sale of the Certificates will be deposited with the Trustee in the Delivery Costs Fund and be applied to pay costs of the execution, delivery and sale of the Certificates upon the instructions of a District Representative. Any funds remaining in such fund after all such costs have been paid will be transferred to the Construction Completion Fund.

Lease Payment Fund. The Trustee shall establish a special fund designated as the "Lease Payment Fund." All moneys at any time deposited by the Trustee in the Lease Payment Fund shall be held by the Trustee in trust for the benefit of the City and the Owners of the Certificates. So long as any Certificates are Outstanding, neither the City nor the Authority has any beneficial right or interest in the Lease Payment Fund, or the moneys deposited therein, except only as provided in the Trust Agreement, and the Trustee shall apply the Lease Payment Fund solely as set forth in the Trust Agreement.

Reserve Fund. The Trustee shall establish a special fund designated as the "Reserve Fund" to be held by the Trustee in trust for the benefit of the City and the Owners of the Certificates, and applied solely as provided in the Trust Agreement. Moneys in the Reserve Fund shall be held in trust as a reserve for the payment when due of the Lease Payments on behalf of the City.

The Trustee shall retain in the Reserve Fund all earnings on the investment of amounts therein to the extent required to maintain the full amount of the Reserve Requirement on deposit therein. All amounts on deposit in the Reserve Fund at any time in excess of the Reserve Requirement, and all amounts derived from the investment of amounts in the Reserve Fund which are not required to be retained therein to maintain the Reserve Requirement, shall be transferred by the Trustee to the Lease Payment Fund. Any recomputation of the Reserve Requirement shall be made by or on behalf of the City, and shall become effective upon the filing by the City with the Trustee of written notice thereof.

Insurance and Condemnation Fund. Any Net Proceeds of insurance collected by the City in the event of accident to or destruction of any component of the Leased Property shall be paid to the Trustee per the Lease Agreement and deposited by the Trustee promptly upon receipt thereof in a special fund designated as the "Insurance and Condemnation Fund" which the Trustee shall thereupon establish.

Construction Completion Fund. A portion of the proceeds from the sale of the Certificates will be deposited with the Trustee in the Construction Completion Fund to be applied, together with certain other funds set forth in the Trust Agreement, to satisfy Project and other costs. Any funds remaining in such fund after all such costs have been paid will be applied to satisfy any unpaid Delivery Costs and upon such satisfaction transferred to the Lease Payment Fund.

If the City determines and notifies the Trustee in writing of its determination, within 90 days following the date of such deposit, that the replacement, repair, restoration, modification or improvement of the Leased Property is not economically feasible or in the best interests of the City, then such Net Proceeds shall be promptly transferred by the Trustee to the Lease Payment Fund and applied to the prepayment of Lease Payments and the corresponding prepayment of Certificates, which prepayment shall be made on the first Interest Payment Date for which notice of prepayment can be timely given. Notwithstanding the foregoing, the determination of the City to apply Net Proceeds to the prepayment of Certificates is subject to the following: (i) if the Leased Property is damaged or destroyed in full, such Net Proceeds may be transferred to the Lease Payment Fund to be used to prepay Outstanding Certificates only if such Net Proceeds, together with other available moneys, are sufficient to cause the corresponding prepayment of all Lease Payments allocable to the Leased Property; and (ii) if the Leased Property is damaged or destroyed in part but not in whole, such Net Proceeds may be transferred to the Lease Payment Fund to be used to prepay Outstanding Certificates only if the Lease Payments which result after the corresponding abatement thereof are sufficient to pay the full amount of principal and interest represented by the Certificates which remain Outstanding after such prepayment.

All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Lease Payment Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Leased Property by the City, upon receipt of written requisitions of the City stating with respect to each payment to be made (a) the name and address of the person, firm or corporation to whom payment is due, (b) the amount to be paid and (c) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. Any balance of the Net Proceeds remaining after the City shall file a written certificate with the Trustee stating that such work has been completed shall, after payment of all amounts then due and owing to the Trustee hereunder, be paid to the City.

Deposit and Application of Net Proceeds of Eminent Domain Award

If all or any part of the Leased Property is taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund and shall be applied and disbursed by the Trustee as follows: (A) if the City gives written notice to the Trustee of its determination that (i)

such eminent domain proceedings have not materially affected the interest of the City in the Leased Property or the ability of the City to meet any of its financial obligations under the Lease, and (ii) that such proceeds are not needed for repair, replacement or rehabilitation of the Leased Property, and the City has given written notice to the Trustee of such determination, the Trustee shall transfer such proceeds to the Lease Payment Fund to be credited towards the payment of the Lease Payments as they become due and payable; (B) if the City gives written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the interest of the City in the Leased Property or the ability of the City to meet any of its financial obligations under the Lease, and (ii) such proceeds are needed for repair, replacement or rehabilitation of the Leased Property, the Trustee shall pay to the City, or to its order, from said proceeds such amounts as the City may expend for the repair or rehabilitation of the Leased Property, upon the filing of requisitions of the City Representative; (C) if (i) less than all of the Leased Property is taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the City gives written notice to the Trustee of its determination that such eminent domain proceedings have materially affected the interest of the City in the Leased Property or the ability of the City to meet any of its financial obligations under the Lease, or (ii) all of the Leased Property is taken in such eminent domain proceedings, then the Trustee shall transfer such proceeds to the Lease Payment Fund to be credited toward the prepayment of the Lease Payments and applied to the corresponding prepayment of Certificates, which prepayment shall be made on the first prepayment date for which notice of prepayment can be timely given.

In making any such determination whether to repair, replace or rehabilitate the Leased Property, the City may obtain, but is not required to obtain, at its expense, the report of an independent engineer or other independent professional consultant, a copy of which must be filed with the Trustee and the Certificate Insurer. Any such determination by the City is final.

Investment of Moneys; Allocation of Earnings

Upon the written request of a City Representative filed with the Trustee from time to time, moneys held by the Trustee in any fund or account under the Trust Agreement shall be invested and reinvested by the Trustee in Permitted Investments which mature not later than the date such moneys are required or estimated by the City to be required to be expended. In the absence of any written request of the City directing the investment of uninvested moneys held by the Trustee, the Trustee shall invest such moneys in Permitted Investments described in the Trust Agreement. Such investments, if registrable, shall be registered in the name of the Trustee, as trustee or in the name of its nominee, and shall be held by the Trustee. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. Such investments and reinvestments shall be made giving full consideration to the time at which funds are required to be available. The Trustee may act as purchaser or agent in the making or disposing of any investment. Whenever in the Trust Agreement any moneys are required to be transferred by the City to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments. For purposes of acquiring any investments under the Trust Agreement, the Trustee may commingle funds held by it under the Trust Agreement. The Trustee is not responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with the Trust Agreement.

The Trustee shall furnish to the City, not less than monthly, an accounting (in the form customarily used by the Trustee) of all investments and other transactions made by the Trustee under the Trust Agreement.

Certificates

The Trustee is directed by the Trust Agreement, upon written request from the Authority, to prepare, execute and deliver to the Original Purchaser, the Certificates in their aggregate principal amount.

The Trust Agreement contains procedures and regulations with respect to exchanges and transfers of Certificates, for procedures for Certificates which are mutilated, lost, destroyed or stolen, for evidence of signatures of Certificate Owners and ownership of Certificates and for procedures with respect to payment of Certificates.

The Trustee is appointed as a paying agent for the Certificates. Principal and premium, if any, with respect to the Certificates is payable at the principal office of the Trustee. Interest with respect to the Certificates is payable by check or draft of the Trustee mailed to the owner of record at the address shown on the certificate register required to be maintained by the Trustee (provided, however, that at the option of any Owner of at least one million dollars in aggregate principal amount, interest will be wired to an account designated by such Owner).

Limitation of Liability

The Trust Agreement contains certain provisions limiting the liability of the parties thereto, including, but not limited to, the following provisions:

(a) Neither the Authority nor City shall have any obligation or liability to the Owners of the Certificates with respect to the performance by the Trustee of duties imposed upon it by the Trust Agreement.

(b) Except as provided in the Trust Agreement, the City has no pecuniary obligation or liability to any of the other parties or to the Owners of the Certificates with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee; and

(c) The Trustee shall not be responsible for the use, maintenance, condition or management of, or from any work or thing done on, the Project or the Leased Property by the Authority or the City; any breach or default on the part of the Authority or the City in the performance of any of their respective obligations under the Trust Agreement and any other agreement made and entered into for purposes of the Project or the Leased Property; any act of negligence of the Authority or the City or of any of their respective agents, contractors, servants, employees, licensees with respect to the Project or the Leased Property; any act of negligence of any assignee of, or purchaser from the Authority or the City or of any of its or their respective agents, contractors, servants, employees or licensees with respect to the Project or the Leased Property; the application of the proceeds of the Certificates; the actions of any other party, including but not limited to the ownership, operation or use of the Project or the Leased Property by the Authority or the City; or the Trustee's exercise and performance of its powers and duties under the Trust Agreement.

Rights of Owners to Institute Proceedings

No Owner of any Certificate may institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner has previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Certificates then Outstanding have requested the Trustee in writing to exercise the

powers granted or to institute such action, suit or proceeding in its own name; (c) said Owners have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee has refused or omitted to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Certificates of any remedy hereunder; it being understood and intended that no one or more Owners of Certificates has any right in any manner whatever by its or their action to enforce any right under the Trust Agreement, except as provided therein, and that all proceedings at law or in equity with respect to an Event of Default shall be instituted, had and maintained in the manner provided and for the equal benefit of the Certificate Insurer and all Owners of the Outstanding Certificates.

Events of Default; Remedies

The following shall be Events of Default:

a. Failure by the City to pay any Lease Payment or other payment required to be paid at the time specified in the Lease.

b. Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed in the Lease or in the Trust Agreement, other than as referred to in the preceding subsection (a), for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority, the Trustee or the Certificate Insurer; *provided, however*, that if in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 30-day period, the failure will not constitute an Event of Default if the City commences to cure the failure within such 30-day period and thereafter diligently and in good faith cures the failure in a reasonable period of time.

c. The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

For purposes of determining whether any Event of Default has occurred under and as described in the preceding clause (a), no effect may be given to payments made by the Certificate Insurer under the Certificate Insurance Policy.

Remedies. If an Event of Default happens, then and in each and every such case during the continuance of such Event of Default, with the prior written consent of the Certificate Insurer the Trustee may, and at the written direction of the Certificate Insurer or (with the prior written consent of the Certificate Insurer) at the written direction of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding the Trustee shall, exercise any and all remedies available under law or granted under the Lease; *provided, however*, that notwithstanding anything in the Trust Agreement or in the Lease to the contrary, there shall be no right under any circumstances to accelerate the maturities of the Certificates or otherwise to declare any Lease Payment not then in default to be immediately due and payable.

Payment Procedure Pursuant to Certificate Insurance Policy.

The Trustee agrees to comply with the following provisions with respect to the Certificates:

a. At least one (1) day prior to an Interest Payment Date the Trustee shall determine whether there will be sufficient funds in the Lease Payment Fund (after transfer into such fund of all available moneys required hereunder to be transferred thereto with respect to such Interest Payment Date) to pay the principal or interest represented by the Certificates on such Interest Payment Date. If the Trustee determines that there will be insufficient funds for such purpose, the Trustee shall so notify the Certificate Insurer. Such notice shall specify the amount of the anticipated deficiency, the Certificates to which such deficiency is applicable and whether such Certificates will be deficient as to principal or interest, or both. If the Trustee has not so notified the Certificate Insurer at least one (1) day prior to an Interest Payment Date, the Certificate Insurer shall make payments of principal or interest due with respect to the Certificates on or before the first (1st) day next following the date on which the Certificate Insurer shall have received notice of nonpayment from the Trustee.

b. The Trustee shall, after giving notice to the Certificate Insurer as provided in (a) above, make available to the Certificate Insurer and The Bank of New York, as insurance trustee for the Certificate Insurer (the "Insurance Trustee"), the Registration Books and all records relating to the funds and accounts maintained hereunder.

c. The Trustee shall provide the Certificate Insurer and The Bank of New York with a list of the Certificate Owners entitled to receive principal or interest payments from the Certificate Insurer under the terms of the Certificate Insurance Policy, and the Trustee and the Certificate Insurer shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the Owners of Certificates entitled to receive full or partial interest payments from the Certificate Insurer, and (ii) to pay the principal of the Certificates surrendered to the Insurance Trustee by the Certificate Owners entitled to receive full or partial principal payments from the Certificate Insurer.

d. The Trustee shall, at the time it provides notice to the Certificate Insurer under (a) above, notify the Certificate Owners entitled to receive the payment of principal or interest represented by the Certificates from the Certificate Insurer (i) as to the fact of such entitlement, (ii) that the Certificate Insurer will remit to them all or a part of the interest payments next coming due upon proof of Certificate Owner entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Certificate Insurer, they must tender their Certificates (along with a form of transfer of title thereto) for payment to the Insurance Trustee and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Certificate Insurer they must tender their Certificates for payment thereon first to the Trustee, who shall note on such Certificates the portion of the principal paid by the Trustee, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

e. In the event that a Responsible Officer of the Trustee has written notice that any payment of principal or interest represented by a Certificate which has become due for payment and which is made to a Certificate Owner by or on behalf of the City has been deemed a preferential transfer and theretofore recovered from its Owner under the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall notify the Certificate Insurer and the Owners of all Outstanding Certificates that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Certificate Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Certificate Insurer its records evidencing the payments of principal of and interest on the Certificates

which have been made by the Trustee and, to the extent reflected in the Trustee's records, evidencing the payments subsequently recovered from the Owners and the dates on which such payments were made.

f. In addition to those rights granted the Certificate Insurer hereunder, the Certificate Insurer shall, to the extent it makes payment of principal or interest represented by the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Certificate Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Certificate Insurer's rights as subrogee on the Registration Books upon receipt from the Certificate Insurer of proof of the payment of interest to the Certificate Owners, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Certificate Insurer's rights as subrogee on the Registration Books upon surrender of the Certificates by the Owners thereof together with proof of the payment of principal represented thereby.

g. The City and the Trustee, as appropriate, shall permit the Certificate Insurer upon reasonable request to have access to and to make copies of all books and records relating to the Certificates during regular business hours.

Amendments or Supplement Permitted

The Trust Agreement and the rights and obligations of the Owners of the Certificates may be modified or amended at any time by a supplemental agreement which shall become effective when the written consents of the Certificate Insurer and the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, has been filed with the Trustee. No such modification or amendment may (a) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate represented thereby or extending the time of payment of interest, or reducing the amount of principal represented thereby or reducing any premium payable upon the prepayment thereof, without the express consent of the Certificate Insurer and the Owner of such Certificate, or (b) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification hereof, or (c) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in the Trust Agreement.

The Trust Agreement and the rights and obligations of the Owners of the Certificates may be modified or amended at any time by a supplemental agreement, with the prior written consent of the Certificate Insurer but without the consent of any Certificate Owners, but only to the extent permitted by law and only:

a. to add to the covenants and agreements of any party, other covenants to be observed, or to surrender any right or power reserved to the Authority or the City,

b. to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement,

c. in regard to questions arising hereunder, as the parties hereto or thereto may deem necessary or desirable and which shall not, in the opinion of Bond Counsel, materially adversely affect the interests of the Owners of the Certificates,

d. if and to the extent permitted in the opinion of Bond Counsel filed with the Trustee, the City and the Authority, to delete or modify any of the provisions hereof or thereof relating to the exclusion from gross income of interest represented by the Certificates for federal income tax purposes, or

e. to conform to any amendments of the Lease which are permitted to be made under Section 7.5 thereof.

f. Any such supplemental agreement shall become effective upon execution and delivery by the parties hereto.

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APPENDIX C

GENERAL INFORMATION REGARDING THE CITY OF PACIFICA AND SURROUNDING AREA

Disclaimer

The following information, unless otherwise cited, was directly transcribed from material provided by the City of Pacifica (the “City”), the County of San Mateo (the “County”), and the area Chamber of Commerce. The following information is intended to merely provide the reader with a better understanding of certain socioeconomic and demographic characteristics of the City, the County and surrounding area. The information set forth in this Appendix “C” has not been researched for accuracy or veracity, and therefore it must not be relied upon when making an investment decision.

The Certificates are not a debt of the City, the County or the State of California (the “State”) or any of the State’s Political Subdivisions; the taxing power of the City of Pacifica, the State of California or any political subdivision thereof is not pledged to the payment of the Certificates; and neither the City, the County, the State nor any of the State’s Political Subdivisions are liable therefore. The Certificates are payable solely from Lease Payments made by the City and other sources as described herein.

Location

The City of Pacifica (the “City”) is located in San Mateo County (the “County”) on the California coast approximately 10 miles south of the City of San Francisco. The City is framed by the ridges of the Coast Range on the east and the Pacific Ocean on the west. The terrain is comprised of a combination of secluded valleys and open hillsides set against a coastline of long beaches and rugged headlands. The geographically distinct portions of Pacifica are linked by Highway 1 and Sharp Park Boulevard. Highway 1 is also the corridor between San Francisco and Half Moon Bay. Sharp Park Boulevard connects to Interstate 280 and also links the City with other portions of the San Francisco peninsula to the east. Due to the City’s close proximity to the Pacific Ocean, it enjoys a moderate climate with temperatures ranging from 50 to 70 degrees.

Municipal Government

The City was incorporated on November 22, 1957 under the general laws of the State of California. The City has a council-manager form of government. There are five Council Members who serve overlapping terms of four years, and the Council, in turn, selects one of the Council Members to serve as Mayor for one year. The legislative body selects a City Manager to administer the affairs of the City. The City provides the following services: public safety (police, fire and civil defense), highways and street, sanitation, health and social services, culture/recreation, public improvements, planning and zoning and general administrative services.

Population, Demographic and Economic

The table below sets forth total population and demographical statistics for the City for the past ten years.

CITY OF PACIFICA POPULATION, DEMOGRAPHIC AND ECONOMIC Last Ten Calendar Years

<u>Calendar Year Ending</u>	<u>Population</u>	<u>Median Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
1998	40,381	\$44,145	28,957	2.4%
1999	40,719	45,511	30,183	2.0%
2000	41,028	46,876	31,088	1.6%
2001	38,390	48,283	32,021	2.9%
2002	39,046	49,731	32,982	5.0%
2003	38,609	51,223	33,971	5.1%
2004	38,186	52,760	34,990	5.0%
2005	38,678	54,343	36,040	4.3%
2006	38,739	55,973	37,121	4.2%
2007	39,251	58,327	37,095	4.8%

Taxable Sales Information

The following table lists the City Taxable Sales by category for Fiscal years 2002-03 through 2005-06.

CITY OF PACIFICA TAXABLE SALES BY CATEGORY

<u>Categories</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Apparel Stores	\$8,598	\$8,518	\$9,013	\$9,410	\$8,833
General Merchandises	57	75	100	19	144
Food Stores	24,258	23,864	23,801	23,562	22,334
Eating & Drinking Places	24,310	24,750	25,378	26,160	26,981
Building Materials	7,601	7,156	6,869	6,714	6,750
Auto dealers & Supplies	2,188	3,196	3,207	3,868	4,116
Service Stations	21,392	24,641	27,470	33,303	37,620
Other Retail Stores	18,448	18,002	17,416	19,709	21,097
All Other Outlets	<u>25,979</u>	<u>25,323</u>	<u>28,147</u>	<u>19,144</u>	<u>28,968</u>
Total	\$132,831	\$135,525	\$141,401	\$141,889	\$156,843

The following table lists the City Tax Revenues by source for Fiscal years 1997-98 through 2006-07.

**CITY OF PACIFICA
TAX REVENUE BY SOURCE**

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses & permits</u>	<u>Use of Money & Property</u>	<u>Inter Govern- mental</u>	<u>Current Service Charges</u>	<u>Fines & Forfeitures</u>	<u>Other Revenues</u>	<u>TOTAL</u>
1997-1998	\$8,210,073	\$440,457	\$639,627	\$6,223,898	\$1,723,422	\$82,765	\$1,328,197	\$16,648,439
1998-1999	8,342,790	566,411	478,265	10,739,990	1,958,396	156,041	1,497,922	23,739,815
1999-2000	9,142,581	848,485	826,036	6,622,396	2,317,991	189,076	1,237,584	21,184,149
2000-2001	10,401,898	446,571	1,647,115	6,539,373	2,465,226	142,788	1,229,183	22,872,154
2001-2002	10,302,020	563,462	944,882	8,728,620	2,048,225	312,319	3,791,031	26,591,559
2002-2003	10,944,812	400,446	566,880	7,284,231	2,761,520	175,551	1,827,612	23,961,052
2003-2004	11,253,260	319,270	399,500	2,926,988	1,894,700	160,000	1,984,500	18,938,218
2004-2005	12,301,959	338,400	127,000	3,473,559	1,476,774	140,000	2,218,606	20,076,298
2005-2006	13,655,933	308,500	410,000	4,744,585	1,388,600	135,000	3,460,325	24,102,943
2006-2007	14,855,725	4760,947	337,904	5,466,565	2,213,594	217,699	2,021,496	25,583,930
% Change 1998-2007	80.95%	6.92%	-47.17%	-12.17%	28.44	163.03%	52.20%	37.19%

Total taxable transactions reported in the County in calendar year 2005 were reported to be \$12,451,350,000, a 5.4% increase over the total taxable transactions of \$11,808,074,000 reported during calendar year 2004. A summary of historic taxable sales within the County is shown in the following table.

**SAN MATEO COUNTY
TAXABLE RETAIL SALES
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)**

<u>Year</u>	<u>Retail Stores</u>			<u>Total All Outlets</u>		
	<u>Number of Permits</u>	<u>Taxable Transactions</u>	<u>% Change</u>	<u>Number of Permits</u>	<u>Taxable Transactions</u>	<u>% Change</u>
2001	7,813	\$8,215,567	--	21,287	\$12,859,589	--
2002	7,982	7,700,365	-6.3%	21,101	11,614,809	-9.7%
2003	8,681	7,701,536	0.0%	21,531	11,358,439	-2.2%
2004	8,795	8,088,935	5.0%	21,475	11,808,074	4.0%
2005	9,282	8,495,119	5.0%	21,440	12,451,350	5.4%

Source: State Board of Equalization.

The following table lists the major employers within the County as of January 2007.

SAN MATEO COUNTY
Major Employers (Listed Alphabetically)

Employer Name	Location	Industry
Applied Biosystems	Group Foster City	Laboratory Analytical Instruments (Mfrs)
Bay Meadows Racecourse	San Mateo	Horse Racing
Cingular Wireless	South San Francisco	Cellular Telephones (Services)
College Of San Mateo	San Mateo	Schools-Universities & Colleges Academic
Dochs Seton Medical Ctr	Daly City	Hospitals
Electronic Arts Inc	Redwood City	Electronic Equipment & Supplies-Retail
Fast Office Networks Inc	San Mateo	Real Estate Management
Franklin Resources Inc	San Mateo	Holding Companies (Bank)
Franklin Templeton Svc Inc	San Mateo	Financial Advisory Services
Franklin Trust Co	San Mateo	Mutual Funds
Genentech Inc	South San Francisco	Commercial Physical Research
Gilead Sciences Inc	Foster City	Pharmaceutical Research Laboratories
Health Resource Ctr	Daly City	Services Nec
Just Water Heaters Inc	San Mateo	Plumbing Contractors
Kaiser Permanente Medical Ctr	Redwood City	Hospitals
Mills-Peninsula Health Svc	Burlingame	Hospitals
Oracle Corp	Redwood City	Computer Software-Manufacturers
San Mateo County Offices	San Mateo	Physicians & Surgeons
Seton Medical Ctr	Daly City	Hospitals
Siebel Systems Inc	Redwood City	Computer Software-Manufacturers
Sri Consulting Business	Menlo Park	Laboratories-Research & Development
Sri International Inc	Menlo Park	Physicians & Surgeons Equip & Supls-Mfrs
Us Interior Dept	Menlo Park	Federal Government-Conservation Depts
Visa International Svc Assn	San Mateo	Credit Card & Other Credit Plans
Visa Usa Inc	Foster City	Marketing Programs & Services

Source: State of California Employment Development Department; compiled from America's Labor Market Information System Employer Database, 2007 1st Edition.

APPENDIX D

FORM OF SPECIAL COUNSEL OPINION

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APPENDIX D

FORM OF SPECIAL COUNSEL OPINION*

[DATED THE DATE OF DELIVERY]

Board of Trustees of the
City of Pacifica

Final Opinion: \$_____ Certificates of Participation (2008 Conversion of 2006 Auction Rate Certificates) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be made by the City of Pacifica (San Mateo County, California) As the Rental for Certain Property Pursuant to a Lease Agreement with the City of Pacifica

Members of the Board of Trustees:

We have acted as Special Counsel in connection with the delivery by the City of Pacifica (the "City"), of its \$_____ Lease Agreement, dated as of May 1, 2006, by and between the City of Pacifica (the "City") and the City of Pacifica Financing Authority (the "Authority") (the "Original Lease"), as amended by that certain Amendment to Lease Agreement dated as of _____ 1, 2008 ("Amendment to Lease Agreement"; together with the Original Lease collectively referred to as, the "Lease Agreement"), pursuant to the California Education Code. The Authority has, pursuant to the Assignment Agreement, dated as of May 1, 2006 (the "Assignment Agreement"), by and between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee"), assigned certain of its rights under the Original Lease, including its right to receive a portion of the lease payments made by the City thereunder (the "Lease Payments"), to the Trustee. Pursuant to the Amended and Restated Trust Agreement, dated as of _____ 1, 2008, by and among the Trustee, the City and the Financing Authority (the "2008 Trust Agreement") which amends and restates in its entirety that certain Trust Agreement dated as of May 1, 2006 (the "Original Trust Agreement"; together with the 2008 Trust Agreement collectively referred to as, the "Trust Agreement") with respect to the Certificates of Participation (2006 Project) (the "Original Certificates"), the Trustee has executed and delivered certificates of participation (the "2008 Certificates"; together with the Original Certificates referred to collectively as, the "Certificates") evidencing direct, undivided fractional interests of the owners thereof in the Lease Payments. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

Factual Examination

As to questions of fact material to our opinion, we have relied upon representations and certifications of the City including, but not limited to representations

*Preliminary, subject to change

and certifications contained in the Lease Agreement and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

In such connection, we have reviewed the Trust Agreement, the Lease Agreement and the Arbitrage Certificate dated the date hereof (the "Arbitrage Certificate"), executed by the City, opinions of counsel to the City and the Authority, the Trustee and the Certificate Insurer, certificates of the City, the Trustee, the Authority and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The interest rate and certain agreements and requirements contained or referred to in the Trust Agreement, the Lease Agreement, the Arbitrage Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest with respect thereto if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City (and, for purposes of the opinion numbered 3 below, the Authority).

Scope of Inquiry; Certain Qualifications and Assumptions

We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Lease Agreement and the Arbitrage Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Certificates to be included in gross income for federal income tax purposes. We have assumed that the Assignment Agreement, the Original Trust Agreement and the Original Lease are valid, binding and enforceable in accordance with their terms. We call attention to the fact that the rights and obligations under the Certificates, the Trust Agreement, the Lease Agreement, the Assignment Agreement and the Arbitrage Certificate and their enforceability 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 and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Opinion.

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

1. The City is validly existing as a City organized and existing under the laws of the State of California with the power to enter into the Amendment to Lease Agreement and the 2008 Trust Agreement and to perform the agreements on its part contained therein.

2. The Amendment to Lease Agreement has been duly authorized, executed and delivered by the City and is an obligation of the City valid, binding and enforceable against the City in accordance with its terms.

3. Subject to the terms and provisions of the Lease Agreement, the Lease Payments to be made by the City are payable from general funds of the City lawfully available therefor. By virtue of the Assignment Agreement, the owners of the Certificates are entitled to receive their fractional share of the Lease Payments in accordance with the terms and provisions of the Trust Agreement.

4. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates 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 sentences are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the delivery of the Lease Agreement in order that such interest 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 such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Lease Agreement. We express no opinion

regarding other tax consequences arising with respect to the Lease Agreement and the Certificates or to the ownership or disposition of, or the accrual or receipt of interest on, the Certificates. We express no opinion with respect to the federal income tax consequences of any payments received with respect to the Certificates following termination of the Lease Agreement as a result of non-appropriation of funds or the occurrence of an event of default thereunder.

5. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

We express no opinion with respect to laws becoming effective after the date hereof or the effect or applicability of the laws of other jurisdictions. This opinion relates only to matters as of the date hereof, and we express no opinion with respect to any transaction, transfer, conveyance, obligation or performance occurring after the date hereof. We disclaim any obligation to advise you of any events occurring or coming to our attention or any developments in areas covered by this opinion that occur after the date of this opinion.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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APPENDIX E

\$**, ***, ***

**CERTIFICATES OF PARTICIPATION
(2008 Conversion of 2006 Auction Rate Certificates)
Evidencing Direct, Undivided Fractional Interests
of the Owners Thereof in Lease Payments
to be made by the
CITY OF PACIFICA
As the Rental for Certain Property
Pursuant to a Lease Agreement with the
CITY OF PACIFICA FINANCING AUTHORITY**

CONTINUING DISCLOSURE AGREEMENT*

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Certificate") is executed and delivered by the **CITY OF PACIFICA** (the "City") in connection with the execution and delivery of \$**, ***, ***, City of Pacifica Certificates of Participation (2008 Conversion of 2006 Auction Rate Certificates) (the "Certificates"). The Certificates are being executed and delivered pursuant to an Amended and Restated Trust Agreement, dated as of August 1, 2008, by and among **DEUTSCHE BANK NATIONAL TRUST COMPANY**, as Trustee, the City and the City of Pacifica Financing Authority (the "Trust Agreement"). The City covenants and agrees as follows:

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

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

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Dissemination Agent" shall mean Deutsche Bank National Trust Company, or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Participating Underwriter" shall mean Nollenberger Capital Partners, Inc., as original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"Repository" shall mean each National Repository and each State Repository.

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

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall or shall direct the Dissemination Agent to, not later than nine months (_____) after the end of the City’s Fiscal Year (which fiscal year currently ends on _____) commencing with the report for the 2006-2007 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate with a copy to the Trustee. Not later than fifteen (15) Business Days before said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report. The Annual Report shall be submitted as a single document or as separate documents comprising a package, and shall include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City 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 not available by that date. 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) hereof.

(b) If the City is unable to provide to the Repositories or to the Dissemination Agent an Annual Report by the date required in subsection (a), the City shall send a notice, or direct the Dissemination Agent to send a notice, to the Municipal Securities Rulemaking Board and each State Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) if the Dissemination Agent is other than the City and has been directed to file the Annual Report pursuant to Section 3(a) hereof, the Dissemination Agent shall file a report with the City certifying whether the Annual Report has been filed pursuant to this Disclosure Certificate, stating the date it was filed and listing all the Repositories with which it was filed.

Section 4. Content of Annual Reports. The City’s Annual Report shall be in a format suitable for filing with each Repository and shall contain or incorporate by reference the following:

(a) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the

Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the City for preceding Fiscal Year, substantially similar to that provided in the official statement for the Certificates.

Any or all of the items listed above shall be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material information, if any, as shall 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 Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events (the "Listed Events") with respect to the Certificates, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled bond calls.
- (ix) Defeasances.

(x) Release, substitution, or sale of property securing repayment of the securities.

(xi) Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, within ten (10) days, determine if such event would be material under applicable Federal securities law. The Trustee or the Dissemination Agent shall have no role or any responsibility for such determination.

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Certificates pursuant to the Trust Agreement.

Section 6. Termination of Reporting Obligation. The City's, the Trustee's and the Dissemination Agent's If different obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs before the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under *Section 5(c)* hereof.

Section 7. Dissemination Agent. The City shall, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and shall discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent, if other than the City, shall not be responsible in any manner for the format or content of any notice or Annual Report prepared by the City pursuant to this Disclosure Certificate. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any papers or any further act. The initial Dissemination Agent shall be Deutsche Bank National Trust Company. The Dissemination Agent shall resign, with or without appointment of a successor Dissemination Agent, upon thirty days prior notice to the City. The Dissemination Agent shall be entitled to reasonable compensation for its services hereunder and reimbursement of its out-of-pocket expenses including, but not limited to, attorneys' fees. The Dissemination Agent shall (i) consult with and rely upon an opinion of counsel as a cost of its performance in connection with any action or in action requested or required by the City with respect to disclosure matters and (ii) conclusively rely upon any certificate or certification presented to it for action by the City.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City shall amend this Disclosure Certificate, and any provision of this Disclosure Certificate shall be waived, if the following conditions are satisfied provided neither the Trustee nor the Dissemination Agent shall be obligated to enter into any amendment expanding the scope of their respective duties and obligations hereunder:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it shall 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 Certificates, or type of business conducted;

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

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

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

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c) hereof.

Section 9. 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 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Trustee but only to the extent of payment of its fees and expenses and receipt of satisfactory indemnity as set forth in the Trust Agreement, at the request of any Participating Underwriter or the holders of at least twenty-five (25%) in aggregate principal amount of Outstanding Certificates, shall, or any holder or beneficial owner of the Certificates shall take such actions as shall 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. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and 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 11. Duties, Immunities and Liabilities of Dissemination Agent. Article VIII of the Trust Agreement is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Trust Agreement and the Dissemination Agent and Trustee shall be entitled to the benefits, protections and provisions thereof to the same extent as the Trustee. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, 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 shall incur arising out of or in the exercise or performance of its powers and duties hereunder, including, but not limited to, the costs and expenses (including attorneys fees of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Such indemnity shall be separate from and in addition to that provided to the Trustee under the Trust Agreement. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent, payment of the Certificates and termination of this Disclosure Certificate pursuant to *Section 6* hereof. The Dissemination Agent shall have no liability for failure to report any event or item of financial information as to which the City has not provided it in an information report in format suitable for filing with the Repositories. The Dissemination Agent shall have no obligation or liability for the accuracy or completeness of any Annual Report or report of materiality under *Section 5(b)* hereof and shall not be deemed to be acting in any fiduciary capacity hereunder for the City or for any Certificate owner.

Section 12. Fees. The City shall compensate and reimburse the Dissemination Agent within thirty (30) days of receipt of an invoice for such compensation and reimbursement.

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

Date: August __, 2008

CITY OF PACIFICA

By: _____
_____, Secretary

ACKNOWLEDGED:

DEUTSCHE BANK NATIONAL
TRUST COMPANY,
as Dissemination Agent

By: _____
Carl Becker, Authorized Officer

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD AND EACH STATE
REPOSITORY OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Pacifica

Name of Issue: \$_____ Certificates Of Participation (2008 Conversion of 2006 Auction Rate Certificates) Evidencing Direct, Undivided Fractional Interest Of The Owners Is Lease Payments To Be Made By City of Pacifica, As The Rental For Certain Property Pursuant To A Lease Agreement With City of Pacifica Financing Authority

Date of Issuance: _____, 2008

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Certificates as required by Section 3 of the continuing disclosure undertaking entered into by the Issuer on _____, pursuant to Section 10.12 of the Trust Agreement dated as of _____ 1, 2008, by and among Deutsche Bank National Trust Company, as trustee, the City and the City of Pacifica Financing Authority. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF PACIFICA

By: _____,
_____, Secretary

cc: Trustee

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APPENDIX F

SPECIMAN CERTIFICATE INSURANCE POLICY

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Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

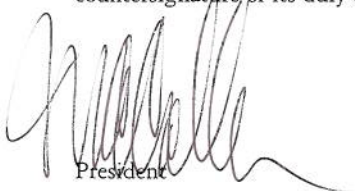
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Form No.: 2B-0012 (1/01)

Authorized Officer of Insurance Trustee

Endorsement

Policy for:

Attached to and forming part of Policy No.:

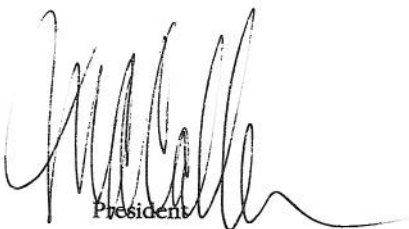
Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative

