

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY ___, 2016

NEW ISSUE – FULL BOOK-ENTRY

**RATING: Standard & Poor's: “___”
See “RATING”**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Bonds 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. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See the caption “TAX MATTERS” with respect to tax consequences relating to the Bonds.

\$13,010,000*

**FOUNTAIN VALLEY PUBLIC FINANCING AUTHORITY
Lease Revenue Bonds, Series 2016A**

Dated: Date of Delivery

Due: November 1, as shown on the inside cover page

Authority for Issuance. The bonds captioned above (the “Bonds”) are being issued by the Fountain Valley Public Financing Authority (the “Authority”) under a resolution adopted by the Board of Directors of the Authority and an Indenture dated as of February 1, 2016 (the “Indenture”) by and among the Authority, the City and U.S. Bank National Association, as trustee (the “Trustee”). See “THE BONDS – Authority for Issuance.”

Use of Proceeds. The Bonds are being issued to (a) refinance outstanding lease obligations of the City and the related Certificates of Participation, (b) finance the acquisition and construction of improvements in the City, and (c) to pay the costs of issuing the Bonds. See “THE FINANCING PLAN.” The Authority is not funding a debt service reserve fund for the Bonds.

Security for the Bonds. Under the Indenture, the Bonds are payable from and secured by a first pledge of and lien on Base Rental Payments (as defined in this Official Statement) received by the Authority under the Lease Agreement dated as of February 1, 2016 (the “Lease”), between the Authority, as lessor, and the City of Fountain Valley (the “City”), as lessee, as further described in this Official Statement. The Bonds are also secured by certain funds on deposit under the Indenture. See “SECURITY FOR THE BONDS.”

Bond Terms; Book-Entry Only. The Bonds will bear interest at the rates shown on the inside cover page, payable semiannually on May 1 and November 1 of each year, commencing on May 1, 2016, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See “THE BONDS – General Provisions.”

Redemption. The Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary mandatory redemption prior to maturity. See “THE BONDS – Redemption.”

NEITHER THE BONDS, NOR THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL THEREOF OR INTEREST THEREON, NOR THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS, CONSTITUTE A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF BASE RENTAL PAYMENTS AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

MATURITY SCHEDULE
(See Inside Cover Page)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE BONDS.

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will also be passed upon for the Authority and the City by Best Best & Krieger LLP, as Disclosure Counsel. The Underwriter is being represented by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California. Certain legal matters will be passed upon for the City by the City Attorney. It is anticipated that the Bonds will be delivered in book-entry form through the facilities of DTC on or about February ___, 2016.

Raymond James

Date: January ___, 2016

* Preliminary, subject to change.

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

MATURITY SCHEDULE*

\$13,010,000* Serial Bonds
(Base CUSIP[†]: _____)

<u>Maturity Date (November 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP[†]</u>
2016	\$435,000				
2017	440,000				
2018	455,000				
2019	470,000				
2020	485,000				
2021	500,000				
2022	520,000				
2023	545,000				
2024	560,000				
2025	580,000				
2026	605,000				
2027	630,000				
2028	655,000				
2029	685,000				
2030	710,000				
2031	730,000				
2032	750,000				
2033	775,000				
2034	800,000				
2035	825,000				
2036	855,000				

* Preliminary, subject to change.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of American Bankers Association by S&P Capital IQ. Copyright© 2016 CUSIP Global Services. All rights reserved. This data is not intended to create a database and does not serve in any way a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. The City of Fountain Valley and the Underwriter do not take any responsibility for the accuracy of the CUSIP® numbers.

**FOUNTAIN VALLEY PUBLIC FINANCING AUTHORITY
CITY OF FOUNTAIN VALLEY**

**BOARD OF DIRECTORS
OF THE AUTHORITY AND MEMBERS OF THE CITY COUNCIL**

Cheryl Brothers, Mayor
John Collins, Mayor Pro Tem
Mark McCurdy, Council Member
Michael Vo, Council Member
Steve Nagel, Council Member

CITY OFFICERS

Bob Hall, City Manager
David D. Cain, Director of Finance/City Treasurer
Teresa Gonzales, Accounting Manager
Rick Miller, City Clerk

FINANCING SERVICES

Bond Counsel

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

Disclosure Counsel

Best Best & Krieger LLP
Riverside, California

Counsel to the City

Harper & Burns LLP
Orange, California

Municipal Advisor

Urban Futures, Inc.
Orange, California

Trustee

U.S. Bank National Association
Los Angeles, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

Estimates and Forecasts. When used in this Official Statement 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, 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. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the City since the date hereof.

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

Limited Scope of Information. The City has obtained certain information set forth herein from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor to be construed as a representation of such by the City. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used herein, unless noted otherwise, have the meanings given in the Indenture.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Stabilization of Prices. In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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

The City maintains a website; however, the information presented there is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

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OFFICIAL STATEMENT

\$13,010,000*
FOUNTAIN VALLEY PUBLIC FINANCING AUTHORITY
Lease Revenue Bonds, Series 2016A

INTRODUCTION

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

Capitalized terms used but not defined in this Official Statement have the meanings set forth in the Indenture (as defined below). See “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Authority for Issuance. The Fountain Valley Public Financing Authority (the “Authority”) is issuing the bonds captioned above (the “Bonds”) under the following:

- (a) the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with Section 6584) of Chapter 5, Division 7, Title 1 of the California Government Code (the “Law”),
- (b) a resolution adopted by the Board of Directors (the “Board”) of the Authority adopted on January 19, 2016 (the “Authority Resolution”), and a resolution adopted by the City Council (the “City Council”) of the City of Fountain Valley (the “City”) on January 19, 2016 (the “City Resolution”), and
- (c) an Indenture (the “Indenture”) dated as of February 1, 2016, by and among the Authority, the City and U.S. Bank National Association, as trustee (the “Trustee”).

The Authority. The Authority is a joint powers authority formed under a Joint Exercise of Powers Agreement dated as of August 1, 2014, between the City and the Fountain Valley Housing Authority, and under Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended, for the purpose, among others, of having the Authority provide financial assistance to the City by entering into, among other arrangements, lease/leaseback transactions with the City. See “THE AUTHORITY” herein.

The City. The City is located in central Orange County approximately thirty-five miles southeast of downtown Los Angeles. The City encompasses an area of approximately 9 square miles and has an estimated population of 56,702 as of January 1, 2014. See “APPENDIX D - GENERAL INFORMATION ABOUT THE CITY OF FOUNTAIN VALLEY AND ORANGE COUNTY.”

Form of Bonds; Book-Entry Only. The Bonds will be issued in fully registered form, registered in the name of The Depository Trust Company, New York, New York (“DTC”), or its nominee, which will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds that are purchased. See “THE BONDS - Book-Entry Only System” and “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

* Preliminary, subject to change.

Purpose of the Bonds. The Bonds are being issued to provide funds to (a) refinance the City of Fountain Valley 2003 Certificates of Participation (Capital Improvement Projects) (the “2003 Certificates”) and the related lease payment obligations of the City, (b) finance the acquisition and construction of public capital improvements selected by the City, and (c) pay the costs of issuing the Bonds.

Security for the Bonds and Pledge of Revenues. Under the Indenture, the Bonds are payable from and secured by a first pledge of and lien on the “Base Rental Payments” (as defined in this Official Statement) received by the Authority under the Lease Agreement dated as of February 1, 2016 (the “Lease”), between the Authority, as lessor, and the City, as lessee. The Bonds are also secured by certain funds on deposit and held under the Indenture. See “SECURITY FOR THE BONDS.”

The City and the Authority will enter into a Ground Lease dated as of February 1, 2016 (the “Ground Lease”), under which the City will lease certain real property to the Authority, consisting of a City Hall, the Police Department facility and the City Corporate Yard (collectively, the “Property”), as described in “THE PROPERTY,” in return for an upfront rental payment. Concurrently, the City and the Authority will enter into the Lease, under which the Authority will lease the Property back to the City in return for the annual Base Rental Payments. See “SECURITY FOR THE BONDS.”

No Reserve Fund. The Authority will not fund a debt service reserve fund for the Bonds.

Redemption. The Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary mandatory redemption prior to their stated maturity dates. See “THE BONDS – Redemption.”

Abatement. The Base Rental Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the City’s use and possession of the Property or any portion thereof. If the Base Rental Payments are abated under the Lease, the Bond Owners would receive less than the full amount of principal of and interest on the Bonds. If proceeds of rental interruption insurance are available, then Base Rental Payments (or a portion thereof) may be made from those proceeds during periods of abatement. See “SECURITY FOR THE BONDS – Abatement” and “- Insurance – Rental Interruption Insurance,” and “BOND OWNERS’ RISKS.”

Risks of Investment. Debt service on the Bonds is payable only from Base Rental Payments and other amounts payable by the City to the Authority under the Lease. For a discussion of some of the risks associated with the purchase of the Bonds, see “BOND OWNERS’ RISKS.”

NEITHER THE BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, NOR THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS, CONSTITUTE A DEBT OR A LIABILITY OF THE AUTHORITY, THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE CITY. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF BASE RENTAL PAYMENTS AND CERTAIN FUNDS HELD UNDER THE INDENTURE. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE CITY.

THE FINANCING PLAN

Refinancing of 2003 Certificates

The Authority is selling the Bonds to provide moneys to refund the City’s obligations under a Lease/Purchase Agreement dated as of June 1, 2003 (the “2003 Lease”) between the Authority and the City, and thereby provide moneys to refund the 2003 Certificates, which were issued in the original principal amount of \$13,270,000 and are currently outstanding in the amount of \$7,675,000.

A portion of the proceeds of the Bonds, together with certain moneys on deposit with the Trustee for the 2003 Certificates, will be used on the date of original issuance of the Bonds (the "Closing Date") to establish an escrow fund (the "Escrow Fund") for the 2003 Certificates and the City's lease payment obligations under the 2003 Lease, to be held in trust by MUFG Union Bank, N.A., acting as escrow agent for the 2003 Certificates (the "Escrow Bank") under an Escrow Agreement by and between the City and the Escrow Bank, dated as of February 1, 2016 (the "Escrow Agreement"). Amounts so deposited with the Escrow Bank will be invested in Federal Securities and will be in an amount that is sufficient to pay the principal and interest with respect to the 2003 Certificates coming due and payable through and including the date on which the 2003 Certificates are called for prepayment, and the prepayment price of the remaining 2003 Certificates called for prepayment. Pursuant to the Escrow Agreement, the City will irrevocably elect to call the 2003 Certificates for prepayment in full on March ___, 2016, at a prepayment price equal to the principal amount of the outstanding 2003 Certificates outstanding and accrued interest represented thereby through the prepayment date, without premium.

Upon deposit of such proceeds and other moneys into the Escrow Fund, the City's obligations under the 2003 Lease will be satisfied and discharged, and the 2003 Certificates will no longer be deemed outstanding and will be fully discharged and defeased in accordance with the documents relating to the issuance of the 2003 Certificates.

Sufficiency of the deposits in the Escrow Fund for such purposes will be verified by Grant Thornton LLP (the "Verification Agent").

The amounts held by the Escrow Bank in the Escrow Fund are pledged solely to the payment of the 2003 Certificates. The funds deposited in the Escrow Fund will not be available for the payment of debt service with respect to the Bonds.

Project Financing

A portion of the proceeds of the Bonds will be used to finance the improvement of two storm water pump stations of the City: the Sandalwood Pump Station and Walnut Pump Station. The Sandalwood Pump Station is located on the corner of Sandalwood St. and Heil Ave. and the estimated cost to upgrade the pump station is \$3.5 million. Storm water is conveyed to the Sandalwood Pump Station via a 42" and a 30" storm drain. The pump station was originally constructed in 1965 with two pumps powered by natural gas engines and was enlarged in 1979 to its current three (3) pump configuration. The station consists of a small block building which houses the natural gas engines, engine controllers and pump controls; a below-ground sump; and a paved yard which is completely enclosed by a block wall.

Improvements to the Sandalwood Pump Station will involve updates to the existing building, new engines and pumps, and relocating interior mechanical and electrical controls to accommodate the facility improvements. Engine exhaust emissions level regulations have changed, engine models and types have changed, emission controls have changed, station controls are several generations modernized and other aspects of the station improvements need to be revisited for compliance with regulatory requirements. One major update will be that the federal Clean Water Act regulations now require dry weather storm drain catch basin discharge flows (nuisance water) to be diverted into a sanitary sewer. Additionally, it will be necessary to update the previously prepared construction documents to address code revisions, changes to specified equipment and changed site conditions prior to soliciting bids from contractors.

The Walnut Pump Station is located at the intersection of Cockatoo Avenue and Walnut Street adjacent to the Talbert Channel. The estimated cost to complete such pump station upgrade is \$3.5 million. The pump station yard needs repaving due to cracked, failing pavement. The block wall near the drainage channel also needs repair. The existing block building is in poor condition, needing a complete remodel, including: seismic upgrade, stucco finish on existing block building, new mansard style roof structure (building has had termites in the past) with removable skylights to facilitate pump removal, new larger acoustical louvers, new doors,

reconfiguration of the floor drain system to drain away from the storm water sump instead of into it, new lighting, new underground electrical service, new electrical panels, and new instrumentation (SCADA). The existing storm water sump structure appears to be in serviceable condition however some minor repairs to the concrete walls and floor are needed. The grating and the ladders require replacement due to severe corrosion. The existing wood trash rack is in poor condition and should be replaced with a new 304 stainless steel trash rack. Two (2) of the three (3) Roline Model H884 V8, natural gas engines appear to be operational at this time, however engine No. 1 is hard to start and needs remedial work. All three of these engines have exceeded the normal life expectancy of 40 years for this type of application, and spare parts for these engines are not available. It is anticipated that three (3) will be replaced.

The City may use proceeds of the Bonds deposited in the Construction Fund for other capital projects listed in the City’s Capital Improvement Program. Costs to improve the two pump stations which are not paid from the proceeds of the Bonds will be paid from funds on hand with the City.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds relating to the Bonds are as follows:

Sources:	
Principal Amount of Bonds	\$ _____
Plus (Less): Original Issue Premium (Discount)	_____
Plus 2003 Certificates Available Funds	_____
TOTAL SOURCES:	\$ _____
Uses:	
Escrow Fund ⁽¹⁾	\$ _____
Construction Fund	_____
Costs of Issuance Fund ⁽²⁾	_____
Underwriter’s Discount	_____
TOTAL USES:	\$ _____

⁽¹⁾ To be applied to refinance the 2003 Certificates as described above.
⁽²⁾ Represents funds to be used to pay Costs of Issuance, which include legal fees, printing costs, title insurance, rating agency fees and other costs of issuing the Bonds.

THE PROPERTY

Under the terms of the Ground Lease, the City will lease the Property to the Authority. Under the terms of the Lease, the Authority will concurrently lease the Property back to the City. Under the Lease, the City and the Authority have agreed and determined that the Lease Payments required to be made under the Lease represent the fair rental value of the Property. The Property, which has an estimated replacement value of approximately \$16.2 million, consists of the following:

City Hall. The City Hall is situated near the southwest corner of Slater Avenue and Los Alamos Street. Originally constructed in 1964, the building then contained 10,794 square feet. Today, after many renovations and additions the building contains 24,170 square feet. Included in the building are all of the managerial departments of the City, the City Council Members' offices and council chambers. The basic construction of the structure is concrete foundation and floor, stucco over brick exterior walls, drywall interior walls, dropped “T” bar suspended ceilings and a flat roof. The entire building is protected with fire sprinklers, and is heated and air-conditioned. The most recent renovation was completed in 1991. The City Hall site contains 155,317 square feet or 3.566 acres. The current estimated replacement value is \$4,021,227.

Police Department. The Police Department is located west of the City Hall, approximately 500 feet west of the southwest corner of Slater Avenue and Los Alamos Street. Originally constructed in 1983, the Police Department contains 30,251 square feet of office area over a single level of parking. Total building area including the parking level is 61,950 square feet. The basic construction of the structure is concrete foundation

and floors, stucco and brick finished over concrete exterior walls, drywall interior walls, dropped “T” bar suspended ceilings and a flat roof. The entire building is protected with fire sprinklers, and is heated and air-conditioned. The Police Department site contains 44,344.1 square feet or 1.018 acres. The current estimated replacement value is \$7,967,542.

Corporate Yard. The Corporate Yard is located at the northeast end of Mt. Hermann Street, north of Slater Avenue. This property was acquired by the City in 1996 and was then extensively remodeled. The original building was constructed in 1989. Today, after the City's acquisition and renovation, the building contains 29,856 square feet. The total office area contained within the building is 11,608 square feet. The basic construction of the structure is concrete foundation and floors, concrete block exterior walls, drywall interior walls, dropped “T” bar suspended ceilings and a flat roof. The entire building is protected with fire sprinklers, and the office area is heated and air-conditioned. The corporate yard site contains 186,165.6 square feet or 4.27 acres. The current estimated replacement value is \$4,209,055.

Changes to Property

Under the Lease, the City has the right, at its expense, to make additions, modifications and improvements to the Property. To the extent that the removal of such additions, modifications or improvements would not cause material damage to the Property, such additions, modifications and improvements shall remain the sole property of the City and neither the Authority nor the Trustee has any interest therein. Such additions, modifications and improvements shall not in any way damage the Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Property, upon completion of any additions, modifications and improvements made pursuant to the Lease, shall be of a value which is at least equal to the value of the Property immediately prior to the making of such additions, modifications and improvements.

The City may install or permit to be installed other items of equipment or other personal property in or upon the Property. All such items will remain the sole property of the City and may be modified or removed by the City at any time, provided that the City must repair all damage to the Property resulting from the installation, modification or removal of any such items.

Substitution or Release of the Property

The City has the right to substitute alternate real property for all or any portion of the Property or to release a portion of the Property from the Lease. All costs and expenses incurred in connection with such substitution or release shall be borne by the City. Notwithstanding any substitution or release of Property pursuant to the provisions of the Lease, there shall be no reduction in or abatement of the Base Rental Payments solely as a result of such substitution or release. Any such substitution or release of any portion of the Property is subject to the following specific conditions precedent:

- (a) the City has found (and delivered a certificate to the Trustee setting forth such findings) that the Property, as constituted after such substitution or release, (i) has an annual fair rental value at least equal to the maximum Base Rental Payments payable by the City in any twelve-month period commencing on November 2 of each year during the term of the Lease (each, a “Rental Period”), and (ii) has a useful life in excess of the final maturity of any outstanding Bonds;
- (b) the City has obtained or caused to be obtained a CLTA or ALTA title insurance policy or policies with respect to any substituted property in the amount at least equal to the aggregate principal amount of any Outstanding Bonds of the type and with the endorsements as set forth in the original title insurance policy which is delivered with respect to the Bonds;

- (c) the City has provided the Trustee with an opinion of bond counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;
- (d) the City, the Authority and the Trustee have executed, and the City has caused to be recorded with the Orange County Recorder, any document necessary to reconvey to the City the portion of the Property being released and to include any substituted real property in the description of the Property contained in the Lease and the Ground Lease;
- (e) the City has provided notice of such substitution to each rating agency then rating the Bonds;
- (f) no event of default under the Lease shall have occurred and be continuing;
- (g) the City shall give, or cause to be given, any notice of the occurrence of such substitution required to be given pursuant to the Continuing Disclosure Certificate;
- (h) the City shall certify to the Trustee that the City has a current need for the substituted real property; and
- (i) the City shall certify to the Trustee that any substitution will not cause the City to violate any of its covenants, representations and warranties made in the Lease.

THE BONDS

This section provides summaries of the Bonds and certain provisions of the Indenture. See APPENDIX A for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Authority for Issuance

The Bonds are being issued under the Law, the Authority Resolution (which was adopted by the Board of the Authority on January 19, 2016), the City Resolution (which was adopted by the City Council on January 19, 2016), and the Indenture. Under the Authority Resolution and the City Resolution, the Bonds may be issued in a principal amount not to exceed \$16,200,000.

General Provisions

Bond Terms. The Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000 (each, an “Authorized Denomination”). The Bonds will mature in the amounts and on the dates, and bear interest at the annual rates, set forth on the inside cover page of this Official Statement.

Payments of Principal and Interest. Interest on the Bonds will be payable on May 1 and November 1 in each year, beginning May 1, 2016 (each an “Interest Payment Date”).

While the Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See “– Book-Entry Only System” below.

Interest on the Bonds will be computed on the basis of a 360-day year composed of 12 months of 30 days each. Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless (i) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the 15th calendar day of the month immediately preceding such Interest Payment Date (each, a “Record Date”), in which event it will bear interest from such Interest Payment Date, (ii) a Bond is

authenticated on or before the first Record Date, in which event interest thereon is payable from the Closing Date, or (iii) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon is payable from the date to which interest has been paid in full, payable on each Interest Payment Date. Interest will be paid in lawful money of the United States on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the bond registration books of the Trustee (the "Registration Books") at the close of business on the immediately preceding Record Date. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Bond Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

The principal and premium, if any, of the Bonds is payable in lawful money of the United States of America upon presentation and surrender thereof upon maturity or earlier redemption at the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as may be specified to the Authority and the City by the Trustee in writing (the "Office").

Transfer, Registration and Exchange

The following provisions regarding the exchange and transfer of the Bonds apply only during any period in which the Bonds are not subject to DTC's book-entry system. While the Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Registration Books. The Trustee will keep or cause to be kept sufficient records for the registration and transfer of ownership of the Bonds, which shall be open to inspection during regular business hours and upon reasonable notice by the City; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as described above.

Transfer. Any Bond may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds of the same series in a like aggregate principal amount, in any Authorized Denomination. The Trustee shall require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange. The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of the same series of other Authorized Denominations. The Trustee shall require the payment by the Bond Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

Limitations. The Trustee is not obligated to make any transfer or exchange of Bonds of a series during the period established by the Trustee for the selection of Bonds of such series for redemption, or with respect to any Bonds of such series selected for redemption.

Redemption

Optional Redemption. The Bonds maturing on or before November 1, 20__, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after November 1, 20__, are subject to optional redemption in whole, or in part on any date on or after November 1, 20__, in Authorized Denominations, from and to the extent of prepaid Base Rental Payments paid pursuant to the Lease, at a

Redemption Price equal to the principal amount of the Series 2016A Bonds to be redeemed, plus accrued interest thereon to the date of redemption.

Mandatory Sinking Fund Redemption. The Bonds maturing on November 1, 20__ and November 1, 20__ (the “Term Bonds”), are subject to mandatory sinking fund redemption in part (by lot) on each November 1 on and after November 1, 20__ and November 1, 20__, respectively, in integral multiples of \$5,000 at a Redemption Price of the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, in accordance with the following schedule:

**Mandatory Sinking Fund Redemption of
Bonds Maturing November 1, 20__**

Redemption Date (<u>November 1</u>)	Sinking Fund <u>Redemption</u>
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**Mandatory Sinking Fund Redemption of
Bonds Maturing November 1, 20__**

Redemption Date (<u>November 1</u>)	Sinking Fund <u>Redemption</u>
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If some but not all of the Term Bonds have been redeemed pursuant to optional redemption, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments on such basis as the Authority may designate (as directed by the City) in a written request of the Authority filed with the Trustee.

Extraordinary Mandatory Redemption. The Bonds are subject to redemption, in whole or in part, on any date, in Authorized Denominations, from and to the extent of any Net Insurance Proceeds received with respect to all or a portion of the Property, deposited by the Trustee in the Redemption Fund pursuant to the applicable provisions of the Indenture, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium. See “SECURITY FOR THE BONDS - Application of Net Insurance Proceeds” herein.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of a single maturity, the Trustee will select the Bonds from all Bonds not previously called for redemption: (a) with respect to any optional redemption of Bonds of a Series, among maturities of Bonds of such Series as directed in a Written Request of the Authority; (b) with respect to any extraordinary mandatory redemption pursuant to the Indenture and the corresponding provision of any Supplemental Indenture pursuant to which Additional Bonds are issued, among maturities of all Series of Bonds on a pro rata basis as nearly as practicable, and (c) with respect to any other redemption of Additional Bonds, among maturities as provided in the Supplemental Indenture pursuant to which such Additional Bonds are issued, and by lot among Bonds of the same Series with the same maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, all Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately redeemed.

Notice of Redemption. The Trustee on behalf and at the expense of the Authority will mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, to the Securities Depositories and to one or more Information Services, at least 20 but not more than 60 days prior to the date fixed for redemption.

With respect to any notice of optional redemption of Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds to be redeemed and that, if such moneys have not been so received, said notice shall be of no force and effect and the Trustee shall not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Neither the failure to receive any notice so mailed, nor any defect in such notice, shall affect the validity of the proceedings for the redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

However, while the Bonds are subject to DTC's book-entry system, the Trustee will be required to give notice of redemption only to DTC as provided in the letter of representations executed by the Authority and received and accepted by DTC. DTC and the Participants will have sole responsibility for providing any such notice of redemption to the beneficial owners of the Bonds to be redeemed. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption set forth in the Indenture.

Partial Redemption of Bonds. Upon surrender of any Bonds redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same Series in authorized denominations equal in aggregate principal amount representing the unredeemed portion of the Bonds surrendered.

Effect of Redemption. Notice having been mailed as described above, and moneys for the redemption price, and the interest to the applicable date fixed for redemption, having been set aside in the Redemption Fund, the Bonds will become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds shall be paid at the redemption price thereof, together with interest accrued and unpaid to said date.

If, on said date fixed for redemption, moneys for the redemption price of all the Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof shall have been mailed as aforesaid and not canceled, then, from and after said date, interest on said Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed without liability to such Owners for interest thereon.

All Bonds paid at maturity or redeemed prior to maturity pursuant to the provisions of the Indenture shall be canceled upon surrender thereof and destroyed.

Rescission of Redemption Notice. The Authority has the right to rescind any notice of the redemption of Bonds under the Indenture by written notice to the Trustee on or prior to the date fixed for redemption.

Any notice of redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default. The Authority and the Trustee have no liability to the

Bond Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Indenture.

Book-Entry Only System

The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co., as nominee of DTC, and will be available to ultimate purchasers in Authorized Denominations, under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM” for further information regarding DTC and the book-entry system.

DEBT SERVICE SCHEDULE

The table below shows annual debt service payments on the Bonds, assuming that there are no optional redemptions or extraordinary mandatory redemptions.

Fiscal Year			
<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>

SECURITY FOR THE BONDS

The principal of and interest on the Bonds are not a debt of the Authority or the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of their respective property, or upon any of their income, receipts, or revenues of the Authority or the City, except the Base Rental Payments and other amounts pledged under the Indenture.

This section provides summaries of the security for the Bonds and certain provisions of the Indenture, the Lease and the Ground Lease. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for a more complete summary of the Indenture, the Lease and the Ground Lease. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Pledge of Base Rental Payments

Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Base Rental Payments and all amounts (including proceeds of the sale of the Bonds) held in the Base Rental Payment Fund, the Interest Fund, the Principal Fund and the Redemption Fund established under the Indenture are pledged to secure the payment of the principal of and interest and premium (if any) on the Bonds in accordance with their terms and the provisions of the Indenture. This pledge constitutes a lien on and security interest in the Base Rental Payments and such amounts and will attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

Assignment to Trustee

Under the Assignment Agreement, the Authority will transfer to the Trustee all of its right, title and interest in and to the Ground Lease and the Lease including, without limitation, its right to receive the Base Rental Payments to be paid by the City under and pursuant to the Lease; provided, however, that the Authority shall retain its obligations under the Lease and Ground Lease, the rights to indemnification, to give approvals and consents under the Lease and the Ground Lease and to payment or reimbursement of its reasonable costs and expenses under the Lease.

The Trustee accepts the foregoing assignment, subject to the terms and provisions of the Indenture, and all such Base Rental Payments shall be applied and the rights so assigned shall be exercised by the Trustee as provided in the Lease and the Indenture.

As a result of such assignment, all Base Rental Payments will be paid directly by the City to the Trustee, and if received by the Authority at any time will be transferred by the Authority with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments received by the Trustee will be deposited by the Trustee in the Base Rental Payment Fund.

Allocation of Base Rental Payment Fund

The Trustee shall transfer the amounts on deposit in the Base Rental Payment Fund, at the times and in the manner hereinafter provided, to the following respective funds:

- (a) *Deposit to Interest Account.* On the Business Day immediately preceding each Interest Payment Date, the Trustee shall transfer from the Base Rental Payment Fund to the Interest Fund the amount, if any, necessary to cause the amount on deposit in the Interest Fund to be equal to the interest due on the Bonds on such Interest Payment Date.
- (b) *Deposit to Principal Fund.* On the Business Day immediately preceding each November 1, the Trustee shall transfer from the Base Rental Payment Fund to the Principal Fund the amount, if any, necessary to cause the amount on deposit in the Principal Fund to be equal to the principal

amount of the Bonds due on such November 1, either as a result of the maturity thereof or mandatory sinking fund redemption payments required to be made with respect thereto. Moneys in the Principal Fund will be used by the Trustee for the purpose of paying the principal of the Bonds when due and payable at their maturity dates or upon earlier mandatory sinking fund redemption.

- (c) *Deposit to Redemption Fund.* The Trustee, on the redemption date specified in the written request of the City filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease, shall deposit in the Redemption Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Additionally, the Trustee shall deposit in the Redemption Fund any amounts required to be deposited therein from the net proceeds of insurance with respect to the Property as described below. Moneys in the Redemption Fund will be used by the Trustee for the purpose of paying the principal of and interest and premium, if any, on Bonds to be redeemed under the Indenture, other than the mandatory sinking fund redemption of Term Bonds, which will be funded from amounts on deposit in the Principal Fund.

Application of Net Insurance Proceeds

Insurance Proceeds from Damage to Property. If the Property or any portion thereof is damaged or destroyed, the City shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the City elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions of the Lease.

Any insurance proceeds or condemnation award paid with respect to any of the Property (other than the proceeds of rental interruption insurance), remaining after payment therefrom of all reasonable expenses incurred in the collection thereof (the "Net Insurance Proceeds"), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof shall as soon as possible be deposited with the Trustee and be held by the Trustee in a special account and made available for and, to the extent necessary, shall be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a written request of the City, together with invoices therefor. Pending such application, such proceeds may be invested by the Trustee as directed by the City in Permitted Investments that mature not later than such times moneys are expected to be needed to pay such costs of repair or replacement.

Notwithstanding the foregoing, the City shall, within 60 days of the occurrence of the event of damage or destruction, notify the Trustee in writing as to whether the City intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the City does intend to replace or repair the Property or portions thereof, the City shall deposit with the Trustee the full amount of any insurance deductible to be credited to the special account.

If the damage, destruction or loss was such that there resulted a substantial interference with the City's right to the use or occupancy of the Property and an abatement of Rental Payments results from such damage or destruction under the Lease, then the City shall be required either to:

- (a) apply sufficient funds from the insurance proceeds and other legally available funds to the replacement or repair of the Property or the portions thereof which have been damaged to the condition which existed prior to such damage or destruction, or
- (b) apply sufficient funds from the insurance proceeds and other legally available funds to the redemption in full of all the Outstanding Bonds or all of those Outstanding Bonds which would have been payable from that portion of the Base Rental Payments which are abated as a result of the damage or destruction.

Funds to be applied to the redemption of Bonds in accordance with clause (b) above shall be deposited in the Redemption Fund. If the City is not required to replace or repair the Property, or the affected portion thereof, as set forth in clause (a) above or to use such amounts to redeem Bonds as set forth in clause (b) above, then such proceeds shall, if there is first delivered to the Trustee a written certificate of the City to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease in the then current Rental Period or any subsequent Rental Period and the fair replacement value of the Property after such damage or destruction is at least equal to the principal amount of the Outstanding Bonds, be paid to the City to be used for any lawful purpose.

Eminent Domain Proceeds. The proceeds of any award in eminent domain received in respect to the Property shall be deposited by the Trustee in the Redemption Fund and applied to the redemption of Bonds under the Indenture and the corresponding provisions of any Supplemental Indenture pursuant to which Additional Bonds are issued.

Title Insurance Proceeds. The proceeds of any policy of title insurance received by the Trustee in respect of the Property shall be applied and disbursed by the Trustee as follows:

- (a) if the City determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Rental Payments payable by the City under the Lease, such proceeds shall be remitted to the City and used for any lawful purpose thereof; or
- (b) if the City determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement of Rental Payments payable by the City under the Lease, then the Trustee shall immediately deposit such proceeds in the Redemption Fund and such proceeds shall be applied to the redemption of Bonds in the manner provided in Indenture and any Supplemental Indenture pursuant to which Additional Bonds are issued.

Rental Payments

Base Rental Payments. Under the Lease, subject to the provisions of the Lease concerning rental abatement and prepayment of Base Rental Payments, the City agrees to pay to the Authority, its successors and assigns, the Base Rental Payments in the respective amounts specified in the Lease, to be deposited with the Trustee on the respective Base Rental Deposit Dates specified in the Lease (defined as the 15th calendar day of the month immediately preceding each Interest Payment Date). Amounts required to be deposited by the City with the Trustee on any date will be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

Notwithstanding any dispute between the Authority and the City, the City will make all Base Rental Payments when due without deduction or offset of any kind and will not withhold any Base Rental Payments pending the final resolution of such dispute. In the event of a determination that the City was not liable for any Base Rental Payment or any portion thereof, said payments or excess of payments, as the case may be, will be credited against subsequent Base Rental Payments coming due under the Lease or will be refunded at the time of such determination.

Additional Rental Payments. The City also agrees under the Lease to pay the following amounts as additional rental for the right to the use and occupancy of the Property under the Lease (the "Additional Rental Payments"):

- (a) all taxes and assessments of any type or nature charged to the Authority or the City or affecting the Property or the respective interests or estates of the Authority or the City therein;

- (b) all reasonable administrative costs of the Authority relating to the Property including, but without limiting the generality of the foregoing, salaries, wages, fees and expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary and reasonable administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Indenture or the Lease or to defend the Authority and its members, officers, agents and employees;
- (c) insurance premiums for all insurance required under the Lease;
- (d) any amounts with respect to the Lease or the Bonds required to be rebated to the federal government in accordance with applicable provisions of federal tax law relating to the Bonds; and
- (e) all other payments required to be paid by the City under the provisions of the Lease or the Indenture.

Amounts constituting Additional Rental Payments payable under the Lease will be paid by the City directly to the person or persons to whom such amounts shall be payable. The City will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the City stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

The Base Rental Payments and the Additional Rental Payments (collectively, the "Rental Payments") are payable in any Rental Period are for the use of the Property during such Rental Period.

Rate on Overdue Payments. Any Rental Payment which is not paid by the City when due and payable under the terms of the Lease will bear interest from the date when the same is due thereunder until paid at the rate equal to the highest rate of interest on any of the outstanding Bonds.

Fair Rental Value. The City and the Authority have agreed and determined under the Lease that the annual fair rental value of the Property is not less than the maximum annual Rental Payments due in any year. In making such determination of fair rental value, consideration has been given to the uses and purposes that may be served by the Property and the benefits therefrom which will accrue to the City and the general public. Payments of the Rental Payments for the Property during each Rental Period shall constitute the total rental for said Rental Period.

Limited Obligation

THE OBLIGATION OF THE CITY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE CITY OR OF 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.

Source of Payments; Appropriations Covenant

The Base Rental Payments are payable from any source of available funds of the City, subject to the provisions of the Lease regarding abatement.

The City covenants to take such action as may be necessary to include all Rental Payments due under the Lease as a separate line item in its annual budgets and to make necessary annual appropriations for all such

Rental Payments. The City will deliver to the Authority and the Trustee a written certificate of the City stating that its final annual budget includes all Base Rental Payments due in such fiscal year within ten days after the filing or adoption thereof. Such covenants of the City shall be deemed to be and shall be construed to be duties imposed by law and it shall 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 the covenants and agreements in the Lease agreed to be carried out and performed by the City.

Abatement

During any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the City's right to use and occupy any portion of the Property, the Lease will continue in full force and effect but the City's obligation to make Rental Payments will be subject to abatement proportionately. The amount of such abatement will be agreed upon by the City and the Authority; provided, however, that the Rental Payments due for any Rental Period may not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the City during such Rental Period.

The City and the Authority shall calculate the amount of such abatement and shall provide the Trustee with a certificate setting forth such calculation and the basis therefor. Such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed; and the term of the Lease will be extended until the date upon which (i) all Bonds are fully paid, or provision therefor made in accordance the Indenture, or (ii) the Indenture is discharged by its terms and all Rental Payments have been paid in full. Notwithstanding the foregoing, the term of the Lease shall in no event be extended more than ten years beyond such Termination Date (the "Maximum Lease Term").

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Indenture, the Rental Payments will not be abated as described above but, rather, will be payable by the City as a special obligation payable solely from said funds and accounts.

Issuance of Additional Bonds

The Authority may at any time issue one or more series of additional bonds ("Additional Bonds") (in addition to the Bonds) payable from Base Rental Payments as provided in the Indenture on a parity with the Bonds, but only subject to the conditions set forth in the Indenture, including the following:

- (i) The Authority is in compliance with all agreements, conditions, covenants and terms contained in the Indenture, the Lease and the Ground Lease required to be observed or performed by it; and
- (ii) The Ground Lease has been amended, to the extent necessary, and the Lease has been amended so as to increase the Base Rental Payments payable by the City thereunder by an aggregate amount equal to the principal of and interest on such Additional Bonds, payable at such times and in such manner as may be necessary to provide for the payment of the principal of and interest on such Additional Bonds; provided, however, that no such amendment shall be made such that the sum of Base Rental Payments, including any increase in the Base Rental Payments as a result of such amendment, plus Additional Rental Payments, in any Rental Period shall be in excess of the annual fair rental value of the Property after taking into account the use of the proceeds of any Additional Bonds issued in connection therewith.

Insurance

Liability Insurance. The City is required under the Lease to maintain or cause to be maintained, throughout the term of this Lease, a standard commercial general liability insurance policy or policies in protection of the City, the Authority and their respective members, officers, agents and employees. Said policy or policies 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 use or ownership of the Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 per occurrence for bodily injuries to or death of one or more persons and/or property damage. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City provided such self-insurance complies with the provisions of the Lease. The Net Insurance Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the Net Insurance Proceeds of such insurance shall have been paid.

Property Insurance. The City is required to maintain or cause to be maintained, fire, lightning and special extended coverage insurance (which shall include coverage for vandalism and malicious mischief, but need not include coverage for earthquake damage) on all improvements constituting any part of the Property in an amount equal to the greater of 100% of the replacement cost of such improvements or 100% of the outstanding principal amount of the Bonds. All insurance required to be maintained pursuant to this provision may be subject to a deductible in an amount not to exceed \$500,000. Such insurance may be satisfied by self-insurance, provided such self-insurance complies with the provisions described below. All net proceeds of insurance under such policies will be deposited with the Trustee and used according to the Indenture.

Worker's Compensation Insurance. The City is also required to maintain or cause to be maintained, throughout the term of the Lease, workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the California Labor Code, or any act enacted as an amendment or supplement thereto or in lieu thereof, such workers' compensation insurance to cover all persons employed by the City in connection with the Property and to cover full liability for compensation under any such act. Such insurance may be satisfied by self-insurance, provided such self-insurance complies with the provisions described below.

Rental Interruption Insurance. The City will maintain rental interruption insurance to cover the Authority's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered under the property insurance policy which is described above, in an amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The City is not permitted to maintain rental interruption insurance through self-insurance.

Title Insurance. On the date of original delivery of the Bonds, the City will provide one or more CLTA or ALTA title insurance policies for the Property, in the aggregate amount of not less than the initial aggregate principal amount of the Bonds. Said policy or policies shall insure (a) the fee interest of the City in the Property, (b) the Authority's ground leasehold estate in the Property under the Ground Lease, and (c) the City's leasehold estate in the Property, subject only to Permitted Encumbrances as defined in the Lease. So long as any of the Bonds remain outstanding, each policy of title insurance will provide that all proceeds thereunder are payable to the Trustee for the benefit of the Bond Owners. The City is not permitted to maintain title insurance through self-insurance.

Insurance Net Proceeds; Form of Policies. The foregoing policies of insurance shall be provided by reputable insurance companies with claims paying abilities determined, in the reasonable opinion of a professionally certified risk manager or an independent insurance consultant, to be adequate for the purposes of the Lease.

The City will pay or cause to be paid when due the premiums for all insurance policies required under the Lease, and will promptly furnish or cause to be furnished evidence of such payments to the Trustee. All such policies shall provide that the Trustee is given 30 days' notice of the expiration thereof or any intended cancellation thereof. The Trustee is fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee. The City shall cause to be delivered to the Trustee on or before October 15 each year a schedule of the insurance policies being maintained in accordance with the Lease and a written certificate of the City stating that such policies are in full force and effect and that the City is in full compliance with the insurance requirements of the Lease.

Self-Insurance. Any self-insurance maintained by the City shall comply with the following terms:

- (a) in the event the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by the actuary or by an independent insurance consultant, shall be maintained; and
- (b) the self-insurance program shall include an actuarially sound claims reserve fund out of which each self-insured claim shall be paid, the adequacy of each such fund shall be evaluated periodically by an independent actuary or by an independent insurance consultant and any deficiencies in any self-insured claims reserve fund shall be remedied in accordance with the recommendation of an independent actuary or such independent insurance consultant, as applicable.

Defaults and Remedies

(a) (i) If the City shall fail: (A) to pay any Rental Payment payable under the Lease when the same becomes due and payable, time being expressly declared to be of the essence in the Lease; or (B) to keep, observe or perform any other term, covenant or condition contained in the Lease or in the Indenture to be kept or performed by the City; or (ii) upon the happening of any of the events specified in subsection (b) below, the City shall be deemed to be in default hereunder and it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease. The City shall in no event be in default in the observance or performance of any covenant, condition or agreement in the Lease on its part to be observed or performed, other than as referred to in clause (i)(A) or (ii) of the preceding sentence, unless the City shall have failed, for a period of 30 days or such additional time as is reasonably required to correct any such default after notice by the Authority to the City properly specifying the City's failure to perform any such covenant, condition or agreement. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(1) To terminate the Lease in the manner hereinafter provided on account of default by the City, notwithstanding any re-entry or re-letting of the Property as provided for in subparagraph (2) below, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City. In the event of such termination, the City agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Authority all damages recoverable at law that the Authority may incur by reason of default by the City, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Authority nor any proceeding in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Authority to protect the Authority's interest under the Lease shall of itself operate to terminate the Lease, and no termination of the Lease on account of default by the City shall be or become effective by operation of law or acts of the parties

hereto, 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. The City covenants and agrees that no surrender of the Property or of the remainder of the term of the Lease or any termination of the Lease shall be valid in any manner or for any purpose whatsoever unless stated by the Authority by such written notice.

(2) Without terminating the Lease: (i) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions of the Lease to be kept or performed by the City, regardless of whether or not the City has abandoned the Property; or (ii) to exercise any and all rights of entry and re-entry upon the Property. In the event that the Authority does not elect to terminate the Lease in the manner provided for in subparagraph (1) above, the City shall remain liable and agrees to keep or perform all covenants and conditions contained in the Lease to be kept or performed by the City and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of the Lease or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and further agrees to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as provided in the Lease for the payment of Rental Payments due under the Lease, notwithstanding the fact that the Authority may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments specified in the Lease, and notwithstanding any entry or re-entry by the Authority or suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Authority elect to re-enter as provided in the Lease, the City irrevocably appoints the Authority as the agent and attorney-in-fact of the City to re-let the Property, or any part thereof, from time to time, either in the Authority's name or otherwise, upon such terms and conditions and for such use and period as the Authority may deem advisable, to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the City, and the City hereby indemnifies and agrees to save harmless the Authority from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease. The City agrees that the terms of the Lease constitute full and sufficient notice of the right of the Authority to re-let the Property in the event of such re-entry without effecting a surrender of the Lease, and further agrees that no acts of the Authority in effecting such re-letting shall constitute a surrender or termination of the Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the City the right to terminate the Lease shall vest in the Authority to be effected in the sole and exclusive manner provided for in subparagraph (1) above. The City further agrees to pay the Authority the cost of any alterations or additions to the Property necessary to place the Property in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

The City waives any and all claims for damages caused or which may be caused by the Authority in re-entering and taking possession of the Property as provided in the Lease and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the City, or any other person, that may be in or upon the Property.

(b) If: (i) the City's interest in the Lease or any part thereof is assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority and, as provided for in the Lease; or (ii) the City or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to elect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for

a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City shall be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City shall make a general assignment for the benefit of the City's creditors; or (iii) the City shall abandon or vacate the Property, then the City shall be deemed to be in default under the Lease.

In addition to the other remedies provided in the Lease, upon the occurrence of an event of default, the Authority and its assignee shall be entitled to proceed to protect and enforce the rights vested in the Authority and its assignee by the Lease or by law. The provisions of the Lease and the duties of the City and of its city council, officers or employees shall be enforceable by the Authority or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority and its assignee shall have the right to bring the following actions:

(i) Accounting. By action or suit in equity to require the City and its city council, officers and employees and its assigns to account as the trustee of an express trust.

(ii) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Authority or its assignee.

(iii) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's or its assignee's rights against the City (and its city council, officers and employees) and to compel the City to perform and carry out its duties and obligations under the law and its covenants and agreements with the City as provided in the Lease.

Each and all of the remedies given to the Authority under the Lease or by any law now or hereafter enacted are cumulative and the single or partial exercise of any right, power or privilege under the Lease shall not impair the right of the Authority to the further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" shall include, but not be limited to, re-letting by means of the operation by the Authority of the Property. If any statute or rule of law validly shall limit the remedies given to the Authority under the Lease, the Authority nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

In the event that the Authority shall prevail in any action brought to enforce any of the terms and provisions of the Lease, the City agrees to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority.

Notwithstanding anything to the contrary contained in the Lease, the Authority shall have no right upon a default by the City to accelerate Rental Payments.

Notwithstanding anything to the contrary contained in the Lease, the termination of the Lease by the Authority and its assignees on account of a default by the City shall not effect or result in a termination of the Ground Lease.

CITY FINANCIAL INFORMATION

General

The City is a general law city that is located in the central portion of Orange County (the “County”) and covers an area of approximately 9 square miles. The City is diagonally bisected by Interstate 405, and is approximately 35 miles south of the City of Los Angeles and 6 miles inland from the Pacific Ocean. The City is largely residential but has seen a recent increase in commercial development.

The City is home to Mile Square Park, which contains 640 acres of urban parks and land, including 3 golf courses. The City has moderate weather with highs of 84 degrees in the summer and lows of 46 degrees in the winter. Average annual rainfall is 13.84 inches and distributed evenly throughout the year.

The City provides a full range of municipal services including police and fire protection, building safety, a water delivery system, sewer and storm drain maintenance, park and median landscaping, repairs of streets and sidewalks, housing and community development, and recreation and cultural services.

The City has operated under the council-manager form of government since its incorporation in 1957. Policy-making and legislative authority are vested in the City Council, consisting of five members elected at large, on a non-partisan basis, for staggered four-year terms of office. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing members to commissions and committees, and hiring the City Manager and the Attorney for the City. The City Manager is responsible for carrying out the policies and ordinances of the City Council, overseeing the day-to-day operations of the City and appointing the City’s department heads.

See “APPENDIX D - GENERAL INFORMATION ABOUT THE CITY OF FOUNTAIN VALLEY AND ORANGE COUNTY.”

City Budgets

Annual Process. The City's budget operates on a fiscal year, beginning July 1 and ending June 30. Preparation of the budget begins in January with budget training sessions. The preparation covers a period of about six months and culminates with the adoption of the budget by the City Council in June. At the budget training sessions, program managers are provided electronic files with worksheets and instructions for calculating and completing the required information. The forms are explained, questions are answered, and any change in format from the previous year is discussed.

Except for personnel costs and internal service fund charges, which are all completed by the Finance Department, appropriations for all the operating programs for the following year remain at the current year funding levels without factoring in a percentage of change. Any requests for increases in operating budgets is discussed in the budget hearings between Finance, the City Manager, and the requesting departments. Increases are only granted after an extensive review process.

Personnel costs are adjusted pursuant to the memorandum of understanding with each bargaining group. See “– Employee Relations.” Internal service fund operating and capital costs are allocated to every program in the budget based on formulas determined by the internal service fund managers. The managers responsible for internal service funds complete their estimates and adjust the charges that are allocated to each program to cover the operations, maintenance and replacement of all existing capital. Self-insurance and employee benefits calculations are based on the cost of premiums, loss experience, reserve requirements, and benefit costs by employee bargaining group. See “– City’s Financial Policies – Internal Service Funds.”

Each Program Manager is then required to complete the forms supplied to them in the budget training beginning with a budget worksheet for every program in their department. The Program Managers’ first objective is to project what they anticipate collecting in program revenues and expenditures for the current year.

If they determine that they will not meet their revenue projections for the current year in the program and that the number needs to be adjusted for the following year as well, then they complete a revenue modification form. Subsequently, if they also determine that they will exceed the bottom line for the expenditures within the program, they complete an expenditure modification form. The budget modifications require the amount requested and the change in circumstance that supports the request. As mentioned above, these are reviewed individually during the budget meetings with the Finance Director and City Manager.

A preliminary estimate for all general operating revenue is completed by the Finance Department and combined with the functional revenue estimates submitted by the Program Managers in order to approximate the resources that will be available to fund the upcoming year's operations. The preliminary budget document is then compiled incorporating only the modifications to existing programs approved at the budget meetings. The preliminary budget document is presented to the City Council in May and study sessions are then conducted with the City Council and the community to communicate the anticipated outcome of the current budget year and to walk them through any changes that have occurred that will affect the cost of providing the same core services in the following year.

Requests for new or increased services, equipment, or staff are not included in the preliminary document for the new budget year; any increase in the budget total from one year to the next is strictly related to the cost of maintaining the existing level of service. Since a significant portion (approximately 72% in the fiscal year 2014-15 budget) of the budget is personnel, the typical reason for an increase in the budget total is associated with existing labor agreements, or an increase in the cost of insurance or benefits.

Finally, requests for new staffing, services, projects, programs or new equipment are presented to the City Council during the various proposed budget study sessions. This process allows the City Council to review projected revenues and the cost of maintaining the existing level of services in the community before considering any proposed increases. The City Council then provides direction on whether or not to include them in the final proposed budget which is presented for final budget adoption at a regular City Council Meeting in June.

Budgetary Controls. The City's budget document is submitted annually to the City Council as a multi-year forecast. This long-range perspective assists the City Council in the difficult task of evaluating the effect that current year allocations will have over a prolonged period of time. The budget is assembled at a program or service level rather than the traditional department level. This allows the City Council to focus on the individual services the community will receive for total dollars spent in a year.

The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Annual budgets are legally adopted for all governmental funds on a basis consistent with generally accepted accounting principles, except for certain special revenue and debt service funds. Budgetary control for management purposes is maintained as authorized by the City Council at the departmental program level within individual funds.

The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. At fiscal year-end, all operating budget appropriations lapse and encumbrances are reported as reservations of fund balances at June 30.

Adopted Fiscal Year 2015-16 Budget

The City's fiscal year 2015-16 budget, which the City Council adopted at its meeting on June 16, 2015, anticipates operating revenues totaling \$41,135,131, representing an increase of approximately \$2,788,068 or 7.3%, in revenues from the prior fiscal year's budget. The majority of that increase, totaling \$509,000, comes from property taxes, mostly due to a 48% recovery of Proposition 8 reductions and continued increases to the single family home median price (currently at \$657,000). Adding to the property tax increase, is an increase in the amount of \$473,000 in residual tax increment from the City, as successor agency (the "Successor Agency")

to the now-dissolved Fountain Valley Agency for Community Development (the “Former Redevelopment Agency”), due to the retirement of the 1998 Tax Allocation Bond debt service. Sales tax slightly increased by \$273,000, with an additional one-time receipt in the amount of \$744,300 due to the Triple Flip true-up. Finally, the adopted fiscal year 2015-16 budget anticipates an increase in transient occupancy tax receipts due to the new Ayres Hotel and strong occupancy levels in other hotels.

The adopted General Fund operating expenditure plan presented in the adopted fiscal year 2015-16 budget totals \$41,411,466 and represents an increase of \$1,835,091 or 4.6% over the amount contained in the prior fiscal year’s budget. The significant increase is related to a \$1,481,307 increase to salaries and benefits. Included in this increase to the salaries and benefits is a PERS (as defined below under “– Employee Retirement System”) benefit funding increase in the amount of \$1,002,964 and increases to the self-insurance internal service fund allocations due to current year premium increases and a retrospective payment. The adopted fiscal year 2015-16 budget also includes a capital outlay of \$6,290,728 to be expensed from the internal services funds within the General Fund (see “– City’s Financial Policies – Internal Service Funds”).

City’s Budgeted and Actual Figures. The table below sets forth (i) a comparison of the City’s General Fund budget to the audited actual figures for Fiscal Years 2013-14 and 2014-15, and (ii) the City’s adopted General Fund budget for Fiscal Year 2015-16.

TABLE 1
CITY OF FOUNTAIN VALLEY
General Fund Budgets

	Adopted Budget <u>2013-14</u>	Audited <u>2013-14</u>	Revised Budget <u>2014-15</u>	Audited <u>2014-15</u>⁽⁵⁾	Adopted Budget <u>2015-16</u>
REVENUES:					
Taxes	\$23,254,500	\$29,180,985	\$29,618,662	\$30,655,218	\$32,204,000
Licenses and permits	1,688,700	1,834,212	1,580,700	1,915,471	1,769,700
Fines and penalties	823,100	751,302	754,900	705,372	706,900
Investment income	441,000	545,720	403,000	423,490	289,000
Rental income	1,095,000	1,163,515	1,109,000	1,203,964	1,154,000
Intergovernmental	4,524,395	66,584	225,720	107,884	136,000
Charges of services	4,074,521	4,172,172	3,915,012	4,177,996	3,990,968
Miscellaneous	<u>1,577,718</u>	<u>1,385,700</u>	<u>467,553</u>	<u>1,882,517</u>	<u>869,192</u>
TOTAL REVENUES	\$37,478,934	\$39,100,190	\$38,074,547	\$41,071,912	\$41,119,760
EXPENDITURES:					
Current:					
General government	\$ 3,224,848	\$ 2,870,199	\$ 3,106,612	\$ 2,883,285	\$ 3,697,238
Public safety	24,255,679	24,316,705	24,983,685	25,032,981	26,271,728
Transportation	4,649,431	4,584,382	4,835,218	4,659,683	5,309,261
Community development	3,019,021	3,015,476	5,278,959 ⁽¹⁾	3,651,061	3,349,056
Community services	2,336,346	2,309,516	2,286,900	2,318,201	2,367,243
Capital outlay	1,153,493	1,298,298	1,753,058	1,558,000	6,290,728 ⁽²⁾
Debt service: principal	-	232,414	178,000	109,547	-
Debt service: interest	-	-	-	-	-
TOTAL EXPENDITURES	\$38,638,818	\$38,626,990	\$42,422,432	\$40,212,758	\$47,285,254
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,159,884)	473,200	(4,347,885)	859,154	(6,165,494)
OTHER FINANCING SOURCES (USES):					
Transfers in	\$ 680,428	\$ 480,341	\$ 686,121	\$ 792,147	\$ 1,875,371 ⁽³⁾
Transfers out	<u>(1,373,552)</u>	<u>(981,317)</u>	<u>(1,748,439)</u>	<u>(1,657,133)</u>	<u>1,120,606</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ (693,124)	\$ (500,976)	\$(1,062,318)	\$ (864,986)	\$ 754,765
Payment from Successor Agency	-	-	\$ 4,913,559	\$ 4,918,798 ⁽⁶⁾	-
Payment to CalPERS Side Fund	-	-	-	-	(2,000,000) ⁽⁴⁾
NET CHANGE IN FUND BALANCE	\$ (1,853,008)	\$ (27,776)	\$ (496,644)	\$ 4,912,966	\$ (7,410,729)
FUND BALANCE - JULY 1	\$42,591,535	\$42,591,535	\$42,563,759	\$42,563,759	\$47,662,326
FUND BALANCE - JUNE 30	\$40,738,527	\$42,563,759	\$42,067,115	\$47,476,725	\$40,251,597

(1) The City's Fiscal Year 2014-15 budget approved the use of capital reserves for one-time capital projects.

(2) Planned capital outlay to be expensed from the internal service funds. See "-- City's Financial Policies -- Internal Service Funds."

(3) Reflects one-time use of remaining proceeds of the 2003 Certificates.

(4) Reflects prepayment of a portion of the Side Fund for the Tier I Safety Plan

(5) GASB Statement Nos. 68 and 71 implemented in such fiscal year. Such statements do not impact the City's pension funding obligations but do decrease the net position of governmental and business-type activities at July 1, 2014 by \$65.5 million and \$5.7 million, respectively.

(6) DOF allowed the transfer of unspent pre-2011 bond proceeds to the City from the Successor Agency.

Source: City of Fountain Valley.

City's Financial Policies

Strategic Plan. The City is committed to be successful in its service delivery to its residents, businesses and visitors. To continue its commitment to moving forward in a cohesive, productive and well-organized way, the City Council and the City Manager developed a City-Wide Strategic Plan. The plan includes the City's Mission Statement, Core Values, three-year goals and specific six-month strategic planning objectives that support the goals. The City Council and management staff meet every six months to review and update these objectives. The three-year goals include: enhancing economic development; achieving financial stability; attracting, developing and retaining quality staff; maintaining and enhancing infrastructure and facilities;

enhancing community outreach and engagement. The most recent of these meetings occurred October 29, 2015, and the resulting list of six-month strategic planning objectives was approved by City Council on [October 29, 2015].

Fund Balance Policy. The City's adopted budget for fiscal year 2015-16 provides that to maintain the City's credit rating and meet seasonal cash flow shortfalls, economic downturns or a local disaster, the budget will provide for an anticipated fund balance for general government and enterprise fund types. Fund balance is exclusive of all restrictions, commitments and assignments not available for use in emergencies and contingencies.

Fund balance is categorized in five classifications, depicting the relative strength of the spending constraints placed on the purposes for which the resources can be used. The five classifications are:

- **Non-spendable:** amounts not in spendable form or are required to be maintained intact (inventories, prepaid items, endowment).
- **Restricted:** portions of fund balance that reflect resources subject to externally enforceable legal restrictions. Amounts constrained to specific purposes by their providers, through constitutional provisions, or by enabling legislation.
- **Committed:** amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority (City Council), and remains binding unless removed in the same manner.
- **Assigned:** amounts a government intends to use for a specific purpose; intent can be expressed by the governing body, or by an official or body to which the governing body delegates the authority.
- **Unassigned:** amounts available for any purpose; reported only in the General Fund.

General Fund Reserve Policy. As part of the City's effort to meet its goal of achieving financial stability, the City Council approved a General Fund Reserve Policy for the City on February 18, 2014 (the "General Fund Reserve Policy"). The General Fund Reserve Policy established the reserves within the committed fund balance and assigned fund balance described below.

- **Working Capital (Cash Flow) Reserve** in the amount of \$8,100,000. The City policy requires that the City must maintain an average of 22% of the annual estimated expenditure budget at all times to ensure adequate funds are available to cover expenditures for the first five months of the fiscal year. These funds are strictly to be used to cover cash needs, including debt service on the Bonds, at any given time. This level of reserves could change with the annual budget to ensure that enough reserves are set-aside to cover the first five months of any given fiscal year. Any change in this reserve amount would be reported to City Council, typically with the annual budget process. There will be no appropriations authorized from this reserve without City Council approval.

As of June 30, 2015, the Working Capital (Cash Flow) Reserve was \$8,668,820, which was consistent with the City's General Fund Reserve Policy at time of adoption of the original budget and is 21.5% of the fiscal year 2014-15 actual expenditure.

- **Committed Budget Stabilization Reserve** in the amount of \$4,500,000. The Budget Stabilization Reserve is to be used as a risk management tool to provide a buffer against revenue fluctuations inherent in economic cycles. In the event that a significant economic event were to occur (like the downturn of 2008), this reserve would help prevent the City from having

to use its Working Capital (Cash Flow) Reserve immediately and is intended to allow time for adjustments to the annual expenditure budget without jeopardizing the amount of cash on hand required for operational purposes. There will be no appropriations authorized from this reserve without City Council approval.

Historically, 6%-8% would be an adequate Budget Stabilization Reserve for economic fluctuations; however, the City is still recovering from the great recession and the recovery is extremely slow, and therefore, staff has recommended a higher percentage reserve as part of the fiscal year 2015-16 budget process. In July 2015, the City made a one-time payment of \$1,382,836 to PERS from amounts in the Budget Stabilization Reserve in order to pay the City's fiscal year 2015-16 Side Fund obligations with respect to the Tier I Safety Plan and Tier I Miscellaneous Plan. The City made an additional contribution of \$617,164 from the Budget Stabilization Reserve in connection with the issuance of the POBs (as defined under "— Outstanding General Fund Debt and Other Obligations"). The balance of such Budget Stabilization Reserve is \$2,500,000 as of December 31, 2015.

- Assigned Capital Reserve in the amount of \$9,600,000 to fund significant upcoming capital improvement project expenditures that can be funded on a pay-go basis and completed without the issuance of debt. Specific projects will be identified by staff and presented to City Council during the fiscal year 2015-16 budget process. As other projects are identified they will be brought to the City Council as an individual item as needs arise for capital funding. The balance of the Assigned Capital Reserve was \$9,062,122 as of June 30, 2015.
- Committed Disaster Reserve in the amount of \$1,000,000. Amounts in the Disaster Reserve are to be used to mitigate the cost associated with unforeseen emergencies. If unforeseen and unavoidable events occur that require expenditure of City resources beyond those provided for in the annual budget, the City Manager would have the authority to approve an appropriation of the Disaster Reserve. The City Manager would then present to the City Council, no later than its first regularly scheduled meeting, a report confirming the nature of the emergency at which City Council could formally authorize the appropriation. The balance of the Committed Disaster Reserve was \$1,000,000 as of June 30, 2015.
- Assigned Economic Development Reserve in the amount of \$2,500,000 to help achieve the City's plan to enhance economic development, including the Fountain Valley Crossings Specific Plan. Appropriations up to \$25,000 can be authorized by the City Manager; the City Manager must inform the City Council of any such appropriations with the strategic plan update that is presented to the City Council monthly and City Council can formally authorize the appropriation. Any appropriation above \$25,000 must be approved by the City Council through the agenda or budget process. The balance of the Assigned Economic Development Reserve was \$2,500,000 as of June 30, 2015.

If revenues exceed expenditures in any given fiscal year, the General Fund Reserve Policy provides that the first priority of the use of the excess will be given to the Working Capital (Cash Flow) Reserve and Budget Stabilization Reserve.

Internal Service Funds. For budgeting purposes, the City has established internal service funds within the General Fund that provide "assigned" fund balances for the functions listed below. These fund balances are derived from pro rata contributions from the General Fund and other City enterprise funds.

- Fleet Replacement Fund: provides for the timely replacement of vehicles and related equipment with an individual replacement cost of \$15,000 or more. During the 2016-17 Financial Plan period, the City will establish and maintain a minimum fund balance in the Fleet Replacement Fund equal to \$100,000 for the emergency replacement of vehicles that are damaged beyond

repair, and are either not covered under the City's property insurance program or the vehicle has a high replacement cost and insurance proceeds will be inadequate to provide for the vehicle's replacement (fire engine). Above this contingency level, the amount retained in this fund, coupled with the annual contributions received by it from any source, is anticipated to be adequate to fully fund the equipment replacements approved in the ten-year Financial Plan. The City policy is to maintain a reserve to cover future obligations. As of June 30, 2015, the balance for such reserve is \$2,518,951.

- Information Technology (IT) Replacement Fund: The City has established an IT Replacement Fund to provide for the timely replacement of information technology, both hardware and software. The City has a healthy fund balance derived with the long term objective of maintaining a minimum fund balance in the IT Replacement Fund of at least \$800,000. The amount retained in this fund, coupled with annual contributions received by it from any source, is anticipated to be adequate to fully fund the improvements included in the ten-year Financial Plan for the Information Technology Replacement Fund. During the 2016-17 Financial Plan period, the City will establish and maintain a minimum fund balance in this fund equal to \$25,000 for the emergency replacement of equipment that is damaged beyond repair and not covered under the City's property insurance program. As of June 30, 2015, the balance for such reserve is \$1,658,375.
- Major Facility Replacement Fund: The City has established a Major Facilities fund for the purpose of financing the cost of improvements city-owned, general government building and structures. The amount retained in this fund, coupled with annual contributions received by it from any source, is anticipated to be adequate to fully fund the improvements included in the ten-year Major Facility Replacement Fund. The City policy is to maintain a \$1,750,000 reserve. As of June 30, 2015, the balance for such reserve is \$2,165,207.
- Major Equipment Replacement Fund: The City has established a Major Equipment fund for the purpose of financing the replacement cost of equipment and furniture utilized by city departments. The amount retained in this fund, coupled with annual contributions received by it from any source, is anticipated to be adequate to fully fund the improvements included in the ten-year Major Facility Replacement Fund. The City has a healthy fund balance of \$800,000 as of June 30, 2015 derived with the long term objective of maintaining a minimum fund balance in the Equipment Replacement Fund of at least \$800,000. The City policy is to maintain an \$800,000 reserve to cover future obligations. As of June 30, 2015, the balance for such reserve is \$1,686,837.
- Employee Benefits: Reserves will be maintained at a level to cover the cost of ongoing employee benefits during each fiscal year. The City policy is to maintain a \$2,000,000 reserve to cover long-term obligations. As of June 30, 2015, the balance for such reserve is \$521,647.
- Self-Insurance: Reserves will be maintained at a level which, together with purchased insurance policies, adequately protect the City. The City policy is to maintain a reserve of \$3,000,000 to cover future obligations. As of June 30, 2015, the balance for such reserve is \$4,151,680.

Impact of State Budget on City Revenues

General. In recent years, the State of California has faced significant financial and budgetary stress. On January 7, 2016, Governor Brown introduced to the State Legislature the fiscal year 2016-17 State Budget (the "2016-17 State Budget"). The 2016-17 State Budget includes approximately \$120.6 billion in State General Fund resources (including revenues, transfers and the prior year ending balance) and approximately \$122.6 billion in planned State General Fund expenditures. By the end of fiscal year 2015-16, the Budget Stabilization

Account will have a total balance of approximately \$8 billion. The 2015-16 State Budget includes an approximately 5.6% State General Fund spending increase from the fiscal year 2014-15 State Budget Act.

Information about the 2016-17 State Budget and other State budgets is regularly available at various State-maintained websites. An impartial analysis of the budget is posted by the Legislative Analyst Office at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to in this paragraph is prepared by the respective State agency maintaining each website and not by the City, or the Underwriter, and the City and the Underwriter take no responsibility for the continued accuracy of the Internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

Dissolution of Redevelopment Agency. In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, amended by AB 1484 on June 27, 2012 (the “Dissolution Act”), which suspended all new redevelopment activities except for limited specified activities as of June 28, 2011 and dissolved redevelopment agencies on January 31, 2012. See Note 11 to the City’s 2014-15 audited financial statements attached as APPENDIX B for information about the impact on the City of the dissolution of its redevelopment agency, the Fountain Valley Agency for Community Development (the “Former Redevelopment Agency”).

Proposition 30. The 2012-13 State Budget relied upon the Schools and Local Public Safety Protection Act, a \$6.9 billion tax increase approved by California voters at a regular election in November 2012 (“Proposition 30”). Proposition 30 enacted temporary increases on high-income earners, raising income taxes by up to three percent on the wealthiest Californians for seven years and increasing the state sales tax by \$0.0025 for four years, and averted \$5.9 billion of planned Trigger Cuts that would have affected public education funding in the State. The 2012-13 State Budget also contained reductions in expenditures from prior years’ spending totaling \$8.1 billion.

Future State Budgets. The City cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State’s current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the City has no control. To the extent that the State budget process results in reduced revenues to the City, the City will be required to make adjustments to its budget. Decreases in such revenues may have an adverse impact on the City’s ability to pay scheduled debt service on the Bonds.

Financial Statements

Accounting Policies. The accounting policies of the City conform to generally accepted accounting principles. The Governmental Accounting Standards Board (“GASB”) published its Statement No. 34 “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments” on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management’s Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting and (iii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iv) required supplementary information.

Accounts of the City are organized on the basis of funds each of which is considered a separate accounting entity. Operations of each fund are accounted for with a separate set of self-balancing accounts. There are three groups of funds: Governmental Funds, Proprietary Funds, and Fiduciary Funds. The City maintains 14 individual Governmental funds. Information is presented separately in the Governmental fund balance sheet and in the Governmental fund statement of revenues, expenditures and changes in fund balances

for the General Fund and Housing Authority which are considered to be major funds. Data from the other Governmental funds are combined into a single, aggregated presentation. All Governmental Funds and Fiduciary Funds use the modified accrual basis of accounting. The Proprietary Funds use the accrual basis of accounting. The General Fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund.

Management's Discussion and Analysis. One key change resulting from the adoption of GASB Statement No. 34 (promulgated by the GASB) is the inclusion of management's discussion and analysis as required supplementary information. See APPENDIX B for a full presentation of management's discussion and analysis for the most recent fiscal year.

Audited Financial Statements. The City's most recent audited financial statements for the Fiscal Year ending June 30, 2015, are attached as "APPENDIX B" to this Official Statement, which were prepared by the City and audited by White Nelson Diehl Evans LLP, Irvine, California (the "Auditor"). The audited financial statements reflect the implementation of GASB 68, requiring local government to show as a liability the unfunded PERS liability.

GASB No. 68 and No. 71. In fiscal year 2014-2015 the City implemented GASB Statement No. 68 and GASB Statement No. 71. These statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and pension plan expenses. GASB No. 68 and No. 71 do not change the pension funding obligations of the City, however, the result of the implementation of these standards decreased the net position of governmental and business-type activities at July 1, 2014 by \$65.5 million and \$5.7 million, respectively.

The Financial Statements should be read in their entirety. The City has neither requested nor obtained permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City or the General Fund. In addition, the Auditor has not reviewed this Official Statement.

General Fund Financial Data

Set forth in the following tables are (i) a General Fund balance sheet for fiscal years 2010-11 through 2014-15, and (ii) a statement of revenues, expenditures and changes in fund balances for the City's General Fund for fiscal years 2011-12 through 2014-15 (audited), along with the revised budget for fiscal year 2014-15 and adopted budget for fiscal year 2015-16.

TABLE 2
CITY OF FOUNTAIN VALLEY
GENERAL FUND BALANCE SHEET
Fiscal Years 2010-11 through 2014-15 (Audited)

	<u>Audited</u> <u>FY 2010-11</u>	<u>Audited</u> <u>FY 2011-12</u>	<u>Audited</u> <u>FY 2012-13</u>	<u>Audited</u> <u>FY 2013-14</u>	<u>Audited</u> <u>FY 2014-15</u> ⁽⁴⁾⁽⁵⁾
Assets:					
Cash and investments	\$39,795,399	\$39,816,724	\$39,726,077	\$39,893,659	\$45,723,129 ⁽³⁾
Receivables:					
Accounts	2,208,058	2,088,934	2,572,129	2,505,851	2,579,963
Accrued interest	111,590	77,486	54,443	31,525	92,200
Loans/notes	--	--	--	3,063	848
Due from other funds	134,824	2,442	2,442	--	1,414,280
Advances to other funds	2,101,000	1,885,000	1,657,000	1,788,593	-
Inventories	80,769	80,838	82,767	82,080	82,741
Prepaid expenses	<u>89,626</u>	<u>93,594</u>	<u>106,556</u>	<u>95,778</u>	<u>102,785</u>
Total Assets	\$44,521,266	\$44,045,018	\$44,201,414	\$44,400,549	\$49,995,946
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 1,062,806	\$ 991,639	\$ 894,502	\$ 1,172,422	\$ 1,488,099
Accrued wages payable	495,852	1,959,301	407,195	470,464	560,798
Deposits payable	--	121,478	--	--	33,272
Deferred revenue	<u>127,567</u>	<u>128,799</u>	<u>--</u>	<u>--</u>	<u>437,052</u>
Total Liabilities	\$ 1,686,225	\$ 3,201,217	\$ 1,301,697	\$ 1,642,886	\$ 2,519,221
Fund balances:					
Nonspendable:					
Inventory	\$ 80,769	\$ 80,838	\$ 82,767	\$ 82,080	\$ 82,741
Prepaid expenses	89,626	93,594	106,556	95,778	102,785
Advances	2,101,000	1,885,000	1,657,000	1,788,593	1,414,280
Community development	--	--	--	--	4,714,142
Assigned	--	--	--	12,100,000	21,971,647
Unassigned ⁽¹⁾	<u>40,563,646</u>	<u>38,784,368</u>	<u>40,745,212</u>	<u>28,497,308</u> ⁽²⁾	<u>19,191,130</u>
Total Fund Balances	\$42,835,041	\$40,843,800	\$42,591,535	\$42,563,759	\$47,476,725
Total Liabilities and Fund Balances	\$44,521,266	\$44,045,018	\$44,201,414	\$44,400,549	\$49,995,946

(1) Includes the remaining spendable amounts that are not included in one of the other classifications. It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

(2) Decrease from prior fiscal year due to City Council's approval of the General Fund Reserve Policy in February 2014. A portion of the Unassigned fund balance was transferred to the Assigned fund balance. See "– City's Financial Policies – General Fund Reserve Policy" above.

(3) Cash and investments for Fiscal Year 2014-15 includes unspent bond proceeds from successor agency transferred to City for capital expenditure in the amount of \$4,918,798.

(4) Pension related debt applicable to the City governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the Statement of Net Position as the changes in these amounts effects only the government-wide statements for governmental activities. Deferred outflows of resources \$4,549,818. Deferred inflows of resources \$(12,786,405). Pension liability \$(57,002,099).

(5) GASB Statement Nos. 68 and 71 implemented in such fiscal year. Such statements do not impact the City's pension funding obligations but do decrease the net position of governmental and business-type activities at July 1, 2014 by \$65.5 million and \$5.7 million, respectively.

Source: City of Fountain Valley.

TABLE 3
CITY OF FOUNTAIN VALLEY
Statement of General Fund Revenues, Expenditures
and Changes in Fund Balance

	<u>Audited</u> <u>FY 2011-12</u>	<u>Audited</u> <u>FY 2012-13</u>	<u>Audited</u> <u>FY 2013-14</u>	<u>Audited</u> <u>FY 2014-15</u> ⁽⁵⁾	<u>Adopted</u> <u>Budget</u> <u>FY 2015-16</u>
REVENUES:					
Taxes ⁽⁴⁾	\$26,583,699	\$34,558,572 ⁽¹⁾	\$29,180,985	\$30,655,218	\$32,204,000
Licenses and permits	1,662,420	2,260,643	1,834,212	1,915,471	1,769,700
Fines and penalties	771,860	799,794	751,302	705,372	706,900
Investment income	348,139	(214,632)	545,720	423,490	289,000
Rental income	1,445,466	1,151,228	1,163,515	1,203,964	1,154,000
Intergovernmental ⁽⁴⁾	584,839	95,586	66,584	107,884	136,000
Charges of services	4,140,942	4,468,806	4,172,172	4,177,996	3,990,968
Miscellaneous	<u>1,260,128</u>	<u>2,534,264</u>	<u>1,385,700</u>	<u>1,882,517</u>	<u>869,192</u>
TOTAL REVENUES	\$36,797,493	\$45,654,261	\$39,100,190	\$41,071,912	\$41,119,760
EXPENDITURES:					
Current:					
General government	\$ 2,545,492	\$ 2,919,814	\$ 2,870,199	\$ 2,883,285	\$ 3,697,238
Public safety	24,546,833	24,836,803	24,316,705	25,032,981	26,271,728
Transportation	4,675,047	4,593,401	4,584,382	4,659,683	5,309,261
Community development	2,212,748	3,060,098	3,015,476	3,651,061	3,349,056
Community services	2,210,012	2,123,704	2,309,516	2,318,201	2,367,243
Capital outlay	2,571,634	455,951	1,298,298	1,558,000 ⁽²⁾	6,290,728
Debt service: principal	230,397	217,422	232,414	109,547	--
Debt service: interest	<u>9,842</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
TOTAL EXPENDITURES	\$39,002,005	\$38,207,193	\$38,626,990	\$40,212,758	\$47,285,254
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,204,512)	7,447,068	473,200	859,154	(6,165,494)
OTHER FINANCING SOURCES (USES):					
Transfers in	\$ 667,650	\$ 522,352	\$ 480,341	\$ 792,147	\$ 1,875,371
Transfers out	<u>(454,379)</u>	<u>(644,833)</u>	<u>(981,317)</u>	<u>(1,657,133)</u>	<u>(1,120,606)</u>
TOTAL OTHER FINANCING SOURCES (USES)	\$ 213,271	\$ (122,481)	\$ (500,976)	\$ (864,986)	\$ 754,765
Payment from successor agency	--	(5,708,772)	--	4,918,798 ⁽³⁾	--
Payment to CalPERS Side Fund	--	--	--	--	(2,000,000)
NET CHANGE IN FUND BALANCE	\$ (1,991,241)	\$ 1,615,815	\$ (27,776)	\$ 4,912,966	\$ (7,410,729)
FUND BALANCE - JULY 1	\$42,835,041	\$40,975,720	\$42,591,535	\$42,563,759	\$47,662,326
FUND BALANCE - JUNE 30	\$40,843,800	\$42,591,535	\$42,563,759	\$47,476,725	\$40,251,597

(1) Increase over prior fiscal year due to one-time receipt of proceeds in the amount of \$7,043,264 for the Former Redevelopment Agency's dissolution under the Dissolution Act and the Successor Agency's residual balance.

(2) The City's Fiscal Year 2014-15 budget approved the use of capital reserves for one-time capital projects.

(3) DOF allowed the transfer of unspent pre-2011 bond proceeds to the City from the Successor Agency.

(4) VLF (as defined under "- Other Taxes and Revenues - Motor Vehicle In-Lieu Tax" below) was reclassified to property taxes due to its allocation being based on the City's assessed property values. Amounts attributable to VLF are as follows: Fiscal Year 2011-12 \$4,338,355; Fiscal Year 2012-13 \$4,416,374; Fiscal Year 2013-14 \$4,571,685; Fiscal Year 2014-15 \$4,918,583.

(5) GASB Statement Nos. 68 and 71 implemented in such fiscal year. Such statements do not impact the City's pension funding obligations but do decrease the net position of governmental and business-type activities at July 1, 2014 by \$65.5 million and \$5.7 million, respectively.

Source: City of Fountain Valley.

Taxes and Other Revenues

Taxes and other sources of revenue received by the City are listed in the table below. Certain general taxes currently imposed by the City are affected by Proposition 218. See "CONSTITUTIONAL AND

STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Articles XIIC and XIID of the State Constitution.”

The following table presents the tax revenues of the City’s General Fund for the last five fiscal years and the present budget year:

TABLE 4
CITY OF FOUNTAIN VALLEY
General Fund Tax Revenues by Source

	<u>Actual</u> <u>2010-11</u>	<u>Actual</u> <u>2011-12</u>	<u>Actual</u> <u>2012-13</u>	<u>Actual</u> <u>2013-14</u>	<u>Actual</u> <u>2014-15</u>	<u>Adopted</u> <u>Budget</u> <u>2015-16</u>	<u>Percent of</u> <u>Budgeted</u> <u>General Fund</u> <u>Tax Revenues</u>
Property tax	\$13,363,189	\$13,114,938	\$20,652,447 ⁽¹⁾	\$14,994,896	\$16,247,191	\$16,623,000	51%
Franchise tax	1,588,307	1,775,922	1,713,443	1,756,800	1,668,250	1,804,000	6
Sales tax	10,328,425	10,948,760	11,292,868	11,414,726	11,461,400	12,494,000	39
Other taxes ⁽²⁾	<u>732,375</u>	<u>744,079</u>	<u>899,814</u>	<u>1,014,563</u>	<u>1,278,377</u>	<u>1,283,000</u>	4
Total	\$26,012,296	\$26,583,699	\$34,558,572	\$29,180,985	\$30,655,218	\$32,204,000	

⁽¹⁾ Increase over prior fiscal year due to one-time receipt of proceeds in the amount of \$7,043,264 for the Former Redevelopment Agency’s dissolution under the Dissolution Act and the Successor Agency’s residual balance.

⁽²⁾ Includes transient occupancy tax.

Source: City of Fountain Valley.

Property Taxes

General. Property taxes represent the largest source of tax revenue to the City. This section describes property tax levy and collection procedures and certain information regarding historical assessed values and major property tax payers in the City. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” and “BOND OWNERS’ RISKS – Property Taxes” for a description of risks associated with the levy and collection of property tax revenues.

Property taxes have historically been the primary revenue source affected by voter initiatives and legislative actions. With approval of Proposition 13 (“Proposition 13”), property tax revenues were reduced by two-thirds and thereafter limited to 2% annual increases or the consumer price index, whichever is less. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of the State Constitution” for further description of Proposition 13.

Levy and Collection. Property taxes are levied for each Fiscal Year on taxable real and personal property as of the preceding January 1. For assessment and collection purposes, property is classified either as “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 public utilities property and real property the taxes on which are a lien sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each Fiscal Year, and become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent become tax defaulted on or about June 30 of the Fiscal Year. Such property may thereafter be redeemed by payment of a penalty of 1% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and may be sold at public auction.

Property taxes on the unsecured roll are due as of the January 1 lien dates and become delinquent on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1% attaches to them on the first day of each month until paid. The County

has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a judgment in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder’s office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Beginning in 1978-79, Proposition 13 and its implementing legislation shifted the function of property tax allocation to the counties, except for levies to support prior voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of the State Constitution” for further description of Proposition 13.

Teeter Plan. Orange County has implemented the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”). Under the Teeter Plan, the County guarantees that the cities participating in the Teeter Plan receive 100% of the taxes levied for it. Any delinquencies are borne by the County, which in return collects and retains all penalties and interest which accrue on the delinquent taxes. The City does not participate in the County’s Teeter Plan. Set forth in the table below is a ten year history of property tax levies and collections within the City.

**TABLE 5
CITY OF FOUNTAIN VALLEY
Property Tax Levies and Collections
Fiscal Years 2006-07 to 2014-15**

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years⁽²⁾	Total Collections to Date	
		Amount⁽¹⁾	Percent of Levy		Amount	Percent of Levy
2006	\$7,137,294	\$7,188,146	100.71%	\$86,440	\$7,274,586	101.92%
2007	7,597,511	7,501,066	98.73	148,589	7,649,655	100.69
2008	8,449,522	8,353,866	98.87	264,181	8,618,047	101.99
2009	8,271,990	8,306,058	100.41	146,890	8,452,948	102.19
2010	8,249,362	8,671,222	105.11	58,017	8,729,239	105.82
2011	8,506,281	8,355,562	98.23	45,028	8,400,590	98.76
2012	8,546,953	8,411,980	98.42	79,327	8,491,307	99.35
2013	8,844,898	8,731,657	98.72	48,937	8,780,594	99.27
2014	9,227,976	9,114,156	98.77	40,888	9,155,044	99.21
2015	9,757,887	9,652,108	98.92	30,039	9,682,147	99.22

(1) The Amounts presented include City property taxes only.

(2) These amounts consist of “prior year” taxes (excluding penalties and interest) remitted in the subsequent fiscal year. The Orange County Auditor Controller’s Office aggregates these payments and does not provide detail on allocations to particular years.

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.”

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.

Assessed Valuation History. The table below presents a 9-year history of the assessed value of property within the City.

TABLE 6
CITY OF FOUNTAIN VALLEY
Assessed Value and Estimated Actual Value of Taxable Property
Fiscal Years 2006-07 to 2014-15

<u>Fiscal Year</u>	<u>Secured</u>	<u>Unsecured</u>	<u>Less:</u> <u>Exemptions</u>	<u>Taxable</u> <u>Assessed Value</u>
2006-07	5,784,953,429	287,232,798	-	6,072,186,227
2007-08	6,310,344,079	284,437,291	-	6,594,781,370
2008-09	6,382,947,330	287,957,315	-	6,670,904,645
2009-10	6,482,764,941	287,619,118	-	6,770,384,059
2010-11	6,679,192,884	302,119,850	-	6,981,312,734
2011-12	6,777,682,538	259,218,249	-	7,036,900,787
2012-13	6,922,510,895	241,861,867	-	7,164,372,762
2013-14	7,131,038,979	295,542,241	-	7,426,581,220
2014-15	7,659,415,546	335,167,621	-	7,994,583,169

Source: City of Fountain Valley Comprehensive Annual Financial Report.

Major Property Taxpayers. The following table shows the top ten local secured property taxpayers for the prior Fiscal Year.

TABLE 7
CITY OF FOUNTAIN VALLEY
Principal Property Taxpayers
Fiscal Years 2014-15

<u>Taxpayer</u>	<u>Taxable</u> <u>Assessed</u> <u>Value</u>	<u>Percent of</u> <u>Total City</u> <u>Taxable</u> <u>Assessed</u> <u>Value</u>
Hyundai Motor America	\$161,279,123	2.02%
Fountain Valley Regional Hospital	156,448,031	1.96
Orange Coast Memorial Medical Center	109,988,049	1.38
JKS-CMFV LLC	95,707,458	1.20
Memorial Health Services	75,031,350	0.94
Shea Center Crystal Springs LLC	42,162,331	0.53
Fountain Valley Senior Housing	39,227,361	0.49
US Millennium LP	38,404,671	0.48
Fountain Valley MHP Associates	34,947,942	0.44
MTSC-Lake Elsinore Partners	<u>34,434,052</u>	<u>0.43</u>
Total	\$787,630,368	9.87%

Source: City of Fountain Valley Comprehensive Annual Financial Report.

Sales and Use Taxes

Sales and use taxes represent the second largest source of tax revenue to the City. The sales tax is an excise tax imposed on retailers for the privilege of selling or leasing tangible personal property. The use tax is an excise tax imposed for the storage, use, or other consumption of tangible personal property purchased from any retailer. The total sales tax rate within the City is 8.0%, as of July 1, 2015.

Collection of the sales and use tax is administered by the California State Board of Equalization. Under its procedures, the State Board of Equalization projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the State Board of Equalization’s quarterly projection. During the last month of each quarter, the State Board of Equalization adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter. The State Board of Equalization receives an administrative fee based on the cost of services provided by the State Board of Equalization to the City in administering the City’s sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City.

Sales Tax Rates. Currently, taxable transactions in the City are subject to the following sales and use tax, of which the City’s share is only a portion. The State collects and administers the tax, and makes distributions on taxes collected within the City, as follows:

**TABLE 8
CITY OF FOUNTAIN VALLEY
Sales Tax Rates
As of July 1, 2015**

State (General Fund)	6.250
State	0.250
City	1.000
Orange County Local Transportation Authority	<u>0.500</u>
Total	8.000%

Source: California State Board of Equalization.

Application of Sales Tax. Sales and use taxes are complementary taxes; when one applies, the other does not. In general, the statewide sales tax applies to gross receipts of retailers from the sale of tangible personal property in the State. The use tax is imposed on the purchase, for storage, use or other consumption in the State of tangible personal property from any retailer. The use tax generally applies to purchases of personal property from a retailer outside the State where the use will occur within the State. The sales tax is imposed upon the same transactions and items as the statewide sales tax and the statewide use tax.

Certain transactions are exempt from the State sales tax, including sales of the following products:

- food products for home consumption;
- prescription medicine;
- newspapers and periodicals;
- edible livestock and their feed;
- seed and fertilizer used in raising food for human consumption; and
- gas, electricity and water when delivered to consumers through mains, lines and pipes.

This is not an exhaustive list of exempt transactions. A comprehensive list can be found in the State Board of Equalization’s July 2014 Publication No. 61 entitled “Sales and Use Taxes: Exemptions and Exclusions,” which can be found on the State Board of Equalization’s website at <http://www.boe.ca.gov/>.

Sales Tax Collection Procedures. Collection of the sales and use tax is administered by the State Board of Equalization. According to the State Board of Equalization, it distributes quarterly tax revenues to cities, counties and special districts using the following method:

Using the prior year’s like quarterly tax allocation as a starting point, the State Board of Equalization first eliminates nonrecurring transactions such as fund transfers, audit payments and refunds, and then adjusts for growth, in order to establish the estimated base amount. The State Board of Equalization disburses 90% to each local jurisdiction in three monthly installments (advances) prior to the final computation of the quarter’s

actual receipts. Ten percent is withheld as a reserve against unexpected occurrences that can affect tax collections (such as earthquakes, fire or other natural disaster) or distributions of revenue such as unusually large refunds or negative fund transfers. The first and second advances each represent 30% of the 90% distribution, while the third advance represents 40%. One advance payment is made each month, and the quarterly reconciliation payment (clean-up) is distributed in conjunction with the first advance for the subsequent quarter. Statements showing total collections, administrative costs, prior advances and the current advance are provided with each quarterly clean-up payment.

Under the Sales and Use Tax Law, all sales and use taxes collected by the State Board of Equalization under a contract with any city, city and county, redevelopment agency, or county are required to be transmitted by the State Board of Equalization to such city, city and county, redevelopment agency, or county periodically as promptly as feasible. These transmittals are required to be made at least twice in each calendar quarter.

Under its procedures, the State Board of Equalization projects receipts of the sales and use tax on a quarterly basis and remits an advance of the receipts of the sales and use tax to the City on a monthly basis. The amount of each monthly advance is based upon the State Board of Equalization's quarterly projection. During the last month of each quarter, the State Board of Equalization adjusts the amount remitted to reflect the actual receipts of the sales and use tax for the previous quarter.

The State Board of Equalization receives an administrative fee based on the cost of services provided by the Board to the City in administering the City's sales tax, which is deducted from revenue generated by the sales and use tax before it is distributed to the City. Sales taxes received by the City in fiscal year 2014-15 equaled \$11,461,400 and represented approximately 37% of tax revenues to the General Fund. A summary of sales taxes received by the City is shown in Table 4 "General Fund Tax Revenues by Source," herein. Taxable transactions within the City are shown in APPENDIX D hereto.

Other Taxes and Revenues

Transient Occupancy Tax. The transient occupancy tax, sometimes referred to as a hotel tax, is imposed on occupants for the privilege of occupying rooms in hotels, motels, inns and other taxed properties.

Motor Vehicle In-Lieu Tax. The State imposes the vehicle license fee (the "VLF"), which is the fee paid annually in lieu of personal property taxes on a vehicle, and distributed to cities and counties. The vehicle license fee is based on vehicle value (originally in the amount of 2% of the market value of the vehicle) and declines as the vehicle ages. Since 1998 the fee has been incrementally reduced from 2% of a vehicle's current estimated value, but any such reductions were "backfilled" to local governments by the State from other sources. However, under the 2004-05 State Budget, the VLF was permanently reduced to 0.65% of the estimated value, and backfill by the State to local governments was eliminated, and instead will be met by an increased property tax apportionment to cities and counties. The City received \$[4,918,583] million of VLF in fiscal year 2014-15.

Franchises. Several State statutes provide cities with the authority to impose fees on privately-owned utility companies and other businesses for the privilege of using city right-of-way. The City collects franchise fees from gas and electric utilities, cable television and garbage franchises.

Outstanding General Fund Debt and Other Obligations

Set forth below is a summary of long-term obligations payable from the City's General Fund.

2015 Taxable Pension Obligation Bonds. The City issued its \$15,995,000 Taxable Pension Obligation Bonds ("POBs") in September 2015 in order to pay "side fund" pension liability to PERS relating to public safety employees. The POBs mature on September 1 of each year until September 1, 2035. Annual debt service is as set forth below:

Period Ending (June 30)	Principal	Interest	Total Debt Service
2016	\$ --	\$ 297,839.22	\$ 297,839.22
2017	--	599,006.26	599,006.26
2018	--	599,006.26	599,006.26
2019	510,000	593,906.26	1,103,906.26
2020	570,000	582,750.01	1,152,750.01
2021	630,000	569,212.51	1,199,212.51
2022	690,000	551,381.26	1,241,381.26
2023	765,000	529,078.13	1,294,078.13
2024	840,000	503,475.00	1,343,475.00
2025	925,000	473,637.50	1,398,637.50
2026	1,010,000	439,143.75	1,449,143.75
2027	1,110,000	398,637.50	1,508,637.50
2028	1,215,000	352,137.50	1,567,137.50
2029	1,320,000	301,437.50	1,621,437.50
2030	1,440,000	246,237.50	1,686,237.50
2031	650,000	203,218.75	853,218.75
2032	715,000	173,359.38	888,359.38
2033	785,000	140,546.88	925,546.88
2034	860,000	104,562.50	964,562.50
2035	940,000	65,187.50	1,005,187.50
2036	<u>1,020,000</u>	<u>22,312.50</u>	<u>1,042,312.50</u>
Total	\$15,995,000	\$7,746,073.67	\$23,741,073.67

2003 Certificates of Participation. The 2003 Certificates are described under the heading "THE FINANCING PLAN." As a result of the issuance of the Bonds, the 2003 Certificates will be defeased and prepaid and no longer outstanding.

Capital Lease Obligations. As of October 28, 2005, the City entered into various agreements to lease fire trucks. Such agreements are, in substance, purchases and are reported as capital lease obligations. The outstanding amount of the capital lease obligations at June 30, 2015 was \$109,275.

For additional information regarding the City's outstanding General Fund debt and lease obligations, see Note 5 in APPENDIX B.

Direct and Overlapping Bonded Debt

Set forth following is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and effective June 30, 2015. 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 a public agency are payable only from the General Fund or other revenues of such public agency.

The contents of the Debt Report are 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; (2) the second column shows the percentage of the assessed valuation of the overlapping public agency identified in column 1 which is represented by property located within the City; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) 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 FOUNTAIN VALLEY
Statement of Direct and Overlapping Bonded Debt

2014-15 City Assessed Valuation	\$7,994,583.167		
Total Assessed Valuation	Percentage Applicable ⁽¹⁾	Total Debt June 30, 2015	City's Share of Debt June 30, 2015
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>			
Metropolitan Water District	0.345%	\$ 110,420,000	\$ 380,949
Coast Community College District	6.883	609,598,698	44,958,678
Rancho Santiago Community College District	0.331	277,290,443	917,831
Rancho Santiago Community College District SFID No. 1	0.638	70,585,000	450,332
Garden Grove Unified School District	11.612	243,995,160	28,332,718
Huntington Beach Union High School District	12.080	202,489,998	24,460,792
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		<u>\$1,514,379,299</u>	<u>\$ 99,501,300</u>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
Orange County General Fund Obligations	1.679%	\$ 98,906,000	\$ 1,678,435
Orange County Pension Obligation Bonds	1.679	366,854,623	6,225,523
Orange County Board of Education Certificates of Participation	1.675	15,190,000	257,774
Municipal Water District of Orange County Water Facilities Corporation	2.027	5,360,000	108,647
Huntington Beach Union High School District Certificates of Participation	12.080	59,691,090	7,210,684
Fountain Valley School District Certificates of Participation	73.349	6,435,000	4,720,008
Ocean View School District Certificates of Participation	0.957	14,725,000	140,918
City of Fountain Valley Certificates of Participation*	100.000%	8,225,000	8,225,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 575,386,713	\$ 28,566,989
Less: MWDOC Water Facilities Corporation (100% self-supporting)			108,647
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT			<u>\$ 28,458,342</u>
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u>	100.000%	\$ 1,855,000	\$ 1,855,000
TOTAL DIRECT DEBT			\$ 8,225,000
TOTAL GROSS COMBINED TOTAL DEBT			\$118,698,289
TOTAL NET COMBINED TOTAL DEBT			\$118,589,642
GROSS COMBINED TOTAL DEBT			\$126,923,289 ⁽²⁾
NET COMBINED TOTAL DEBT			\$126,814,642
<u>Ratios to 2014-15 Assessed Valuation:</u>			
Total Overlapping Tax and Assessment Debt	1.21%		
Total Direct Debt (\$8,760,000)	0.10%		
Gross Combined Total Debt	1.59%		
Net Combined Total Debt	1.59%		
<u>Ratios to Redevelopment Successor Agency Incremental Valuation (\$1,296,590,213):</u>			
Total Overlapping Tax Increment Debt	0.14%		

(1) Does not include POBs. Percentage of overlapping debt applicable to the City is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the City divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

* Being refunded by the Bonds.

Source: California Municipal Statistics, Inc.

Employee Relations

The City has [221.1] authorized regular positions for fiscal year 2014-15, of which [45.7%] are sworn Public Safety personnel. City employees are represented by six labor organizations that represent approximately [94%] of all regular, full-time City employees in a variety of classifications. Management employees are either individually represented or, in the case of Directors, at will and covered by a resolution.

There have been no work stoppages by City employees. Approximately [97%] of all regular City employees are covered under negotiated agreements, which are as follows and have the expiration dates set forth below:

<u>Labor Group</u>	<u>No. of Represented Employees</u>	<u>Contract Expiration Date</u>
Fountain Valley Municipal Employees' Association	38	August 25, 2017
Fountain Valley General Employees' Association	48	August 15, 2017
Orange County Employees' Association for the P&T Unit	17	August 15, 2017
Fountain Valley Police Officers' Association	52	July 31, 2016
Fountain Valley Peace Officers' Management Unit	5	July 31, 2016
Fountain Valley Firefighters Association IAFF Local 4530	40	January 31, 2017
Individually Represented P&T Employee - Battalion Chief	2	July 31, 2017

Risk Management and Self-Insurance

At June 30, 2015, the City was self-insured for workers' compensation, employee long-term disability insurance and general liability. Additionally, the City has purchased coverage for individual workers' compensation claims in excess of \$500,000 for general employees and \$1,000,000 for public safety. The City's general and auto liability self-insurance retention is \$25,000, and the balance extending to \$50,000,000 is covered by the use of pooling maintained through the California Joint Powers Insurance Authority (CJPIA). The City also purchases commercial insurance for other risks of loss, including property loss, fidelity and vehicle physical damage. For additional information regarding the California Joint Powers Insurance Authority, see Note 6 in APPENDIX B.

Employee Retirement System

This caption contains certain information relating to PERS. The information is primarily derived from information produced by PERS, its independent accountants and actuaries. The City has not independently verified the information provided by PERS and makes no representations and expresses no opinion as to the accuracy of the information provided by PERS.

The comprehensive annual financial reports of PERS are available on its Internet website at www.calpers.ca.gov. The PERS website also contains PERS' most recent actuarial valuation reports and other information concerning benefits and other matters. Such information is not incorporated by reference herein. The City cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or may be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

Plan Description. All permanent City employees are eligible to participate in pension plans provided by the California Public Employees' Retirement System ("PERS"), an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. PERS provides retirement, disability, and death benefits

based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and City ordinance. Copies of the Fund's annual financial report may be obtained from their executive office: 400 P Street, Sacramento, California 95814.

PERS Contributions and Funding Policy. The City now has three tiers of retirement for Safety-Police, Safety-Fire and Miscellaneous employees. The retirement received by employees is dependent on their date of hire and previous employment with PERS' reciprocal agencies, as shown in the tables below.

Safety-Police

	<u>Tier I</u>	<u>Tier II</u>	<u>Tier III (PEPRA)</u>
Benefit Formula	3% at 50	3.0% at 55	2.7% at 57
Final Average Compensation:	12 months	36 months	36 months
Applies to Employees	Hired before October 30, 2010	Hired before January 1, 2013, or employees in PERS system hired after January 1, 2013	New members hired on or after January 1, 2013
Employee Contribution	12% ⁽¹⁾	9%	11.5%

Safety-Fire

	<u>Tier I</u>	<u>Tier II</u>	<u>Tier III (PEPRA)</u>
Benefit Formula	3% at 50	2.0% at 50	2.7% at 57
Final Average Compensation:	12 months	36 months	36 months
Applies to Employees	Hired before March 31, 2012	Hired before January 1, 2013, or employees in PERS system hired after January 1, 2013	New members hired on or after January 1, 2013
Employee Contribution	9% ⁽¹⁾	9%	11.5%

Miscellaneous

	<u>Tier I</u>	<u>Tier II</u>	<u>Tier III (PEPRA)</u>
Benefit Formula	2.5% at 55	2.0% at 60	2.0% at 62
Final Average Compensation:	12 months	36 months	36 months
Applies to Employees	Hired before December 25, 2010	Hired before January 1, 2013, or employees in PERS system hired after January 1, 2013	New members hired on or after January 1, 2013
Employee Contribution	8%	7%	6.25%

⁽¹⁾ For public safety employee members of the Tier 1 Plans cover 3% of the City's actuarially determined rate. See Note 8 to Audited Financial Statements in APPENDIX B hereto.

The City's contributions to the Safety and Miscellaneous plans in the fiscal year ended June 30, 2013 totaled \$3,970,681, in fiscal year ended June 30, 2014 totaled \$4,506,326, and in fiscal year ended June 30, 2015 totaled \$4,945,455.

Funded Status. The following table sets forth the schedule of funding for the City's pension plans as of June 30, 2014.

Tier I Safety (2% at 50)

Valuation Date (June 30)	Entry Age Actuarial Accrued Liability	Actuarial Value of Assets	UAAL⁽¹⁾	Market Value of Assets	Funded Ratio⁽¹⁾	Annual Covered Payroll
2009 ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A
2010 ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A
2011	\$140,070,558	\$114,587,260	\$37,664,522	\$102,406,036	73.1%	\$9,521,325
2012	144,802,443	118,314,870	45,689,038	99,113,405	68.5	8,831,006
2013	152,921,642	N/A ⁽³⁾	42,459,120	110,462,522	72.2	8,309,448
2014	164,797,538	N/A ⁽³⁾	41,233,811	123,563,727	75.0	8,392,409

(1) Based on the market value of assets.

(2) This information is not available for such Fiscal Years. In accordance with PERS policies, the 2.0% at 50 Miscellaneous Plan was put into a PERS risk pool together with the plans of other public agencies in fiscal year 2008-09. Prior to fiscal year 2010-11, PERS did not provide individual plan information with respect to the allocation of the City's plan within such risk pool.

(3) This information is not available for such Fiscal Year.

Source: PERS Actuarial Reports Dated October 2013, October 2014 and November 2015.

Tier II Safety-Police (3% at 55)

Valuation Date (June 30)	Entry Age Actuarial Accrued Liability	Actuarial Value of Assets	UAAL⁽¹⁾	Market Value of Assets	Funded Ratio⁽¹⁾	Annual Covered Payroll
2011 ⁽²⁾	\$ 12,271	\$11,000	\$ 2,420	\$ 3,756	80.3%	\$120,373
2012	100,138	90,352	24,237	75,901	75.8	425,235
2013	267,729	N/A ⁽³⁾	51,970	215,759	80.6	715,656
2014	480,777	N/A ⁽³⁾	(1,047)	481,824	100.2	740,175

(1) Based on the market value of assets.

(2) Initial year of plan.

(3) This information is not available for such Fiscal Year.

Source: PERS Actuarial Reports Dated October 2013 and October 2014.

Tier II Safety-Fire (2% at 50)

Valuation Date (June 30)	Entry Age Actuarial Accrued Liability	Actuarial Value of Assets	UAAL⁽¹⁾	Market Value of Assets	Funded Ratio⁽¹⁾	Annual Covered Payroll
2012 ⁽²⁾	\$ 422	\$378	\$ 107	\$ 315	74.6%	\$142,196
2013	73,573	N/A ⁽³⁾	15,564	58,009	78.8	398,221
2014	166,110	N/A ⁽³⁾	(10,520)	176,630	106.3	418,842

(1) Based on the market value of assets.

(2) Initial year of plan.

(3) This information is not available for such Fiscal Year.

Source: PERS Actuarial Report Dated October 2014 and November 2015.

Tier III Safety-Police (2.7% at 57)

Valuation Date (June 30)	Entry Age Actuarial Accrued Liability	Market Value of Assets	Funded Ratio⁽¹⁾	Annual Covered Payroll
2013 ⁽²⁾	\$ 117	\$ (55)	147.0%	\$ 71,413
2014	15,957	(742)	104.7	146,304

⁽¹⁾ Based on the market value of assets.

⁽²⁾ Initial year of plan.

Source: PERS Actuarial Report Dated October 2014 and November 2015.

Tier III Safety-Fire (2.7% at 57)

Valuation Date (June 30)	Entry Age Actuarial Accrued Liability	Market Value of Assets	Funded Ratio⁽¹⁾	Annual Covered Payroll
2013 ⁽²⁾	\$ 439	\$ (205)	146.7%	\$100,975
2014	54,406	(2,549)	104.7	315,471

⁽¹⁾ Based on the market value of assets.

⁽²⁾ Initial year of plan.

Source: PERS Actuarial Report Dated October 2014 and November 2015.

Tier I Miscellaneous (2.5% at 55)

Valuation Date (June 30)	Entry Age Actuarial Accrued Liability	Market Value of Assets	UAAL⁽¹⁾	Funded Ratio⁽¹⁾	Annual Covered Payroll
2011	\$75,139,828	\$52,188,464	\$22,951,364	69.5%	\$7,701,517
2012	78,548,900	51,520,993	27,027,907	65.6	7,791,326
2013	83,629,685	58,018,327	25,611,358	69.4	7,134,333
2014	89,802,015	64,915,395	24,886,620	72.3	6,839,804

⁽¹⁾ Based on the market value of assets.

Source: PERS Actuarial Reports Dated October 2013, October 2014 and November 2015.

Tier II Miscellaneous (2% at 60)

Valuation Date (June 30)	Entry Age Actuarial Accrued Liability	Market Value of Assets	UAAL⁽¹⁾	Funded Ratio⁽¹⁾	Annual Covered Payroll
2011 ⁽²⁾	\$ 4,490	\$ 3,756	\$ 734	83.7%	\$185,827
2012	31,032	24,768	6,284	79.8	209,212
2013	82,037	69,171	12,866	84.3	325,781
2014	193,364	192,313	1,051	99.5	846,137

⁽¹⁾ Based on the market value of assets.

⁽²⁾ Initial year of plan.

⁽³⁾ This information is not available for such Fiscal Year.

Source: PERS Actuarial Report Dated October 2013, October 2014 and November 2015.

Tier III Miscellaneous (2.0% at 62)

<u>Valuation Date</u> <u>(June 30)</u>	<u>Entry Age Actuarial</u> <u>Accrued Liability</u>	<u>UAAL</u> ⁽¹⁾	<u>Market Value</u> <u>of Assets</u>	<u>Funded</u> <u>Ratio</u> ⁽¹⁾	<u>Annual</u> <u>Covered</u> <u>Payroll</u>
2013 ⁽²⁾	\$ 1,128	\$ (385)	\$ 1,513	134.1%	\$ 13,777
2014	27,275	(1,664)	28,939	106.1	402,964

⁽¹⁾ Based on the market value of assets.

⁽²⁾ Initial year of plan.

Source: PERS Actuarial Report Dated October 2013, October 2014 and November 2015.

The foregoing information is not yet available for the City's Tier III Safety-Police Plan (2.7% at 57), Tier III Safety-Fire Plan (2% at 62) or Tier III Miscellaneous Plan (2% at 62). For additional information relating to the City's Miscellaneous Plan, see Note 8 to the City's Financial Statements set forth in APPENDIX B.

Recent Actions Taken by PERS. On March 14, 2012, the PERS Board voted to reduce its discount rate, which rate is attributable to its expected price inflation and investment rate of return (net of administrative expenses), from 7.75% to 7.5%. As a result of such discount rate decrease, among other things, (i) the amounts of PERS member state and schools employer contributions will increase by 1.2 to 1.6% for Miscellaneous plans and 2.2 to 2.4% for Safety plans beginning in fiscal year 2012-13 and (ii) the amounts of PERS member public agency contributions will increase by 1 to 2% for Miscellaneous plans and 2 to 3% for Safety plans beginning in fiscal year 2013-14. More information about the PERS discount rate adjustment can be accessed through PERS's web site at www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2012/mar/discount-rate.xml. The reference to this internet website is shown for reference and convenience only, the information contained within the website may not be current and has not been reviewed by the City and is not incorporated herein by reference.

The PERS Board adjustment has been undertaken in order to address underfunding of the PERS funds, which arose from significant losses incurred as a result of the economic crisis arising in 2008 and persists due to a slower than anticipated, subsequent economic recovery. The City is unable to predict what the amount of PERS liabilities will be in the future, or the amount of the PERS contributions which the City may be required to make.

At its April 17, 2013 meeting, the PERS Board of Administration approved a recommendation to change the PERS amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

The new amortization and smoothing policy was used for the first time in the June 30, 2013 actuarial valuations. These valuations were performed in the fall of 2014 and set employer contribution rates for fiscal year 2015-16. The City cannot predict how this change in amortization and smoothing policies will affect its contribution levels.

According to PERS, the prior amortization and smoothing policy was designed to reduce volatility in employer contribution rates, and, although the policy accomplished this goal fairly well since its adoption, a number of concerns have developed:

- The use of an actuarial value of assets corridor can lead to significant single year increases to rates in years when there are large investment losses.
- The use of long asset smoothing periods and long rolling amortization periods result in slow progress toward full funding.

- The use of an actuarial value of assets requires the disclosure of two different funded statuses and unfunded liability numbers in actuarial valuation reports. This adds confusion and inhibits transparency.
- The use of rolling amortization and long asset smoothing periods makes it difficult for employers to predict when contribution rates will peak and how high that peak will be.
- The use of rolling amortization and asset smoothing periods may result in additional calculations for the new accounting standards. These calculations would be avoided with a quicker funded status recovery.

According to PERS, the adoption of the new smoothing and amortization policies will change future employer contribution rates, as follows:

- Funding levels will improve, which will reduce the funding level risk.
- Local agencies' plans will experience more rate volatility in normal years, but a much-reduced chance of very large rate increases in years when there are large investment losses.
- Contribution rates in the near term will increase.
- Long-term contribution rates will be lower.
- There will be greater transparency about the timing and impact of future employer contribution rate changes.
- The new policy eliminates the need for an actuarial value of assets. As a result, there will be only one funded status and unfunded liability in actuarial reports.
- There will be less confusion when the new accounting standards are implemented since there will be no need for extra liability calculations.

Pension Reform Act of 2013 (Assembly Bill 340). On September 12, 2012, Governor Brown signed AB 340, a bill that enacted the California Public Employees' Pension Reform Act of 2013 ("PEPRA") and that also amended various sections of the State Education and Government Codes. AB 340 (i) increases the retirement age for new State, school, and city and local agency employees depending on job function, (ii) caps the annual PERS pension benefit payouts, (iii) addresses numerous abuses of the system, and (iv) requires State, school, and certain city and local agency employees to pay at least half of the costs of their PERS pension benefits. PEPRA applies to all public employers except the University of California, charter cities and charter counties (except to the extent they contract with PERS).

The provisions of AB 340 went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on that date and after; existing employees who are members of employee associations, including employee associations of the City, will have a five-year window to negotiate compliance with AB 340 through collective bargaining. If no deal is reached by January 1, 2018, a city, public agency or school district could force employees to pay their half of the costs of PERS pension benefits, up to 8% of pay for civil workers and 11% or 12% for public safety workers.

PERS has predicted that the impact of AB 340 on employers, including the City and other employers in the PERS system, and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn. Additionally, PERS has noted that changes arising from AB 340 could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

More information about AB 340 can be accessed through the PERS's web site at www.calpers.ca.gov/index.jsp?bc=/member/retirement/pension-reform-impacts.xml&pst=ACT&pca=ST. This internet address is provided for reference and convenience only; the information contained within this website may not be current and has not been reviewed by the City and is not incorporated herein by reference.

Also, on February 18, 2014, the PERS Board approved new demographic assumptions reflecting (i) expected longer life spans of public agency employees and (ii) trends of higher rates of retirement for certain public agency member groups, including police officers and firefighters, PERS expects that the new assumptions will raise employer pension costs in the future. The PERS Board approved the implementation of the costs for local public agencies like the City beginning in fiscal year 2016-17, with the cost spread over 20 years and the increases phased in over five years. In 2015, the PERS Board also adopted a policy to gradually lower the system’s 7.5 percent long-term annual earning assumption (the “Discount Rate”) and investment risk profile. As a result, the Discount Rate will gradually move down to approximately 6.5 percent in the next two decades.

The City is unable to predict the amount of PERS liabilities in the future or the amount of the PERS contributions which the District may be required to make, all as a result of the implementation of AB 340, and as a result of negotiations with its employee associations.

Other Post-Employment Benefits

This section is derived from the most recent audited financial statements of the City. See APPENDIX B.

In addition to pension benefits, the City provides health care benefits to eligible retirees and qualified family members (“OPEB”). On December 1, 2010, the City adopted the Public Agencies Post-Retirement Health Care Plan Trust (the “OPEB Trust”), for which MUFG Union Bank, N.A. serves as trustee and the Public Agency Retirement Services (“PARS”) serves as third party trust administrator.

The OPEB Trust is a multiple employer trust established to hold assets used to fund the City’s OPEB obligations and those of other public agencies. Pursuant to the City’s contract with PARS, the City will make deposits into the OPEB Trust to fund its unfunded actuarial accrued liability. In Fiscal Years 2011 and 2012, the City made four deposits totaling approximately \$5,729,185 into the OPEB Trust. Such amounts were more than the City’s OPEB ARC described below. The City does not expect to make a deposit into the OPEB Trust in fiscal year 2015-16.

City employees who retire after October 1, 1980, with a minimum of between 5 and 15 years of continuous service (depending upon date of hire and employee tier) are eligible to participate in the City’s OPEB plan. The City contributes the actual cost of insurance up to the amount contributed for active employees. For general, professional and technical employees hired prior to February 16, 1986, such insurance is supplemental to Medicare upon reaching age 65. For employees hired after February 16, 1986 (except department directors), OPEB participation terminates upon reaching age 65. City employees who retired at age 50 with a minimum of five years of service are eligible for reduced retiree health benefits if they are eligible for a PERS pension.

As of January 1, 2014, the City’s OPEB plan consisted of the membership shown in the following table:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Total</u>
Retirees and beneficiaries receiving benefits	98	79	177
Active plan members	113	96	209
Total	211	175	386

The contribution requirements of OPEB plan members and the City are established and may be amended by the City Council. Such contributions are made on a pay-as-you-go basis (i.e., as medical insurance premiums become due). In fiscal year 2014-15, the City contributed \$1,566,823 to Miscellaneous plan members and \$907,835 to Safety plan members for current premiums. The City did not contribute moneys into the OPEB Trust to fund its unfunded actuarial accrued liability in fiscal year 2014-15.

Governmental Accounting Standards Board Statement No. 45 (“GASB 45”) requires governmental agencies that fund post-employment benefits on a pay-as-you-go basis, such as the City, to account for and report such outstanding obligations and commitments in essentially the same manner as for pensions. While requiring the City to disclose the unfunded actuarial accrued liability and the annual required contribution (the actuarial value of benefits earned during a fiscal year plus costs to amortize the unfunded actuarial accrued liability, or “OPEB ARC”) in its financial statements, GASB 45 does not require the City to fund the OPEB ARC. The OPEB ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

In fiscal year 2014-15, the OPEB ARC for the City’s OPEB plan for Miscellaneous plan members was \$912,891 and the City contributed \$727,443 toward such amount, and for Safety plan members was \$1,740,511, and the City contributed \$839,380 toward such amount.

In 2014, the City engaged Bickmore (the “Consultant”) to calculate the City’s OPEB funding status. The Consultant’s report reflected the following information with respect to the City’s OPEB plans for Miscellaneous and Safety employees, in the aggregate, as of January 1, 2014:

	<u>Total</u>
Actuarial Accrued Liability	\$39,603,775
Actuarial Value of Assets	7,002,861
Unfunded Actuarial Accrued Liability	32,600,914

Assets were valued using a 4.60% discount rate with an amortization period of 28 years.

The City’s annual post-employment benefits cost for its OPEB plans, the percentage of annual post-employment benefits cost contributed to its OPEB plans and the net OPEB obligation for fiscal years 2011-12 (the year in which the OPEB Trust was established) through 2014-15 are shown in the tables below:

Miscellaneous

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset/ (Obligation)</u>
2011-12	1,061,283	69.46	951,645
2012-13	960,000	63.87	604,748
2013-14	1,016,649	64.66	245,597
2014-15	867,964	83.81	104,976

Safety

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Asset/ (Obligation)</u>
2011-12	1,738,955	60.18	(838,878)
2012-13	1,573,000	63.59	(1,411,605)
2013-14	1,631,144	55.66	(2,134,914)
2014-15	1,774,590	47.30	(3,070,124)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The City anticipates increases in OPEB contributions of an average of approximately 6.25% per annum. However, no assurance can be provided that such expenses will not increase at a significantly higher rate in the future. The City does not expect that any increased funding of post-employment benefits will have a material adverse effect on the City's financial condition.

See Note 7 to the City's audited financial statements in APPENDIX B for further information with respect to post-employment benefits.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

The constitutional and statutory provisions discussed in this section have the potential to affect the ability of the City to levy taxes and spend tax proceeds for operating and other purposes.

Article XIII A of the State Constitution

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the State Constitution. Article XIII A, as amended, limits the amount of any ad valorem tax on real property to one percent of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service (i) on indebtedness approved by the voters prior to July 1, 1978, (ii) on bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property or (iii) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities or the acquisition or lease of real property for school facilities, approved by 55 percent of the voters voting on the proposition. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

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

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent 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 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment 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.

All taxable property is shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100 percent of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Article XIII B of the State Constitution

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual “appropriations limit” imposed by Article XIII B which effectively limits the amount of such revenues those entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, State subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds. Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in case of emergency; however, the appropriations limit for the next three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each agency’s actual appropriations be tested against its limit every two years.

If the aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency’s taxpayers through tax rate or fee reductions over the following two years.

The City has never exceeded its appropriations limit.

Articles XIII C and XIII D of the State Constitution

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 adds Articles XIII C and XIII D to the State Constitution and contains a number of interrelated provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. The amendments to Article XIII C define “taxes” that are subject to voter approval as “any levy, charge, or exaction of any kind imposed by a local government,” with certain exceptions.

Taxes. Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City (“general taxes”) require a majority vote; taxes for specific purposes (“special taxes”), even if deposited in the City’s General Fund, require a two-thirds vote.

Property-Related Fees and Charges. Article XIID also adds several provisions making it generally more difficult for local agencies to levy and maintain property-related fees, charges, and assessments for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that assessments must confer a “special benefit,” as defined in Article XIID, over and above any general benefits conferred, (iii) a majority protest procedure for assessments which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected party, and (iv) a prohibition against fees and charges which are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

Reduction or Repeal of Taxes, Assessments, Fees and Charges. Article XIIC also removes limitations on the initiative power in matters of reducing or repealing local taxes, assessments, fees or charges. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the City’s General Fund. If such repeal or reduction occurs, the City’s ability to pay debt service on the Bonds could be adversely affected.

Burden of Proof. Article XIIC provides that local government “bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.” Similarly, Article XIID provides that in “any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance” with Article XIID.

Judicial Interpretation of Proposition 218. The interpretation and application of Articles XIIC and XIID will ultimately be determined by the courts, and it is not possible at this time to predict with certainty the outcome of such determination.

Impact on City’s General Fund. The City does not believe that any material source of General Fund revenue is subject to challenge under Proposition 218 or Proposition 26.

The approval requirements of Articles XIIC and XIID reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase the taxes, fees, charges or taxes in the future that it may need to meet increased expenditure needs.

Proposition 1A; Proposition 22

Proposition 1A. Proposition 1A, proposed by the Legislature in connection with the State’s Fiscal Year 2004-05 Budget, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provided that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibited the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any Fiscal Year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county has to be approved by two-thirds of both houses of the Legislature.

Proposition 22. Proposition 22, entitled “The Local Taxpayer, Public Safety and Transportation Protection Act,” was approved by the voters of the State in November 2010. Proposition 22 eliminates or reduces the State’s authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from

redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

Possible Future Initiatives

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

BOND OWNERS' RISKS

The following describes certain special considerations and risk factors affecting the payment of and security for the Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other considerations will not materialize in the future.

No Pledge of Taxes

General. The obligation of the City to pay the Base Rental Payments and Additional Rental 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. The obligation of the City to pay Base Rental Payments and Additional Rental Payments does not constitute a debt or indebtedness of the City, the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Limitations on Taxes and Fees. Certain taxes, assessments, fees and charges presently imposed by the City could be subject to the voter approval requirements of Article XIII C and Article XIII D of the State Constitution. Based upon the outcome of an election by the voters, such fees, charges, assessments and taxes might no longer be permitted to be imposed, or may be reduced or eliminated and new taxes, assessments fees and charges may not be approved. The City has assessed the potential impact on its financial condition of the provisions of Article XIII C and Article XIII D of the State Constitution respecting the imposition and increase of taxes, fees, charges and assessments and does not believe that an election by the voters to reduce or eliminate the imposition of certain existing fees, charges, assessments and taxes would substantially affect its financial condition. However, the City believes that if the initiative power was exercised so that all local taxes, assessments, fees and charges that may be subject to Article XIII C and Article XIII D of the State Constitution are eliminated or substantially reduced, the financial condition of the City, including its General Fund, could be materially adversely affected.

Although the City does not currently anticipate that the provisions of Article XIII C and Article XIII D of the State Constitution would adversely affect its ability to pay Base Rental Payments and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of Article XIII C and Article XIII D of the State Constitution on the City's finances. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Additional Obligations of the City

The POBs are payable from the City's General Fund in addition to the Base Rental Payments under the Lease. See "CITY FINANCIAL INFORMATION – Outstanding General Fund Debt and Other Obligations." The City is permitted to enter into other obligations which constitute additional charges against its revenues without the consent of Owners of the Bonds. To the extent that additional obligations are incurred by the City, the funds available to pay Base Rental Payments may be decreased.

The Base Rental Payments and other payments due under the Lease (including payment of costs of repair and maintenance of the Property, taxes and other governmental charges levied against the Property) are payable from funds lawfully available to the City. If the amounts that the City is obligated to pay in a fiscal year exceed the City's revenues for such year, the City may choose to make some payments rather than making other payments, including Base Rental Payments and Additional Rental Payments, based on the perceived needs of the City. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

No Reserve Fund

No reserve fund will be established and maintained with respect to the Bonds. As a result, in the event of non-appropriation or non-payment of the Base Rental Payments in full when due, no other source of funds will be available to make payments of debt service Bonds while remedial actions are taken with respect to such non-appropriation or non-payment.

Default

Whenever any event of default referred to in the Lease happens and continues, the City is authorized under the terms of the Lease to exercise any and all remedies available under law or granted under the Lease. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for a detailed description of available remedies in the case of a default under the Lease.

If a default occurs, there is no remedy of acceleration of the total Base Rental Payments due over the term of the Lease. The Trustee is not empowered to sell the Property and use the proceeds of such sale to prepay the Bonds or pay debt service on the Bonds.

The City will be liable only for Base Rental Payments on an annual basis and, in the event of a default, the Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against municipalities in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Base Rental Payments were due and against funds needed to serve the public welfare and interest.

Natural Disasters

From time to time, the City is subject to natural calamities that may adversely affect economic activity in the City, which therefore may have a negative impact on City finances. The occurrence of any natural calamity, including but not limited to an earthquake, uncontrolled fire or a major flood, may also result in the substantial interference with the use and occupancy of the Leased Property, which could result in Lease Payments being subject to abatement. Under such circumstances, no assurance can be given that the City would have insurance or other resources available to make repairs to the Leased Property or to make Lease Payments under the Lease.

Seismic Risks. The City, like most communities in the State, is located in an area of unpredictable seismic activity, and therefore, is subject to potentially destructive earthquakes. Although the City is not within an Alquist-Priolo Special Study Zone and no active faults are known to occur directly under the City, there are known fault splays beneath the City, and the City could be at risk from strong ground motion from a number of nearby seismically active faults. The City is not obligated under the Lease and it does not intend to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property. In the event that any portion of the Property is destroyed by an earthquake, an abatement could occur and result in the Trustee having inadequate funds to pay the principal and interest with respect to the Bonds as and when due.

Flood Risk. Most of the City is subject to very minimal flood risk, and is located in a low risk flood zone. In the City, the flood zone areas are designated by Federal Emergency Management Agency (“FEMA”) as Flood Zone A or Flood Zone X. Flood Zone A is designated as the high risk, Special Flood Hazard Area (SFHA), inundated by a 100-year floodplain. Flood Zone X designates areas of a 500-year flood; areas of 100-year flood with average depths of less than 1-foot or with drainage less than 1-square mile; and areas protected by levees from a 100-year flood.

Severe Drought. On January 17, 2014, Governor Jerry Brown proclaimed a state of emergency due to the severe drought conditions faced by the State. On April 25, 2014, Governor Brown issued an executive order to strengthen the State's ability to manage water and habitat effectively in drought conditions and called on all Californians to redouble their efforts to conserve water.

In an April 1, 2015, Executive Order, Governor Brown mandated a 25% water use reduction for cities and towns across California. In May 2015, the State Water Resources Control Board adopted an emergency regulation requiring an immediate 25% reduction in overall potable urban water use. The regulation uses a sliding scale for setting conservation standards, so that communities that have already reduced their residential gallons per capita per day through past conservation will have lower mandates than those that have not made such gains since the last major drought.

The City provides water service to approximately 34,000 customers, including residential, commercial, industrial, and institutional accounts. The City derives its water from two main sources: imported water from the Metropolitan Water District of Southern California and groundwater pumped from the Orange County Groundwater Basin. To date the City has not implemented rate increases in the City in response to the ongoing drought conditions, but such rate increases may occur in the future should the drought persist.

Abatement

Under certain circumstances related to damage, destruction, condemnation or title defects which cause a substantial interference with the use and possession of the Property, the City’s obligation to make Base Rental Payments will be subject to full or partial abatement and could result in the Trustee having inadequate funds to pay the principal and interest on the Bonds as and when due. See “SECURITY FOR THE BONDS – Abatement” and “APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Although the City is required under the Lease to maintain property and liability insurance with respect to the Property, the required insurance coverage is subject to certain conditions and restrictions. See “SECURITY FOR THE BONDS – Insurance.”

In addition, the City is required to use the proceeds of rental interruption insurance maintained under the Lease to make debt service payments on the Bonds during any period of abatement. See “SECURITY FOR THE BONDS – Property Insurance.” However, there is no assurance that the City will receive proceeds of rental interruption insurance in time to make debt service payments on the Bonds when due.

Property Taxes

Levy and Collection. The City does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease could reduce the City’s property tax revenues, and accordingly, could have an adverse impact on the ability of the City to make Base Rental Payments. Likewise, delinquencies in the payment of property taxes could have an adverse effect on the City’s ability to pay principal of and interest on the Bonds when due.

Reduction in Inflationary Rate. Article XIII A of the State Constitution provides that the full cash value base of real property used in determining assessed value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. See “CONSTITUTIONAL AND STATUTORY

LIMITATIONS ON TAXES AND APPROPRIATIONS.” Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2% limitation a limited number of times.

The City is unable to predict if any adjustments to the full cash value base of real property within the City, whether an increase or a reduction, will be realized in the future.

Appeals of Assessed Values. There are two types of appeals of assessed values that could adversely impact property tax revenues:

Proposition 8 Appeals. Most of the appeals that might be filed in the City would be based on Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property must be the lesser of its base year value annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value.

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals.

Any reduction in the assessment ultimately granted as a Proposition 8 appeal applies to the year for which application is made and during which the written application was filed. These reductions are often temporary and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

Base Year Appeals. A second type of assessment appeal is called a base year appeal, where the property owners challenge the original (basis) value of their property. Appeals for reduction in the “base year” value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

No assurance can be given that property tax appeals in the future will not significantly reduce the City’s property tax revenues.

Limitations on Remedies Available to Bond Owners

The ability of the City to comply with its covenants under the Lease may be adversely affected by actions and events outside of the control of the City, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” above. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Lease or the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bond owner remedies contained in the Lease and the Indenture, the rights and obligations under the Bonds, the Lease and the Indenture may be subject to the following: the United

States 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 equity 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 and its governmental bodies in the interest of serving 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 Bonds 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.

The opinion to be delivered by Bond Counsel, concurrently with the issuance of the Bonds, will include a qualification that the rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture, the Lease and the Ground Lease may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases. See "APPENDIX E - FORM OF OPINION OF BOND COUNSEL."

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Authority or the City in violation of their respective covenants in the Lease and the Indenture. Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Secondary Market for Bonds

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

THE AUTHORITY

The Authority is a public body duly organized and existing under the Joint Exercise of Powers Agreement, dated as of August 1, 2014 (the "JPA Agreement"), by and between the City and the Fountain Valley Housing Authority, and under the Constitution and laws of the State. The Authority was formed for the purpose of assisting in the financing and refinancing of capital improvement projects of the City and to finance working capital for the City by exercising the powers referred to in the JPA Agreement, including the power to issue bonds to pay the costs of public improvements. Neither the City nor the Fountain Valley Housing Authority is responsible for repayment of the obligations of the other. The members of the Board of Directors of the Authority are the members of the City Council of the City.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds 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. In the further opinion of Bond Counsel, interest (and original issue

discount) on the Bonds is exempt from State personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the Owner of the Bond before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Owner of a Bond will increase the Owner's basis in the Bond. In the opinion of Bond Counsel, original issue discount that accrues to the Owner of a Bond is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Tax Code"); such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of the interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the Authority, the City and others and is subject to the condition that the Authority and the City comply with all requirements of the Tax Code that must be satisfied subsequent to issuance of the Bonds to assure that the interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Tax Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority and the City have covenanted to comply with all such requirements applicable to each, respectively.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Tax Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE BONDS OR THE MARKET VALUE OF THE BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE INTRODUCTION OR ENACTMENT OF ANY SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE ISSUANCE OF THE BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR

INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel's engagement with respect to the Bonds terminates upon their issuance and Bond Counsel disclaims any obligation to update the matters set forth in its opinion. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel has rendered an opinion that the interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the Authority and the City continue to comply with certain requirements of the Tax Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Bonds.

A copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX E.

CERTAIN LEGAL MATTERS

Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which is set forth in "APPENDIX E - FORM OF OPINION OF BOND COUNSEL." Certain legal matters will also be passed upon for the City and the Authority by Best Best & Krieger LLP, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney. The Underwriter is being represented by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California.

LITIGATION

To the best knowledge of the Authority and the City, there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending and notice of which has been served on and received by the Authority or the City or, to the knowledge of the Authority and the City, threatened against or affecting the Authority or the City or the assets, properties or operations of the Authority or the City which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Lease, the Ground Lease or the Indenture, or upon the financial condition, assets, properties or operations of the Authority or the City, and the Authority and the City are not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially adversely affect the consummation of the transactions contemplated by the Lease, the Ground Lease or the Indenture, or the financial conditions, assets, properties or operations of the Authority or the City, including but not limited to the payment and performance of the City's obligations under the Lease.

RATING

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") has assigned its municipal bond rating of "___" to the Bonds.

This rating reflects only the views of S&P, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should be obtained from S&P.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement).

There is no assurance that this rating will continue for any given period of time or that this rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the Bonds may have an adverse effect on the market price or marketability of the Bonds.

CONTINUING DISCLOSURE

The City (on behalf of the Authority and itself) will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City (the "Annual Report") and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended (the "Rule"). The specific nature of the information to be contained in the Annual Report or the notices of listed events is set forth in "APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The City and the Successor Agency (which is not an obligor of the Bonds or under the continuing disclosure undertakings for the Bonds, but shares staff with the City), have entered into prior continuing disclosure undertakings under the Rule in connection with the issuance of long-term obligations and have provided annual financial information and event notices in accordance with their respective undertakings.

The City is unaware of any instances of non-compliance by itself with the requirements of its continuing disclosure undertakings during the past five years.

The City is aware of non-compliance with the requirements of the continuing disclosure undertakings of the Successor Agency during the past five years with respect to the Successor Agency's Annual Reports for fiscal years 2009-10 through 2011-12 did not include updated average secured tax rate information. Updates of such information for fiscal years 2009-10 through 2011-12 were provided in the Annual Report for fiscal year 2012-13.

The City has made filings on behalf of the Successor Agency to correct all known instances of non-compliance during the past five years and believes it has established processes, including by hiring Urban Futures, Inc., Orange, California ("Urban Futures"), to ensure that in the future it will make its continuing disclosure filings as required on behalf of the City and the Successor Agency.

MUNICIPAL ADVISOR

The City and the Authority have retained Urban Futures as municipal advisor (the "Municipal Advisor") in connection with the offering of the Bonds and the preparation of this Official Statement. The Municipal Advisor assisted in the preparation and review of this Official Statement. All financial and other information presented in this Official Statement has been provided by the City and the Authority from their records, except for information expressly attributed to other sources. The Municipal Advisor takes no responsibility for the

accuracy or completeness of the data provided by the City, Authority or others and has not undertaken to make an independent verification or does not assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The fee of the Municipal Advisor is contingent upon the successful closing of the Bonds.

UNDERWRITING

Raymond James & Associates, Inc. (the “Underwriter”), has entered into a Bond Purchase Agreement with the Authority and the City under which the Underwriter will purchase the Bonds at a purchase price of \$_____ (which is equal to the par amount of the Bonds, less an Underwriter’s discount of \$_____, and plus (less) a net original issue premium (discount) of \$_____).

The Underwriter will be obligated to take and pay for all of the Bonds if any are taken. The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriter.

PROFESSIONAL SERVICES

In connection with the issuance of the Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Bonds: Stradling Yocca Carlson & Rauth, A Professional Corporation, as Bond Counsel; Best Best & Krieger LLP, as Disclosure Counsel; Urban Futures, Incorporated, Orange, California, as Municipal Advisor to the Authority and the City; and U.S. Bank National Association, as Trustee and Escrow Bank.

EXECUTION

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

**FOUNTAIN VALLEY PUBLIC FINANCING
AUTHORITY**

By: _____
Chair

CITY OF FOUNTAIN VALLEY

By: _____
City Manager

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Ground Lease, the Lease and the Indenture relating to the Bonds. Such summary is not intended to be definitive, and reference is made to the complete documents for the complete terms thereof.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDING JUNE 30, 2015**

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

§ _____
FOUNTAIN VALLEY PUBLIC FINANCING AUTHORITY
Lease Revenue Bonds, Series 2016A

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the City of Fountain Valley (the “City”), on behalf of the Fountain Valley Public Financing Authority (the “Authority”) and itself, in connection with the issuance by the Authority of the bonds captioned above (the “Bonds”). The Bonds are being issued under an Indenture dated as of February 1, 2016 (the “Indenture”), between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The City hereby covenants and agrees as follows:

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

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

“*Annual Report*” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4.

“*Annual Report Date*” means March 31 of each year.

“*Dissemination Agent*” means Urban Futures, Inc., or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

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

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

“*Official Statement*” means the final official statement dated _____, 2016, executed by the City and the Authority in connection with the issuance of the Bonds.

“*Participating Underwriter*” means Raymond James & Associates, Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2017, with the report for the 2015-16 Fiscal Year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual

Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the 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). The City shall provide a written General Fund with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

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

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

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

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

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

(a) Audited financial statements of the City 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 under Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed under the preceding clause (a), the Annual Report shall contain information showing:

(i) the actual revenues, expenditures and beginning and ending fund balances relating to the General Fund of the City for the most recent completed Fiscal Year;

(ii) information showing the aggregate principal amount of long-term bonds, leases and other obligations of the City which are payable out of the General Fund of the City, as of the close of the most recent completed Fiscal Year;

(iii) information concerning the assessed valuation of properties within the City for the most recent completed Fiscal Year;

(iv) information showing the total secured property tax levy and actual amounts collected for the most recent completed Fiscal Year; and

(v) with respect to the top 10 property taxpayers in the City, information showing the identity of each such taxpayer, and the total assessed valuation of properties owned by each such taxpayer.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City, the Authority 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 MSRB. The City shall clearly identify each such other document so included by reference.

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 may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

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

Section 5. Reporting of Significant Events.

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

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier “if material” and that subparagraph (a)(6) also contains the qualifier “material” with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event’s occurrence is material for purposes of U.S. federal securities law. Whenever the City obtains knowledge of the occurrence of any of these Listed Events, the City will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the City will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

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

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

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent will be Urban Futures, Incorporated. Any Dissemination Agent may resign by providing 30 days’ written notice to the City.

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

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

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

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

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual 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 any amendment made pursuant to this Section shall be filed in the same manner as for a Listed Event under Section 5(b).

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

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the 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 Indenture, 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 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any

fiduciary capacity for the City, the Bond owners or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the City: City of Fountain Valley
10200 Slater Avenue
Fountain Valley, CA 92708

To the Dissemination Agent: Urban Futures, Inc.
3111 North Tustin, Suite 230
Orange, CA 92865

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2016

CITY OF FOUNTAIN VALLEY

By: _____
City Manager

AGREED AND ACCEPTED:
Urban Futures, Inc., as Dissemination Agent

By: _____

Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Fountain Valley Public Financing Authority

Name of Bond Issue: Fountain Valley Public Financing Authority
Lease Revenue Bonds, Series 2016A

Date of Issuance: _____, 2016

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated _____, 2016, executed by the City. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF FOUNTAIN VALLEY

By: _____

Its: _____

cc: Dissemination Agent

APPENDIX D

GENERAL INFORMATION ABOUT THE CITY OF FOUNTAIN VALLEY AND ORANGE COUNTY

The following information concerning the City of Fountain Valley (the “City”) and Orange County (the “County”) is included only for the purpose of supplying general information regarding the area in and around the City. The Bonds are not a debt of the City, the County, the State of California (the “State”) or any of its political subdivisions (other than the Authority), and none of the City, the County, the State or any of its political subdivisions (other than the Authority) is liable therefor.

General Description and Background

The County of Orange, California (the “County”) encompasses 798 square miles in Southern California, bordered on the north by Los Angeles and San Bernardino counties, on the east by Riverside County, on the southeast by San Diego County and on the west and southwest by the Pacific Ocean. There are 34 cities located within the County. The County is the third largest county in the State and the sixth largest county in the nation.

Approximately 42 miles of ocean shoreline provide many beaches, marinas and other recreational areas for use by residents and visitors. The climate in the County is mild, with an average annual rainfall of 13 inches.

The County is governed by a five member Board of Supervisors (the “Board”) elected by districts to four year terms by the citizens of the County. At the beginning of each year, the Board selects a Chairman and a Vice Chairman.

Population

The following sets forth population estimates for Fountain Valley, the County and the State as of January 1 for the years 2004 through 2015:

CITY OF FOUNTAIN VALLEY, COUNTY OF ORANGE AND STATE OF CALIFORNIA Estimated Population

<u>Year (January 1)</u>	<u>City of Fountain Valley</u>	<u>Orange County</u>	<u>State of California</u>
2004	55,009	2,948,135	35,570,847
2005	55,193	2,956,847	35,869,173
2006	54,942	2,956,334	36,116,202
2007	54,716	2,960,659	36,399,676
2008	54,779	2,974,321	36,704,375
2009	55,078	2,990,805	36,966,713
2010	55,274	3,008,855	37,223,900
2011	55,417	3,028,846	37,427,946
2012	55,847	3,057,875	37,668,804
2013	56,244	3,085,269	37,984,138
2014	56,702	3,113,991	38,340,074
2015	57,021	3,147,655	38,714,725

Source: State Department of Finance, Demographic Research Unit.

Commerce

Total taxable sales during the first three quarters of calendar year 2013 in the County were reported to be \$42,243,366,000, a 4.72% increase over the total taxable sales of \$40,339,743,000 reported during the first three quarters of calendar year 2012.

COUNTY OF ORANGE
Taxable Transactions
(Figures in Thousands)
Calendar Years 2010 through 2014

Calendar Year	Number of Permits	Retail and Food Taxable Transactions	Total Permits	Total Outlets Taxable Transactions
2010	58,076	32,552,107	92,047	47,667,179
2011	58,795	35,587,795	92,207	51,731,139
2012	60,273	38,372,456	93,183	55,230,612
2013	62,208	40,025,929	94,562	57,591,217
2014 ⁽¹⁾	65,291	10,384,102	97,943	15,129,604

⁽¹⁾ Through third quarter 2014.
Source: State Board of Equalization.

Commercial Activity

Total taxable sales during the first three quarters of calendar year 2013 in the City were reported to be \$733,781,000, a 2.26% increase over the total taxable sales of \$717,532,000 reported during the first three quarters of calendar year 2012.

CITY OF FOUNTAIN VALLEY
Taxable Transactions
(Figures in Thousands)
Calendar Years 2010 through 2014

Calendar Year	Number of Permits	Retail and Food Taxable Transactions	Total Permits	Total Outlets Taxable Transactions
2010	970	758,470	1,611	863,521
2011	984	830,046	1,620	947,178
2012	984	849,570	1,615	976,496
2013	1,010	832,004	1,643	985,852
2014 ⁽¹⁾	1,047	213,875	1,657	250,364

⁽¹⁾ Through the third quarter 2014.
Source: State Board of Equalization.

Employment and Industry

The City is included in the Santa Ana-Anaheim-Irvine Metropolitan Division (which consists of Orange County). The following table shows the average annual estimated numbers by industry comprising the civilian labor force, as well as unemployment information for years 2010 through 2014.

The unemployment rate in the County was 4.3% in June 2015, up from a revised 4.2% in May 2015, and below the year-ago estimate of 5.5%. This compares with an unadjusted unemployment rate of 6.2% for California and 5.5% for the nation during the same period.

**SANTA ANA–ANAHEIM–IRVINE METROPOLITAN DIVISION
ORANGE COUNTY
Civilian Labor Force, Employment and Unemployment
(Annual Averages)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>Civilian Labor Force</u> ⁽¹⁾	1,538,600	1,548,100	1,566,100	1,566,800	1,575,600
Employment	1,388,900	1,408,300	1,443,400	1,464,900	1,489,200
Unemployment	149,700	139,800	122,700	101,900	86,400
Unemployment Rate	9.7%	9.0%	7.8%	6.5%	5.5%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	3,700	3,200	2,800	2,900	2,800
Mining and Logging	600	600	600	600	700
Construction	68,000	69,200	71,300	76,800	82,000
Manufacturing	150,500	154,300	158,300	158,000	158,800
Wholesale Trade	77,800	77,300	77,200	79,400	81,700
Retail Trade	141,300	142,600	144,000	145,500	148,700
Transportation, Warehousing, Utilities	26,700	27,500	28,000	27,500	26,600
Information	69,400	71,200	73,800	77,000	76,200
Finance and Insurance	34,100	33,600	34,500	36,100	37,900
Real Estate and Rental and Leasing	244,900	247,700	260,600	267,300	275,800
Professional and Business Services	165,500	168,000	173,800	184,200	190,300
Educational and Health Services	168,600	174,000	180,600	187,800	193,500
Leisure and Hospitality	42,200	43,200	44,600	45,600	47,700
Other Services	12,400	11,600	11,100	11,000	10,900
Federal Government	27,300	28,000	28,700	29,100	29,900
State Government	112,600	109,700	108,100	108,600	111,100
Local Government	<u>3,700</u>	<u>3,200</u>	<u>2,800</u>	<u>2,900</u>	<u>2,800</u>
Total, All Industries ⁽³⁾	1,370,400	1,385,600	1,422,400	1,462,400	1,498,700

⁽¹⁾ Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

⁽²⁾ Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

⁽³⁾ Totals may not add due to rounding.

Source: California Employment Development Department.

Major Employers

The following table lists the top employers in the County, listed alphabetically.

ORANGE COUNTY Major Employers - As of July 2015

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Anaheim City Hall	Anaheim	City Government-Executive Offices
Blogtagon Social Media	Fountain Valley	Internet Service
Boeing Co	Seal Beach	Aerospace Industries (Mfrs)
Boeing Co	Huntington Beach	Aircraft-Manufacturers
Broadcom Corp	Irvine	Semiconductors & Related Devices (Mfrs)
California State-Fullerton	Fullerton	Schools-Universities & Colleges Academic
Disneyland	Anaheim	Amusement & Theme Parks
Emplicity	Irvine	Employment Contractors-Temporary Help
First American Title Ins Co	Santa Ana	Title Companies
Hoag Hospital Newport Beach	Newport Beach	Hospitals
James R Glidewell Dental Ceramics	Irvine	Laboratories-Dental
Jones Lang La Salle	Brea	Real Estate Management
Laguna Woods Village Cmnty Center	Laguna Woods	Senior Citizens Service
Puro Clean	Anaheim	Fire Damage Restoration
Quiksilver Eyeware USA	Huntington Beach	Optical Goods-Retail
Raytheon Company	Fullerton	Search Detection/Nav Systs/Instr (Mfrs)
St Jude Medical Center	Brea	Hospitals
St Jude Medical Center	Fullerton	Hospitals
Tenet Healthcare	Fountain Valley	Hospitals
UC Irvine Healthcare	Orange	Hospitals
United Healthcare	Cypress	Health Plans
University of CA-Irvine	Irvine	Schools-Universities & Colleges Academic
University-CA Irvine Med Center	Orange	Medical Centers
US Health Care Svc	Seal Beach	Health & Allied Services
Walt Disney Parks & Resorts	Anaheim	Amusement & Theme Parks

Source: State of California Employment Development Department, compiled from America's Labor Market Information System (ALMIS) Employer Database, 2015 2nd Edition.

The City's major employers are set forth below:

**CITY OF FOUNTAIN VALLEY
Major Employers
(As of June 3, 2015)**

<u>Company Name</u>	<u>Category</u>	<u>Employment</u>
Fountain Valley Regional Hospital	Health Care	1,667
Hyundai Motor America	Automotive	1,304
Memorial Health Services	Health Care	1,122
Orange Coast Memorial Medical Center	Health Care	997
Fountain Valley Unified School District	Educational	700
Kingston Technology Corporation	Technology	685
Surefire, LLC	Manufacturing	393
Snelling	Business Services	382
Costco Wholesale, #411	Wholesale Retail	322
Sam's Club, #6615	Wholesale Retail	264
Ceridian Tax Service, Inc.	Professional Services	251
City of Fountain Valley	Government	207
Manor Care of Fountain Valley	Health Care	204
D-Link Systems, Inc.	Electronics and Manufacturing	192
Fry's Electronics	Electronics Retail	152
Yakult	Food Retailer	70
Coastline Community College	Educational	45

Source: City of Fountain Valley.

Construction Activity

The following tables show a five-year summary of the valuation of building permits issued in the City and the County.

**CITY OF FOUNTAIN VALLEY
Total Building Permit Valuations
(Figures in Thousands)**

	<u>2009</u>	<u>2010</u>	<u>Calendar Year</u> <u>2011</u>	<u>2012</u>	<u>2013</u>
Permit Valuation					
New Single-family	\$21,151.2	\$1,319.2	\$ 6,221.6	\$ 7,992.5	\$ 8,677.9
New Multi-family	0.0	0.0	0.0	3,894.7	3,311.4
Res. Alterations/Additions	<u>7,113.5</u>	<u>7,095.2</u>	<u>6,581.2</u>	<u>5,718.2</u>	<u>6,681.5</u>
Total Residential	\$28,264.6	\$8,414.4	\$12,802.8	\$17,605.4	\$18,670.8
New Commercial	\$30,404.8	\$ 0.0	\$ 0.7	\$ 2,037.9	\$ 4,418.1
New Industrial	800.0	0.0	0.0	28,842.5	1,080.0
New Other	3,480.4	1,279.4	0.0	0.0	1,332.5
Com. Alterations/Additions	<u>9,897.8</u>	<u>7,053.9</u>	<u>7,382.1</u>	<u>4,113.1</u>	<u>47,838.3</u>
Total Nonresidential	\$44,583.0	\$8,333.3	\$ 7,382.8	\$34,993.5	\$54,668.9
New Dwelling Units					
Single Family	61	3	26	31	35
Multiple Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>17</u>	<u>20</u>
TOTAL	61	3	26	48	55

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2010 through 2014.

COUNTY OF ORANGE Effective Buying Income 2010 through 2014

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
2010	City of Fountain Valley	\$ 1,365,383	\$65,786
	Orange County	75,063,558	57,849
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Fountain Valley	\$ 1,431,233	\$65,534
	Orange County	76,315,505	57,607
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
2012	City of Fountain Valley	\$ 1,393,240	\$59,207
	Orange County	81,079,398	57,181
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	City of Fountain Valley	\$ 1,435,078	\$62,123
	Orange County	81,151,078	59,589
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Fountain Valley	N/A	N/A
	Orange County	\$ 83,607,615	\$60,931
	California	901,189,699	50,072
	United States	7,357,153,421	45,448

Source: The Nielsen Company (US), Inc.

County Transportation Systems

The County is situated in the most heavily populated area in California and has access to excellent roads, rail, air and sea transportation. The Santa Ana Freeway (Interstate 5) provides direct access to downtown Los Angeles and connects with the San Diego Freeway (Interstate 405) southeast of the City of Santa Ana providing a direct link with San Diego. The Fountain Valley Freeway (State 22) and the Riverside Freeway (State 91) provide east-west transportation, linking the San Diego Freeway, Santa Ana Freeway and the Newport Freeway (State 55). The Newport Freeway provides access to certain beach communities.

Drivers in the County have access to two toll road systems administered by the Transportation Corridor Agencies. The San Joaquin Toll Road (73) runs from Costa Mesa to Mission Viejo and connects to the 405 and 5 Freeways. The Eastern and Foothill Toll Roads (241, 261 and 133) connect the County to the 91 Freeway to the north and the 5 Freeway, City of Irvine and other South County cities, as well as Laguna Canyon Road. The Transportation Corridor Agencies are planning to extend the 241 Toll Road to connect to the 5 Freeway near San Clemente.

Rail freight service is provided by the Burlington Northern Santa Fe Railway and the Union Pacific Railroad Company. Amtrak provides passenger service to San Diego to the south, Riverside and San Bernardino Counties to the east, and Los Angeles and Santa Barbara to the north. Metrolink provides passenger service to San Bernardino and Riverside counties to the east, Oceanside to the south and Los Angeles County to the north. Bus service is provided by Greyhound Bus Lines. The Orange County Transportation Authority provides bus service between most cities in the County. Most interstate common carrier truck lines operating in California serve the County.

The John Wayne Airport is located in the County's unincorporated area adjacent to Santa Ana, Costa Mesa, Irvine and Newport Beach. Major airlines, including American, Alaska, Delta, America West, Continental, Northwest, U.S. Airways, Southwest, United, Aloha and TWA, fly from the airport to major cities throughout the country.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Fountain Valley Public Financing Authority
Fountain Valley, California

Re: \$_____ * *Fountain Valley Public Financing Authority Lease Revenue Bonds, Series 2016A*

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Fountain Valley Public Financing Authority (the "Authority") of the Fountain Valley Public Financing Authority Lease Revenue Bonds, Series 2016A (the "Bonds") in the aggregate principal amount of \$_____. In such connection, we have reviewed: (i) the Indenture, dated as of February 1, 2016 (the "Indenture"), by and among U.S. Bank National Association, as trustee (the "Trustee"), the Authority and the City of Fountain Valley (the "City"); (ii) the Lease Agreement, dated as of February 1, 2016 (the "Lease Agreement"), by and between the City and the Authority; (iii) the Ground Lease, dated as of February 1, 2016 (the "Ground Lease"), by and between the City and the Authority; (iv) the Assignment Agreement, dated as of February 1, 2016 (the "Assignment Agreement"), by and between the Authority and the Trustee; (v) the Tax Certificate of the Authority and the City, dated as of the date hereof (the "Tax Certificate"); (vi) opinions of counsel to the Authority, the City and the Trustee; (vii) certificates of the Authority, the City and the Trustee and others; and (viii) such other documents, opinions and matters to the extent that we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The obligation of the City to pay Base Rental Payments in accordance with the terms of the Lease Agreement is a valid and binding obligation payable from the funds of the City lawfully available therefore, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of California. The obligation of the City to make Base Rental Payments under the Lease does not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the City, the State of California or any political subdivision thereof.

(2) The Lease Agreement and the Indenture have been duly authorized, executed and delivered by the City and the Authority and constitute valid and legally binding agreements of the City and the Authority enforceable against the City and the Authority in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against municipalities in the State of California, except that we express no opinion as to any provisions in the Lease Agreement or the Indenture with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver.

* Preliminary, subject to change.

(3) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds 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; however, it should be noted that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

(4) Interest (and original issue discount) on the Bonds is exempt from personal income taxes imposed in the State of California.

(5) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds (to the extent that such issue price is lower than the stated redemption price at maturity) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by Bond Owner will increase the Bond Owner's basis in the applicable Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Owner of the Bond is excluded from the gross income of such Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State personal income tax.

(6) The amount by which a Bond Owner's original basis for determining gain or loss on sale or exchange of a Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed in paragraphs (3) and (5) are subject to the condition that the City and the Authority comply with all requirements of the Code that must be satisfied subsequent to the delivery of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) with respect to the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City and the Authority have covenanted to comply with all such requirements.

Except as expressly set forth in paragraphs (3), (4), (5) and (6), we express no opinion regarding any tax consequences with respect to the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate executed by the City and the Authority and other documents related to the Bonds may be changed, and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease Agreement, the Ground Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds terminates on the date of their execution and delivery.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and

Exchange Commission. More information about DTC can be found at www.dtcc.com. The information contained on this Internet site is not incorporated herein by reference.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities 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.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, 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.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

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