

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Taxable Series 2010B Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel is also of the opinion that interest on the Series 2010A Bonds and the Taxable Series 2010B Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds and the Taxable Series 2010B Bonds. See "TAX MATTERS."*

**\$3,110,000**  
**CITY OF RICHMOND, CALIFORNIA**  
**(Contra Costa County)**  
**Wastewater Revenue Bonds**  
**Series 2010A**

**\$41,125,000**  
**CITY OF RICHMOND, CALIFORNIA**  
**(Contra Costa County)**  
**Wastewater Revenue Bonds**  
**Taxable Build America Bonds**  
**Series 2010B**

**Dated: Date of Delivery**

**Due: August 1, as shown on inside cover page**

The \$3,110,000 principal amount of City of Richmond Wastewater Revenue Bonds, Series 2010A (the "Series 2010A Bonds") and \$41,125,000 principal amount of City of Richmond Wastewater Revenue Bonds Taxable Build America Bonds, Series 2010B (the "Taxable Series 2010B Bonds" and together with the Series 2010A Bonds, the "Series 2010 Bonds") are being issued to provide funds to: (i) finance certain improvements as described herein (the "Project") to the City of Richmond (the "City") wastewater collection, treatment and disposal system (collectively, the "Enterprise"); (ii) fund capitalized interest on the Series 2010 Bonds through August 1, 2012; (iii) purchase a debt service reserve insurance policy for deposit into the Series 2010 Reserve Fund; and (iv) pay certain costs associated with the issuance of the Series 2010 Bonds, as more fully described herein. See "PLAN OF FINANCE."

The Series 2010 Bonds are issued pursuant to the terms of an Indenture of Trust, dated as of October 1, 2006 (the "Master Indenture"), as previously supplemented and amended and as further supplemented and amended by a Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of October 1, 2010, each by and between the City and The Bank of New York Mellon Trust Company, N.A., as successor trustee (the "Trustee"). The Master Indenture as so supplemented, including by the Fourth Supplemental Indenture, is referred to as the "Indenture." The principal of the Series 2010 Bonds is payable upon their respective stated maturities on August 1 of each year, as set forth on the inside cover page. Interest on the Series 2010 Bonds will be payable semiannually on August 1 and February 1, commencing February 1, 2011.

The Taxable Series 2010B Bonds are being issued as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"), the interest on which is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income taxes. The City expects to receive a cash subsidy (the "Subsidy Receipts") from the United States Treasury equal to 35% of the interest payable on such Taxable Series 2010B Bonds. The City will deposit the Subsidy Receipts into the Wastewater Fund (defined herein) for payment of principal of and interest on the Taxable Series 2010B Bonds. The City is obligated to make all payments of principal and interest on the Series 2010 Bonds from Net Revenues whether or not it receives the Subsidy Receipts. See "THE SERIES 2010 BONDS—Designation of the Taxable Series 2010B Bonds as Build America Bonds."

The Series 2010 Bonds are limited obligations of the City payable from Revenues of the Enterprise after payment of Operating Expenses. The pledge of Net Revenues under the Indenture securing payment of the Series 2010 Bonds is on a parity with the obligation of the City to pay the City of Richmond Wastewater Revenue Bonds, Series 2006A (the "Series 2006A Bonds") in the outstanding principal amount of \$15,705,000, the City of Richmond Variable Rate Wastewater Revenue Refunding Bonds, Series 2008A (the "Series 2008A Bonds") in the outstanding principal amount of \$33,015,000 and the regularly scheduled payments under a swap agreement entered into in 2009. See "SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2010 BONDS—Outstanding Parity Debt." The City may issue additional Parity Obligations secured by a pledge of Net Revenues on a parity basis with the Series 2006A Bonds, the Series 2008A Bonds and the Series 2010 Bonds.

The Series 2010 Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2010 Bonds. Purchasers will not receive certificates representing their interests in the Series 2010 Bonds. Payments of principal of and interest on the Series 2010 Bonds will be made by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Series 2010 Bonds. See APPENDIX F—"DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The scheduled payment of principal of and interest on the 2010 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2010 Bonds by ASSURED GUARANTY MUNICIPAL CORP. (formerly known as Financial Security Assurance Inc.). See "BOND INSURANCE" and APPENDIX G—"SPECIMEN MUNICIPAL BOND INSURANCE POLICY."



**The Series 2010A Bonds are not subject to redemption prior to their respective stated maturity dates. The Series 2010B Bonds are subject to optional, extraordinary and mandatory redemption prior to their respective stated maturity dates. See "THE SERIES 2010 BONDS—Redemption Provisions for the Taxable Series 2010B Bonds."**

THE SERIES 2010 BONDS ARE LIMITED OBLIGATIONS OF THE CITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE CITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT NET REVENUES. THE SERIES 2010 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION, AND THE CITY IS NOT OBLIGATED TO LEVY ANY AD VALOREM PROPERTY TAXES THEREFOR OR TO USE ANY OTHER FUNDS OF THE CITY OTHER THAN NET REVENUES TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2010 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2010 BONDS.

This cover page contains certain information for general reference only it and is not intended to be a summary of the terms of this offering. An investment in the Series 2010 Bonds involves risk. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "CERTAIN RISKS TO BONDOWNERS," as well as other factors discussed throughout this Official Statement.

*The Series 2010 Bonds will be offered when, as and if issued by the City and received by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain matters will be passed upon for the City by the City Attorney of the City of Richmond and by Lofton & Jennings, as Disclosure Counsel. Certain matters will be passed upon for the Underwriters by Jones Hall, San Francisco, California. The Series 2010 Bonds, in book-entry form only, will be available for delivery through facilities of The Depository Trust Company in New York, New York on or about October 20, 2010.*



**RBC Capital Markets®**

**Southwest Securities, Inc.**

**\$3,110,000**  
**CITY OF RICHMOND, CALIFORNIA**  
**(Contra Costa County)**  
**Wastewater Revenue Bonds, Series 2010**

<u>Maturity</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>Yield<sup>(1)</sup></u>	<u>Initial</u> <u>Offering</u> <u>Price<sup>(1)</sup></u>	<u>CUSIP No.<sup>(2)</sup></u>
2014	\$1,005,000	3.000%	1.520%	105.416	764507CA5
2015	1,035,000	3.500	1.820	107.656	764507CB3
2016	1,070,000	4.000	2.170	109.888	764507CC1

**\$41,125,000**  
**CITY OF RICHMOND, CALIFORNIA**  
**(Contra Costa County)**  
**Wastewater Revenue Bonds**  
**Taxable Build America Bonds**  
**Series 2010B**

<u>Maturity</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>Yield<sup>(1)</sup></u>	<u>Initial</u> <u>Offering</u> <u>Price<sup>(1)</sup></u>	<u>CUSIP No.<sup>(2)</sup></u>
2017	\$1,115,000	3.757%	3.757%	100	764507CD9
2018	1,145,000	4.244	4.244	100	764507CE7
2019	1,175,000	4.394	4.394	100	764507CF4
2020	1,210,000	4.594	4.594	100	764507CG2

\$6,665,000–5.394% Term Bond Due August 1, 2025–Yield: 5.394%–Initial Offering Price: 100–CUSIP No.<sup>†</sup>: 764507CK3  
 \$8,005,000–6.211% Term Bond Due August 1, 2030–Yield: 6.211%–Initial Offering Price: 100–CUSIP No.<sup>†</sup>: 764507CL1  
 \$21,810,000–6.461% Term Bond Due August 1, 2040–Yield: 6.461%–Initial Offering Price: 100–CUSIP No.<sup>†</sup>: 764507CM9

(1) Initial offering prices and yields were provided by the Underwriters.

(2) Copyright 2010, American Bankers Association. CUSIP data herein are provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of bondholders and none of the City or the Underwriters makes any representation with respect to such numbers or undertake any responsibility for its accuracy. The CUSIP numbers are subject to being changed after the issuance of the Series 2010 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Series 2010 Bonds.

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations 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 Series 2010 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2010 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. 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 of the Enterprise since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Electronic Municipal Market Access site maintained by the Municipal Securities Rulemaking Board.

All descriptions and summaries of documents and statutes hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document and statute for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and statute. Certain capitalized terms used but not defined herein are defined in APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions."

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

In connection with this offering, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of the Series 2010 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 Underwriters may offer and sell the Series 2010 Bonds to certain dealers and others at prices lower than the initial public offering prices or at yields higher than the initial public offering yields set forth on the inside cover page hereof and said initial offering prices or yields may be changed from time to time by the Underwriters.

The issuance and sale of the Series 2010 Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, and the Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions provided thereunder by Sections 3(a)(2) and 3(a)(12), respectively, for the issuance and sale of municipal securities.

The City maintains a website. Unless specifically indicated otherwise, the information presented on that website is *not* incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Series 2010 Bonds.

#### **CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT**

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe," "plan," "budget," and similar expressions are intended to identify forward-looking statements. Projections, forecasts, assumptions, expressions of opinions, estimates and other forward statements are not to be construed as representations of fact and are qualified in their entirety by the cautionary statements set forth in this Official Statement.

**The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur or do not occur.**

This Official Statement contains information concerning the ratings assigned by the Moody's Investors Service, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and Fitch, Inc. for the Swap Counterparty (as defined herein). Such ratings reflect only the view of the agency giving such rating and are provided for convenience of reference only. Such rating information has been obtained from sources believed to be reliable but has not been confirmed or re-verified by such rating agencies. None the City or the Underwriters takes any responsibility for the accuracy of such ratings, gives any assurance that such ratings will apply for any given period of time, or that such ratings will not be revised downward or withdrawn if, in the judgment of the agency providing such rating, circumstances so warrant.

Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") makes no representation regarding the 2010 Bonds or the advisability of investing in the 2010 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE" and APPENDIX G—"SPECIMEN BOND INSURANCE POLICY".

## CITY OF RICHMOND, CALIFORNIA

### CITY COUNCIL

Gayle McLaughlin, *Mayor*  
Jeff Ritterman, *Vice Mayor*  
Nathaniel Bates, *Councilmember*  
Tom Butt, *Councilmember*  
Ludmyrna Lopez, *Councilmember*  
Jim Rogers, *Councilmember*  
Maria Viramontes, *Councilmember*

### CITY ADMINISTRATION

William A. Lindsay, *City Manager*  
James C. Goins, *City Finance Director*  
Edric Kwan, *Interim City Engineer*  
Chad A. Davisson, *Wastewater Project Manager/Contract Administrator*  
Randy Riddle, *City Attorney*

### PROFESSIONAL SERVICES

Orrick, Herrington & Sutcliffe LLP  
San Francisco, California  
***Bond Counsel***

Lofton & Jennings  
San Francisco, California  
***Disclosure Counsel***

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

Tamalpais Advisors, Inc.  
Sausalito, California  
***Financial Advisor***

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<sup>†</sup> Includes all information in the Comprehensive Annual Financial Report from the Table of Contents through Note 17 of the Notes to Basic Financial Statements. The Comprehensive Annual Financial Report in its entirety may be viewed online or downloaded at <http://www.ci.richmond.ca.us/documentview.aspx?did=5386>.

**MAP OF WASTEWATER TREATMENT PLANT**

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## OFFICIAL STATEMENT

**\$3,110,000**  
**CITY OF RICHMOND, CALIFORNIA**  
**(Contra Costa County)**  
**Wastewater Revenue Bonds**  
**Series 2010A**

**\$41,125,000**  
**CITY OF RICHMOND, CALIFORNIA**  
**(Contra Costa County)**  
**Wastewater Revenue Bonds**  
**Taxable Build America Bonds**  
**Series 2010B**

### INTRODUCTION

*This Introduction is only a brief description of and partial guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page through the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series 2010 Bonds to potential investors is made only by means of the entire Official Statement.*

#### **General**

The purpose of this Official Statement, which includes the cover page through the appendices hereto, is to set forth certain information concerning the City of Richmond (the “City”) and its facilities for the disposal or reuse of wastewater, including sewage treatment plants, intercepting and collecting sewers, outfall sewers, force mains, pumping stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith (collectively, the “Enterprise”), in connection with the sale of \$3,110,000 principal amount of City of Richmond Wastewater Revenue Bonds, Series 2010A (the “Series 2010A Bonds”) and \$41,125,000 principal amount City of Richmond Wastewater Revenue Bonds, Taxable Build America Bonds, Series 2010B (the “Taxable Series 2010B Bonds” and together with the Series 2010A Bonds, the “Series 2010 Bonds”). The Series 2010 Bonds are being issued pursuant to Chapter 13.56 of Article 13 of the Richmond Municipal Code (the “Bond Law”) and an Indenture, dated as of October 1, 2006, as previously supplemented, and as supplemented by a Fourth Supplemental Indenture, dated as of October 1, 2010 (collectively, the “Indenture”) between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”).

#### **Purpose**

The Series 2010 Bonds are being issued to: (i) finance certain improvements (the “Project”) to the Enterprise as described herein; (ii) fund capitalized interest on the Series 2010 Bonds through August 1, 2012; (iii) purchase a debt service reserve insurance policy for deposit into the Series 2010 Reserve Fund; and (iv) pay certain costs associated with the issuance of the Series 2010 Bonds, as more fully described herein. See “PLAN OF FINANCE.”

The Taxable Series 2010B Bonds are being issued as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009, signed into law on February 1, 2009 (the “Recovery Act”), the interest on which is not excluded from gross income for federal income tax purposes but is exempt from State of California personal income taxes. The City expects to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on such Taxable Series 2010B Bonds. See “THE 2010 BONDS—Designation of the Taxable Series 2010B Bonds as Build America Bonds.” The City will deposit the Subsidy Receipts to the Wastewater Fund (defined herein) for payment of principal of and interest on the Taxable Series 2010B Bonds. The City is obligated to make all payments of principal of and interest on the Taxable Series 2010B Bonds from Net Revenues whether or not it receives the Subsidy Receipts. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS.”

## **The City**

The City is located 16 miles northeast of the City and County of San Francisco, on the western shore of Contra Costa County along the San Francisco Bay and occupies 33.7 square miles of land area. The population of the City, as of January 1, 2010, is approximately 105,630. The City was incorporated in 1905 and adopted its charter in 1909.

## **Outstanding Obligations**

**Parity Debt.** The pledge of Net Revenues under the Indenture securing payment of the Series 2010 Bonds is on a parity with a pledge of Net Revenues securing Prior Obligations, which consist of \$15,705,000 outstanding principal amount of City of Richmond Wastewater Revenue Bonds, Series 2006A (the “Series 2006A Bonds”) and \$33,015,000 outstanding principal amount of City of Richmond Variable Rate Wastewater Revenue Refunding Bonds, Series 2008A (the “Series 2008A Bonds” and together with the Series 2006A Bonds, the Series 2010 Bonds and any additional bonds that may be issued under the Indenture, the “Bonds”). The Series 2008A Bonds are supported by an irrevocable, direct-pay letter of credit (the “2008 Letter of Credit”) issued by Union Bank of California, N.A. (the “2008 Letter of Credit Bank”), pursuant to and subject to the terms of a Reimbursement Agreement, dated as of October 1, 2008, between the City and the 2008 Letter of Credit Bank.

In connection with the issuance of the Series 2006B Bonds, the City entered into an interest rate swap agreement with J.P. Morgan Chase & Co. This interest rate swap agreement was left in place when the Series 2008A Bonds were issued to refund the Series 2006B Bonds. On November 19, 2009, the City entered into a new fixed payer swap agreement (the “2009 Swap Agreement”) with the Royal Bank of Canada (the “Swap Provider”) and the prior swap agreement was terminated. The regularly scheduled swap payments on the 2009 Swap Agreement are secured by the Net Revenues under the Indenture on a parity with the Bonds. Any extraordinary termination payments payable to the Swap Provider are subordinate to the payment of principal of and interest on the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Outstanding Parity Debt—2009 Swap Agreement.”

**Unsecured Debt.** In 1992, the City incurred a 20-year loan through the State Water Resources Control Board in the original principal amount of \$6,737,658 (the “State Loan”) for improvements to the Enterprise. Payments on the State Loan are due annually through Fiscal Year 2012-13 at an interest rate equal to 3% per annum. As of July 1, 2010, the outstanding principal balance on the State Loan was \$1,297,856. ***The State Loan is unsecured and does not constitute a lien against Net Revenues.*** See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS—Outstanding Unsecured Debt.”

## **Security and Sources of Payment for the Bonds**

**Pledge of Net Revenues of the Enterprise.** The Series 2010 Bonds are limited obligations of the City payable from Net Revenues of the Enterprise after payment of Operating Expenses (as defined under the caption “SECURITY AND SOURCES OF PAYMENTS FOR THE SERIES 2010 BONDS—Pledge of Net Revenues Under the Indenture”) on a parity with the Series 2006A Bonds, the Series 2008A Bonds and the 2009 Swap Agreement (as described under “—Outstanding Obligations”). The Series 2010 Bonds are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the City or any of its income or receipts, except the Net Revenues.

**Series 2010 Reserve Fund.** Under the Indenture, the City will establish and fund a reserve fund (the “Series 2010 Reserve Fund”) in an amount equal to the 2010 Reserve Fund Requirement to pay debt service on the Series 2010 Bonds in the event that amounts on deposit in the Interest Fund and Principal Fund established under the Indenture are insufficient therefor.

Upon the issuance of the Series 2010 Bonds, the 2010 Reserve Fund Requirement will be \$3,578,546, which is equal to the Maximum Annual Debt Service on the Series 2010 Bonds, and the City will deposit a debt service reserve insurance policy (the “Reserve Policy”) to be issued by Assured Guaranty Municipal Corp. (formerly known as Financial Guaranty Assurance Inc.) (“AGM” or the “Bond Insurer”) in such amount into the Series 2010 Reserve Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–2010 Reserve Fund” and APPENDIX G–SPECIMEN DEBT SERVICE RESERVE INSURANCE POLICY.”

THE SERIES 2010 BONDS ARE LIMITED OBLIGATIONS OF THE CITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE CITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT NET REVENUES. THE SERIES 2010 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION, AND THE CITY IS NOT OBLIGATED TO LEVY ANY *AD VALOREM* PROPERTY TAXES THEREFOR OR TO USE ANY OTHER FUNDS OF THE CITY OTHER THAN NET REVENUES TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2010 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2010 BONDS.

### **Bond Insurance**

As additional security for the 2010 Bonds, payment of principal of and interest on the 2010 Bonds when due will be guaranteed under an insurance policy (the “Bond Insurance Policy”) to be issued concurrently with the delivery of the Series of 2010 Bonds by the Bond Insurer. See “BOND INSURANCE” and APPENDIX H–“SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

### **Additional Bonds**

Upon the satisfaction of certain conditions, the Indenture authorizes the issuance of additional bonds (“Additional Bonds”) and other indebtedness (“Parity Debt”) payable on a parity with the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS–Additional Bonds and Parity Debt.”

### **Rate Covenant**

The City covenants under the Indenture that it will at all times, while any bonds (including the Series 2010 Bonds) remain outstanding, fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise which are sufficient to yield Net Revenues in each Fiscal Year so that the ratio of Net Revenues to annual Debt Service during the Bond Year which commences in such Fiscal Year is not less than 1.25:1.0. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS–Rate Covenant.” However, the City’s ability to increase such rates, fees and charges is subject to the limitations imposed by Proposition 218. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS–Proposition 218” and “–Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies.”

### **Continuing Disclosure**

The City has covenanted to provide certain financial information and operating data relating to the Series 2010 Bonds by not later than 270 days following the end of the City’s Fiscal Year (which currently would be June 30) commencing with the report for Fiscal Year 2009-10 (the “Annual Report”),

and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by means of the Electronic Municipal Market Access (EMMA) site maintained by the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of material events is contained within APPENDIX E—"FORM OF CONTINUING DISCLOSURE AGREEMENT."

### **Summaries Not Definitive**

The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by reference to each such document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in the Indenture and, as used herein, has the meaning given to it in the Indenture. Unless otherwise indicated, all financial and statistical information herein has been provided by the City.

All references to and summaries of the Indenture, the Series 2010 Bonds and the Bond Law referred to herein are qualified in their entirety by reference to the full text of such document, copies of which are available for inspection at the office of the Director of Finance of the City at 450 Civic Center Plaza, Richmond, California, and will be available from the Trustee upon request and payment of duplication costs. Forward looking statements in this Official Statement are subject to risks and uncertainties. Actual results may vary from forecasts or projections contained herein because events and circumstances do not occur as expected, and such variances may be material.

## **PLAN OF FINANCE**

The net proceeds from the sale of the Series 2010 Bonds will be used to: (i) finance the Project; (ii) fund capitalized interest on the Series 2010 Bonds through August 1, 2012; (iii) fund a deposit into the Parity Series 2010 Reserve Fund; and (iv) pay certain costs associated with the issuance of the Series 2010 Bonds.

The City has identified a number of projects to renovate, rehabilitate and improve the sewer collection facilities of the Enterprise and comply with regulatory requirements as well as obligations of the City under the Settlement Agreement (described herein). For a description of the Settlement Agreement, see "THE ENTERPRISE—Regulatory Matters—*Baykeepers Lawsuit*." These projects include, but are not limited to, improvements to the collection system to reduce or eliminate wet weather infiltration and inflow; to wet weather peak storage capacity; to digester facilities; replacement of interceptors; sewer line repairs to increase accessibility; upgrades to pump stations and sewer line capacity; sewer rerouting; manhole rehabilitation and generator improvements.

The City estimates that the total cost of these improvements over approximately five years will be in the range of \$80 to \$90 million, however, during the next three Fiscal Years, the City expects that proceeds from the issuance of the Series 2010 Bonds will be spent on these improvements with the most immediate need, and that future improvements will be funded from a combination of pay-as-you-go sources, grants and proceeds of future bond issuances.

The estimated cost of the Project is \$40.2 million. The components of the Project are expected to consist of a portion of the projects identified in the five-year capital improvement program that was approved by the City Council on June 15, 2010 (the "2010-2015 CIP"). See "THE ENTERPRISE—Capital Improvement Program."

**Construction.** Pursuant to the Management Agreement between the City and Veolia Water North America Operating Services, Inc., formerly known as U.S. Filter Operating Services, Inc. (“Veolia”), Veolia will be responsible for management of the Project. See “THE ENTERPRISE–Management Agreement.” The City expects to award contracts to the contractors submitting the lowest responsive bids.

**Environmental and Other Approvals.** Projects undertaken by the City, including the Project financed with the proceeds of the Series 2010 Bonds, are generally subject to the California Environmental Quality Act, as amended (Division 13 of the California Public Resources Code) (“CEQA”). Under CEQA, a public agency is required, following preparation of an initial assessment, to determine whether an environmental impact report (an “EIR”), a negative declaration or a mitigated negative declaration is required for a project. If there is substantial evidence that significant environmental effects may occur, an EIR is required to be prepared.

Many of the 2010-2015 CIP project components identified by the City will consist of repair, maintenance, replacement or minor alteration of existing public structures involving no expansion of use beyond that previously existing, or (ii) minor alterations in the condition of land, water and/or vegetation which are exempt from review under CEQA guidelines. Others may require some CEQA review to be undertaken, and the City will not spend any proceeds of the Series 2010 Bonds on any such Project component until it has complied with the applicable CEQA requirements. The City has determined that there are sufficient Project components exempt from CEQA review that can be funded with proceeds of the Series 2010 Bonds to use all of the available Series 2010 Bond proceeds.

The City filed a Notice of Exemption with respect to the components of the 2010-2015 CIP that are exempt under CEQA in Contra Costa County on August 25, 2010. To the extent that the City determines to construct components of the 2010-2015 CIP that are not exempt from CEQA, the City will comply with all applicable requirements at that time. All other land use approvals necessary to proceed with the Project have been obtained or are expected to be received in due course.

## **THE SERIES 2010 BONDS**

### **General**

The Series 2010 Bonds are being issued in fully registered form, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). DTC will act as securities depository of the Series 2010 Bonds. Individual purchases of ownership interests in the Series 2010 Bonds will be made in book-entry form only in authorized denominations of \$5,000 or any integral multiple thereof.

The Series 2010 Bonds will be dated the date of their initial delivery and will bear interest at the rates and mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. Interest on the Series 2010 Bonds is payable semiannually on February 1 and August 1 in each year, commencing February 1, 2011, calculated on the basis of a 360-day year comprised of twelve 30 day months. Principal of and redemption premium, if any, and interest on the Series 2010 Bonds are payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2010 Bonds. See APPENDIX D–“DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

## **Designation of Taxable Series 2010B Bonds as Build America Bonds**

The Taxable Series 2010B Bonds are being issued as “Build America Bonds” under the provisions of the Recovery Act. The City expects to receive a cash subsidy from the United States Treasury pursuant to the Recovery Act equal to 35% of the interest payable on the Taxable Series 2010B Bonds on or about each Interest Payment Date (the “Subsidy Receipts”). The cash payment does not constitute a full faith and credit guarantee of the United States, but is required to be paid by the Treasury under the Recovery Act. The Code authorizes federal regulations and other guidance to carry out the Build America Bonds program, which may reduce the certainty of receipt of the Subsidy Receipts by the City. Any cash Subsidy Receipts received by the City will be deposited in the Wastewater Fund and constitute “Revenues,” as defined in the Indenture. The City is obligated to make all payments of principal of and interest on the Series 2010 Bonds whether or not it receives the Subsidy Receipts pursuant to the Recovery Act.

If the City fails to comply with the conditions to receiving the Subsidy Receipts throughout the term of the Taxable Series 2010B Bonds, they may no longer receive such payments and could be subject to a claim for the return of previously received payments. The City covenants in the Indenture to comply with such conditions and to maintain its right to retain or receive future Subsidy Receipts. The United States Treasury may reduce or offset any Subsidy Receipts to which the City is otherwise entitled against any other liability of the City payable to the United States Government, including without limitation, withholding or payroll taxes, or other penalties or interest that may be owned at any time in the United States Government. Accordingly, no assurance can be given that the United States Treasury will make the Subsidy Receipts in the amounts which the City expects to receive or that Congress will not amend or repeal provisions of the Build America Bond program during the term of the Taxable Series 2010B Bonds. The City is obligated under the Indenture to make the payments due on the Taxable Series 2010B Bonds without regard to the receipt of the Subsidy Receipts.

## **Redemption Provisions for the Series 2010A Bonds**

*No Optional Redemption.* The Series 2010A Bonds are *not* subject to redemption prior to their respective stated maturity dates.

## **Redemption Provisions for the Taxable Series 2010B Bonds**

*Optional Redemption.* The Taxable Series 2010B Bonds maturing on or after August 1, 2021 are subject to redemption prior to maturity on or after August 1, 2020, at the option of the City, from any source of available funds, as a whole or in part on any date (by such maturities as may be specified by the City and by lot within a maturity), on any Business Day, at a Redemption Price equal to 100% of the principal amount of the Taxable Series 2010B Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

*Extraordinary Optional Redemption.* The Taxable Series 2010B Bonds are subject to extraordinary optional redemption by the City prior to their respective stated maturities, from any source of available funds, as a whole or in part (and if in part, in such order of maturities to be designated by The City and by lot within a maturity on any date upon the occurrence of an Extraordinary Event (defined below), at the Extraordinary Redemption Price, which is equal to the greater of:

- (i) the issue price of the applicable Taxable Series 2010B Bonds (but not less than 100% of the principal amount of such Taxable Series 2010B Bonds to be redeemed); or

(ii) the sum of the present value of the remaining scheduled payments of principal and interest on the applicable Taxable Series 2010B Bonds to be redeemed to the maturity date of such Taxable Series 2010B Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the applicable Taxable Series 2010B Bonds are to be redeemed, discounted to the date on which such Taxable Series 2010B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30-day months, at the Treasury Rate plus 100 basis points,

(iii) plus in each case accrued interest on the applicable Taxable Series 2010B Bonds to be redeemed to the redemption date.

An “Extraordinary Event” is defined in the Indenture as the occurrence of a material adverse change, with respect to Section 54AA or 6431 of the Code pursuant to which the Subsidy Receipts to be received by the City from the United States Treasury are reduced or eliminated.

**Mandatory Redemption.** The Taxable Series 2010B Bonds maturing on August 1, 2025 will be redeemed (or paid at maturity, as the case may be) by the application of mandatory Sinking Account installments in the amounts and upon the mandatory Sinking Account Payment Dates established for the Taxable Series 2010B Bonds, as follows:

**2025 Term Taxable Series 2010B Bond Sinking Account**

Mandatory Sinking Account Payment Date <u>(August 1)</u>	<u>Mandatory Sinking Account Installments</u>
2021	\$1,245,000
2022	1,285,000
2023	1,330,000
2024	1,380,000
2025 <sup>†</sup>	1,425,000

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<sup>†</sup> Maturity.

The Taxable Series 2010B Bonds maturing on August 1, 2030 will be redeemed (or paid at maturity, as the case may be) by the application of mandatory Sinking Account installments in the amounts and upon the mandatory Sinking Account Payment Dates established for the Taxable Series 2010B Bonds, as follows:

**2030 Term Taxable Series 2010B Bond Sinking Account**

Mandatory Sinking Account Payment Date <u>(August 1)</u>	<u>Mandatory Sinking Account Installments</u>
2026	\$1,457,000
2027	1,535,000
2028	1,600,000
2029	1,665,000
2030 <sup>†</sup>	1,730,000

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<sup>†</sup> Maturity.

The Taxable Series 2010B Bonds maturing on August 1, 2040 will be redeemed (or paid at maturity, as the case may be) by the application of mandatory Sinking Account installments in the amounts and upon the mandatory Sinking Account Payment Dates established for the Taxable Series 2010B Bonds, as follows:

**2040 Term Taxable Series 2010B Bond Sinking Account**

Mandatory Sinking Account Payment Date <u>(August 1)</u>	<u>Mandatory Sinking Account Installments</u>
2031	\$1,800,000
2032	1,875,000
2033	1,955,000
2034	2,035,000
2035	2,125,000
2036	2,210,000
2037	2,305,000
2038	2,400,000
2039	2,500,000
2040 <sup>†</sup>	2,605,000

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\* Final Maturity.

**Redemption Procedures**

***Selection of Series 2010 Bonds for Redemption.*** Whenever less than all of the Series 2010 Bonds, are selected for redemption, the City is required to select the Series 2010 Bonds to be redeemed, from all Series 2010 Bonds not previously called for redemption, in authorized denominations of \$5,000, by lot in any manner which the City in its sole discretion shall deem appropriate.

***Notice of Redemption.*** The City is required to notify the Trustee at least 30 days prior to the redemption date for Series 2010 Bonds. Notice of redemption of any Series 2010 Bonds is required to be mailed by the Trustee, not less than 20 nor more than 30 days prior to the redemption date, (i) to the respective Owners of any Series 2010 Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first-class mail, (ii) to the Securities Depositories by facsimile and by first-class mail, (iii) to the Information Services by first-class mail, and (iv) to the Rating Agency.

Any notice of optional redemption of the Series 2010 Bonds may be conditional and if any condition stated in the notice of redemption is not satisfied on or prior to the redemption date, said notice will be of no force and effect and the City will not redeem such Series 2010 Bonds. The Trustee will within a reasonable time thereafter give notice, to the persons and in the manner in which the notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled.

***Partial Redemption of Series 2010 Bonds.*** Upon surrender of any Series 2010 Bond redeemed in part only, the City is required to execute and the Trustee is required to authenticate and deliver to the Owner thereof, at the expense of the City, a new Series 2010 Bond of authorized denominations, and of the same maturity, equal in aggregate principal amount to the unredeemed portion of the Series 2010 Bond surrendered.

**Effect of Redemption.** If notice of redemption has been given as provided in the Indenture and moneys for the payment of the Redemption Price of, together with interest accrued to the redemption date of such Series 2010 Bonds is held by the Trustee, on the redemption date designated in such notice, the Series 2010 Bonds or portions thereof so called for redemption shall become due and payable at the Redemption Price specified therein. Interest on the Series 2010 Bonds called for redemption shall cease to accrue from and after the date fixed for redemption and said Series 2010 Bonds called for redemption will cease to be entitled to any benefit or security under the Indenture, and the registered owners of said Series 2010 Bonds will have no rights in respect thereof except to receive payment of the Redemption Price and accrued interest.

### ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Series 2010 Bonds are as follows:

	<u>Series 2010A Bonds</u>	<u>Taxable Series 2010B Bonds</u>	<u>Total</u>
<b>Estimated Sources:</b>			
Principal Amount of Series 2010 Bonds	\$3,110,000.00	\$41,125,000.00	\$44,474,472.00
Net Original Issue Premium	<u>239,472.00</u>	<u>0</u>	<u>239,472.00</u>
TOTAL ESTIMATED SOURCES	\$3,349,472.00	\$41,125,000.00	\$44,474,472.00
<b>Estimated Uses:</b>			
Deposit to Project Fund	\$3,076,637.74	\$37,172,234.76	\$40,248,872.50
Deposit to Series 2010 Capitalized Interest Account <sup>(1)</sup>	194,392.15	2,851,212.34	3,045,604.49
Costs of Issuance <sup>(2)</sup>	52,784.61	700,584.15	753,368.76
Underwriters' Discount	<u>25,657.50</u>	<u>400,968.75</u>	<u>426,626.25</u>
TOTAL ESTIMATED USES	\$3,349,472.00	\$41,125,000.00	\$44,474,472.00

(1) Represents capitalized interest on the Series 2010 Bonds through August 1, 2012.

(2) Includes legal, financing and consulting fees, rating agency fees, premiums for the Bond Insurance and Reserve Policies, fees related to printing costs and other miscellaneous expenses.

### ESTIMATED DEBT SERVICE SCHEDULE

The following table sets forth the estimated annual debt service obligations in each Fiscal Year for the Outstanding Parity Debt and the Series 2010 Bonds.

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Period Ending August 1	Outstanding Parity Debt <sup>(1)</sup>	Series 2010A Bonds		Taxable Series 2010B Bonds			Total (Without Subsidy Receipts)	Total (With Subsidy Receipts)	Total Parity Debt Service (Without Subsidy Receipts)	Total Parity Debt Service (With Subsidy Receipts)
		Principal	Interest	Principal	Interest	Subsidy Receipts <sup>(2)</sup>				
2010	\$3,157,832	—	—	—	—	—	—	—	\$3,157,832	\$3,157,832
2011	3,156,410	—	\$85,217	—	\$1,922,935	(\$673,027)	\$2,008,152	\$1,335,125	5,164,562	4,491,535
2012	3,158,188	—	109,175	—	2,463,546	(862,241)	2,572,721	1,710,480	5,730,909	4,868,668
2013	3,157,991	—	109,175	—	2,463,546	(862,241)	2,572,721	1,710,480	5,730,712	4,868,471
2014	3,160,294	\$1,005,000	109,175	—	2,463,546	(862,241)	3,577,721	2,715,480	6,738,015	5,875,774
2015	3,159,864	1,035,000	79,025	—	2,463,546	(862,241)	3,577,571	2,715,330	6,737,435	5,875,194
2016	3,161,685	1,070,000	42,800	—	2,463,546	(862,241)	3,576,346	2,714,105	6,738,031	5,875,790
2017	3,160,506	—	—	\$1,115,000	2,463,546	(862,241)	3,578,546	2,716,305	6,739,052	5,876,811
2018	3,158,976	—	—	1,145,000	2,421,655	(847,579)	3,566,655	2,719,076	6,725,632	5,878,052
2019	3,155,447	—	—	1,175,000	2,373,062	(830,572)	3,548,062	2,717,490	6,703,509	5,872,937
2020	3,154,917	—	—	1,210,000	2,321,432	(812,501)	3,531,432	2,718,931	6,686,350	5,873,848
2021	3,157,188	—	—	1,245,000	2,265,845	(793,046)	3,510,845	2,717,799	6,668,033	5,874,987
2022	3,160,209	—	—	1,285,000	2,198,689	(769,541)	3,483,689	2,714,148	6,643,898	5,874,357
2023	3,162,822	—	—	1,330,000	2,129,377	(745,282)	3,459,377	2,714,095	6,622,198	5,876,917
2024	3,151,611	—	—	1,380,000	2,057,636	(720,173)	3,437,636	2,717,464	6,589,247	5,869,075
2025	3,137,380	—	—	1,425,000	1,983,199	(694,120)	3,408,199	2,714,079	6,545,579	5,851,459
2026	3,125,128	—	—	1,475,000	1,906,335	(667,217)	3,381,335	2,714,118	6,506,463	5,839,245
2027	3,114,623	—	—	1,535,000	1,814,722	(635,153)	3,349,722	2,714,570	6,464,345	5,829,193
2028	3,100,633	—	—	1,600,000	1,719,384	(601,784)	3,319,384	2,717,599	6,420,017	5,818,232
2029	3,088,158	—	—	1,665,000	1,620,008	(567,003)	3,285,008	2,718,005	6,373,165	5,806,163
2030	3,071,965	—	—	1,730,000	1,516,594	(530,808)	3,246,594	2,715,786	6,318,559	5,787,751
2031	3,057,054	—	—	1,800,000	1,409,144	(493,200)	3,209,144	2,715,944	6,266,198	5,772,998
2032	3,043,194	—	—	1,875,000	1,292,846	(452,496)	3,167,846	2,715,350	6,211,040	5,758,544
2033	3,030,151	—	—	1,955,000	1,171,702	(410,096)	3,126,702	2,716,607	6,156,853	5,746,758
2034	3,012,694	—	—	2,035,000	1,045,390	(365,886)	3,080,390	2,714,503	6,093,084	5,727,197
2035	2,990,822	—	—	2,125,000	913,908	(319,868)	3,038,908	2,719,041	6,029,730	5,709,862
2036	2,979,535	—	—	2,210,000	776,612	(271,814)	2,986,612	2,714,798	5,966,147	5,694,333
2037	2,958,137	—	—	2,305,000	633,824	(221,838)	2,938,824	2,716,986	5,896,961	5,675,122
2038	41,859	—	—	2,400,000	484,898	(169,714)	2,884,898	2,715,184	2,926,757	2,757,043
2039	—	—	—	2,500,000	329,834	(115,442)	2,829,834	2,714,392	2,829,834	2,714,392
2040	—	—	—	<u>2,605,000</u>	<u>168,309</u>	<u>(58,908)</u>	<u>2,773,309</u>	<u>2,714,401</u>	<u>2,773,309</u>	<u>2,714,401</u>
TOTAL	\$87,125,271	\$3,110,000	\$534,567	\$41,125,000	\$51,258,617	(\$17,940,516)	\$96,028,184	\$78,087,668	\$183,153,456	\$165,212,940

(1) Represents aggregate debt service for the Series 2006A Bonds and the Series 2008A Bonds (based upon the 2009 Swap Agreement rate equal to 3.897% plus 75 basis points for 2008 Letter of Credit and remarketing fees). See "SECURITY AND SOURCES OF PAYMENT OF THE SERIES 2010 BONDS—Outstanding Parity Debt."

(2) See "THE SERIES 2010 BONDS—Designation of Taxable Series 2010 Bonds as Build America Bonds."

## SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS

### Pledge of Net Revenues Under the Indenture

The Series 2010 Bonds are revenue obligations of the City and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from Net Revenues and from the other funds pledged under the Indenture. Net Revenues are irrevocably pledged to secure the payment of the principal of, redemption premium, if any, and interest on the Bonds and any Parity Debt in accordance with their terms, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The pledge of Net Revenues to the Series 2010 Bonds is on a parity with the pledge of Net Revenues for the benefit of the owners of the Bonds, certain payments under the 2009 Swap Agreement and any Additional Bonds or Parity Debt to be issued pursuant to the Indenture. See “–Additional Bonds and Parity Debt.”

The term “*Net Revenues*” is defined under the Indenture to mean, with respect to any period, the amount of the Gross Revenues received during such period less the amount of Operating Expenses becoming payable during such period.

The term “*Gross Revenues*” is defined under the Indenture to mean all gross income and revenue received by the City from the ownership and operation of the Enterprise, including (i) all fees and charges received by the City for the services of the Enterprise, (ii) all other income and revenue howsoever derived by the City from the ownership and operation of the Enterprise or arising from the Enterprise, including the Subsidy Receipts, (iii) all sums deposited, or required by the Indenture to be deposited, in the Wastewater Fund and (iv) amounts transferred to the Wastewater Fund from the Rate Stabilization Fund pursuant to the Indenture; but excluding (a) the proceeds of any *ad valorem* property taxes received by the City to pay debt service on any outstanding obligations of the City, and (b) any contributed capital (other than connection fees).

“The term “*Operating Expenses*” is defined under the Indenture to mean, for the then current Fiscal Year, the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on the basis of generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, but excluding (a) depreciation, replacement and obsolescence charges or reserves therefor or other bookkeeping entries of a similar nature, and (b) Debt Service.

“Parity Debt” is defined under the Indenture to mean any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money or certain designated payments under a Parity Public Finance Contract having an equal lien and charge upon the Net Revenues, and therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

As of the date of issuance of the Series 2010 Bonds, Parity Debt includes the Series 2006A Bonds, the Series 2008A Bonds and the regularly scheduled payments on the 2009 Swap Agreement. See “–Outstanding Parity Debt.”

THE SERIES 2010 BONDS ARE LIMITED OBLIGATIONS OF THE CITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE CITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES. THE SERIES 2010 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION, AND THE CITY IS NOT OBLIGATED TO LEVY ANY *AD VALOREM* PROPERTY

TAXES THEREFOR OR TO USE ANY OTHER FUNDS OF THE CITY OTHER THAN NET REVENUES TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THE SERIES 2010 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2010 BONDS.

The Indenture provides that all funds and accounts created pursuant to the Indenture constitute trust funds in favor of the Owners of the Bonds, and, so long as the letter of credit is in effect with respect to the Series 2008A Bonds, the Letter of Credit Bank, until so applied for the purpose set forth in the Indenture.

### **Outstanding Parity Debt**

***Series 2006A Bonds and Series 2008A Bonds.*** The pledge of Net Revenues under the Indenture securing payment of the Series 2010 Bonds is on a parity with a pledge of Net Revenues securing Prior Obligations, which consist of \$15,705,000 Outstanding principal amount of City of Richmond Wastewater Revenue Bonds, Series 2006A (the “Series 2006A Bonds”) and \$33,015,000 Outstanding principal amount of City of Richmond Variable Rate Wastewater Revenue Refunding Bonds, Series 2008A (the “Series 2008A Bonds” and together with the Series 2006A Bonds, the Series 2010 Bonds and any additional bonds that may be issued under the Indenture, the “Bonds”). The Series 2008A Bonds are currently supported by an irrevocable, direct-pay letter of credit issued by Union Bank of California, N.A. (the “2008 Letter of Credit Bank”), pursuant to and subject to the terms of a Reimbursement Agreement, dated as of October 1, 2008, between the City and the 2008 Letter of Credit Bank.

***2009 Swap Agreement.*** On November 19, 2009, the City terminated the swap agreement originally entered into in 2006 in connection with the Series 2006B Bonds, and which swap agreement was left in place when the Series 2008A Bonds were issued to refund all of the Outstanding Series 2006B Bonds.

The City entered into the 2009 Swap Agreement with the Royal Bank of Canada (the “Swap Provider”) pursuant to an International Swaps and Derivatives Association Inc. Master Agreement, dated as of November 19, 2009, including the Schedule and Credit Support Annex attached thereto (the “Master Agreement”) and a Confirmation under the Master Agreement, dated as of November 19, 2009. The City entered into the 2009 Swap Agreement for the purpose of receiving amounts expected to be approximately equal to the a floating rate interest payments the City was obligated to make with respect to the Series 2008B Bonds in exchange for making fixed rate payments.

Pursuant to the 2009 Swap Agreement, the Swap Provider pays the City an amount equal to 63.42% of USD-LIBOR-BBA plus 22 basis points, and the City pays the 2009 Swap Provider an amount equal to 3.897%, measured on a notional amount equal to the initial principal amount of the Series 2008B Bonds, which amount reduces simultaneously with the scheduled amortization of the Series 2008B Bonds.

As of September 24, 2010, the payment obligations of the Swap Provider were rated “Aaa” (negative outlook) by Moody’s, “AA-” (outlook positive) by Standard & Poor’s and “AA-” (outlook stable) by Fitch and the market value of the 2009 Swap to the City was negative \$8,313,357.

The regularly scheduled swap payments are secured by the Net Revenues under the Indenture on a parity with the Bonds. Any extraordinary termination payments under the 2009 Swap Agreement payable to a Swap Provider are subordinate to the payment of principal of and interest on the Bonds.

## **Outstanding Unsecured Debt**

In 1992, the City incurred a 20-year State Loan through the State Water Resources Control Board in the original principal amount of \$6,737,658 for improvements to the Enterprise. Payments on the State Loan are due annually through Fiscal Year 2012-13 at an interest rate equal to 3% per annum. As of July 1, 2010, the outstanding principal balance on the State Loan was \$1,297,856. ***The State Loan is unsecured and does not constitute a lien against Net Revenues.*** The City's agreement with the State Water Resources Control Board provides that the City will maintain a dedicated source of revenues to provide reasonable assurance that the State Loan will be repaid. The City intends to pay the State Loan from available Net Revenues after payment of the Bonds and the regularly scheduled payments on the 2009 Swap Agreement and from other legally available moneys.

## **Flow of Funds**

The City covenants in the Indenture that all Gross Revenues, when and as received, will be deposited, held by, accounted for through and held in trust in the Wastewater Fund, and the City has no beneficial right or interest in any of such moneys except only as provided in the Indenture. The City has covenanted and agreed to maintain the Wastewater Fund at all times so long as any Bonds are Outstanding under the Indenture. All Gross Revenues and Net Revenues, whether held by the City or deposited with the Trustee, will nevertheless be disbursed, allocated, and applied solely to the uses and purposes as described below.

All amounts in the Wastewater Fund required to pay Operating Expenses of the Enterprise will be applied for such purpose from time to time by the City. So long as any Bonds are Outstanding, the City will transfer the remaining money in the Wastewater Fund to the Trustee as required for deposit into the following respective funds (each of which the Trustee will establish, maintain and hold in trust for the benefit of the Owners of the Bonds), in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that on a parity with such deposits the Trustee may set aside or transfer amounts with respect to outstanding Parity Debt as provided in the proceedings for such Parity Debt (which will be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Debt):

***Interest Fund.*** The City will transfer to the Trustee and the Trustee will set aside in the Interest Fund on or before the third Business Day prior to each interest payment date an amount equal to the interest becoming due and payable on the Outstanding Bonds (excluding interest for which there are moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source to pay such interest).

***Principal Fund; Sinking Accounts.*** The City will transfer to the Trustee and the Trustee will set aside in the Principal Fund on or before the third Business Day prior to each principal or mandatory sinking fund payment date an amount equal to (i) the amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds, plus (ii) the mandatory sinking fund payments to be paid into the respective Sinking Accounts for the Term Bonds; provided that if the City certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from excess amounts on deposit in the Parity Reserve Fund or other bond reserve fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid mandatory sinking fund payments will be made without priority of any payment into any one such Sinking Account over any other such payment.

***Parity Reserve Fund.*** Upon the occurrence of any deficiency in the Parity Reserve Fund established pursuant to the Indenture or the 2010 Reserve Fund, the City will immediately transfer to the Trustee and the Trustee will set aside in the Parity Reserve Fund or the 2010 Reserve Fund, or both, on a *pro rata* basis, an amount equal to the aggregate amount of each unreplenished prior withdrawal from the Parity Reserve Fund or the 2010 Reserve Fund until there is on deposit in the Parity Reserve Fund and the 2010 Reserve Fund amounts equal to the respective 2010 Reserve Fund Requirement.

Whenever the amount on deposit in the Parity Reserve Fund or the 2010 Reserve Fund is less than the respective 2010 Reserve Fund Requirement, notice thereof will be provided to the City and the 2006 Bond Insurer and such amount is required to be increased by the City to meet the 2010 Reserve Fund Requirement not later than 12 months thereafter. Moneys on deposit in the Parity Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies on deposit in the Parity Reserve Fund) will be transferred by the Trustee to the Principal Fund and Interest Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes.

Any Net Revenues remaining in the Wastewater Fund after the transfers described above, except as otherwise provided in a Supplemental Indenture, will be held free and clear of the Indenture by the City and it may use and apply such Net Revenues for any lawful purpose of the City, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds, the payment of fees to any applicable Credit Provider relating to a Credit Facility and the purchase of Bonds as and when and at such prices as it may determine.

If, two days prior to any principal payment date, interest payment date or mandatory sinking fund redemption date, the amounts on deposit in the Interest Fund and Principal Fund, including the Sinking Accounts therein, are insufficient to make such payments, the Trustee will immediately notify the City, by telephone or facsimile machine, of such deficiency and direct that the City transfer the amount of such deficiency to the Trustee on such payment date. The City has covenanted and agreed to transfer to the Trustee from any Net Revenues in its possession the amount of such deficiency on the principal, interest or mandatory redemption date referenced in such notice.

***The Series 2010 Bonds are not secured by the Parity Reserve Fund.***

## **2010 Reserve Fund**

The Series 2010 Reserve Fund is established under the Indenture as security for the Series 2010A Bonds in an amount equal to the “2010 Reserve Fund Requirement” which, as of any date of determination and excluding any Parity Debt for which no reserve fund is to be maintained or for which a separate reserve fund is to be maintained, the lesser of (i) the Maximum Annual Debt Service on all Series 2010 Bonds, or (ii) 125% of the Average Annual Debt Service on all Series 2010 Bonds; provided that in no event will the deposit to the Series 2010 Reserve Fund be an amount greater than 10% of the initial offering price to the public of the Series 2010 Bonds as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee.

At the written Request of the City, amounts on deposit in the Series 2010 Reserve Fund in excess of the 2010 Reserve Fund Requirement will be withdrawn from the Series 2010 Reserve Fund and transferred to the City.

In lieu of a cash deposit, the City may satisfy the 2010 Reserve Fund Requirement by depositing to the Series 2010 Reserve Fund a letter of credit, surety bond, or insurance policy as provided in the Indenture.

Upon the issuance of the 2010 Bonds, the 2010 Reserve Fund Requirement will be \$2,719,076, which is equal to the Maximum Annual Debt Service (net of the Subsidy Receipts) on the Series 2010 Bonds. The Trustee will deposit the Reserve Policy in the amount of the 2010 Reserve Fund Requirement into the Series 2010 Reserve Fund. For a form of the Reserve Policy, see APPENDIX G–“SPECIMEN DEBT SERVICE RESERVE INSURANCE POLICY.”

### **Rate Covenant**

The rates for use of the Enterprise are set by the City Council and are not subject to review by any state or local governmental agency. The City has covenanted that it will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which (together with other funds accumulated from Gross Revenues and which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient to pay all Operating Expenses estimated to become due and payable in such Fiscal Year, Debt Service on the Bonds and any Parity Debt becoming due and payable during the Bond Year which commences in such Fiscal Year, all other payments required by the Indenture or any Parity Debt instruments or all payments required to meet any obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues or Net Revenues. In addition, the City has covenanted that it will fix, prescribe, revise and collect rates, fees and charges so as to yield Net Revenues during such Fiscal Year equal to at least 1.25 times the annual Debt Service coming due and payable during the Bond Year which commences in such Fiscal Year on Outstanding Bonds and any Parity Debt. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but such fees and charges will not be reduced so as to be insufficient to provide adequate Gross Revenues for the purposes described above. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS–Proposition 218” and “–Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies.”

### **Additional Bonds and Parity Debt**

The City may at any time issue additional Series of Bonds or Parity Debt payable from the Net Revenues and other funds and secured by a lien and charge securing the Outstanding Bonds on a parity with the Bonds, subject to the following conditions precedent, among others: (i) no Event of Default will have occurred and then be continuing; (ii) there will be deposited in the Parity Reserve Fund an amount of money so as to increase the amount on deposit therein to the Reserve Fund Requirement, if applicable; (iii) the aggregate principal amount of Bonds issued under the Indenture will not exceed any limitation imposed by law or otherwise, and (iv) as demonstrated in a Certificate of the City delivered to the Trustee, either

(a) the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements for the Enterprise are available (based on Debt Service payable during the Bond Year which commenced in such Fiscal Year), calculated as of the date of sale of such additional Series of Bonds and including the Bonds and Parity Debt then Outstanding and such additional Series of Bonds, will not be less than 1.25:1.0; provided that in calculating the Debt Service Coverage Ratio:

- (1) if rates, fees and charges fixed and prescribed for the Enterprise in effect on the date upon which such additional Series of Bonds will become Outstanding will be greater than those in effect during the most recent Fiscal Year for which audited financial statements are available, then the Net Revenues for said Fiscal Year may be augmented by 100% of the estimated increase in Net Revenues computed to accrue to the Enterprise in the first twelve months during which such rates, fees and charges will be in effect; and

- (2) Net Revenues may be augmented by 100% of the projected increase in annual Net Revenues to be provided by additional facilities under construction (financed from any source) or to be acquired with the proceeds of the additional Series of Bonds then being issued; or

(b) the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available (based on Debt Service payable during the Bond Year which commenced in such Fiscal Year), including the Bonds and Parity Debt then Outstanding but not such additional Series of Bonds, was at least equal to 1.25:1.0; and the Debt Service Coverage Ratio for each of the three full Fiscal Years (based on Debt Service payable during the Bond Year which commenced in such Fiscal Year) beginning with the first full Fiscal Year in which such additional Series of Bonds are issued (or, if later, the first full Fiscal Year in which less than 10% of the interest coming due on such additional Series of Bonds is to be paid from the proceeds of such additional Series of Bonds) is projected (based on approved rates, fees and charges) to be at least equal to 1.25:1.0.

See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions."

Nothing in the Indenture prohibits or impairs the authority of the City to issue bonds or other obligations which are unsecured or which are secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amount as the City may determine.

#### **Rate Stabilization Fund**

The City covenants under the Indenture to maintain and hold a Rate Stabilization Fund. The City may deposit Net Revenues or any other lawfully available funds in the Rate Stabilization Fund as the City may determine, provided that deposits for each Fiscal Year may be made until (but not after) 120 days following the end of such Fiscal Year. The City may withdraw amounts from the Rate Stabilization Fund for inclusion in Gross Revenues for any Fiscal Year, but only until (but not after) 120 days after the end of such Fiscal Year. Withdrawals from the Rate Stabilization Fund may be made at any time by the City for any lawful purpose of the Enterprise. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Net Revenues."

### **BOND INSURANCE**

#### **Bond Insurance Policy**

Concurrently with the issuance of the Series 2010 Bonds, Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.) ("AGM") will issue its Municipal Bond Insurance Policy for the Series 2010 Bonds (the "Bond Insurance Policy"). The Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Series 2010 Bonds when due as set forth in the form of the Bond Insurance Policy included as APPENDIX H to this Official Statement.

The Bond Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

#### **Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)**

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. ("Holdings"). Holdings is an indirect subsidiary

of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

Effective November 9, 2009, Financial Security Assurance Inc. changed its name to Assured Guaranty Municipal Corp.

AGM’s financial strength is rated “AAA” (negative outlook) by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “Aa3” (negative outlook) by Moody’s Investors Service, Inc. (“Moody’s”). On February 24, 2010, Fitch, Inc. (“Fitch”), at the request of AGL, withdrew its “AA” (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

*Current Financial Strength Ratings.* On May 17, 2010, S&P published a Research Update in which it affirmed its “AAA” counterparty credit and financial strength ratings on AGM. At the same time, S&P continued its negative outlook on AGM. Reference is made to the Research Update, a copy of which is available at [www.standardandpoors.com](http://www.standardandpoors.com), for the complete text of S&P’s comments.

In a press release dated February 24, 2010, Fitch announced that, at the request of AGL, it had withdrawn the “AA” (Negative Outlook) insurer financial strength rating of AGM at the then current rating level. Reference is made to the press release, a copy of which is available at [www.fitchratings.com](http://www.fitchratings.com), for the complete text of Fitch’s comments.

On December 18, 2009, Moody’s issued a press release stating that it had affirmed the “Aa3” insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at [www.moodys.com](http://www.moodys.com), for the complete text of Moody’s comments.

There can be no assurance as to any further ratings action that Moody’s or S&P may take with respect to AGM.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed by AGL with the Securities and Exchange Commission (the “SEC”) on March 1, 2010, AGL’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which was filed by AGL with the SEC on May 10, 2010, and AGL’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010, which was filed by AGL with the SEC on August 9, 2010.

*Capitalization of AGM.* At June 30, 2010, AGM’s consolidated policyholders’ surplus and contingency reserves were approximately \$2,264,680,337 and its total net unearned premium reserve was approximately \$2,259,557,420, in each case, in accordance with statutory accounting principles.

*Incorporation of Certain Documents by Reference.* Portions of the following documents filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) The Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (which was filed by AGL with the SEC on March 1, 2010);

(ii) The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (which was filed by AGL with the SEC on May 10, 2010); and

(iii) The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010 (which was filed by AGL with the SEC on August 9, 2010).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the Series 2010 Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.): 31 West 52<sup>nd</sup> Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE—Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)" or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the Series 2010 Bonds or the advisability of investing in the Series 2010 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under this heading "BOND INSURANCE."

## **CERTAIN RISKS TO BONDOWNERS**

*This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Series 2010 Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Series 2010 Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Series 2010 Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Series 2010 Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.*

## **System Demand**

There can be no assurance that the demand for sewer services will occur as described in this Official Statement. Reduction in levels of demand could require an increase in rates or charges in order to comply with the rate covenant.

## **System Expenses**

There can be no assurance that the City's projected expenses will be consistent with the descriptions in this Official Statement. Increases in expenses including, but not limited to, personnel costs, regulatory compliance costs and changes in technology, could require an increase in rates or charges in order to comply with the rate covenant.

## **Risks Related to Build America Bonds**

As discussed under "TAX MATTERS" the City is required to comply with certain requirements of the Tax Code in order for the obligations represented by the Taxable Series 2010B Bonds to be treated as "qualified bonds" and to continue to be eligible for the Subsidy Receipts. The City has covenanted to comply with each of these requirements. However, failure by the City to comply with these requirements may result in a delay or forfeiture of all or a portion of the Subsidy Receipts and may cause the obligations represented by the Taxable Series 2010B Bonds to cease to be treated as "qualified bonds" either prospectively from the date of determination of a failure to comply with the requirements or retroactively to the date of issuance of the Taxable Series 2010B Bonds. Should such an event occur the Taxable Series 2010B Bonds are subject to extraordinary optional redemption. See "THE 2010 BONDS—Redemption Provisions—*Redemption Provisions for the Taxable Series 2010B Bonds.*"

The United States Treasury may offset any Subsidy Receipts to which the City is otherwise entitled against any other tax liability of the City payable to the United States Treasury, such as withholding or payroll taxes, or other penalties or interest that may be owed at any time to the United States Treasury. The entitlement of the City to receive Subsidy Receipts with respect to the Taxable series 2010B Bonds is also subject to audit by the Internal Revenue Service.

The City can provide no assurance that future legislation or clarifications or amendments to the Tax Code, if enacted into law, or future court decisions will not reduce or eliminate the Subsidy Receipts with respect to the obligations represented by the Taxable Series 2010B Bonds. The Subsidy Receipts do not constitute a full faith and credit guarantee of the United States government, but is required to be paid by the United States Treasury under the Recovery Act.

The City is obligated under the Indenture to make all payments of principal of and interest on the Taxable Series 2010B Bonds whether or not the City receives any Subsidy Receipts.

## **Limited Recourse on Default**

If the City defaults on its obligation to pay principal or interest on the Series 2010 Bonds, the Trustee has the right to accelerate the total principal of all Series 2010 Bonds then outstanding and the accrued interest thereon. However, in the event of a default and such acceleration there can be no assurance that the City will have sufficient funds to pay the accelerated principal and accrued interest from Net Revenues.

If at any time there is a deficiency in Net Revenues available to pay the principal and interest on the Series 2010 Bonds, available Net Revenues are required to be applied on a *pro rata* basis for such

purposes and any amounts due with respect to Parity Debt, amounts required to replenish the Reserve Fund or any reserve fund established for Parity Obligations or Credit Facility Obligations, then under the Indenture.

### **Initiatives; Changes in Law**

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. Article XIII A, Article XIII B, Article XIII C, Article XIII D, and Proposition 218, were adopted as measures that qualified for the ballot through California's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the Net Revenues or the ability of the City to expend its revenues. There is no assurance that the electorate or the State Legislature will not at some future time approve additional limitations which could affect the ability of the City to implement rate increases which could reduce Net Revenues and adversely affect the security for the Series 2010 Bonds.

### **Statutory and Regulatory Impact**

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

Although the City covenants in the Indenture to fix, prescribe and collect rates and charges for the services and facilities furnished by the Enterprise during each Fiscal Year sufficient to yield the debt service coverage not less than 1.25:1.0, no assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the City to generate sufficient Net Revenues in the amounts required by Indenture. Increasing regulatory standards could materially increase the cost to the City of providing wastewater services. See also "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 218" and "—Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies."

### **Seismic Risks**

There are several geological faults in the greater San Francisco Bay Area that have the potential to cause serious earthquakes which could result in damage to buildings, roads, bridges, and property within the City.

The City, the Enterprise and the Bay Area are generally located in a zone 4 seismic hazard area. Seismic zones aid in identifying and characterizing certain geological conditions and the risk of seismic damage at a particular location, and are used in establishing building codes to minimize seismic damage. The five seismic zones are: zone 0 (no measurable damage), zone 1 (minor damage), zone 2 (moderate damage), zone 3 (major damage) and zone 4 (major damage and greater proximity than zone 3 to certain major fault systems).

The City is located in the Hayward Fault Zone. Past experiences, including the 1989 Loma Prieta earthquake on the San Andreas fault, with a magnitude of 7.1 on the Richter scale and with the epicenter located in Santa Cruz, approximately 65 miles south of the City, have resulted in minimal damage to the infrastructure and property within the City.

The nearest active fault to the City is the Hayward fault, which is a northwest-southeast trending fault approximately 3.7 miles to the east of the City. The West Napa fault lies approximately 17 miles to the northeast. The Concord-Green Valley fault lies approximately 18 miles to the east. The Rogers Creek fault lies approximately 15 miles to the north. The San Andreas fault lies approximately 14 miles to the west. The northern part of the Calaveras fault lies approximately 20 miles to the southeast. All of these faults are considered active.

It is possible that new geological faults could be discovered in the area and a significant earthquake along these or other faults is possible during the period that the Series 2010 Bonds will be outstanding which may cause a delay or suspension of receipt of Net Revenues from the Enterprise.

The Treatment Plant is partially located on landfill. During an earthquake, landfill areas are subject to liquefaction, which is the temporary change of a saturated soil or fill to a liquid with the loss of support strength for structures. Commercial properties, residential properties and infrastructure in this project area could sustain damage in a major seismic event from ground motion and liquefaction of underlying soils. This could result in a substantial reduction or suspension of Net Revenues.

In the event of significant earthquake damage to the Enterprise, there can be no assurance that Net Revenues will be sufficient to pay principal of and interest on the Bonds.

It is believed that the City is not at great risk of earthquake-triggered tsunamis due to natural attenuation across San Francisco Bay and Brooks Island near the City. If a tsunami did occur on the open ocean, it is expected that waves would dissipate as they moved through San Francisco Bay and past Angel Island and that the tidal flats would absorb much of the impact.

## **Climate Change**

In March 2009, the California Climate Change Center released a draft paper, for informational purposes only, which was funded by the California Energy Commission, the California Environmental Protection Agency, the Metropolitan Transportation Commission, the California Department of Transportation and the California Ocean Protection Council. The title of the paper is “The Impacts of Sea-Level Rise on the California Coast.” The paper posits that increases in sea level will be a significant consequence of climate change over the next century.

Local impacts of climate change are not definitive, but the City could experience changes to local and regional weather patterns; rising bay water levels; increased risk of flooding; changes in salinity and tidal patterns of San Francisco and San Pablo bays; coastal erosion; water restrictions; and vegetation changes. The San Francisco Bay Conservation and Development Commission identified several portions of the shoreline in the City which may be affected by sea level rise.

The adoption by the State of the California Global Warming Solutions Act of 2006 (AB 32) and subsequent companion bills demonstrate the commitment by the State to take action and reduce greenhouse gases (GHG) to 1990 levels by 2020. The State Attorney General’s Office, in accordance with SB 375, now requires that local governments examine local policies and large-scale planning efforts to determine how to reduce greenhouse gas emissions.

The City is taking steps to reduce its GHG emissions and mitigate the potential effects of climate change, both through its municipal operations and by encouraging residents, industry, businesses and developers to reduce their energy consumption. In 2008, the City initiated a Citywide GHGs emissions inventory as a means of establishing a baseline for greenhouse gas emissions, identifying existing sources

of energy use and providing a foundation from which to develop relevant energy and climate change policies.

In December 2009, the City released a revised draft of the City's General Plan for public comment. The draft General Plan includes an energy and climate change element that identifies goals, policies and implementing actions to address energy conservation, renewable energy production and use, sustainable business development, responsible community revitalization and reduction of climate change impacts within the City. The City Council is expected to convene hearings to adopt the General Plan and the environmental impact report in Fiscal Year 2010-11.

Climate change concerns are leading to new laws and regulations at the federal, State and local levels. The City is unable to predict the impact such laws and regulations, if adopted, will have on Net Revenues. The effects, however, could be material.

### **Insurance**

The Indenture obligates the City at all times to maintain with responsible insurers such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. For a description of the required insurance coverage, see "THE ENTERPRISE—Insurance on the Enterprise."

Although the City is insured for Fiscal Year 2010-11 as to earthquake damage to the Enterprise, the City makes no representation that such insurance will be maintained.

### **No Tax Pledge**

The obligation of the City to pay the principal of and interest on the Series 2010 Bonds 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. Neither the Series 2010 Bonds nor the obligation of the City to make payments on the Series 2010 Bonds constitutes a debt of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

### **Changes in Law**

There can be no assurance that the State Legislature will not at some future time enact legislation that will amend or create laws resulting in a reduction of Net Revenues securing or available to pay the Bonds. Similarly, the State electorate could adopt initiatives or the State Legislature could adopt legislation with the approval of the electorate amending the State Constitution which could have the effect of reducing moneys securing or available to pay the Bonds.

### **Loss of Tax Exemption**

As discussed under the caption "TAX MATTERS," interest on the Series 2010A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Series 2010A Bonds were issued, as a result of future acts or omissions of the City in violation of their covenants in the Indenture. Should such an event of taxability occur, the Series 2010A 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 Markets and Prices**

The Underwriters will not be obligated to repurchase any of the Series 2010 Bonds, and no representation is made concerning the existence of any secondary market for the Series 2010 Bonds. No assurance can be given that any secondary market will develop following the completion of the offering of the Series 2010 Bonds, and no assurance can be given that the initial offering prices for the Series 2010 Bonds will continue for any period of time.

## **Bond Insurance Risk Factors**

In the event of default of the payment of principal or interest with respect to the Series 2010 Bonds when all or some becomes due, any owner of the Series 2010 Bonds shall have a claim under the Bond Insurance Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Bond Insurance Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional redemption of the Series 2010 Bonds by the City which is recovered by the City from the Series 2010 Bond Owner as a voidable preference under applicable bankruptcy law is covered by the Bond Insurance Policy, however, such payments will be made by the Bond Insurer at such time and in such amounts as would have been due absence such prepayment by the City unless the bond insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the consent of the Bond Insurer may be required in connection with amendments to any applicable bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Bond Insurance Policy, the Series 2010 Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Series 2010 Bonds, no assurance is given that such event will not adversely affect the market prices of the Series 2010 Bonds or the marketability (liquidity) for the Series 2010 Bonds.

The long-term ratings on the Series 2010 Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The financial strength and claims paying ability of the Bond Insurer are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Series 2010 Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market prices of the Series 2010 Bonds or the marketability (liquidity) for the Series 2010 Bonds. See "RATINGS."

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

None of the City or Underwriters have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential

investors should carefully consider the ability of the City to pay principal and interest on the Series 2010 Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment.

## **THE ENTERPRISE**

### **Overview**

The Enterprise is one of three utilities maintained and operated by the City. The two other utilities are storm sewer and cable television. As of January 1, 2010, the Enterprise provided sewer services to approximately 18,151 of the 27,004 residential parcels located within the City and, in addition, services 2,160 industrial and commercial parcels located in the City.

The Enterprise is comprised of a collection system (the “Collection System”), a treatment plant (the “Treatment Plant”) and the disposal system. The Collection System consists of approximately 185 miles of sanitary sewer collection pipes, 13 wastewater lift stations, approximately 94 miles of stormwater main lines, 3,300 catch basins, approximately six miles of open ditch, 1,200 manholes, six miles of “V” ditch and seven stormwater lift stations. The Treatment Plant is located on an approximately 30-acre site in the southwest portion of the City at 601 Canal Boulevard. The current permitted capacities of the Treatment Plant are 16 mgd average dry weather flow and 40 mgd peak wet weather flow. For a map of the Treatment Plant, see page 30.

### **Service Area**

The service area of the Enterprise coincides with the boundaries of the Richmond Municipal Sewer District No. 1 (“District No. 1”), which was created by the City in 1956. The service area of the Enterprise comprises approximately 14 square miles of the total approximately 33.7 square-mile land area of the City and corresponds to the original boundaries of the City as they existed in 1905. The Stege Sanitary District (the “Stege District”) and the West County Wastewater District (the “West County District”) provide sewer services to portions of the City that are not serviced by the Enterprise. These areas were originally outside the boundaries of the City and, since annexation of these areas to the City, have continued to be served by those districts. See page 32. In 1977, the City, District No. 1 and the West County District formed the West County Agency, a joint powers agency, which constructed a 72-inch joint outfall pipe and other facilities jointly used by the City, District No. 1 and the West County District.

### **History**

The Treatment Plant was initially constructed in 1953 as a primary treatment facility. In 1967 it was expanded to include secondary treatment. Smaller upgrade projects have been completed since that time, including the construction of a third circular clarifier in 1990. Wet weather diversion structures and various improvements, including expansion and modernization of the existing laboratory and construction of an emergency generator and fuel storage system, were added in the 1980s and early 1990s. Until 1999, the facilities of the Enterprise generally had an average age of 60 years, with many facilities nearing the end of their useful lives; the Treatment Plant had little automation and process control was mostly manual. However, beginning in 1999 with the issuance of the City’s Series 1999 Bonds (which were refunded in 2006, major rehabilitation and renovation improvements to the Enterprise have been underway. See “–Capital Improvement Plan.”

## Regulatory Matters

Wastewater treatment plants are required under State and federal law to meet various requirements for the operation, treatment, monitoring, maintenance and disposal and discharge of wastewater. These standards are set forth in National Pollution Discharge Elimination System (the “NPDES”) permits issued and modified every five years by the Regional Water Quality Control Board (“RWQCB”).

The City operates the Enterprise under NPDES Permit No. CA 0038539 issued in April 2008 held by the West County District, which also covers the wastewater discharges from the Enterprise and the West County District. The current permit expires on April 1, 2013 (the “2013 NPDES Permit”) and prescribes the effluent, receiving water, groundwater and pond disposal limitations for the Treatment Plant; requires additional testing, monitoring and limits for toxic substances; requires the City to commit \$20 million between calendar years 2008 and 2013 to reducing wet weather blending of primary and secondary effluent; prohibits wet weather blending until the influent exceeds 20 mgd; and fixes the ammonia limit at 32 milligrams per liter (mg/L). See “–*Overview of Sewage Discharge Regulations.*”

***Overview of Sewage Discharge Regulations.*** The construction and operation of wastewater treatment facilities and the discharge of sewage are highly regulated activities. The two major laws governing the Enterprise are the Federal Clean Water Act (the “Clean Water Act”), first enacted in 1972, and the State’s Porter-Cologne Water Quality Control Act, first enacted in 1969. The combined laws require that policies, plans, requirements and water quality standards applicable to discharges be developed for all water bodies in order to protect the beneficial uses of the water. The Clean Water Act also regulates the disposal of sewage sludge. The Porter-Cologne Act specifically requires the adoption of water quality and sediment quality standards for enclosed bays and estuaries.

The City’s operation of the Enterprise falls under the jurisdiction of federal, state and regional agencies. The Environmental Protection Agency, the federal agency charged with implementation and enforcement of the Clean Water Act, has delegated much of the planning, permitting, and enforcement activities to the states, including the State of California, pursuant to a 1989 Memorandum of Agreement. The California State Water Resources Control Board (“SWRCB”) develops policies, plans, requirements and water quality objectives for the three types of State waters: inland surface waters, enclosed bays and estuaries, and the nearshore ocean waters. The Regional Water Quality Control Board for the San Francisco Bay Region (the “RWQCB”) is the local enforcement arm of the State and federal water pollution control programs.

The RWQCB issues discharge permits under Section 402 of the Clean Water Act, called the NPDES, and establishes waste discharge requirements under section 13263 of the Porter-Cologne Act. These permits regulate all effluent discharges. Discharge permits are issued for a five-year period.

**Wet Weather Blending of Primary and Secondary Effluent.** The Environmental Protection Agency (the “EPA”) has been developing regulations for wet weather flow blending over the past several years. In 2005, the EPA published proposed regulations for wet weather blending of effluent. The EPA and the RWQCB discourage blending, but blending is currently allowed if there is no feasible alternative. There is a concern among San Francisco Bay Area dischargers that they may be required to eliminate blending in the future if the interpretation of “no feasible alternative” changes. In fact, recent discharge permits issued to the East Bay Municipal Utilities District and for South San Francisco contain more restrictions on primary/secondary effluent blending.

Ammonia Limits. Currently the ammonia limits at the Treatment Plant can be met without adding nitrification facilities. However, the recent collapse of fish populations in the San Francisco Bay-Delta, linked to many factors, including ammonia discharged in the effluent from publicly owned treatment works, has resulted in dischargers to surface waters tributary to the San Francisco Bay-Delta being required to remove ammonia.

The City has been cited in the past for violations of its NPDES permit. According to complaints filed by the RWQCB, the City and the West County District have, at various times, discharged treated wastewater to the waters of the State that exceeded allowable effluent limitations for certain pollutants. According to these complaints, the violations were not serious, but were subject to mandatory minimum penalties. The mandatory minimum penalty for each violation to which a penalty applied is \$3,000 per occurrence.

The City is currently in compliance with all permits, laws and regulations necessary to operate the Enterprise.

**Baykeeper Lawsuit.** On September 25, 2005, the City was served with a complaint (*Baykeeper and West County Toxics Coalition v. City of Richmond, West County Wastewater District, Veolia Water North America Operating Services and West County Agency, Case No. C-05-03829 MMC*) (the “Baykeeper Lawsuit”) alleging that the City, the West County Agency and Veolia violated the Clean Water Act, and the effluent limitations contained in the terms and conditions of the NPDES discharge permit No. CA0038539 (the “2001 Joint Permit”), Order No. 1994-014 (the “1994 Joint Permit”); and regional municipal storm water permit, NPDES permit No. CA0029912, as amended by Order No. R2-2003- 0022 (the “MS4 Permit”)

The parties entered into two settlement agreements; one on June 28, 2006, addressing alleged violations of effluent (discharge) limitations from the Treatment Plant; and the second on October 18, 2006 (together the “Settlement Agreement”), to facilitate prevention of sanitary sewer overflows that historically occurred and were occurring from the collection system of the Enterprise and the West County collection system and the prevention of sewage discharges to the Enterprise. The Settlement Agreement terminates 10 years following the Effective Date (the 45th day following receipts by the U.S. Department of Justice of the Settlement Agreement *i.e.* December 16, 2016).

In order to ensure that the City, the West County District and Veolia continue to improve efforts to comply with the Clean Water Act and use, implement and improve methods to prevent or reduce sanitary sewer overflows, the City agreed to: (i) comply with the SSO Reduction Performance Goals set forth therein; including prohibiting any non-storm event capacity-related SSOs from the Collection System after September 1, 2014 not limiting the number of sewage spills from any two of the same sewer line segments or manhole/maintenance holes to two within any calendar year commencing January 1, 2011; (ii) develop and implement an SSMP that satisfies the requirements of the Clean Water Act, the 2001 Joint Permit and the 1994 Joint Permit, and spend at least \$20 million solely on capital improvements to the Collection System over the five calendar years following July 1, 2006; (iii) complete a System Evaluation and Capacity Assurance Plan (a “SECAP”) by June 1, 2008 (which deadline was subsequently extended and the SECAP was completed by July 1, 2008); (iv) complete a condition assessment of all gravity sewer main lines and force main sewer lines by October 14, 2006; (v) clean all gravity sewer lines in the Collection System at least once every four calendar years; (vi) update the fats, oil and grease (“FOG”) inspection procedures to reduce the timeframe for reinspection of food service establishments; (vii) provide annual SSO summary reports to Baykeeper and West County Toxics Coalition during the term of the Settlement Agreement by March 31 of each year and within 120 days thereafter, an action plan for the reduction of SSOs if the SSO reduction performance goals are not attained; (viii) fund a private lateral sewer replacement program for residents and businesses within

District No. 1 in the amount of \$100,000 per year for 10 years, for a total of \$1,000,000 (of which the City has funded approximately \$600,000 to date); (ix) evaluate whether additional funding can be secured for further collection system improvements, for example through increased sewer rates in order to reduce SSOs and comply with the SSO Order and the Settlement Agreement; and (x) implement specified low impact development principles, storm water enforcement response plans and storm water studies.

The City is currently in compliance with the terms of the Settlement Agreement. The 2010 Project is designed to address certain of the requirements of the Settlement Agreement. The City expects the projects undertaken in connection with the Collection System Master Plan and the Treatment Plant Master Plan will address the capacity issues that resulted in the events giving rise to the allegations in the Baykeepers lawsuit. See “See “–Master Plans,” “–Capital Improvement Program” and “PLAN OF FINANCE.”

***Regulatory Orders and Other Developments.*** On May 18, 2000, the U.S. EPA promulgated numeric water quality criteria for priority toxic pollutants and other provisions for water quality standards to be applied to waters in the State of California. The EPA promulgated this “California Toxics Rule” based on the EPA Administrator’s determination that the numeric criteria are necessary in the State of California to protect human health and the environment.

The rule filled a gap in California water quality standards that was created in 1994 when a State court overturned the State’s water quality control plans containing water quality criteria for priority toxic pollutants for the State’s failure to comply with State law in adopting those criteria. Thus, the State of California had been without a full suite of numeric water quality criteria for many priority toxic pollutants as required by the Clean Water Act, necessitating this action by EPA. These federal criteria are legally applicable in the State of California for inland surface waters, enclosed bays and estuaries for all purposes and programs under the Clean Water Act. The State of California also adopted an implementation policy in 2000 describing how to implement the U.S. EPA’s California Toxics Rule.

On December 1, 2004, the RWQCB instituted new requirements for reporting sewer overflows, mandating registration of sewer system authorities and immediate as well as annual reporting of overflows to the RWQCB according to set procedures. For publicly owned treatment facilities whose discharges are regulated in a NPDES permit, the new reporting requirements apply to overflows occurring upstream of the treatment plant, while overflows within the treatment facility boundaries remain regulated by the reporting requirements in the discharge permit’s self-monitoring program. Sewer system authorities were also required to prepare a Sewer System Management Plan (“SSMP”), including 10 specified elements. All elements of the SSMP were completed by August 31, 2008. For publicly owned treatment facilities regulated by an NPDES permit, completion of the RWQCB SSMP will fulfill any requirement for development of an SSMP under the permit.

On May 2, 2006, the SWRCB adopted Statewide General Waste Discharge Requirements for Sanitary Sewer Systems, Order No. 2006-0003-DWQ, as modified by Order No. WQ 2008-0002-EXEC, adopted on February 20, 2008 (together, the “SSO Order”). The SSO Order mandates that all public entities with systems more than a mile in length that collect or convey untreated or partially treated wastewater to a publicly owned treatment facility develop and implement an SSMP and comply with the supplemental Monitoring and Reporting Program requirement. An SSMP is intended to facilitate proper funding, operation, maintenance, and management of sanitary sewer systems. Such plans should include provisions for efficient management, operation and maintenance of the system; consideration of risk management and cost-benefit analyses; and a spill response plan that sets forth standard overflow response procedures designed to minimize water quality impacts and reduce potential nuisance conditions. All public agencies owning or operating over a mile of sanitary sewer systems must have applied for coverage under the Waste Discharge Requirements on or before November 1, 2006, and must

also be in compliance with all other provisions of the SSO Order. The SSO Order is intended as the primary regulatory mechanism for sanitary sewer systems. However, regional water boards may issue discharge requirements that are more stringent or prescriptive. Such regional regulation is not mandated and may be considered to be contrary to the SWRCB's intent to streamline and standardize SSO regulation statewide. The City prepared an application for coverage under the Waste Discharge Requirements and was compliant with the SSO Order prior to the November 1, 2006 deadline.

Other regulatory agencies with approval or oversight responsibilities over the construction or operation of the Enterprise include the Bay Conservation and Development Commission, the Bay Area Air Quality Management District, the California Department of Health Services, and the U.S. Army Corps of Engineers. The roles these other agencies play with respect to operations of the Enterprise are summarized as follows:

The Bay Conservation and Development Commission: responsible for approving all projects undertaken within San Francisco Bay or within 100 feet of the mean high tide line of the Bay.

The Bay Area Air Quality Management District: responsible for setting air emissions standards for the Enterprise's sewage treatment facilities and issuing air emission permits.

The California Department of Health Services: responsible for setting standards for the use of reclaimed water.

The U.S. Army Corps of Engineers: responsible for approving all construction projects undertaken within navigable waters of the United States.

The City is currently in compliance with the regulatory orders and standards applicable to the Enterprise set by each of the agencies described above.

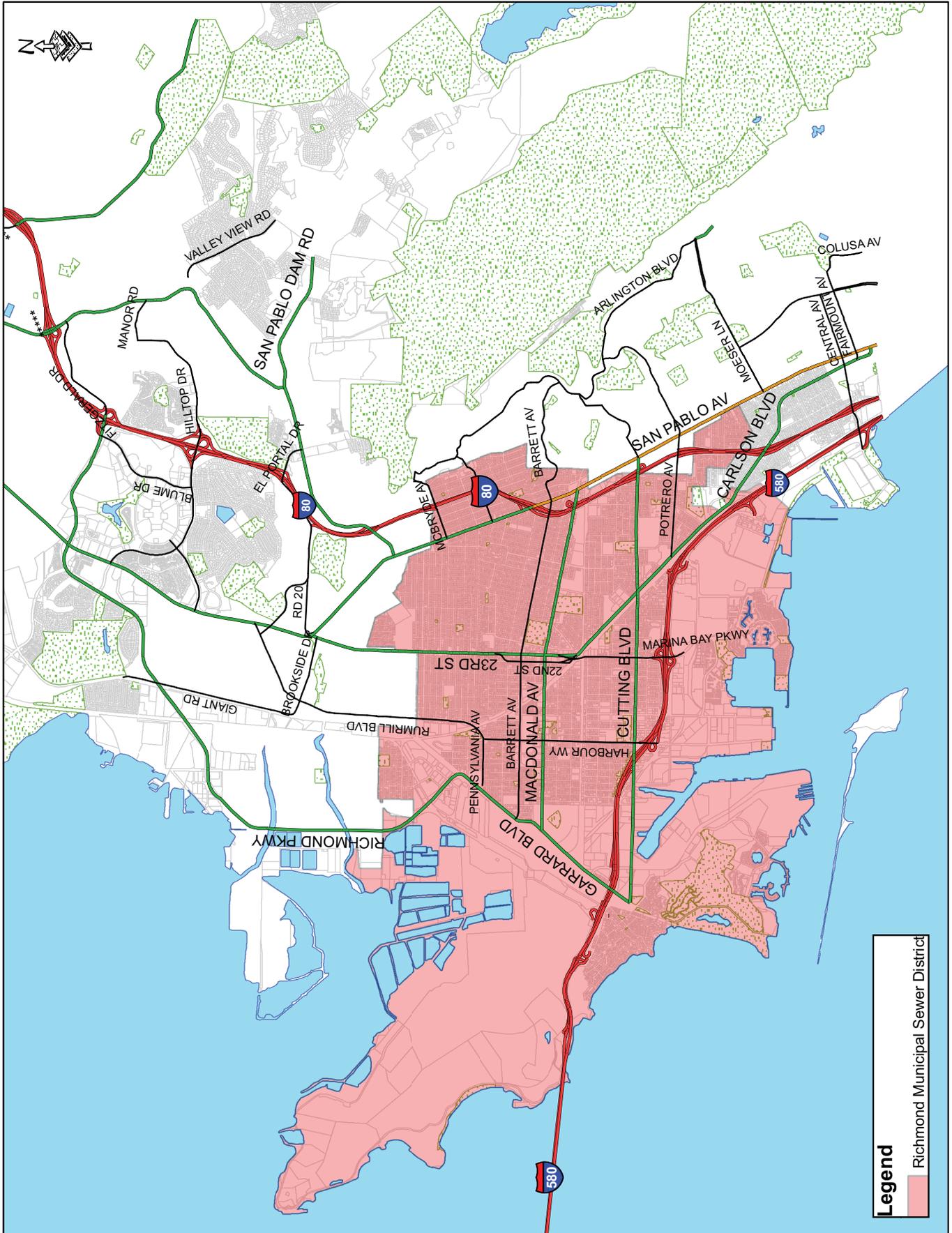
***Biosolids Disposal.*** There are numerous federal and State laws and regulations governing disposal and beneficial reuse of wastewater biosolids. The principal federal regulations governing disposal and beneficial use of biosolids are contained in Volume 40 of the Code of Federal Regulations, Part 503. The principal State guidelines are contained in the SWRCB's General Order applicable to land application of biosolids and the Department of Health Services' Manual of Good Practice for Landspreading of Sewage Sludge.

The federal regulations were published in 1993 after more than a decade of development. They provide detailed requirements on treatment, management methods, monitoring, and recordkeeping for sludge disposal or beneficial reuse through land application (including compost and other biosolid products), surface disposal (including sludge monofills), and incineration. The main disposal method that the regulations do not cover is co-disposal with municipal solid waste in landfills. That disposal method is covered in 40 CFR Part 258, which requires only that the biosolids be nonhazardous and sufficiently de-watered.

State regulations provide for comprehensive regulation of landfilling in California, including disposal of biosolids to landfills with municipal solid waste. These regulations classify landfills and identify what type of waste may be sent to each class. The principal state regulatory agencies dealing with biosolids are the RWQCBs. The RWQCBs are involved in both land application projects and in landfill projects. The California Integrated Waste Management Board, established by 1989 legislation (AB 939) to regulate solid waste disposal, is also involved in landfill projects.

***Methane Management.*** In addition to biosolids, another by product of the treatment process is methane gas. Methane gas is formed during the digestion and stabilization process of biosolids. Approximately 1,250,402 cubic feet (cu/Ft) of methane gas is produced each month at the Treatment Plant. Currently, a majority of the methane gas is flared-off (*i.e.* burned).

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**Legend**  
 Richmond Municipal Sewer District

## Management

Key members of the City staff responsible for the operation and financial management of the Enterprise include:

***William A. Lindsay, City Manager.*** Bill Lindsay began his professional career as a Consultant with Deloitte Haskins & Sells (now Deloitte Touche Tohmatsu) in their Management Advisory Services group. He then moved to the public sector as Finance Director/Assistant to the City Manager with the City of Hercules, California, as Administrative Services Director with the City of San Ramon, California, and then as City Manager for the City of Orinda, California for nine years. Mr. Lindsay has been the City Manager of Richmond since February 2005. He earned a bachelors degree in Economics from Yale University and a masters degree in General Management from the University of California at Berkeley.

***James C. Goins, Director of Finance and Treasurer.*** James Goins began his professional career with the Salt Lake County Government as the Director of Intergovernmental Relations and was promoted to the Chief Administrative Officer. Following his county service, Mr. Goins served as the City Manager for Compton, California. Immediately prior to his appointment at the City of Richmond as the Finance Director in August 2005, Mr. Goins was the Managing Director of Public Finance with the Hoefler & Arnett firm, headquartered in San Francisco. He is a NASD registered Municipal Securities principal (Series 53) and a General Securities Representative (Series 7 and 63). Mr. Goins earned degrees in Business Administration and Social Psychology from the University of Utah.

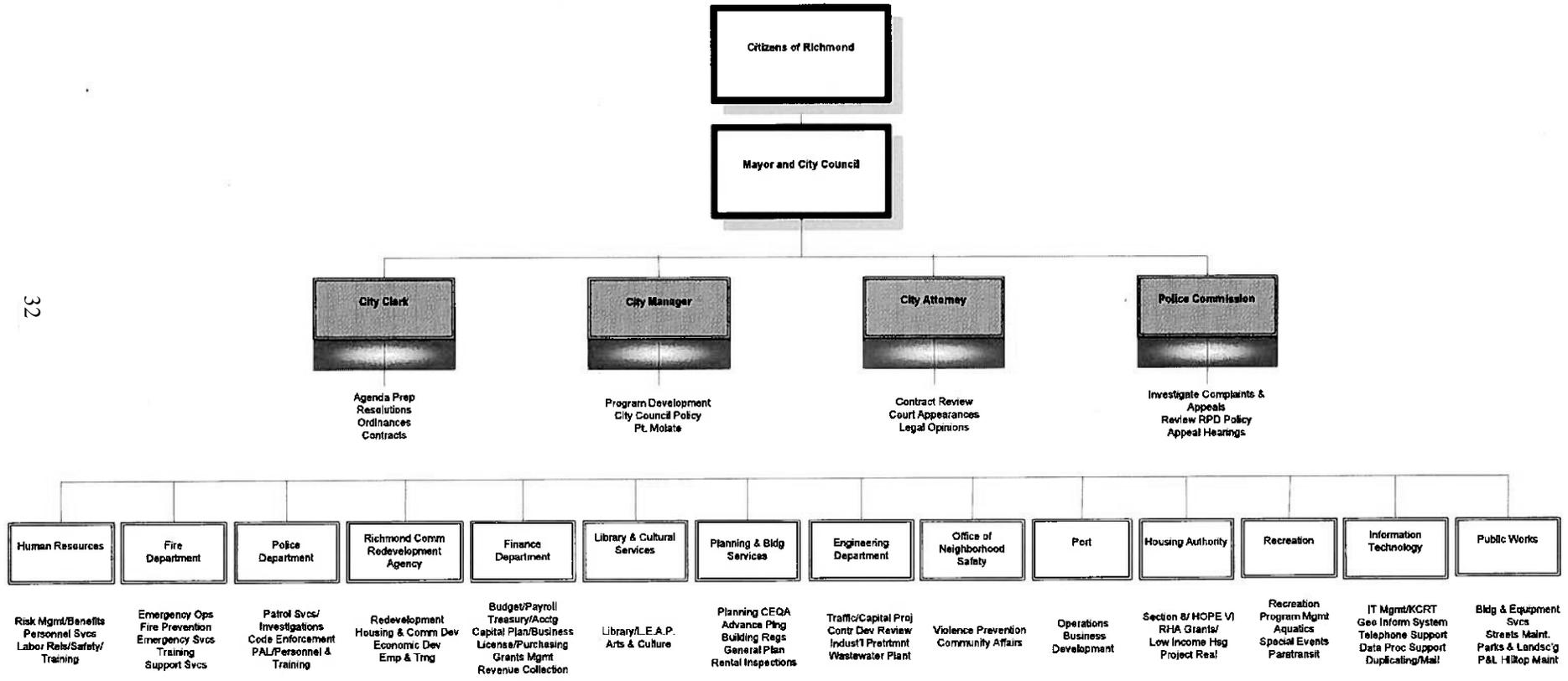
***Edric Kwan, Interim City Engineer.*** Edric Kwan began his professional civil engineering career in 1997 as a consultant providing municipal staff augmentation, roadway and pipeline design, construction management, pavement management, and land development services to dozens of public agencies. He then moved to the public sector in 2003 managing the Capital Improvement Program for the City of Alameda, California and in 2005 administering the Subdivision process for the City of Fremont, California. In September 2008, Mr. Kwan was hired by the City of Richmond as Capital Projects Manager and was appointed Interim City Engineer in January 2010. Mr. Kwan earned his Bachelors of Science degree in Civil Engineering from the University of California at Berkeley.

***Chad A. Davisson, Wastewater Project Manager/Contract Administrator.*** Chad Davisson began his professional career in Southern California at the Eastern Municipal Water District. He became the Wastewater and Recycled Water Manager for Olivenhain Municipal Water District in 2001 before relocating to the Bay Area to work for the City as the Wastewater Project Manager/Contract Administrator. Mr. Davisson manages the Wastewater Enterprise which includes administration of the City's 20 year contract with Veolia Water NA. Mr. Davisson graduated from San Diego State University with a Bachelors of Arts degree in Public Administration and obtained his Grade V Wastewater Treatment Plant Operator Certification from the California Water Resources Control Board.



**City of Richmond**  
 FY2010-11 Organizational Chart

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## Management Agreement

**Summary.** In 2002, the City and Veolia Water North America Operating Services, Inc., formerly known as U.S. Filter Operating Services, Inc. (“Veolia”) entered into the City of Richmond Wastewater Treatment Facility Capital Improvements, Operations, Maintenance and Management Agreement, as amended, (the “Management Agreement”), which provides, among other things, for Veolia to design and construct improvements to the Enterprise and to operate, maintain and manage the Treatment Plant during the 20-year term of the Management Agreement. The Management Agreement has been amended to provide for the operation, maintenance and repair of the sewer collection system and storm drainage system, the preparation of sanitary sewer and storm drain master plans and completion of certain improvements to the pump stations pursuant to the Settlement Agreement. (See “–Regulatory Matters–*Baykeepers Lawsuit*”). Pursuant to the Management Agreement, the City provides all capital funding, at specified levels, and remains the owner of the Enterprise. Veolia provides all capital improvements for the Enterprise and operates and maintains the Enterprise at guaranteed costs to the City (exclusive of pass-through costs such as utilities) for the contract term, subject to maximum and minimum total compensation amounts set forth in the Management Agreement. The initial term of the contract expires in September, 2022 with an option of the City to renew for up to two five-year periods and a mutual option to extend for an additional five-year period.

Facility improvements to be provided by Veolia throughout the contract term and funded by the City include upgrades and rehabilitation of the existing treatment facilities including: (i) provision of capital facilities; (ii) immediate repair and replacement of certain items specified in the Management Agreement; (iii) ongoing major maintenance, preventative and predictive maintenance for the Enterprise. (iv) notification to the City of the occurrence of SSOs and resulting damage claims made by residents; and (v) costs for the provision of these capital items are guaranteed by Veolia with the guarantee reinforced with a performance bond and guarantor. The capital improvements designed and constructed by Veolia are subject to acceptance by the City using the acceptance test provisions of the Management Agreement and payment for the capital items follows such acceptance. Operation of the treatment facilities is provided by Veolia using Veolia employees. Compliance with all regulatory requirements and a conditional effluent quality guarantee are provided by Veolia. Capital costs, permitting, and construction schedule are similarly guaranteed by Veolia. Future changes in laws and regulations (if any) are treated as a change in scope of services with Veolia permitted to obtain reimbursement for documented additional costs (capital or operational) necessary for compliance with the new regulations and requirements. Failure by Veolia to meet certain requirements of the contract may result in the imposition of liquidated damages by the City, subject to notice and cure provisions, in the manner and in the amount set forth in the Management Agreement.

In the Management Agreement, Veolia provides an effluent quality guaranty, subject to certain Uncontrollable Circumstances (as defined in the Management Agreement). The effluent quality guarantee requires that influent to the treatment plant be within the raw wastewater parameters of the Treatment Plant’s design criteria and that the raw wastewater be free of hazardous and biologically toxic materials in quantities that exceed the maximums of the City’s laboratory and industrial pre-treatment program and the NPDES permit. Uncontrollable Circumstances that limit Veolia’s effluent guaranty include, among other things, acts of God, changes in law and labor disputes other than those of Veolia’s employees but does not include changes in general economic conditions, the financial condition of the City, Veolia, or the Project Guarantor or the consequences of Veolia error. Except in the event of Uncontrollable Circumstances, failure by Veolia to satisfy applicable law with respect to effluent limits may result in the imposition of liquidated damages in the manner and in the amount set forth in the Management Agreement.

Veolia will manage construction and installation of the 2010 Project. See also “PLAN OF FINANCE.”

**Settlement Agreement.** On December 15, 2009, the City and Veolia entered into a Settlement Agreement and Release of Claims (the “Veolia Settlement Agreement”) to resolve disputes arising under and make amendments to the Management Agreement. In consideration for executing the Veolia Settlement Agreement, Veolia paid the City an aggregate amount equal to \$1,922,260.46.

Veolia’s responsibilities with respect to the sewer collection and storm drainage facilities include: (i) maintenance, including both emergency and scheduled maintenance; (ii) development and implementation of a capital improvement plan; and (iii) responsibility for all relevant customer service requirements related to operation of the collection system including response to routine and emergency calls and new service tap inspections. The City retains responsibility of enforcing its Industrial Pretreatment Program, perform all regulatory duties, sampling analysis and reporting associated with the collection system and perform long-term collection system and service area planning. Veolia’s responsibilities with respect to capital improvements to the collection system facilities include development of a comprehensive capital improvement program for the collection system and provision of turn-key services to implement a comprehensive Sanitary Collection System rehabilitation program in compliance with the draft Capacity, Management, Operations & Maintenance (“CMOM”) guidelines of the U.S. Environmental Protection Agency (the “U.S. EPA”). In the event that final CMOM guidelines differ materially from the preliminary guidelines issued by the U.S. EPA, the parties will treat such material difference as a “Change in Law” under the Management Agreement.

All disputes arising out of or relating to the Management Agreement are subject first to non-binding negotiation, and, if unsuccessful, non-binding mediation, as conditions precedent to the submission of the dispute to mandatory, binding arbitration.

The City covenants in the Management Agreement to fix, establish, and revise from time to time the rates and charges for the Enterprise as necessary to provide sufficient revenues to pay amounts due under the Management Agreement. Such amounts include the capital improvement costs described above. The City’s obligation to pay Veolia the amounts as specified in the Management Agreement is a general, unsecured obligation and the City treats the payments to Veolia as Operating Expenses under the Indenture.

## **Master Plans**

Pursuant to the Management Agreement, Veolia is responsible for preparation master plans for the Enterprise.

**Sewer System Master Plan.** In November 2006, Veolia submitted a sanitary sewer system master plan (the “Sewer System Master Plan”) identifying then-existing collection system deficiencies and recommending improvements needed to collect then-existing flows within the City’s service area as well as those anticipated through 2020, and mitigate extreme infiltration and inflow into the collection system and overflows into the San Francisco Bay.

**Treatment Plant Master Plan.** Pursuant to the Management Agreement, Veolia commissioned Carollo Engineers to prepare an updated Wastewater Treatment Plant Master Plan (the “Treatment Plant Master Plan”). The purpose of the Treatment Plant Master Plan, dated January 2010, was to (i) evaluate the facilities for the capability of meeting current discharge requirements for current wet weather flows; (ii) evaluate the facilities for treating projected influent flows over the 2008 through 2040 planning period; (iii) evaluate the facilities for meeting potential future discharge requirements; (iv) develop long-

term strategies to meet potential future discharge requirements; (v) identify strategies to incorporate sustainable elements into the Treatment Plant, including renewable energy and biosolids disposal; (vi) develop a long-term plan for the facilities that will satisfy the City’s goal of sustainable methods that represent the best practice for wastewater treatment systems; and (vii) develop a capital improvement program that identifies improvements required for the near term, and improvements for the long term.

**Capital Improvement Program**

The principal objectives of the Sewer System and Treatment Plant Master Plans are to assist the City in developing five-year capital improvement plans for the development, construction, installation and financing of improvements to the Enterprise. The 2010-2015 CIP includes approximately \$68.1 million in projects necessary to expand and upgrade the Enterprise to satisfy regulatory requirements, comply with Settlement Agreement, as well as meet current and future demand. See also “PLAN OF FINANCE.” The projects in the 2010-2015 CIP consist of the following:

**Table 1  
City of Richmond  
2010-2015 Capital Improvement Program Projects**

<u>CIP Project Description</u>	<u>Component</u>	<u>Total Estimated Cost<sup>†</sup></u>
Tidal Infiltration and Inflow Elimination (Flapgates)	Collection	\$1,200,000
San Pablo Sewer Line Capacity Upgrade	Collection	1,500,000
Influent Pump Station	Collection	1,900,000
Treatment Plant Digester Upgrade	Treatment Plant	5,000,000
Sanitary Sewer Manhole Rehabilitation	Collection	500,000
Wet Weather Infiltration and Inflow Elimination	Collection	3,700,000
Sewer Line repairs for Accessibility	Collection	3,000,000
Keller Beach Interceptor	Collection	5,500,000
Sunset Point Generator Relocations	Collection	700,000
Pennsylvania Avenue Sewer Rerouting Plan	Collection	700,000
Wet Weather Peak Flow Storage	Treatment Plant	11,000,000
Cogeneration Plant	Treatment Plant	4,500,000
Sludge Dewatering Facility	Treatment Plant	15,000,000
New Equalization Basin	Treatment Plant	10,000,000
Hydraulic Improvements to Clarifier 3	Treatment Plant	375,000
Enhanced Coagulation	Treatment Plant	750,000
New Sludge Collection System	Treatment Plant	937,000
Grout Clarifiers 1 and 2	Treatment Plant	900,000
Annual Sewer Replacement Program	Collection	<u>11,000,000</u>
TOTAL		\$68,054,000

<sup>†</sup> Based upon engineering estimates for design and construction.  
Source: City of Richmond.

Funds on hand will finance approximately \$40.2 million of the 2010-2015 CIP projects and the remaining projects are expected to be funded from pay-as-you-go sources, grants and future bond issuances.

Completed Improvements. Since 1999, major rehabilitation and renovation improvements to the Enterprise in the amount of, \$50 million, have been completed, including the following:

- rehabilitation of the headworks (entry point) of the Treatment Plant to reduce the level of pollutants in the incoming wastewater in order to protect downstream equipment and remove debris larger than one-half of an inch;
- rehabilitation of sedimentation basins used to remove suspended solids used in wastewater to prevent visibility impairment (for aesthetic and safety reasons), disease transmission, and to remove toxic materials;
- upgrades to digesters, the heated tanks that take wastewater sludge and break it down into organic matter called biosolids;
- upgrades to the hoses and pipes used for chemical unloading;
- renovations to aeration basins; and
- renovations to clarifiers, settling tanks used to collect suspended solid organic material.

Additional projects completed include pump station improvements, placement of emergency generators at every pump station site; telemetry upgrades, and GIS mapping and cleaning and inspection and grading of the condition of the sanitary and storm sewers. Veolia is also in the process of developing and implementing the guidelines required by the State Water Resources Control Board in its new statewide Sanitary Sewer Overflow waste discharge requirements, including the required updates to a Sanitary Sewer Management Plan. See “–Regulatory Matters–*Regulatory Orders and Other Developments.*”

## **Facilities Description**

**Overview.** Operation of the wastewater collection, treatment and disposal systems is a 24-hour, seven days a week, 365-day a year activity. During Fiscal Year 2009-10, an average of 8.0 mgd average dry weather flow of wastewater originating from residential, commercial, industrial and institutional customers within the Service Area was treated at the Treatment Plant.

The City’s Enterprise consists of three major components: the collection system, the treatment plant and the disposal system.

**Collection System.** The sanitary sewage collection system includes approximately 185 miles of collection pipes and is estimated to have an average age of 65 years. Most pipes are six inches in diameter. In addition, the collection system also includes 13 sewage pumping stations, which lift wastewater throughout the sewer interceptors to the Treatment Plant. There are also two engineered overflow weirs (a control banner that permits measurement of water discharge) which discharge untreated water into the San Francisco Bay.

**Pretreatment Program.** The City has operated a pretreatment program (the “Pretreatment Program”) to stop pollution from overloading or passing through the Treatment Plant since 1979. This program monitors industrial wastewater discharged into the sanitary sewage collection system, and issues up to approximately 200 permits to wastewater dischargers within Sewer District No. 1. As described under “–Service Area,” because not all businesses within the City discharge to the Enterprise, pretreatment inspection to businesses in the southern portion of the City served by the Stege District are provided by the East Bay Municipal Utilities District.

For more than 30 years the Pretreatment Program has been involved with identification and reduction of pollutant sources both to the sanitary sewer and the storm drains from industrial commercial and residential activities. Of particular concern are heavy metals such as copper, mercury, nickel and selenium which mostly settle out in the sludge (*i.e.* biosolids). See also “–Regulatory Matters–*Biosolids Disposal.*” Keeping the metal content low enables the bio-solids to be used in a variety of ways. Currently, the bio-solids are used as a capping soil in the sanitary landfill. The Pretreatment Program is designed to keep the metal content in the biosolids low, resulting in more economic disposal options of the solids. The City is investigating available technologies to beneficially reuse the biosolids to offset energy demands at the Treatment Plant, as well as actively participating in the Bay Area Biosolids to Energy (BAB2E) Program, a coalition of Bay Area agencies, including the City, formed to create local sustainable solutions to biosolids management. Cyanide is also a priority pollutant, and the program is always vigilant of cyanide discharge to the sewer system. Grease in the sewers is also a major concern. Sewers blocked with grease can cause overflows which are expensive in the clean-up costs, damage to property, and fines if they cause overflows to the storm collection system.

**Treatment Plant.** The Treatment Plant provides primary and secondary treatment of raw wastewater that flows in from the collection system.

The 2013 NPDES Permit rates the peak capacity of the primary treatment facilities at the Treatment Plant at 40 mgd and the secondary treatment capacity at 16.0 mgd for average day maximum month flow and 20 mgd for peak hourly wet weather flow. The average annual dry weather flow at the Treatment Plant in 2009 was approximately 8.0 mgd. Wet weather flows sometimes exceed the peak capacity for secondary treatment at the Treatment Plant. The excess primary treated effluent is diverted around the biological treatment units to wet weather storage. Once storage is at capacity, excess primary-treated effluent is blended with secondary-treated effluent. The combined flow is then disinfected and dechlorinated prior to discharge to the San Francisco Bay. The stored wastewater is treated through the secondary treatment facilities after wet weather flows subside and there is capacity in those units. The blended effluent is required to meet secondary treatment discharge limits.

Primary Treatment. Primary treatment at the Treatment Plant consists of screening large objects, grit removal of heavy smaller particles such as rock and sand and primary sedimentation to remove floating material, oils and greases, sand and silt and organic solids heavy enough to settle in water. In two primary treatment tanks, suspended material in the wastewater is allowed to settle out. The settled material (referred to as “primary sludge”) is removed to digesters while the liquid effluent flows to the secondary treatment facilities.

Secondary Treatment. In secondary treatment, dissolved organic material is removed from the primary effluent by mixing it with bacteria and aerating the effluent -in one of three tanks. The resulting effluent then flows into secondary clarifiers where the bacteria is allowed to settle out. The secondary sludge is either recirculated to the aeration tanks or removed for digestion, while the remaining secondary effluent is transported to the chlorine contact basin for disinfection. The disinfected effluent is then conveyed through a 54-inch diameter outfall pipe to

the eastern shore of the San Francisco Bay where it is mixed with treated effluent from the West County District and discharged offshore through the 72-inch joint outfall pipe.

Digested solids are transported, via a six-inch diameter pipeline constructed by the West County Agency, to the drying beds located at the West County District. See “–*Disposal System.*”

Power Source. The Treatment Plant purchases electrical energy power from Pacific Gas & Electric (“PG&E”).

***Disposal System.*** The combined outfall pipe, which transports treated secondary effluent from the West County District and the Enterprise to its discharge point, is jointly owned by the City (68% undivided interest) and the West County District (32% undivided interest). Effluent from the two entities meet at the confluence structure located west of the Treatment Plant. The combined effluent flows through the outfall pipe through the hills west of the Treatment Plant and then into a 1,000-foot-long, 72-inch outfall for discharge through a diffuser that extends 4,700 feet offshore of Point Richmond in the San Francisco Bay at a depth of 26 feet below mean lower water mark. The outfall risers are fitted with flexible rubber nozzles and marked by two navigation buoys in San Francisco Bay.

The anaerobically digested secondary sludge is currently pumped from the Treatment Plant through a six-inch, six-mile pipeline to sludge drying lagoons and beds located at and owned by the West County District plant. Dried sludge is disposed of at the West Contra Costa County Landfill. Piping from the Treatment Plant is glass lined and is cathodically protected.

On February 16, 2010, the City entered into an eight year lease with the West County District for continued use of the sludge ponds through December 31, 2017. The City is also exploring alternative options to deal with sludge removal from the treatment plant. Preliminary estimates indicate that alternative facilities could cost approximately \$16 million, but no firm estimates or course of action have been determined and the City Council has not been presented with any recommended option.

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## Customer Base

Set forth in Table 2 is the number of parcels served by the Enterprise and the total annual revenues from parcels by type for the last five Fiscal Years, the estimated revenues (excluding connection fees) for Fiscal Year 2009-10 and the budgeted revenues for Fiscal Year 2010-11.

**Table 2**  
**CITY OF RICHMOND WASTEWATER ENTERPRISE**  
**CUSTOMERS SERVED AND TOTAL REVENUES**  
**Fiscal Years 2004-05 through 2008-09, Estimated for Fiscal Year 2009-10 and**  
**Budgeted for Fiscal Year 2010-11**

<u>Fiscal Year</u>	<u>Single Family Residential</u>		<u>Multi-Family Residential</u>		<u>Commercial/Industrial</u>		<u>Total Revenues<sup>(1)</sup></u>
	<u>Parcels Served</u>	<u>Revenues</u>	<u>Parcels Served</u>	<u>Revenues</u>	<u>Parcels Served</u>	<u>Revenues</u>	
2004-05	13,871	\$4,245,493	2,378	\$2,344,114	1,799	\$2,231,397	\$8,821,004
2005-06	13,888	5,166,336	2,411	2,852,460	1,830	2,758,929	10,777,725
2006-07	14,024	5,637,649	2,938	3,179,613	1,828	3,197,438	12,014,699
2007-08	14,739	6,463,455	2,659	3,162,582	1,833	4,005,933	13,631,970
2008-09	14,856	7,008,842	2,936	3,356,264	1,846	3,588,208	13,953,314
2009-10 <sup>(2)</sup>	16,179 <sup>(3)</sup>	8,184,401	1,972 <sup>(3)</sup>	3,378,017	2,160	4,087,602 <sup>(4)</sup>	15,650,000
2010-11 <sup>(5)</sup>	16,179	8,998,771	1,972	3,705,881	2,160	4,197,348	16,902,000

(1) Excludes connection fee revenue.

(2) Estimated.

(3) The increase in the number of single-family residential accounts and the decrease in the number of multi-family residential accounts reflects the correction in the classification of condominiums at the single family rate, instead of the multi-family rate.

(4) Estimated revenue for commercial/industrial customers in Fiscal Year 2009-10 is lower than in Fiscal Year 2010-11 due to a large industrial bakery being offline during a portion of Fiscal Year 2009-10 to upgrade its facilities. The bakery has since become operational.

(5) Budgeted.

Source: City of Richmond.

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In Fiscal Year 2009-10, residential customers accounted for approximately 75.0% of the total volume and strength of wastewater discharged into the Enterprise or “load” and non-residential customers account for approximately 24.9% of the total load on the Enterprise.

The principal wastewater customers in the City served by the Enterprise for Fiscal Year 2008-09 and estimated for Fiscal Year 2009-10 is set forth in Table 3. The largest user in the City accounts for approximately 2.46% of the Enterprise’s estimated revenues for Fiscal Year 2009-10. The largest users of the Enterprise collectively accounted for approximately 10.2% of the Revenues of the Enterprise for such period.

**Table 3**  
**CITY OF RICHMOND WASTEWATER ENTERPRISE**  
**PRINCIPAL WASTEWATER CUSTOMERS**  
**Fiscal Year 2008-09 and Estimated for Fiscal Year 2009-10**

Customer	Industry/Business	Fiscal Year 2008-09		Estimated Fiscal Year 2009-10	
		Total Charges	% of Revenues	Total Charges	% of Revenues
Safeway Stores	Light Industrial	\$164,311	1.18%	\$429,797	2.46%
Chevron USA Inc. <sup>(1)</sup>	Petro-chemical manufacturing	379,476	2.74	\$409,714	2.34
Atchison Village	Apartment	170,027	1.23	183,557	1.05
State of California Facilities Management	Government	(2)	(2)	181,946	1.04
Bio-Rad Laboratories	Organic chemical manufacturing	82,769	0.60	121,170	0.69
California Fats & Oils	Heavy Industrial	149,445	1.08	113,993	0.65
Catellus Development	Research and Development	61,070	0.44	(2)	(2)
San Francisco BART	Government owned (light rail transportation)	97,609	0.70	89,740	0.51
US Government	Government	(2)	(2)	84,239	0.48
Carlson Boulevard LP	Apartment	75,120	0.54	80,993	0.46
Kaiser Foundation	Hospital	60,968	0.44	79,860	0.46
Eastshore Manor	Apartment	63,336	0.46	(2)	(2)
SUBTOTAL		1,304,131	9.40	1,785,009	10.20
All Others		12,566,808	90.60	15,710,449	89.80
TOTAL		\$13,870,939	100.00%	\$17,495,458	100.00%

(1) In January 2010, Chevron USA Inc. announced restructuring plans. For a description of these plans, see APPENDIX A—“CERTAIN FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE CITY OF RICHMOND—Assessed Valuation and Property Taxes—Largest Taxpayers.”

(2) This customer was not among the principal customers of the Enterprise for such Fiscal Year.

Source: City of Richmond.

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## Wastewater Flows

Table 4 presents the average monthly dry weather wastewater flows through the Treatment Plant for the last five Fiscal Years and the estimated flows for Fiscal Year 2009-10.

**Table 4**  
**CITY OF RICHMOND WASTEWATER ENTERPRISE**  
**WASTEWATER TREATMENT PLANT**  
**AVERAGE MONTHLY DRY WEATHER FLOW**  
**Fiscal Years 2004-05 through 2008-09 and Estimated for Fiscal Year 2009-10**

<u>Fiscal Year</u>	<u>MGM<sup>(1)</sup></u>
2004-05	214.93
2005-06	201.91
2006-07	201.75
2007-08	190.53
2008-09	186.83
2009-10 <sup>(2)</sup>	195.63

(1) All flows are expressed in millions of gallons per month.

(2) Estimated.

Source: City of Richmond.

Table 5 presents the average monthly wet weather flows through the Treatment Plant for the last five Fiscal Years and the estimated flows for the Fiscal Year 2009-10.

**Table 5**  
**CITY OF RICHMOND WASTEWATER ENTERPRISE**  
**WASTEWATER TREATMENT PLANT**  
**AVERAGE MONTHLY WET WEATHER FLOW**  
**Fiscal Years 2004-05 through 2008-09 and Estimated for Fiscal Year 2009-10**

<u>Fiscal Year</u>	<u>MGM<sup>(1)</sup></u>
2004-05	325.27
2005-06	343.93
2006-07	225.94
2007-08	240.89
2008-09	252.66
2009-10 <sup>(2)</sup>	266.14

(1) All flows are expressed in millions of gallons per month.

(2) Estimated.

Source: City of Richmond.

## Insurance on the Enterprise

The City maintains insurance with respect to the Enterprise which the City believes is reasonable for activities such as the Enterprise. For Fiscal Year 2010-11, the City maintains the following insurance coverages:

- General liability insurance (aggregate limit of \$40 million) provided by the California Joint Powers Risk Management Authority, a joint powers authority. This coverage is

subject to a self-insured retention of \$500,000 per occurrence which is backed by a cash reserve fund determined annually by the City's actuary.

- Group purchased all-risk property damage insurance (aggregate limit of \$1 billion per occurrence and \$25 million per occurrence for flood), excluding coverage for earthquake damage, provided by a group of insurance companies rated "A" or better by A.M. Best, subject to a deductible of \$5,000 per occurrence. This policy (excluding coverage for earthquake) provides blanket coverage for property of the City, and its affiliated organizations and agencies.
- Workers compensation insurance (aggregate limit of \$50 million) provided by the California State Association of Counties-Excess Insurance Authority. This coverage is subject to a self-insured retention of \$750,000 per occurrence and is backed by a cash reserve fund in an amount determined annually by the City's actuary.

Under the Indenture, the City is required to maintain insurance on the Enterprise as is usual and customary for wastewater treatment systems similar to the Enterprise, subject to certain limitations. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Insurance." The City believes that the above-referenced policies currently meet customary standards. The City reviews its insurance coverage from time to time and may make changes in the future to its insurance coverage as permitted under the Indenture.

## FINANCIAL MATTERS RELATING TO THE ENTERPRISE

### Billing and Collection Procedures

Sewer charges are collected by the County Treasurer-Tax Collector's office on the real property tax bill of each parcel owner. The City receives sewer service charge collections from the County in three installments with approximately 95% received in December and January and the balance received in June of each Fiscal Year. The amount of sewer service charges on each parcel constitutes a lien against that lot or parcel as of noon on the first Monday in March immediately preceding the date of levy of the charge. If any sewer service charge is delinquent, the City may in its discretion either sell the parcel or file a civil action to recover such charges.

The County and its political subdivisions operate under the Teeter Plan pursuant to provisions of Sections 4701-4717 of the California Revenue and Taxation Code. Under the Teeter Plan, the accounts of all political subdivisions that levy taxes on the County tax rolls are credited with 100% of their respective tax levies regardless of actual payments and delinquencies. The County Treasury's cash position (from taxes) is protected by a special fund ("The Teeter Plan-Tax Losses Reserve Fund") into which all County-wide delinquent penalties are deposited. The County has used this method since Fiscal Year 1950-51.

### Rates, Fees and Charges

The City's wastewater charge has two components: a sanitary system charge and a storm program charge. The sanitary system charge covers the costs of administering, monitoring, operating, maintaining, improving and retiring the capital debts of the Enterprise. The storm program was developed to pay for the costs of administering, monitoring, operating, maintaining and improving the storm sewer system throughout the City ***and is not included in Revenues pledged to pay the principal of and interest on the Bonds.*** In addition, the City charges fees for the issuance of permits, site visit

inspections, site monitoring, sampling and testing, and laboratory charges for users covered by the City's wastewater permitting program.

***Sewer Service Charges.*** Customers of the Enterprise are billed an annual sewer charge based on a user classification system.

***Residential.*** Single unit residential users of the Enterprise are billed a flat annual charge per sewer service unit ("SSU"). Multifamily residential users are billed a slightly lower amount SSU.

***Non-Residential.*** All non-residential users of the Enterprise (*i.e.* commercial and industrial users and schools) are billed annually based upon industrial waste unit ("IWU") plus strength charges per pound of the five-day biochemical oxygen demand in mg/L and pounds of total suspended solids ("TSS") in mg/L in the effluent. In addition, all non-residential users are billed for actual cost of monitoring charges.

***Current Rates.*** To satisfy funding requirements for expansion, improvement, maintenance and operating the Enterprise on June 20, 2006, the City Council approved a multi-year rate ordinance that increased user charges by 8% per year for Fiscal Years 2006-07 through 2010-11.

On June 15, 2010, following a public study session and mailed notice to each owner of record of each identified parcel upon which a sewer charge is imposed, the City Council approved a multi-year rate ordinance increasing rates by 5% per year for Fiscal Years 2011-12 through 2013-14 which become effective each July 1. This rate increase was adopted in order for the City to comply with terms of the Settlement Agreement requiring the City to make certain improvements to the Enterprise with the goal of eliminating sanitary sewer overflows, see also "*Regulatory Matters–Baykeepers Lawsuit.*"

Rates shown for single unit and multi-unit residences are flat rates per sewer service unit. Rates shown for commercial and industrial customers are minimum rates calculated based on metered usage per industrial waste unit, which is equal to a volume of industrial and domestic waste discharge of 1,000 cubic feet per day.

The City has covenanted in the Indenture to implement the capital expenditure program funded by Outstanding Bonds and to levy and collect rates and charges in conformance with the rate covenant in the Indenture. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS–Rate Covenant." The City believes that the current rate structure is consistent with State law, which requires generally that wastewater charges be proportionate to the operation, maintenance and replacement costs associated with providing service for each discharger or class of dischargers.

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Set forth below in Table 6 are the annual user charges for Fiscal Years 2006-07 through Fiscal Year 2013-14 reflecting historic, current and adopted rates and charges.

**Table 6**  
**CITY OF RICHMOND**  
**WASTEWATER ENTERPRISE**  
**ANNUAL USER RATES AND CHARGES**  
**Fiscal Years 2006-07 through 2013-14**

<u>User Classification</u>	<u>Fiscal Year</u>							
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Single Unit Residential	\$402	\$434	\$469	\$506	\$547	\$574	\$603	\$633
Multi-Unit Residential <sup>(1)</sup>	323	349	377	407	439	461	484	509
Commercial/Industrial Base Rate <sup>(2)</sup>	241	260	281	303	328	344	361	379
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Biochemical Oxygen Demand per lb	\$0.619	\$0.669	\$0.722	\$0.780	\$0.842	\$0.885	0.929	0.975
Total Suspended Solids per lb	0.282 <sup>(3)</sup>	0.304 <sup>(4)</sup>	0.328 <sup>(5)</sup>	0.354 <sup>(6)</sup>	0.382 <sup>(7)</sup>	0.408	0.429	0.450
Industrial Waste Unit per each	29.16	31.49	34.00	36.73	39.67	41.65 <sup>(8)</sup>	43.73 <sup>(9)</sup>	45.92 <sup>(10)</sup>

(1) Per residential unit.

(2) Charges shown are minimum charges and will vary depending upon the amount of wastewater discharge (measured per industrial waste unit), biochemical/oxygen/demand levels, total suspended solids content, and strength and volume of wastewater discharge.

(3) But not less than \$241 per annum.

(4) But not less than \$260 per annum.

(5) But not less than \$281 per annum.

(6) But not less than \$303 per annum.

(7) But not less than \$328 per annum.

(8) But not less than \$344 per annum.

(9) But not less than \$361 per annum.

(10) But not less than \$379 per annum.

Source: City of Richmond.

## Connection Fees

In addition to user charges, the City imposes a connection fee upon each owner connecting a building sewer with the Enterprise on or after July 1, 1992. The fee is payable at the time of issuance of a permit by the City to connect to the sewer system. For all residential premises the current connection fee is \$2,490.50 for each sewer service unit to be connected to the sewer system. The connection fees are Revenues and, as such are a part of the Net Revenues pledged to the payment of the Series 2010 Bonds and any Parity Debt.

## Comparison of Enterprise Charges

Table 7 shows average monthly residential service charges by various cities and agencies in the San Francisco Bay Area, as reported by each respective agency.

**Table 7**  
**COMPARATIVE MONTHLY WASTEWATER CHARGES**  
**Average Single Family Residences**

<u>Agency</u>	<u>Fiscal Year</u> 2009-10 <u>Charges</u>	<u>Fiscal Year</u> 2010-11 <u>Charges</u>	<u>Percent</u> <u>Change</u>
City of San Rafael	\$49.46	\$53.13	7.42%
City and County of San Francisco	45.71	51.12	11.84
City of Pinole	42.51	47.37	11.43
Los Gallinas Valley Sanitary District	41.08	46.92	14.22
City of Benicia	41.33	41.33	0.00
City of South San Francisco	38.42	42.25	9.97
City of Vallejo/Vallejo Sanitary & Flood Control District	37.22	38.71	4.00
<b>City of Richmond</b>	<b>33.92</b>	<b>36.58</b>	<b>7.84</b>
City of San Jose	31.00	32.86	6.00
Dublin San Ramon Sanitary District	25.00	28.00	12.00
City of San Leandro	26.29	27.60	4.98
Delta Diablo Sanitary District/Bay Pointe	26.30	27.41	4.22
City of Oakland/EBMUD <sup>†</sup>	22.24	25.80	16.01
City of Palo Alto	24.65	24.65	0.00
Union Sanitary District	23.00	24.15	5.00
Central Marin Sanitary District (treatment only)	21.69	22.38	3.18
West County Wastewater District	18.83	21.33	13.28
Delta Diablo Sanitary District/Antioch	17.62	18.47	4.82
Delta Diablo Sanitary District/Pittsburg	17.62	18.47	4.82
Steger Sanitary District	10.25	12.25	19.51

<sup>†</sup> EBMUD rates vary by metered water consumption. Rates include a wet weather charge and a San Francisco Bay Residential Pollution Prevention fee.

*Sources:* Rates were provided by each respective agency.

## Basis of Accounting

The City reports operations on a fiscal year basis (currently July 1 through June 30). The City maintains the Enterprise as a separate enterprise fund for accounting purposes.

## Sources of Funds; Operating Costs

The following Table 8 sets forth the Enterprise's audited summary of revenues and expenditures for the last five Fiscal Years and an estimated revenues and expenditures for Fiscal Year 2009-10. For Fiscal Year 2009-10, of the approximately \$15.65 million in sewer service charges received by the City, approximately \$11.5 million was derived from residential parcels and \$4.15 million came from industrial, commercial and other classifications.

**Table 8**  
**CITY OF RICHMOND WASTEWATER ENTERPRISE**  
**SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Fiscal Year Ended June 30**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>Estimated 2009-10<sup>(1)</sup></u>
<b>Operating Revenues</b>					
Sewer Service Charges <sup>(2)</sup>	\$11,008,775	\$12,236,834	\$13,862,211	\$13,953,314	\$15,738,005
Other (Fines and Violations)	<u>924</u>	<u>173,402</u>	<u>1,909</u>	<u>479,535</u>	<u>1,930,000</u>
SUBTOTAL	11,009,699	12,410,236	13,864,120	14,432,849	17,668,005
<b>Nonoperating Revenues (Expenses)</b>					
Loss on retirement of capital assets	-	(221,673)	-	-	-
Property Taxes	10,867	10,576	10,382	-	10,000
Interest Income	913,565	1,266,478	546,843	65,863	82,650
Interest (expense)	(2,246,557)	(1,769,445)	(3,160,829)	(2,671,136)	-
Amortization of bond issuance costs	<u>(30,909)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
SUBTOTAL	(1,353,034)	(714,064)	(2,603,604)	(2,605,273)	92,650
 TOTAL REVENUES	 9,656,665	 11,696,172	 11,260,516	 11,827,576	 17,760,655
<b>Maintenance and Operating Expenditures</b>					
Salaries and Benefits	730,828	585,536	432,542	606,396	933,835
General and Administrative	5,172,427	8,141,745	10,008,804	10,229,132	10,120,729
Maintenance	14,746	8,735	34,681	41,467	-
Depreciation	1,404,103	1,445,959	1,386,016	660,833	-
Other	<u>-</u>	<u>63,092</u>	<u>61,855</u>	<u>81,572</u>	<u>-</u>
SUBTOTAL	7,322,104	10,245,067	11,923,898	11,619,400	11,054,564
Income (Loss) Before Contribution and Transfers	2,334,561	1,451,105	(663,382)	208,176	6,706,091
<b>Transfers in and Special Item</b>					
Transfers in	546,561	745,422	-	-	-
Transfers (out)	(586,450)	-	(540,285)	-	-
Net contribution and transfers	(39,889)	745,422	(540,285)	-	-
 Change in net assets	 2,294,672	 2,196,527	 (1,203,667)	 208,176	 6,706,091
<b>Beginning New Assets (Deficit), As Restated</b>	8,137,805	10,432,477	12,629,004	11,425,337	11,633,513
<b>Ending Net Assets</b>	\$10,432,477	\$12,629,004	\$11,425,337	\$11,633,513	\$18,339,604

(1) Estimated. Based upon nine months of actual operations.

(2) Includes connection fee revenue.

Sources: City of Richmond Audited Financial Statements and the City of Richmond.

Table 9 sets forth the Revenues, Operating and Maintenance Costs and debt service coverage for the Bonds for Fiscal Years 2005-06 through Fiscal Year 2008-09 and estimated for Fiscal Year 2009-10.

**Table 9**  
**CITY OF RICHMOND WASTEWATER ENTERPRISE**  
**NET REVENUES AND DEBT SERVICE COVERAGE**

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>Estimated 2009-10<sup>(1)</sup></u>
<b>Operating Revenues:</b>					
Sewer Charges	\$10,777,725	\$12,014,699	\$13,631,970	\$13,953,314	\$15,650,000
Other (Fines and Violations)	4,274	174,318	28,494	479,535	1,930,000
<b>Non Operating Revenues:</b>					
Tax Revenues	10,867	10,576	10,382	–	10,000
Interest Revenue	786,931	63,219	10,200	65,863	82,650
Rate Stabilization Deposit	–	–	–	500,000	–
Connection Fee Revenue	<u>227,700</u>	<u>221,219</u>	<u>230,241</u>	<u>4,134</u>	<u>88,005</u>
<b>TOTAL REVENUES</b>	<b>11,807,497</b>	<b>12,484,031</b>	<b>13,911,287</b>	<b>15,002,846</b>	<b>17,760,655</b>
<b>Maintenance and Operating Expenditures:</b>					
Salaries and Benefits	730,828	585,536	432,542	606,396	933,835
General and Administrative	5,172,427	8,141,745	10,008,804	10,229,132	10,120,729
Maintenance	14,746	8,735	34,681	41,467	–
Other <sup>(3)</sup>	<u>–</u>	<u>63,092</u>	<u>61,855</u>	<u>81,572</u>	<u>–</u>
<b>TOTAL EXPENDITURES</b>	<b>5,918,001</b>	<b>8,799,108</b>	<b>10,537,882</b>	<b>10,958,567</b>	<b>11,054,564</b>
<b>Net Revenues</b>	<b>5,889,496</b>	<b>3,684,923</b>	<b>3,373,405</b>	<b>4,044,279</b>	<b>6,706,091</b>
Annual Debt Service <sup>(4)</sup>	2,903,371	2,922,966	1,923,588	2,877,617	3,133,026
Debt Service Coverage	2.03x	1.26x	1.75x	1.41x	2.14x

(1) Estimated. Based upon nine months actual operations.

(2) Includes \$1,922,260 paid by Veolia to settle certain disputes arising under the Management Agreement. See “–Management Agreement–Settlement Agreement.”

(3) Other expenditures consist primarily of building rental costs.

(4) Represents debt service on the Series 2006A Bonds, and the Series 2008A Bonds (based upon a swap rate equal to 3.897% plus 75 basis points for 2008 Letter of Credit and remarketing fees). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010 BONDS–Outstanding Parity Debt.” Annual Debt Service based on Bond Year.

Sources: City of Richmond and RBC Capital Markets Corporation.

### Management’s Discussion of Operating Results

Audited operating results for the Enterprise for the last five audited fiscal years are set forth in Table 8. Over the five year period, operating revenues increased by an average of approximately 9.28% due primarily to increases in industrial and commercial revenues.

Over the five year period presented in Table 8, operating expenses increased approximately 56%. The increase reflected the impact of a \$2.9 million “step-up” in Veolia’s contract in Fiscal Year 2006-07 as well as contracted 2.5% average annual increases in subsequent Fiscal Years.

### Budget Process

Based primarily on the prior year’s expenditures, the annual Enterprise budget is developed by the City Engineer. Budgets for staffing levels, other operating costs, interfund transfers and capital expenditures are reviewed and approved by the City Council. The management of the Enterprise is held accountable for conformance to the approved budget.

## Projected Revenues, Operating Expenses, and Debt Service Coverage

Table 10 presents projected revenues, operating expenses and debt service coverage ratios for the five year period beginning in Fiscal Year 2010-11. In preparing the projections, the City has made certain assumptions with respect to capital needs and the condition of the existing system and conditions that may occur in the future. While the City believes these assumptions are reasonable for the purpose of the projections, they are dependent upon future events, and actual conditions may differ from those assumed.

For Fiscal Year 2010-11, the City projects that operating revenues will decrease by approximately 3.6% compared to Fiscal Year 2009-10 due to the receipt of \$1,922,260 in one-time revenue paid by Veolia to settle certain disputes under the Management Agreement. See “THE ENTERPRISE–Management Agreement–Settlement Agreement.” Sewer Service Charges are projected to increase through the projection period as a result of approved scheduled multi-year rate increases. See “FINANCIAL MATTERS RELATING TO THE ENTERPRISE–Rates, Fees and Charges.”

**Table 10**  
**CITY OF RICHMOND WASTEWATER ENTERPRISE**  
**PROJECTED REVENUES<sup>(1)</sup>, OPERATING EXPENSES AND DEBT SERVICE COVERAGE**  
**Fiscal Year Ending June 30**

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
<b>Operating Revenues</b>				
Sewer Service Charges	\$16,902,000	\$17,747,100	\$18,634,455	\$19,566,178
Other (Fines and Violations)	40,000	40,000	40,000	40,000
<b>Non Operating Revenues (Expenses)</b>				
Tax Revenues	10,000	10,000	10,000	10,000
Interest Revenue	50,000	50,000	50,000	150,000
Connection Fee Revenue	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>
<b>TOTAL REVENUES</b>	17,042,000	17,887,100	18,774,455	19,806,178
<b>Maintenance and Operating Expenditures</b>				
Salaries and Benefits	1,039,344	1,070,524	1,102,640	1,135,719
General and Administrative <sup>(2)</sup>	<u>9,653,827</u>	<u>9,943,442</u>	<u>10,241,745</u>	<u>10,548,997</u>
<b>TOTAL EXPENDITURES</b>	10,693,171	11,013,966	11,344,385	11,684,717
Net Revenues	6,348,829	6,873,134	7,430,070	8,121,461
Annual Debt Service Without Subsidy Receipts <sup>(3)(4)</sup>	3,858,912	5,707,520	5,705,810	5,740,363
Debt Service Coverage Without Subsidy Receipts	1.65x	1.20x	1.30x	1.42x
Annual Debt Service With Subsidy Receipts <sup>(3)(4)</sup>	3,617,006	4,845,279	4,843,569	4,842,122
Debt Service Coverage With Subsidy Receipts	1.76x	1.42x	1.53x	1.68x

(1) Projected revenues are based on a rate increase of 5% in each year.

(2) Includes maintenance costs and other expenses.

(3) On Bond Year basis.

(4) Represents debt service on the Series 2006A Bonds, Series 2008A Bonds (based upon the 2009 Swap Agreement rate equal to 3.897% plus 75 basis points for 2008 Letter of Credit and remarketing fees), Series 2010A Bonds and Series 2010B Bonds.

Sources: City of Richmond and RBC Capital Markets Corporation.

## City Financial Policies

On September 17, 2010, the City Finance Committee conducted an annual review of the City’s financial policies. The City Council is expected to adopt revisions to the Investment Policy, the Debt

Policy and Budget and Budget and Contingency Reserve Policy on October 19, 2010 as follows: the Investment Policy will be revised to permit City investment in the Local Agency Investment Fund (LAIF) up to the maximum permitted by State law, but not to exceed 25% of the book value of the total portfolio and provide for biennial instead of annual appointments of broker-dealers; the Debt Policy will be revised to include written procedures for post-issuance compliance relating to Build America Bonds; and the Budget and Contingency Reserve Policy will be revised to require: (i) City Council approval before any cash can be withdrawn from the reserve fund; (ii) at the time the City Council approves of any use of reserves, a Stabilization Policy laying out the plans for the restoration of reserves be simultaneously adopted; and (iii) the City Council shall have discretion to use the reserve for one time emergencies only, and not for ongoing expenses. No revisions are being made to the Swap Policy.

**Investment Policy.** The City's investment policy (the "Investment Policy") provides guidelines for City officers charged with the investment of idle cash to ensure prudent investment and cash management practices. The Investment Policy establishes three criteria for selecting investment vehicles: safety, liquidity and yield. The Investment Policy states that an adequate percentage of the portfolio should be maintained in liquid short-term securities that can be converted to cash if necessary to meet disbursement requirements and that yield or "rate of return" on an investment should be a consideration only after the requirements of safety and liquidity are met. An updated Investment Policy was adopted by the City Council on July 9, 2009.

The Director of Finance is required to report monthly on the City's pooled funds to the City Manager and City Council and to report quarterly on other investments, such as pension funds and bond funds managed by a trustee.

The Investment Policy allows the City to invest in various instruments that have maturities of five years or less at the time of purchase. These investments generally include United States Treasury notes, bonds and bills or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for the payment of principal and interest; registered state warrants or treasury notes or bonds of the State; bonds, notes, warrants or other evidences of indebtedness of any local agency within the State rated "A" or better by a nationally recognized rating service; bonds and notes of federally sponsored agencies; negotiable certificates of deposit issued by a federal- and state- chartered bank or a federal and state savings and loan association or by any state-licensed branch of a foreign bank; medium term corporate notes with a maximum of five years maturity issued by corporations organized and operating in the United States and rated "A" or better by a nationally recognized rating service; commercial paper of "prime quality" of the highest ranking or of the highest letter and numerical rating as provided by Moody's Investors Service or Standard & Poor's; bankers acceptances, repurchase agreements with a term not exceeding one year and secured by collateral securities whose market value is 102% or greater of the funds borrowed against those securities; reverse repurchase agreements approved by the City Council; money market mutual funds; the Local Agency Investment Fund of the State; and collateralized time deposits placed with State-chartered commercial banks and savings and loan associations. The City may invest in securities with maturities greater than five years from the date of investment if the City Council has expressly authorized that investment.

The City has not purchased and does not own directly or indirectly any asset-backed securities, mortgage-backed securities, collateralized debt obligations or other securities backed by or derived from "sub-prime" or "Alt-A" mortgages.

The Investment Policy prohibits investments in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, any security that could result in zero interest accrual if held to maturity, other than investments in authorized money market mutual funds, and in companies involved in the manufacturing of tobacco and tobacco-related products.

On July 27, 2009, the Finance Department was formally recognized for having its written Investment Policy certified by the Association of Public Treasurers of the United States and Canada (the “Association”). The Finance Department is one of 21 governments to have its investment policy certified by the Investment Policy Certification Program (the “Program”) of the Association. The Program was instituted in 1990 in an effort to assisting State and local governments interested in drafting or imposing upon an existing investment policy.

***Budget and Contingency Reserves Policy.*** In connection with its budget preparations for Fiscal Year 2004-05, the City Council adopted a policy to maintain structurally balanced budgets whereby one-time funds can be spent only on one-time uses and ongoing funds can be spent on ongoing (or one-time) uses. In addition, the City Council established a \$10 million General Fund contingency reserve target to be funded in annual increments of \$2 million until the \$10 million target is reached. The contingency reserve reached the \$10 million level in Fiscal Year 2005-06. Effective January 1, 2007, the City Council adopted a cash reserve policy that calls for a minimum cash reserve of 7% of General Fund expenditures, which is equal to approximately \$8.93 million for Fiscal Year 2009-10. Due to the impact of the weak economy on City revenues, the City has not yet increased the reserve beyond \$10.0 million. This reserve may be temporarily reduced to 7% of General Fund expenditures in times of an emergency, but is required to be restored thereafter.

Due to ongoing weakness in the economy, the City Council directed the use of unreserved General Fund balance to address a portion of the General Fund operating deficit for Fiscal Year 2009-10. As a result, the City projects that the unaudited unreserved General Fund balance at the end of Fiscal Year 2009-10 will be \$9.0 million, of which \$8.9 million was designated as a contingency reserve.

***Debt Policy.*** In January 2006, the City Council adopted a debt management policy (the “Debt Policy”) pertaining to financings under the jurisdiction of the City, the Richmond Housing Authority, the Richmond Community Redevelopment Agency and the Richmond Joint Powers Financing Authority. The Debt Policy is intended to guide the Finance Department in its debt issuance and includes components such as the financing approval process, selection of the method of sale for various types of debt issues, general bond structuring parameters, selection of financing team members and permitted investments. The Debt Policy contains a requirement that the aggregate debt service payments funded from the City’s General Fund sources be no greater than 10% of then-current General Fund revenues. Payments on bonds that are tied to a specified revenue stream other than General Fund sources are not subject to this 10% limit. In addition, the Debt Policy requires that no more than 20% of the City’s outstanding debt portfolio be comprised of unhedged variable rate issues. The City’s Debt Policy limits General Fund net debt service to 10% of General Fund revenues and sets forth detailed debt management and refunding practices. The City is in compliance with the Debt Policy.

***Structural Balance Policy.*** In connection with its budget preparations for Fiscal Year 2004-05, the City Council adopted a policy to maintain structurally balanced budgets whereby one-time funds can be spent only on one-time uses and ongoing funds can be spent on ongoing (or one-time) uses. In addition, budget enhancements can be approved only if a new source of permanent revenues is received that will cover the future cost of such enhancements. The City has not been in compliance with the Structural Balance Policy since Fiscal Year 2006-07 but expects to be in compliance with the Structural Balance Policy in Fiscal Year 2010-11.

***Swap Policy.*** The City is authorized under California Government Code Section 5922 to enter into interest rate swaps to reduce the amount and duration of rate, spread, or similar risk when used in combination with the issuance of bonds. In May 2006, the City Council adopted a comprehensive interest rate swap policy (the “Swap Policy”) to provide procedural direction to the City, the Richmond Housing Authority, the Richmond Community Redevelopment Agency and the Richmond Joint Powers Finance

Authority regarding the utilization, execution, and management of interest rate swaps and related instruments (collectively, “interest rate swaps”). Periodically, but at least annually, the City will review the Swap Policy and will make modifications as appropriate due to changes in the business environment or market conditions.

## **Pension Plan**

The City contributes to the California Public Employees’ Retirement System (“PERS”) as well as three separate City-administered, single-employer, defined-benefit pension plans – the General Pension Plan, the Police and Firemen’s Pension Plan and the Garfield Pension Plan. **PERS does not manage any of the three separate City-administered pension plans.**

All employees of the Enterprise participate in the Miscellaneous Plan. As of June 30, 2010, the total number of budgeted full time equivalent employees of the Enterprise was approximately 26.5 (representing approximately 4.3%) of the total 610 total full-time equivalent employees of the City participating in the Miscellaneous Plan.

**Set forth below is information with respect to the Miscellaneous Plan *only* for the entire City. PERS does not prepare nor are separate reports available for the Enterprise.**

*The following information concerning the California Public Employees’ Retirement System is excerpted from publicly available sources, which the City believes to be accurate. PERS is not obligated in any manner for payment of debt service on the 2009 Bonds and the assets of PERS are not available for such payment. PERS should be contacted directly at California Public Employees’ Retirement System, Lincoln Plaza Complex, 400 Q Street, Sacramento, California 95814, Telephone: 888-225-7377 for other information, including information relating to its financial position and investments.*

**California Public Employees’ Retirement System.** The City contributes to PERS, an agent, multiple-employer, public employee, defined benefit, pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS’ annual financial report may be obtained from their executive office: Lincoln Plaza North, 400 Q Street, Sacramento, California 95814.

The staff actuaries at PERS release actuarial valuations of the Miscellaneous Plan in the later fall of each calendar year based on data through June 20 of the preceding Fiscal Year. The actuarial valuation expresses the City’s required contribution rates in percentages of payroll, which percentages the City contributes in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the City’s contribution rates derived from the actuarial valuation as of June 30, 2008, which was prepared in December 2008, were effective during the City’s Fiscal Year 2008-09). PERS rules require the City to implement the actuary’s recommended rates.

In calculating the annual actuarially required contribution rates, the PERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that PERS will fund under the Miscellaneous Plan, which includes two components, the normal cost and the Unfunded Accrued Actuarial Liability (the “UAAL”). The normal cost represents the actuarial present value of benefits that PERS will fund under the Miscellaneous Plan that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that PERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at PERS and the present value of the benefits earned through the valuation date by retirees and active employees. The UAAL is

based on several assumptions such as, among others, the rate of investment return, life expectancy, age of retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL is an estimate of the unfunded actuarial present value of the benefits that the City will fund under the Miscellaneous Plan to retirees and active employees upon their retirement and is not as a fixed or hard expression of the liability the City owes to PERS under the Miscellaneous Plan.

In the actuarial valuation, the PERS actuary calculates what was the expected actuarial value of the assets (the "Actuarial Value") of the Miscellaneous Plan at the end of the Fiscal Year (which assumes, among other things, that the actuarial rate of return during that Fiscal Year equaled the assumed rate of investment return of 7.75%). The PERS actuary uses a smoothing technique to determine the Actuarial Value, calculated on certain policies.

In November 2009, PERS estimated on a preliminary basis that the funded status based on the market value of assets had at that time fallen from 84.9% to 55.4% with an unfunded actuarial liability of \$50.6 billion, based on the market value of assets and assuming a 7.75% percent rate of return. If a more conservative rate of return is assumed, then the unfunded actuarial liability would be significantly increased, and contribution levels would increase.

Because of the rate stabilization methods adopted by the PERS board in April 2005 and in August 2009, the impact of current market returns, and in particular, the Fiscal Year 2008-09 investment loss, on employer rates for the future will be mitigated. When PERS sets rates, the actuarial value of assets cannot be more than 120% of the market value nor less than 80% of the market value. Any asset value changes outside these ranges will result in a greater impact on future employer contributions.

The negative 5.1% return for Fiscal Year 2007-08 used up about 13% of the 14% set aside for the "rainy day" fund. The remaining 1% was used in developing employer contribution rates for Fiscal Year 2009-10. It is important to note, that as described in PERS Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2008, in recent years, the demographic experience of most plans translated to increases in employer rates.

PERS' rate stabilization methods help to mitigate short term increases in the City's required annual contribution. While this will limit an extreme increase in the required annual contribution to PERS in the near term, absent extraordinary investment returns (over and above 7.7% assumed by PERS), it is expected to result in significantly higher required contribution in future Fiscal Years. Depending on actual investment returns and other factors, the required annual contribution could increase by 50% or more.

Although the investment horizon for pension plans is long term, PERS recognizes that investment returns over the short term fluctuate and can lead to volatile employer contribution rates, despite the current smoothly policy in place. Announced in August 2009, PERS has implemented an enhancement to their current rate stabilization method, which will utilize a 3-year phase-in of the negative 23% Fiscal Year 2008-09 investment loss.

According to PERS, the 3-year phase-in of Fiscal Year 2008-09 investment losses is achieved by temporarily relaxing the constraints on the smoothed value of assets. Previously, the actuarial value of assets could not be more than 120% of the market value nor less than 80% of the market value. Under the 3-year phase-in, assets are treated as follows:

1. For Fiscal Year 2011-12, the actuarial value of assets cannot be more than 140% of the market value nor less than 60% of the market value on June 30, 2009.

2. For Fiscal Year 2012-13, the actuarial value of assets cannot be more than 130% of the market value nor less than 70% of the market value on June 30, 2010.

3. For Fiscal Year 2013-14, the actuarial value of assets cannot be more than 120% of the market value nor less than 80% of the market value on June 30, 2011, a return to the previous values.

Lastly, the asset loss outside of the 80% - 120% will be isolated, and paid down with a fixed and certain 30-year amortization schedule. By utilizing a fixed and certain 30 year payment schedule, these losses will be paid in full at the end of 30 years, and will be independent of any investment gain/loss experienced by the remaining portfolio as a whole.

The level of future required contributions depends on a variety of other factors, including future investment portfolio performance, actuarial assumptions and additional potential changes in retirement benefits. There can be no assurance that the required annual contribution to PERS will not continue to significantly increase, despite the recent enhancement to rate stabilization methods.

Complete updated inflation and actuarial assumptions can be obtained by contacting PERS at the address shown above.

Funding Status. An actuarial valuation of assets differs from a market valuation of assets in that an actuarial valuation reflects so-called smoothing adjustments which smooth the impact of gains and losses over multiple years. As of June 30, 2008, the actuarial value of the assets in the Miscellaneous Plan was approximately \$308.9 million. As a result, even if the market rate of return of the assets in the Miscellaneous Plan is above the actuarial assumed rate of 7.75% in future Fiscal Years, the actuarial practice of smoothing losses over several years may cause the investment rate of return for actuarial purposes to be less than the market rate of return.

The investment return for Fiscal Year 2008-09 was negative 23.4%. For the six month period ended December 31, 2009, PERS experienced a net investment gain of 12.57%.

**Table 11**  
**City of Richmond**  
**PERS Miscellaneous Plan**  
**Schedule of Funding Progress**

Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
06/30/05	\$269,183,479	\$221,754,486	\$47,428,993	82.4%	\$28,600,241	165.8%
06/30/06	277,497,262	278,531,185	(1,033,923)	100.4	29,837,781	(3.5)
06/30/07	294,179,170	294,827,825	(648,655)	100.2	33,931,419	(1.9)
06/30/08	308,163,049	308,983,271	(820,222)	100.3	37,795,755	(2.2)

*Source: City of Richmond Audited Financial Statements for the Fiscal Year Ended June 30, 2009.*

Funding Policy. Miscellaneous Plan participants are required to contribute 8% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City, as employer, was required to contribute for Fiscal Year 2008-09 at an actuarially determined rate of 11.201% of annual covered payroll for miscellaneous employees. The contribution requirements of plan members and the City are established and may be amended by PERS. Total employer contributions based on actuarially determined rates amounted to \$3,862,973 for Miscellaneous Plan employees for the year ended June 30, 2009 and \$4,564,535 for Miscellaneous Plan employees for the year ended June 30, 2010.

Annual Pension Cost. For Fiscal Year 2008-09, the City’s annual pension cost of \$5,483,856 for Miscellaneous Plan members was equal to the City’s required and actual contributions. The required contribution was determined using the Entry Age Normal Cost actuarial method. The required contributions to PERS for the last five Fiscal Years are set forth in the Table 12.

**Table 12**  
**City of Richmond**  
**PERS Miscellaneous Plan**  
**Schedule of Annual Pension Cost**

Fiscal Year	Annual Pension Cost (APC)	Source of APC Payment		Percentage of APC Contributed	Balance Prepaid Pension Obligation
		Paid by City	Prepaid Pension Obligation		
6/30/2005	\$5,036,493	–	–	100%	\$0
6/30/2006	5,708,395	–	–	100	46,360,181
6/30/2007	4,830,259	\$3,864,207	\$966,052	100	45,374,247
6/30/2008	5,690,141	4,665,916	1,024,225	100	44,356,270
6/30/2009	5,483,856	4,432,795	1,051,061	100	43,305,209

*Source: City of Richmond Audited Financial Statements for the Fiscal Year Ended June 30, 2009.*

**Other Post-Employment Benefits**

*Separate OPEB information for the Enterprise is not available. The following provides information regarding the OPEB liability for the City as a whole.*

In addition to the retirement and pension benefits described above, the City provides post employment medical and dental benefits (“OPEB Obligations”). In order to qualify for these benefits an employee must retire from the City and maintain enrollment in one of the City’s eligible health plans. The City pays a portion of the PERS premiums for retirees and their dependents that vary by employment classification. In addition, certain eligibility rules and contribution requirements apply for future retirees, followed by current retirees as specified in City ordinances. In accordance with City ordinances, OPEB eligibility applies to all employees who retire from the City on or after attaining retirement age (55 for all employees of the Enterprise) and who have at least 10 years of service. The City had historically funded these benefits on a pay-as-you-go basis until initiating a pre-funding plan in Fiscal Year 2007-08. During Fiscal Year 2008-09, total expenditures of \$3,700,000 were recognized for OPEB Obligations.

Governmental Accounting Standards Board Statement No. 45 (GASB 45), which went into effect for cities with annual revenues of more than \$100 million on December 15, 2006, requires that non-pension, post-employment benefits for retirees, such as postretirement health care benefits, be shown as an accrued actuarial liability in the audit, similar to the current treatment of pension benefits. GASB 45

requires only the identification and disclosure of the City’s unfunded accrued actuarial liability and funding status; it does not require the City or any other affected public agency to fund such liability. The City undertook an actuarial study to estimate its OPEB Obligations as of July 1, 2005 rolled forward to July 1, 2007.

The City began pre-funding its OPEB Obligations by moving its ARC into a Retiree Benefit Trust Account beginning in Fiscal Year 2007-08. The City’s Fiscal Year 2007-08 budget included the \$2,810,309 ARC as well as the \$898,994 normal cost, and the City had set aside \$2.0 million in Fiscal Year 2005-06 to begin prefunding the liability. The City ceased the pre-funding plan in Fiscal Year 2008-09 and does not expect to resume pre-funding until the economy improves. The recognition of any liability on the City’s financial statements could have a negative effect on the City’s credit ratings unless the City manages the liability in a manner that keeps the City’s financial margins healthy.

**Table 13**  
**City of Richmond**  
**OPEB Summary**  
**Total Number of Participating Retirees**

<u>Fiscal Year</u>	<u>Total Number of Participating Retirees</u>	<u>City Contribution</u>
2003-04	344	\$1,312,234
2004-05	389	1,660,345
2005-06	418	1,846,855
2006-07	413	1,973,346
2007-08	408	5,906,179
2008-09	402	3,700,000
2009-10	445	2,445,642

*Source: City of Richmond.*

**Funding Policy and Actuarial Assumptions.** During Fiscal Year 2007-08, the City joined the Public Agencies Post-Retirement Health Care Plan, a multiple employer trust administered by Public Agency Retirement Services (“PARS”). In Fiscal Year 2007-08, the City hired an actuary to prepare an actuarial valuation to determine the unfunded liability of the OPEB Obligations for both active employees and retirees. The actuarial valuation indicated that as of July 1, 2007, the unfunded actuarial accrued liability was estimated to be \$45,083,965, assuming the City had made a contribution to a trust during Fiscal Year 2007-08. The actuarial valuation indicated that as of July 1, 2007, the actuarial unfunded accrued liability was estimated to be \$47,046,989 in the absence of pre-funding. The City did not contribute to a trust until Fiscal Year 2008-09 and has since discontinued prefunding the trust.

The policy of the City is to partially prefund these benefits by accumulating assets with PARS along with making pay-as-you-go payments pursuant to Resolution No. 52-06 adopted by the City Council as of June 27, 2006, although the City has stopped pre-funding pending improvement in the economy. The annual required contribution (“ARC”) was determined as part of the July 1, 2007 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (i) 7.75% investment rate of return, (ii) 3.25% projected annual salary increase, and (iii) health care cost inflation rates of 4.75% to 5.25% for medical benefits and 4.25% for dental benefits. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of

the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates and made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30-year amortization period.

**Funding Progress and Funded Status.** Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from actuarial accrued liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the Fiscal Year ended June 30, 2009, the City contributed \$6,096,304 to the plan, including \$2,372,449 for pay-as-you-go premiums, \$1,700,000 paid to PARS representing the remaining ARC plus an additional \$2,000,000 paid to PARS to prefund benefits which represented 9.1% of the \$67.1 million of covered payroll. As a result, the City has recorded the Net OPEB Asset, representing the difference between the ARC and actual contributions.

The actuarial accrued liability (the "AAL") representing the present value of future benefits, included in the actuarial study dated July 1, 2007, amounted to \$47,046,989 million and was unfunded since no assets had been transferred into PARS as of that date. However, during Fiscal Year 2008-09, the City transferred additional contributions to PARS which along with investment income totaled \$6,813,311 at June 30, 2009 and reduced the unfunded actuarial accrued liability to \$40,233,304 as of June 30, 2009.

The Plan's annual required contributions and actuarial contributions for the last two Fiscal Years are set forth below:

**Table 14  
City of Richmond  
OPEB Contributions**

<u>Fiscal Year</u>	<u>Annual Required Contribution (ARC)</u>	<u>Actual Contribution</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2008	\$3,709,303	\$5,906,179	159.23%	(\$2,196,876)
6/30/2009	3,664,053	6,072,449	166.73	(4,605,272)

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the July 1, 2007 actuarial study is presented below:

**Table 15  
City of Richmond  
OPEB Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Entry Age Actuarial Accrued Liability (B)</u>	<u>Overfunded (Underfunded) Actuarial Accrued Liability (A-B)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]</u>
7/1/2007	-	\$47,046,989	(\$47,046,989)	0%	\$44,201,238	(106%)

## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

### Article XIII B

At the statewide special election of November 6, 1979, the voters approved an initiative entitled "Limitation of Government Appropriations" which added Article XIII B to the California Constitution. Under Article XIII B, state and local governmental entities have an annual "appropriations limit" which limits the ability to spend certain monies which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations." The "base year" for establishing such appropriation limit is the 1978/79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion required an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The City believes that the sewer fees and charges it imposes for use of the Enterprise do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B.

### Proposition 62

A statutory initiative ("Proposition 62") was adopted by the voters voting in the State at the November 4, 1986 general election which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction, (3) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (4) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988.

Following its adoption by the voters, various provisions of Proposition 62 were declared unconstitutional at the appellate court level. On September 28, 1995, however, the California Supreme Court, in *Santa Clara County Local Transportation Authority v. Guardino* (“Guardino”), upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or City to impose a special tax, and, by implication, upheld a parallel provision requiring a majority vote in order for a local government or City to impose any general tax. *Guardino* did not address the question of whether or not it should be applied retroactively.

Following the *Guardino* decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On December 15, 1997, the Court of Appeals for the State of California, Fourth Appellate District, in *McBrearty v. City of Brawley*, determined that (i) *Guardino* is to be applied retroactively to require voter approval of previously enacted taxes, and (ii) the three-year statute of limitations applicable to such taxes runs from the date of the *Guardino* decision (September 28, 1995). On June 4, 2001, the California Supreme Court released its decision in *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* (“La Habra”) holding (i) that a public agency’s continued imposition and collection of a tax is an ongoing violation upon which the statute of limitations period begins anew with each collection and (ii) that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

### **Proposition 218**

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges.

**Article XIII C.** Article XIII C removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. In *Bighorn-Desert View Water Agency v. Beringson* (“Bighorn”), decided by the California Supreme Court on July 24, 2006, the petitioner sought to establish his right to reduce a local water agency’s water rates and fees and charges through use of the initiative power. In holding for the petitioner on this issue, the court stated that the absence of a restrictive definition of “fee” or “charge” in Article XIII C suggests that those terms include all levies that are ordinarily understood to be fees or charges, including all of the property-related fees and charges subject to Article XIII D.

Though the Supreme Court did not arrive at an exact definition of such terms, it did determine that fees and charges that are fees and charges within the meaning of Article XIII D are necessarily fees and charges within the meaning of Article XIII C. See “–Article XIII D.” The Court held that Article XIII C authorizes the use of the initiative process to reduce water rate and other delivery charges but that it does not authorize use of the initiative power to impose a voter-approval requirement on future increases or new water delivery charges. The court declined to determine whether the initiative power is limited by other statutory provisions requiring that water service charges be set at a level that will pay system expenses and debt service since that issue was not before the court.

Consequently, the voters of the City could, by future initiative, seek to repeal or reduce any local tax, assessment, fee or charge, including the City’s sewer service fees and charges, which are the source of Net Revenues pledged to the payment of debt service on the Series 2010 Bonds. Though the use of the initiative power is arguably limited in the case of levies directly pledged to bonded indebtedness, such as the fees and charges imposed by the Enterprise securing the Series 2010 Bonds, there can be no assurance

that the voters of the City will not seek to approve an initiative which attempts to reduce the fees and charges imposed by the Enterprise securing the Series 2010 Bonds.

**Article XIII D.** Article XIII D established procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. The City does not currently impose standby charges or assessments for the Enterprise.

Article XIII D conditions the imposition or increase of any “fee” or “charge” upon there being no written majority protest after a required public hearing and voter approval for fees and charges other than for sewer, water or refuse collection services. Article XIII D defines “fee” or “charge” to mean levies (other than *ad valorem* or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a “property-related service.” One of the requirements of Article XIII D is that before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

In *Richmond et al. v. Shasta Community Services District* (“Richmond”), the California Supreme Court held that a water connection fee was not a “property-related” fee and charge subject to Article XIII D. However, in the opinion the California Supreme Court suggested in dicta that fees for *ongoing* water service through an existing connection were “property related” fees and charges imposed on a person as an incident of property ownership. The court addressed this issue directly in the Bighorn case discussed above. In its decision, the court relied on its discussion in Richmond to reach the conclusion that fees and charges for ongoing water service through an existing connection are “property-related” fees and charges imposed on a person as an incident of property ownership for purposes of Article XIII D whether the fees and charges are calculated based on usage or are imposed as a fixed monthly fee.

The City has complied with the procedures required by Article XIII D in connection with the increase in the sewer fees and charges approved by the City Council on June 15, 2010. See “FINANCIAL MATTERS RELATING TO THE ENTERPRISE—Rates and Charges” herein.

In addition to the procedural requirements of Article XIII D, under Article XIII D, all property related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards:

- (1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property related service.
- (2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.
- (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- (4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether

characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIII D (relating to assessments).

- (5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

The City believes that its rates comply with the foregoing standards.

Article XIII D provides that nothing in Proposition 218 will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

Further interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

### **Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies**

The ability of the City to comply with its covenants under the Indenture and to generate Revenues sufficient to pay the principal of and interest on the Series 2010 Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) under Article XIII C or Article XIII D by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the Series 2010 Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the possible limitations on the ability of the City to comply with its covenants under the Indenture, the rights and obligations under the Series 2010 Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against municipal utilities in the State of California.

Based on the foregoing, in the event the City fails to comply with its covenants under the Indenture, including its covenants to generate sufficient Revenues, as a consequence of the application of Article XIII C and Article XIII D, or to pay principal of or interest on the Series 2010 Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Series 2010 Bonds.

### **Future Initiatives**

Articles XIII B, XIII C and XIII D and Proposition 62 were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the City's Net Revenues or ability to increase sewer fees and charges.

## TAX MATTERS

### Series 2010A Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“Bond Counsel”), based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). In the further opinion of Bond Counsel, interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. No opinion is expressed whether such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the 2010 Bonds is exempt from taxation by any state, territory or possession of the United States or any political subdivision thereof. A complete copy of the proposed opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Series 2010A Bonds is less than the amount to be paid at maturity of such Series 2010A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2010A Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Series 2010A Bonds which is excluded from gross income for federal income tax purposes and is exempt from income taxation by any state, territory or possession of the United States or any political subdivision of any of them. For this purpose, the issue price of a particular maturity of the Series 2010A Bonds is the first price at which a substantial amount of such maturity of the Series 2010A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2010A Bonds accrues daily over the term to maturity of such Series 2010A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Senior 2010A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity of such Series 2010A Bonds. Beneficial Owners of the Series 2010A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2010A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2010A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2010A Bonds is sold to the public.

Series 2010A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2010A Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2010A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these

covenants may result in interest on the Series 2010A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2010A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2010A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2010A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes and is exempt from income taxation by any state, territory or possession of the United States or any political subdivision of any of them, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2010A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2010A Bonds. Prospective purchasers of the Series 2010A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2010A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2010A Bonds ends with the issuance of the Series 2010A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the Series 2010A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2010A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2010A Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

## **Taxable Series 2010B Bonds**

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Taxable Series 2010B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel are of the opinion that interest on the Taxable Series 2010B Bonds is exempt from State of California personal income taxes. Bond Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Taxable Series 2010B Bonds.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Taxable Series 2010B Bonds that acquire their Taxable Series 2010B Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the “IRS”) with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Taxable Series 2010B Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Taxable Series 2010B Bonds pursuant to this offering for the issue price that is applicable to such Taxable Series 2010B Bonds (i.e., the price at which a substantial amount of the Taxable Series 2010B Bonds are sold to the public) and who will hold their Taxable Series 2010B Bonds as “capital assets” within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”).

As used herein, “U.S. Holder” means a beneficial owner of a Series 2010 Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Series 2010 Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Taxable Series 2010B Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Taxable Series 2010B Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable Series 2010B Bonds (including their status as U.S. Holders or Non-U.S. Holders).

## **For U.S. Holders**

The Taxable Series 2010B Bonds may be issued with original issue discount (“OID”). In general, the excess of the stated redemption price at maturity of a Series 2010 Bond over its issue price will constitute OID for U.S. federal income tax purposes. The stated redemption price at maturity of a Series 2010 Bond is the sum of all scheduled amounts payable on the Series 2010 Bond (other than qualified stated interest). U.S. Holders of the Taxable Series 2010B Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Prospective investors that are not individuals or regular C corporations who are U.S. persons purchasing the Taxable Series 2010B Bonds for investment should consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of the Taxable Series 2010B Bonds.

***Disposition of the Taxable Series 2010B Bonds.*** Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition of a Series 2010 Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Series 2010 Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series 2010 Bond which will be taxed in the manner described above) and (ii) the U.S. Holder’s adjusted tax basis in the Series 2010 Bond (generally, the purchase price paid by the U.S. Holder for the Series 2010 Bond, increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Series 2010 Bond and decreased by any payments previously made on such Series 2010 Bond (other than payments of qualified stated interest) or, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the Taxable Series 2010B Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder’s holding period for the Taxable Series 2010B Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

## **For Non-U.S. Holders**

***Interest.*** Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” payments of principal of, and interest on, any Series 2010 Bond to a Non-U.S. Holder, other than a bank which acquires such Series 2010 Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Series 2010 Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

***Disposition of the Taxable Series 2010B Bonds.*** Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition of a Series 2010 Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in

the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition and certain other conditions are met.

***U.S. Federal Estate Tax.*** A Series 2010 Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that at the time of such individual's death, payments of interest with respect to such Series 2010 Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

***Information Reporting and Backup Withholding.*** U.S. information reporting and "backup withholding" requirements apply to certain payments of principal of, and interest on the Taxable Series 2010B Bonds, and to proceeds of the sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition of a Series 2010 Bond, to certain noncorporate holders of Taxable Series 2010B Bonds that are United States persons. Under current U.S. Treasury Regulations, payments of principal and interest on any Taxable Series 2010B Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Series 2010 Bond or a financial institution holding the Series 2010 Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Taxable Series 2010B Bonds that are not United States persons and copies of such owners' certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28% (subject to future adjustment).

In addition, if the foreign office of a foreign "broker," as defined in applicable U.S. Treasury Regulations pays the proceeds of the sale of a Series 2010 Bond to the seller of the Series 2010 Bond, backup withholding and information reporting requirements will not apply to such payment provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) who, in the aggregate hold more than 50% of the income or capital interest in the partnership or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States.

Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Series 2010 Bond, will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. office of a broker of the proceeds of a sale of a Series 2010 Bond, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

### **Circular 230**

Investors are urged to obtain independent tax advice based upon their particular circumstances. The tax discussion above was not intended or written to be used, and cannot be used, for the purposes of avoiding taxpayer penalties. The discussion was written to support the promotion or marketing of the Taxable Series 2010B Bonds.

### **NO MATERIAL LITIGATION**

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the City in the execution or delivery of, or in any way contesting or affecting the validity of, the Series 2010 Bonds. There is no litigation known to be pending, or to the knowledge of the City, threatened, questioning the existence of the City or the title of the officers of the City to their respective offices.

Other lawsuits and claims against the City exist which are incidental to the ordinary course of operations of the Enterprise. In the view of the City's management and the City Attorney, there is no litigation, present or pending, which will individually or in the aggregate materially impair the City's ability to service its indebtedness or to expend the proceeds for the purposes for which the Series 2010 Bonds are authorized or which will have a material adverse effect on the business operations of the City.

### **RATINGS**

Standard & Poor's Ratings Services ("Standard & Poor's") and Moody's Investors Service ("Moody's") are expected to assign ratings of "AAA" (negative outlook) and "Aa3" (negative outlook), respectively, to the Series 2010 Bonds with the understanding that upon delivery, the Bond Insurance Policy will be issued by Assured Guaranty Municipal Corp. (formerly Financial Security Assurance Inc.). See "BOND INSURANCE" and APPENDIX H—"SPECIMEN MUNICIPAL BOND INSURANCE POLICY." Standard and Poor's has also assigned an underlying rating of "AA-" to the Series 2010 Bonds.

The ratings reflect only the views of s Standard & Poor's and Moody's, and are not a recommendation to buy, sell or hold the Series 2010 Bonds. An explanation of the significance of the ratings may be obtained from the rating agencies as follows: Standard & Poor's, 55 Water Street, New York, New York 10041; and Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2010 Bonds.

## **UNDERWRITING**

The Series 2010 Bonds are being purchased pursuant to a purchase contract between the City and RBC Capital Markets Corporation and Southwest Securities, Inc. (together, the “Underwriters”). The purchase contract provides that the Underwriters will purchase all of the Series 2010 Bonds if any are purchased. The obligation of the Underwriters to make such purchase is subject to certain terms and conditions set forth in the purchase contract.

The Underwriters may offer and sell the Series 2010 Bonds to certain dealers and others at prices or yields different than the initial public offering prices or yields. The offering prices or yields may be changed from time to time by the Underwriters.

### **Series 2010A Bonds**

The Underwriters purchased the Series 2010A Bonds at a price of \$3,323,814.50 (which represents the principal amount of the Series 2010A Bonds plus a net original issue premium in the amount of \$239,472.00 and less an underwriter’s discount in the amount of \$25,657.50). The Underwriters may change the initial public offering prices set forth on the inside cover page. The Underwriters may offer and sell the Series 2010A Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof.

### **Taxable Series 2010B Bonds**

The Underwriters purchased the Taxable Series 2010B Bonds at a price of \$40,724,031.25 (which represents the principal amount of the Taxable Series 2010B Bonds less an underwriters’ discount in the amount of \$400,968.75). The Underwriters may change the initial public offering prices set forth on the inside cover page. The Underwriters may offer and sell the Taxable Series 2010B Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof.

## **FINANCIAL ADVISOR**

The City has retained the services of Tamalpais Advisors, Inc., Sausalito, California in connection with the sale of the Series 2010 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Tamalpais Advisors, Inc. is an independent financial advisory firm and is not engaged in any underwriting, trading or investment activities. All of the fees of the Financial Advisor with regard to the delivery of the Series 2010 Bonds are contingent upon the issuance and delivery of the Series 2010 Bonds.

## **APPROVAL OF LEGAL PROCEEDINGS**

All legal matters incident to the authorization, issuance and sale of the Series 2010 Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel. The form of approving opinion of Bond Counsel is included as Appendix D to this Official Statement and the approving opinion will be delivered with the Series 2010 Bonds. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by the City Attorney and by Lofton & Jennings, San Francisco, California, Disclosure Counsel and for the Underwriters by Jones Hall, San Francisco, California,

Underwriters' Counsel. All of the fees of Bond Counsel, Disclosure Counsel and Underwriters' Counsel are contingent upon the issuance and delivery of the Series 2010 Bonds.

### **FINANCIAL STATEMENTS**

The excerpts from the City's financial statements for the Fiscal Year ending June 30, 2009, included in Appendix B hereto, which include audited results for the Enterprise have been audited by Maze & Associates, certified public accountants, as stated in their report appearing in Appendix B hereto. See APPENDIX B—"EXCERPTS FROM THE AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE YEAR ENDED JUNE 30, 2009." The audited financial statements attached hereto, including the footnotes thereto, should be reviewed in their entirety. Maze & Associates has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Maze & Associates with respect to any event subsequent to its report dated December 17, 2009.

### **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of the Series 2010 Bondholders to provide certain financial information and operating data relating to the Enterprise and the City by not later than 270 days after the end of the City's fiscal year (presently June 30) in each year commencing with the report for the 2009-10 Fiscal Year (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the City or the Dissemination Agent, if any, on behalf of the City through the Electronic Municipal Market Access Site maintained by the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriters to comply with Securities and Exchange Commission Rule 15c2-12(b)(5). The specific nature of the information to be contained in the Annual Report or the notices of material events by the City is summarized in APPENDIX E—"FORM OF CONTINUING DISCLOSURE AGREEMENT."

The City has not failed in the last five years to comply with any material respect with any prior undertaking under the Rule.

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**MISCELLANEOUS**

References made herein to certain documents and reports are brief summaries thereof and do not purport to be complete or definitive and reference is hereby made to such documents and reports for a full and complete statement of the contents thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or registered owners of any of the Series 2010 Bonds. The delivery and distribution of this Official Statement have been duly authorized by the City.

CITY OF RICHMOND

By: /s/ James C. Goins  
City Finance Director

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**APPENDIX A**

**CERTAIN FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION  
REGARDING THE CITY OF RICHMOND**

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## APPENDIX A

### CERTAIN FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE CITY OF RICHMOND

#### General

The City of Richmond, California (the “City”), is located 16 miles northeast of San Francisco on the western shore of Contra Costa County (the “County”), occupies 33.7 square miles of land area on a peninsula that separates the San Francisco Bay from San Pablo Bay, and spans 32 miles of shoreline. The City is an important oil refining, industrial, commercial, transportation, shipping and government center. An active redevelopment program in the downtown and waterfront areas and commercial expansion in the City’s Hilltop area, along the Interstate 80 and Interstate 580 corridors, and along the new Richmond Parkway have added to the tax base of the City in recent years.

#### Population

City residents account for approximately 10% of the population of the County. While the period from 1980 to 2000 was characterized by rapid population growth in both the City and the County, the last five years reflect a trend of slower growth. Table A-1 shows the population of the City, the County and the State according to the U.S. Census for the years 1980, 1990 and 2000 and the California Department of Finance for 2006 through 2010.

**Table A-1**  
**City, County and State Population Statistics**  
**(As of January 1)**

<u>Year</u>	<u>City of Richmond</u>	<u>Contra Costa County</u>	<u>State of California</u>
1980	74,676	656,331	23,667,764
1990	86,019	803,732	29,758,213
2000	99,216	948,816	33,873,086
2006	102,188	1,025,509	37,086,191
2007	103,327	1,035,322	37,472,074
2008	103,899	1,048,242	37,883,992
2009	104,602	1,061,325	38,255,508
2010 <sup>†</sup>	105,630	1,073,055	38,648,090

<sup>†</sup> Preliminary, most recent data available.

Sources: U.S. Census Bureau (1980, 1990 and 2000), California Department of Finance, Table 2: E-4 Population Estimates for Cities Counties and State, 2001-2010 with 2000 Benchmark.

#### Economy

**Overview.** The economy of the City includes oil refining operations, heavy and light manufacturing, distribution facilities, service industries, commercial centers, and a multi-terminal shipping port on San Francisco Bay. Richmond also serves as a government center for western portions of Contra Costa County.

The economy of the City has experienced growth in light and high technology companies and new business parks that accommodate both light industrial and “office/flex” type commercial buildings. Growth in these sectors is adding diversity to the City’s historically heavy industrial base. At the same

time, major manufacturers continue to upgrade their facilities, making major investments in modernization and expansion.

**Industrial Activity.** Historically, the City has been viewed as an industrial and distribution center, largely due to the visible presence of a major oil refinery, Chevron USA Richmond Refinery, and other major industries: Bio-Rad Laboratories, Pinole Point/Marwais Steel and the bulk liquid terminals in the Port of Richmond.

Chevron Products Company, which owns and operates the Chevron Refinery Facility located in the City, applied for and received a Conditional Use Permit (CUP) and a Design Review Permit (DRP) to allow a \$1.0 billion replacement of the existing hydrogen plant, power plant, and reformer, and installation of other new associated equipment to increase the Refinery's ability to produce gasoline meeting State of California specifications. The equipment would allow the Refinery Facility to use a wider range of crude oil sources than those currently processed at the facility. The new equipment would improve refinery reliability, energy efficiency, and add environmental controls. The equipment has been put on hold pending additional review and CEQA documentation.

**Biotechnology.** Biotechnology companies located in the City include Bayer Healthcare Pharmaceuticals, Bio-Rad, Kaiser Laboratories, Onyx Pharmaceuticals, Sangamo Biosciences, and the State Department of Health.

Bayer Healthcare Pharmaceuticals (formerly Berlex Biosciences), a global leader in the research, development, manufacture and commercialization of innovative biotechnology and specialty pharmaceutical products, is located on a 53-acre campus, comprised of two buildings, representing approximately 157,000 square feet, in the Hilltop area of the City.

Bio-Rad, a manufacturer of products for life science research and clinical diagnostics, leases 116,000 square feet of space in Richmond's Pinole Point Business Park near Atlas Road on the Richmond Parkway.

Kaiser Laboratories handles more than 25,000 lab specimens daily in a 50,000 square foot facility located on marina way south in Richmond's Marina District.

Transcept Pharmaceuticals, a specialty pharmaceutical company focused on development and commercialization of proprietary products that address therapeutic needs in the field of neuroscience, is located in an approximately 12,757 square foot facility in the Point Richmond area of the City.

Sangamo Biosciences, a worldwide leader in the design and development of engineered zinc finger DNA-binding proteins for gene regulation and gene modification, is located in a 127,500 square foot facility in the Point Richmond area of the City.

The State Department of Health Services operates a Public Health Laboratory in a state-of-of-the-art facility comprised of five buildings encompassing approximately 700,000 square feet in the Marina District.

**Green and High Technology.** Green-technology companies located in the City include SunPower and Heliodyne.

SunPower, an international designer, manufacturer and distributor of high efficiency solar electric technology, occupies 175,000 square feet in the refurbished, historic 520,000 square foot Ford Point Building in the Marina District.

Heliodyne, a leading US manufacturer of solar water heating equipment, occupies 4,298 square feet in the Southern Gateway area of the City off of Interstate-580.

“High tech” light industrial firms, research and development companies, biotechnology, and business park developments are growing industrial sectors in Richmond. Biotechnology, medical instruments, and computer software in particular are emerging sectors in the City’s economy.

A number of factors appear to be attracting the new high tech firms to the City:

- The ongoing development and leasing of light industrial/business park property at Hilltop and in the Marina District along Richmond’s South Shoreline and the Richmond Parkway;
- Availability of fairly extensive vacant or underutilized land areas zoned for industrial use;
- Relatively lower land costs than elsewhere in the Bay Area;
- Richmond’s central location in western Contra Costa County, within a short distance of San Francisco, Oakland and other East Bay cities and Marin County, and a relatively easy commute to the State’s capitol, Sacramento;
- Proximity to the University of California at Berkeley, one of the major scientific universities and library systems in the world;
- Good access and transportation (Richmond has two Interstate freeways, the Richmond Parkway, Amtrak, BART and AC Transit, as well as good rail and water transportation facilities, including Union Pacific and BNSF Railroads, Santa Fe western terminal, and the Port of Richmond); and
- Availability of affordable housing in a variety of neighborhoods, housing types and price ranges.

Among the high tech companies located within the City is Dicon Fiberoptics. Dicon, a manufacturer of fiberoptic components, modules and test instruments. Dicon is located in an approximately 201,000 square foot corporate headquarters building, of which a portion is leased to the City to house the City’s Police Department. An approximately 130,000 square foot research facility is located on an approximately 28-acre campus located in the Marina District of the City.

***Future Development.*** Completion of the John T. Knox Freeway in the early 1990’s (Interstate 580 extension from Interstate 80 at Albany to the Richmond/San Rafael Bridge) has spurred new industrial and commercial development along the freeway corridor throughout Richmond’s South Shoreline area. Development along the Richmond Parkway, which links the northern edge of Richmond (Interstate 80 at Hilltop) and the City’s southwest corner (Interstate 580) and the Richmond San Rafael Bridge, opened up a large tract of industrially zoned area in the northwest area of the City. As the economy improves, the shoreline area of the City will be in stronger demand for residential and commercial development. Best practices will require intelligent and steady stewardship to strike the optimum balance between residential development, job creation, recreation and the creation of sales tax and tax increment creation. It will be important to think in terms of long-term impacts of land-use decisions rather than simply build whatever the market demands at a given time, since residential and commercial market demands at a given time, since residential and commercial markets experience upturns and downturns. Although development is preferable sooner rather than later, good judgment is required to ensure the greatest long-term benefit to the citizens of the City. Supporting goals include:

- Completing the transfer of title for the remainder of Point Molate from the Navy for the City and facilitate site clean-up and development.

- Facilitating site remediation and entitlements for the development of Campus Bay, an approximately 87 acre office/research and development campus to the south along I-580 totaling 500,000 square feet, which is being developed by Simeon Properties.
- Facilitating ferry service to Marina Bay, as well as related infrastructure and development to include a grade change on Marina Bay Parkway and increasing the density of residential and commercial development in the vicinity of the ferry terminal location.
- Continuing to attract and increase the density of development in accordance with the General Plan.

## Employment

Table A-2 provides a listing of principal employers located in the City.

**Table A-2**  
**Principal Employers in the City**  
**(As of February 2010)**

<u>Employer Name</u>	<u>Product/Service</u>	<u>Estimated Number of Employees</u>
West Contra Costa Unified School District	Education	1,500
City of Richmond	Governmental Services	911 <sup>(1)</sup>
Inovis Inc.	Internet Services	499
Dicon Fiber Optics Inc.	Telephone Manufacturers	378
Richmond Health Center	County Public Health Programs	350
Sunpower Corp.	Solar Energy R&D	300
Universal Building Services	Janitorial Services	300
Macy's	Department Store	300
California Autism Foundation, Inc.	Social Services	270
Galaxy Desserts	Wholesale Baking	250
Rubicon Programs Inc.	Substance Abuse Centers	250
Valley Health Care	Health Care Services	240
Grace Baking Company	Wholesale Baking	203
Bay Area Beverages Co.	Wholesale Beverages	200
Coosco	Hearing Aid	200
Health Net	Hospital and Medical Services Plans	200
Kennedy High School	School	200
U.S. Post Office	Post Office	200 <sup>(2)</sup>
Target	Department Store	200
Wingstop	Restaurant	200

(1) Represents the number of budgeted, permanent full-time equivalent employees for Fiscal Year 2009-10.

(2) In spring 2010, the United States Postal Service announced that the distribution center would be downsized and 85 employees would have the option to be reassigned to Southern California or be terminated.

Sources: *infoUSA.com*, a service of *infoGroup™*.

The following Table A-3 compares estimates of the labor force, civilian employment and unemployment for the County, the State and the United States between 2005 through 2009.

**Table A-3**  
**Civilian Labor Force, Employment and Unemployment**  
**Annual Average for Years 2005 through 2009<sup>†</sup>**

<u>Year and Area</u>	<u>Labor Force</u>	<u>Civilian Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
<b>2005</b>				
City	50,100	46,200	3,900	7.8%
County	511,900	487,300	24,600	4.8
State	17,695,400	16,782,300	958,100	5.4
United States	149,321,000	141,730,000	7,591,000	5.1
<b>2006</b>				
City	50,700	47,100	3,600	7.2
County	518,500	496,300	22,200	4.3
State	17,901,900	17,029,300	872,600	4.9
United States	151,428,000	144,427,000	7,001,000	4.6
<b>2007</b>				
City	51,700	47,600	4,100	7.9
County	526,100	501,200	24,900	4.7
State	18,188,100	17,208,900	974,200	5.4
United States	153,124,000	146,047,000	7,078,000	4.6
<b>2008</b>				
City	52,500	46,900	5,300	10.2
County	526,900	494,400	32,400	6.2
State	18,391,800	17,059,600	1,332,300	7.2
United States	154,287,000	145,362,000	8,924,000	5.8
<b>2009<sup>†</sup></b>				
City	53,700	44,800	8,900	16.6
County	526,000	471,700	54,300	10.3
State	18,250,200	16,163,900	2,086,200	11.4
United States	154,142,000	139,877,000	14,265,000	9.3

<sup>†</sup> Preliminary. Data is not seasonally adjusted. The unemployment data for the County and State is calculated using unrounded data.

Sources: State of California Employment Development Department Labor Market Information Division; U.S. Bureau of Labor Statistics.

## Effective Buying Income

“Effective Buying Income” is defined as money income less personal tax and non-tax payments, a number often referred to as “disposable” or “after-tax” income. Money income is the aggregate of wages and salaries, net farm and non-farm self-employment income, interest, dividends, net rental and royalty income, Social Security and railroad retirement income, other retirement and disability income, public assistance income, unemployment compensation, Veterans Administration payments, alimony and child support, military family allotments, net winnings from gambling and other periodic income. Deducted from this total money income are personal income taxes (federal, state and local), personal contributions to social insurance (Social Security and federal retirement payroll deductions), and taxes on owner-occupied non-business real estate.

The following table summarizes the median effective buying income for the City, the County and the State for the calendar years 2005 through 2009. Claritas Inc. estimated 2009 median household effective buying income at \$45,001 for the City.

**Table A-4**  
**City of Richmond, Contra Costa County and the State of California**  
**Median Effective Buying Income**  
**Calendar Years 2005 through 2009**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
City	\$41,357	\$41,934	\$42,893	\$44,452	\$45,001
County	56,165	56,979	58,497	62,059	62,977
State	43,915	44,681	46,275	48,217	48,915

*Sources: Survey of Buying Power, Sales & Marketing Management Magazine (2003 through 2005) and Demographics USA, Claritas Inc. (2006 - 2009). Data for 2006 - 2009 may not be comparable with the prior year due to change in source.*

## Assessed Valuation and Property Taxes

**Assessed Valuation.** The City uses the facilities of the County for the assessment and collection of property related taxes for City purposes. The assessed valuation of property is established by the County Assessor and reported at 100% of the full cash value as of January 1, except for public utility property, which is assessed by the State Board of Equalization. City property related taxes are assessed and collected at the same time and on the same tax rolls as are county, school, and special district taxes.

The County collects the *ad valorem* property taxes. Taxes arising from the basic one percent levy are apportioned among local taxing agencies on the basis of a formula established by State law in 1979. Under this formula, the City receives a base year allocation plus an allocation on the basis of growth in assessed value (consisting of new construction, change of ownership and inflation). Taxes relating to voter-approved indebtedness are allocated to the relevant taxing agency. Taxes relating to voter-approved pension costs are allocated to the taxing agency. Beginning in Fiscal Year 1990-91 (with the adoption of new State legislation), the County has deducted the pro-rata cost of collecting property taxes from the City’s allocation.

The California Community Redevelopment Law authorizes redevelopment agencies to receive the allocation of tax revenues resulting from increases in assessed valuations of properties within designated project areas. In effect, the other local taxing authorities realize tax revenues from such properties only on the base-year valuations, which are frozen at the time a redevelopment project area is created. The tax revenues which result from increases in assessed valuations flow to the redevelopment

areas. The City has created redevelopment project areas pursuant to State law. Generally, funds must be spent within the redevelopment areas in which the tax increment revenues were generated and may only be spent on projects which qualify under State redevelopment law.

As discussed under “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII A of the State Constitution,” pursuant to Article XIII A of the California Constitution, annual increases in property valuations by the County Assessor are limited to a maximum 2% unless properties are improved or sold. Transferred properties and improvements are assessed at 100% of full cash value. Therefore, the County tax rolls do not reflect values uniformly proportional to market values.

In 1978, the voters of the State passed Proposition 8, a constitutional amendment to Article XIII A that allows a temporary reduction in assessed value when real property suffers a decline in value. A decline in value occurs when the current market value of real property is less than the current assessed (taxable) factored base year value as of the lien date, January 1. See also “*Decline in Fiscal Year 2009-10 Assessed Valuation.*”

“Secured” property is real property which in the opinion of the County Assessor can serve as a lien to secure payment of taxes. “Utility” property is any property of a public utility which is assessed by the State Board of Equalization rather than the County Assessor, and which is also “secured” property.

The table below summarizes the assessed valuation of taxable property in the City for Fiscal Years 2005-06 through 2010-11.

**Table A-5  
City of Richmond, California  
Assessed Valuation of Taxable Property**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Redevelopment Increment</u>	<u>Total After Redevelopment Increment</u>
2005-06	\$9,645,553,503	\$31,000,052	\$747,436,118	\$10,423,989,673	\$9,545,569,275
2006-07	11,329,240,515	28,950,901	784,744,022	12,142,935,438	10,160,005,866
2007-08	12,904,624,659	10,092,578	764,356,012	13,679,073,249	11,345,301,908
2008-09	12,789,413,923	10,071,060	849,546,196	13,649,031,179	11,237,792,283
2009-10	10,777,113,225	9,957,443	966,599,138	11,753,669,806	10,017,123,741
2010-11	9,960,643,402	N/A	848,687,072	N/A	N/A

*Sources: California Municipal Statistics, Inc. for Fiscal Years 2005-06 through 2006-07 and Contra Costa County Assessor for Fiscal Years 2007-08 through 2010-11*

***Declines in Assessed Valuation.***

Fiscal Year 2009-10. The City received a copy of a letter dated July 1, 2009 from the County Assessor to the County Board of Supervisors to the effect that the Fiscal Year 2009-10 assessment roll had been prepared and reflected a 7.2% decline Countywide in assessed valuation from the prior Fiscal Year. The letter further stated that the effect to the City would be a 13.8% decline in assessed valuation. The City assumed a higher percentage decline (16.1%) in preparing the Adjusted Fiscal Year 2009-10 Budget to account for anticipated declines in the supplemental tax roll. Absent any supplemental property tax receipts, property taxes will be approximately \$6.0 million lower than the amounts assumed when the

Fiscal Year 2009-10 Adopted Budget was adopted in June 2009, and the City was required to make adjustments to the Adopted Budget to address this expected reduction in revenues.

Fiscal Year 2010-11. The City received a copy of a letter dated July 1, 2010 from the County Assessor to the County Board of Supervisors to the effect that due to the downturn in the economy the Fiscal Year 2010-11 assessment roll had been prepared and reflected a 3.4% decline Countywide in assessed valuation from the prior Fiscal Year. The letter further stated that the City had the largest percentage loss in assessed value at 12.8% compared to assessed values in the City for Fiscal Year 2009-10. This decline was due primarily to the reassessment of the Chevron refinery. See “*Pending Assessment Appeals.*” The City assumed an 11.6% decline in assessed value in preparing the Fiscal Year 2010-11 Budget and that property taxes would be approximately \$3.3 million lower than the actual property tax revenue received in Fiscal Year 2009-10).

***Pending Assessment Appeals.*** Property tax values calculated by the County Auditor-Controller and determined by the County Assessor may be subject to an appeal by the property owners. Assessment appeals are annually filed with the County Assessment Appeals Board (the “Appeals Board”) for a hearing and resolution. The resolution of an appeal may result in a reduction to the County Assessor’s original taxable value and a tax refund to the applicant/property owner.

Major property tax assessment appeals by businesses, the oil industry and power plants in the City during Fiscal Year 2006-07 total an aggregate of \$2.866 billion in disputed value. Hearings on these appeals generally are expected to occur within two years of the filing date, although waivers and extensions are available. The City’s largest secured property taxpayer, Chevron USA (“Chevron”), has a history of appealing its assessed valuation, including appeals of its Fiscal Year 2004-05, 2005-06 and 2006-07 assessed values. On September 3, 2009, the Assessment Appeals Board found in favor of Chevron and determined that the property tax assessment were too high by a combined \$1.2 billion for those three Fiscal Years and Chevron had overpaid property taxes by at least \$12.6 million. On April 1, 2010, the County and Chevron reached a tentative agreement for a repayment plan for a \$17.84 million refund owed to Chevron. The County and its agencies will pay \$6 million to Chevron on August 1, 2010 and will pay the remaining \$12 million in August 2011. The City’s portion of such amount totals \$2.3 million, \$360,000 of which represents the City’s share of the 1% *ad valorem* property tax and \$1.94 million of which represents *ad valorem* property taxes levied annually at the rate of 0.14%, which was approved by the voters, to pay benefits under the Police and Firemen’s Pension Plan. The City’s portion of the August 1, 2010 payment will be deducted from the property tax receipts received from the County in December 2011 and the remainder will be deducted from the property tax receipts received from the County in December 2012. Chevron is also appealing its assessed valuation for the Fiscal Years 2007-08 through 2009-10. The City cannot predict whether or not such appeals will be filed by Chevron or any other major property taxpayers in the future, or if filed whether or to what extent they will be successful. Appeals are decided upon by the Appeals Board and the City has no control over the actions of such officials.

***Property Taxes.*** Property tax receipts collected for the City by the County are set forth in Table A-6 on the following page. In preparing its annual budgets, the City forecasts property taxes based on each of the specific categories of receipts (secured and unsecured, current and delinquent receipts, supplemental, and State replacement funds). Current receipts are derived from the County Assessor’s estimate of growth in assessed valuation, adjusted for estimates in growth for redevelopment project areas. Estimates of other property tax receipts are primarily based on historical collections.

**Table A-6**  
**City of Richmond**  
**Property Tax Receipts<sup>(1)</sup>**

<u>Fiscal Year</u>	<u>Property Tax</u>		<u>Percentage of General Fund Revenues</u>
	<u>Receipts</u>	<u>% Change</u>	
2004-05	\$30,368,311 <sup>(2)</sup>	28.46%	29.54%
2005-06	28,284,861	(6.86)	26.57
2006-07	33,069,812	6.92	29.03
2007-08	34,269,322	3.63	30.03
2008-09 <sup>(3)</sup>	33,296,446	(2.84)	23.95
2009-10 <sup>(4)</sup>	31,816,829	(4.44)	25.34

<sup>(1)</sup> Excludes property tax override receipts of which approximately \$3.8 million are budgeted for Fiscal Year 2009-10.

<sup>(2)</sup> Included a one-time release of \$4,627,380 from Pension Reserve Account. Underlying property taxes totaled \$25,740,431 net of the release.

<sup>(3)</sup> Unaudited.

<sup>(4)</sup> Fiscal Year 2009-10 Mid-Year Budget Review.

Sources: *City of Richmond, Comprehensive Annual Financial Report for Fiscal Years, 2004-05 through 2008-09, and the Fiscal Year 2009-10 Mid-Year Budget Review.*

Property tax receipts for Fiscal Year 2008-09 were \$33.1 million, representing approximately 24.0% of General Fund revenues and transfers in and an estimated 3.5% decrease from Fiscal Year 2007-08. Property tax receipts in the Fiscal Year 2009-10 Budget are budgeted to be \$27.0 million, representing approximately 24.0% of budgeted General Fund revenues and transfers in and a projected 18% decrease from Fiscal Year 2008-09. Property tax receipts for Fiscal Year 2009-10 are estimated to be \$31.8 million, representing approximately 25% of General Fund revenues and transfers in and an estimated 4.44% decrease from Fiscal Year 2008-09.

**Teeter Plan.** The City is located within a county that is following the “Teeter Plan” (defined below) with respect to property tax collection and disbursement procedures. Under this plan, a county can implement an alternate procedure for the distribution of certain property tax levies on the secured roll pursuant to Chapter 3, Part 8, Division 1 of the Revenue and Taxation Code of the State of California (comprising Section 4701 through 4717, inclusive), commonly referred to as the “Teeter Plan.”

Generally, the Teeter Plan provides for a tax distribution procedure by which secured roll taxes and assessments are distributed to taxing agencies within the county included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all participating taxing agencies is avoided. While the County bears the risk of loss on delinquent taxes that go unpaid, it benefits from the penalties associated with these delinquent taxes when they are paid. In turn, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk. The constitutionality of the Teeter Plan was upheld in *Corrie v. County of Contra Costa*, 110 Cal. App. 2d 210 (1952). The County was the first Teeter Plan county in the State when the Teeter Plan was enacted by the State Legislature in 1949.

The valuation of property is determined as of January 1 each year and equal installments of tax levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due May 15 and become delinquent August 31.

The City receives its entire secured tax levy amount each year under the Teeter Plan,. A history of collections for the last five Fiscal Years is shown in Table A-7 and the entire County tax levies with delinquencies and tax losses reserve fund balances for the same period are shown in Table A-8 as reported annually by the County Auditor-Controller.

**Table A-7**  
**City of Richmond**  
**Secured Tax Levies and Delinquencies**  
**Fiscal Years 2005-06 through 2009-10**

Fiscal Year Ended <u>June 30</u>	Total Current Fiscal Year <u>Tax Levy</u>	Reimbursed <u>Tax Levy</u>	Percent Current Levy Delinquent June 30 <sup>†</sup>
2005-06	\$30,704,619	\$578,395	1.88%
2006-07	34,107,915	1,159,190	3.40
2007-08	38,289,082	1,834,890	4.79
2008-09	38,286,630	1,529,548	3.99
2009-10	33,111,961	886,295	2.68

<sup>†</sup> Due to the County use of the Teeter Plan, the City received 100% of its tax levy, with the County responsible for collection of delinquent amounts.

Source: Contra Costa County Auditor-Controller.

**Table A-8**  
**Contra Costa County**  
**Secured Tax Levies, Delinquencies and Tax Losses Reserve Balances**  
**Fiscal Years 2005-06 through 2009-10**

Fiscal Year Ended <u>June 30</u>	Total Current <u>Year Tax Levy</u>	Portion of Current Levy Delinquent <u>Year End</u>	% Current Levy Delinquent <u>Year End</u>	Total Delinquent Taxes <u>June 30</u>	Tax Losses Reserve Balance <u>June 30</u>	Reserve as % of <u>Delinquency</u>
2005-06	\$1,720,977,608	\$35,699,270	2.07%	\$47,003,688	\$26,334,817	56%
2006-07	1,967,771,060	80,851,968	4.11	97,323,762	33,558,844	34
2007-08	2,077,282,718	106,031,582	5.10	143,490,997	45,174,112	31
2008-09	2,061,930,220	86,035,461	4.17	129,971,278	66,209,174	51
2009-10	1,964,723,571	55,418,474	2.82	101,461,335	84,269,785	83

Source: Contra Costa County Auditor-Controller.

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The County can elect to terminate its Teeter Plan for subsequent Fiscal Years, in which case the City would receive only the taxes and assessments actually collected and delinquent amounts when and if received. The County can also elect to terminate its Teeter Plan if more than 3% of the total tax levy is delinquent. The County has never terminated its Teeter Plan and has not informed the City of any plans to terminate its Teeter Plan.

**Largest Taxpayers.** Set forth in Table A-9 are the 10 largest secured taxpayers in the City for the Fiscal Year ending June 30, 2009, based on assessed valuations within the City.

**Table A-9**  
**City of Richmond**  
**Largest Property Tax Payers**  
**Fiscal Year 2008-09**  
**(\$ in 000's)**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2008-09 Assessed Valuation</u>	
		<u>Amount</u>	<u>Percent</u>
Chevron USA Inc.†	Heavy Industrial	\$3,472,946	26.92%
Lennar Emerald Marina Bay LLC	Residential Properties	141,807	1.10
Richmond Parkway Associates	Apartments	122,770	0.95
Bayer Healthcare Pharm Inc.	Heavy Industrial	114,023	0.88
DDRM Hilltop Plaza LP	Shopping Center	88,858	0.69
Richmond Essex LP	Apartments	67,859	0.53
Richmond Associates LLC	Shopping Center	63,192	0.49
Crescent Park EAH LP	Apartments	48,444	0.38
Cherokee Simeon Venture I LLC	Office Building	47,190	0.37
Dicon Fiberoptics Inc.	Industrial	43,977	0.34
SUBTOTAL		4,211,064	32.64
Remaining Property Owners		8,691,360	67.36
TOTAL		\$12,902,425	100.00%

† Chevron USA Inc. has a history of appealing the assessed valuation of its properties and currently has appeals pending. See “–Pending Assessment Appeals” above.

Sources: HdL Coren & Cone and Contra Costa County Assessor 2008-09 Combined Tax Rolls.

In January 2010, Chevron USA Inc. announced plans to cut its fuel production and retail operations, which may include those at the refinery located in the City. Chevron has emphasized that it has not yet made any final decisions with respect to its refineries, however the City is preparing a contingency plan if Chevron does abandon, sell or downsize its operations in the City.

On March 9, 2010, Chevron Corporation announced details of a restructuring plan that was announced earlier in January 2010. The restructuring plan includes elimination of 2,000 positions in 2010 and more in 2011 and the sale of a refinery in Wales but does not include the closure or sale of any other refineries, including the refinery in Richmond. The restructuring plan did not specifically address whether Chevron intends to continue to pursue up to \$1.5 billion of improvements to its Richmond refinery.

There can be no assurance that these owners, or any other large property owner, will not relocate outside of the City or file property tax appeals in the future which could significantly reduce the amount of property tax revenues available to the City. Certain of these taxpayers may own property located in

one or more redevelopment areas of the City and the full amount of property taxes paid on such parcels may not contribute to the City’s General Fund.

**Foreclosure Activity.** Residential mortgage loan defaults and foreclosures have recently increased significantly in connection with the collapse of the subprime sector of the residential mortgage market and broader economic pressures. In California, the greatest impacts to date are in regions of the Central Valley and the Inland Empire (both areas that are outside of the County), although the County has been impacted as well, particularly in the eastern portions of the County where the largest number of new mortgages were originated as growth in residential development occurred.

Such foreclosure activity has also affected the City. Based on information provided by an independent data collection service, for calendar year 2009, mortgage holders had sent 1,490 notices of default with respect to properties located within the City compared to 1,562 during calendar year 2008 (a decline of 4.6%), and 1,800 trustee deeds had been recorded (indicating that the property has been lost to foreclosure) during calendar year 2009 compared to 1,203 during calendar year 2008 (a decline of 33.5%). During the first half (January through June) of calendar year 2010, mortgage holders sent 485 notices of default and recorded 342 trustee deeds compared to 888 notices of default sent and 394 trustee deeds recorded during the first half of calendar year 2009.

Due to foreclosure activity and the weak housing market, the City’s assessed valuation base declined by 13.9% in Fiscal Year 2008-09. This reflects the offset of foreclosure activity by the ongoing growth in assessed value in other areas of the City where the assessed values of homes are less than market values. In addition, Chevron comprises about 21% of the assessed value base and, despite repeatedly filing assessment appeals, contributes to assessed value growth.

A summary of the notices of default sent and trustee deeds recorded for the City and the County during calendar years 2007 through 2009 and for the first half (January through June) of calendar years 2009 and 2010 is summarized in Table A-10. Foreclosure activity for the first nine months (January through September) of calendar years 2009 and 2010 will be available in October and is expected to be presented in the Official Statement.

**Table A-10**  
**City of Richmond and Contra Costa County**  
**Summary of Foreclosure Activity**  
**Calendar Years 2007 through 2009 and First Half of Calendar Years 2009 and 2010**

	Notices of Default					Trustee Deeds (Foreclosures)				
	Calendar Year			First Half of Calendar Year (January through June)		Calendar Year			First Half of Calendar Year (January through June)	
	2007	2008	2009	2009	2010	2007	2008	2009	2009	2010
CITY	1,339	1,562	1,490	888	485	416	1,203	800	394	348
Number	279.6%	12.1%	(4.6%)	–	(45.4%)	629.8%	189.2%	(33.5%)	–	(10.2%)
% Change										
COUNTY	10,847	16,453	18,248	10,086	6,401	4,047	11,281	7,998	3,778	3,826
Number	192.9%	51.7%	10.9%	–	(36.5%)	753.8%	178.7%	(29.1%)	–	1.3%
% Change										

Source: MDA DataQuick Information.

## Taxable Sales

Partially as a result of the current economic downturn, the State faced a significant budget shortfall in Fiscal Year 2009-10. In addition, significant budget shortfalls are currently anticipated in the coming Fiscal Years. In order to address the current and anticipated budget shortfalls, the State Legislature adopted and the Governor approved a variety of spending reductions and revenue enhancements, including a 1% increase in the State sales tax rate. This increase, which took effect April 1, 2009 and is currently scheduled to remain in effect until July 1, 2012, increased the State Sales Tax rate from 7.25% to 8.25%, resulting in a total sales rate within the City of 9.75%. No assurance can be given as to whether such increase will have a material adverse impact on the level of retail sales within the City.

Table A-11 sets forth a history of taxable sales for the City for calendar years 2004 through 2008.

**Table A-11**  
**City of Richmond**  
**Taxable Sales**  
**(\$ in thousands)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008<sup>†</sup></u>
Apparel stores	\$37,226	\$38,965	\$38,864	\$36,152	\$37,367
General merchandise stores	202,413	208,358	206,293	235,802	247,666
Food stores	28,420	25,867	24,508	25,349	25,152
Eating and drinking establishments	48,641	52,911	54,188	56,778	57,667
Home furnishings and appliances	24,374	26,346	27,656	23,421	19,941
Building materials and farm implements	98,994	100,174	96,514	42,248	20,064
Auto dealers and auto supplies	217,624	210,173	217,904	210,123	149,657
Service stations	134,987	185,474	203,878	242,647	271,424
Other retail stores	<u>73,017</u>	<u>72,474</u>	<u>71,781</u>	<u>63,694</u>	<u>74,411</u>
SUBTOTAL RETAIL STORES	865,696	920,742	941,586	936,214	903,350
All other outlets	<u>188,333</u>	<u>188,917</u>	<u>181,326</u>	<u>292,526</u>	<u>257,622</u>
TOTAL ALL OUTLETS	\$1,054,029	\$1,109,659	\$1,122,912	\$1,228,740	\$1,160,972

<sup>†</sup> Most recent annual data available.

Source: California State Board of Equalization.

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## Construction Activity

Table A-12 sets forth a five-year summary of building permit valuations and new dwelling units within the City.

**Table A-12**  
**City of Richmond**  
**Building Permit Valuations**  
**Calendar Years 2005 through 2009**  
**(\$ in Thousands)**

Year	Single Family		Multifamily		Value of	Total	Nonresidential	Total <sup>†</sup>
	Units	Valuation	Units	Valuation	Alterations and Additions	Residential Valuation	Valuation	
2005	199	\$47,275	91	\$11,315	\$12,668	\$71,258	\$54,368	\$125,626
2006	73	17,189	108	10,845	10,710	38,744	39,793	78,537
2007	43	9,759	148	16,196	10,342	36,297	33,810	70,107
2008	28	6,734	50	5,298	9,749	21,781	50,833	72,614
2009	7	1,842	40	8,331	9,929	20,101	39,856	73,282

<sup>†</sup> Total represents the sum of residential and nonresidential building permit valuations. Data may not total due to independent rounding.

Source: Construction Industry Research Board.

## Community Facilities

Richmond area residents have access to modern health care facilities. The Richmond area has two general hospitals, Doctors Hospital in San Pablo and the Kaiser Hospital Facility, located in downtown Richmond. Richmond also has several convalescent hospitals. The Richmond area offers a variety of leisure, recreational and cultural resources, from boating, fishing and hiking, to live theater, golf, tennis and team athletics. Three regional parks are on the shoreline: Point Pinole, George Miller Jr./John T. Knox, Ferry Point and Point Isabel. The City operates a public marina (775 boat berths at Marina Bay), four large community parks (Point Molate Beach Park, Hilltop Lakeshore Park, Nicholl Park, and Marina Park and Green), 25 neighborhood parks ranging in size from one to 22 acres, many play lots and mini parks, and seven community centers.

In addition, the City operates a disabled person's recreation center, a sports facility, two senior centers (Richmond Senior Center and Richmond Annex Senior Center), the Richmond Museum, the Richmond Municipal Auditorium, the Richmond Swim Center, Coach Randolph Pool, the Washington Fieldhouse, the Veterans Memorial Auditorium, and the Richmond Public Library. The Richmond Art Center, a privately funded arts organization, is partly supported by the City of Richmond. Currently, only four of the City's recreation centers are operational.

Also in Richmond are several private yacht harbors, golf and country clubs, and community theaters. Within 30-45 minutes by BART or car are the cultural resources of other cities in the East Bay and Bay Area, including Oakland, Berkeley and San Francisco.

East Bay Regional Park District ("EBRPD") maintains one regional park, four regional shorelines, and one regional preserve within Richmond. One additional parkland facility, the 214-acre Kennedy Grove Regional Recreation Area, is located in an unincorporated area of the County bordering on the City at the eastern end of El Sobrante Valley. The four regional shorelines presently owned and

maintained by EBRPD represent a substantial portion of the City's shoreline. The regional shorelines and Wildcat Canyon Park are used not only by residents of the City but also by the general public within the Bay Area region.

## **Transportation**

The City is a central transportation hub in the Bay Area, offering convenient access throughout the region and well into central California. The City's port facilities, railroads and proximity to international airports are complemented by a network of freeways and public transportation services.

**Freeways.** Existing and new highways have made travel to and through the City more efficient and convenient. Interstate 80, which passes through the City, is a direct route to Oakland, San Francisco, Vallejo, Fairfield and Sacramento. Interstate 580 provides continuous freeway access from Richmond's South Shoreline area to East Bay communities and to Marin County and is stimulating new commercial, industrial and residential development along Richmond's South Shoreline. Similarly, completion of the Richmond Parkway through North Richmond in 1996 improves vehicular access between Marin and communities to the north and east on Interstate 80, while opening major tracts of land along the City's north shoreline for new development.

**Port and Rail.** The City's deep water port is third largest in the State by annual tonnage, handling more than 20.8 million metric tons of general, liquid and dry bulk commodities each year. In 2009, the Port negotiated an agreement with American Honda Company whereby Honda agreed to import a minimum annual guarantee of 145,000 units per year through the Port for 15 years.

**Regional Airports.** Oakland International Airport (approximately 18 miles from the City) and San Francisco International Airport (approximately 28 miles from the City) provide the City with world-wide passenger and freight service. In addition, Concord's Buchanan Field, in central Contra Costa County, is 25 miles to the east and provides limited scheduled service and general aviation services.

**Public Transit.** The public is served by the San Francisco Bay Area Rapid Transit System ("BART") with a station conveniently located in downtown Richmond; AMTRAK passenger train service is available from a station adjacent to the Richmond BART station; and AC Transit offers local bus service within the City, to other East Bay communities and to San Francisco.

## **Utilities**

Electric power and natural gas services to the City are supplied by Pacific Gas & Electric Co. Telephone services to the City are supplied by AT&T.

Water services to the City are supplied by East Bay Municipal Utility District ("EBMUD"). Approximately 89% of the EBMUD water supply is from the Mokelumne River watershed stored at the 69.4 billion gallon capacity Pardee Dam in Ione, California. EBMUD is entitled to 325 million gallons per day under a contract with the State Water Resources Control Board, plus an additional 119 million gallons per day in a single dry year under a contract with the U.S. Water and Power Resources Service (formerly the U.S. Bureau of Reclamation). After dry winters in 2006 and 2007, EBMUD water supplies are at critically low levels. To safeguard the shrinking supply, in spring 2008, EBMUD declared a drought emergency, imposed mandatory water rationing goals ranging from 5% for industrial users to 19% for single family residential users to 30% for irrigation user, and imposed drought surcharge rates commencing August 1, 2008. As a result of strong customer conservation and greater run-off in spring 2009, the mandatory rationing program was terminated and replaced with a voluntary 10% conservation program. The voluntary conservation program was terminated on April 27, 2010.

Sewer services to the City are supplied by West Contra Costa Sanitary District, Richmond Municipal Sewer District and Stege Sanitary District.

### **Education**

The City comprises a portion of the attendance area of the West Contra Costa Unified School District, which comprises 42 elementary schools (18 of which are located in the City), seven middle schools (two of which are located in the City), and 12 high schools and alternative schools (nine of which are located in the City) and had a total K-12 enrollment of approximately 30,700 students for Fiscal Year 2008-09 (the most recent year for which enrollment data is available). In addition, private schools operate in the City and several institutions of higher education are located in or near the City, including the University of California at Berkeley, Contra Costa College, Diablo Valley College, Los Medanos College, the California Maritime Academy, California State University – East Bay, San Francisco State University, and the University of California at San Francisco.

**APPENDIX B**

**EXCERPTS<sup>†</sup> FROM THE AUDITED FINANCIAL STATEMENTS OF THE CITY  
FOR THE FISCAL YEAR ENDING JUNE 30, 2009**

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<sup>†</sup> Includes all information in the Comprehensive Annual Financial Report from the Table of Contents through Note 17 of the Notes to Basic Financial Statements. The Comprehensive Annual Financial Report in its entirety may be viewed online or downloaded at <http://www.ci.richmond.ca.us/documentview.aspx?did=5386>.

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*Comprehensive*

*Annual*

*Financial Report  
Richmond, California*

*For  
The Year Ended  
June 30, 2009*



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**CITY OF RICHMOND, CALIFORNIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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**Prepared by  
THE FINANCE DEPARTMENT**

**CITY OF RICHMOND  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

FISCAL YEAR ENDED JUNE 30, 2009

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**CITY OF RICHMOND  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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**CITY OF RICHMOND  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

FISCAL YEAR ENDED JUNE 30, 2009

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## FINANCE DEPARTMENT



450 Civic Center Plaza  
RICHMOND, CA 94804  
(510) 620-6740

December 21, 2009

Citizens of the City of Richmond  
The Honorable Mayor and  
Members of the City Council

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Richmond, California (City). The Finance Department has prepared this report to present the financial position and the results of the City's operations for the fiscal year ended June 30, 2008, and the cash flows of its proprietary fund types for the year then ended. The basic financial statements and supporting schedules have been prepared in compliance with Article IV, Section 1(b)3 of the City Charter, with California Government Code Sections 25250 and 25253, and in accordance with generally accepted accounting principles (GAAP) for local governments as established by the Governmental Accounting Standards Board (GASB).

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse, and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by an independent auditing firm of licensed certified public accountants. The objective of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion on

the City's financial statements for the fiscal year ended June 30, 2009. The Independent Auditors' Report is presented as the first component of the Financial Section of this report.

GASB Statement No. 34 (GASB 34) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

### The Reporting Entity and Its Services

The City has defined its reporting entity in accordance with generally accepted accounting principles that provide guidance for determining which governmental activities, organizations and functions should be included in the reporting entity. This CAFR presents information on the activities of the City and its component units.

As required by GAAP, these basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the basic financial statements to emphasize their legal separateness from the City. Each blended component unit has a June 30 year-end. The City's sole discretely presented component unit is RHA Properties and also has a June 30 year-end. Please see note 1 for a detailed discussion of the financial reporting entity.

The City's component units and assessment districts are as follows: the Richmond Community Redevelopment Agency, the Richmond Housing Authority, the Richmond Joint Powers Financing Authority, and the Hilltop Redemption, Castro Street, Hilltop A-D, Seaport District 816, Point Richmond Parking, Hilltop E, San Pablo 854, Harbor Navigation, Country Club Vista, Cutting/Canal and Atlas Interchange Special Assessment Districts. The City also has two inactive component units, Richmond Parking Authority and Richmond Surplus Property Authority.

### Profile of the Government

The City of Richmond was chartered as a city in 1909, and is located 16 miles northeast of San Francisco, directly across San Francisco Bay. Richmond is on a peninsula separating San Francisco Bay (on the south) and San Pablo Bay (to the north), spanning 32 total miles of shoreline. The City's total area is 56.1 square miles, 33.8 of which is land area and 22.3 water area. Richmond is situated near major metropolitan cities and major new growth areas. San Francisco is within 35 minutes from Richmond by freeway; Oakland is 20 minutes; San Jose is approximately one hour's drive to the south and Sacramento, the state capitol, is approximately 90 minutes to the east. Central Marin County is 15 minutes from Richmond

directly across the Richmond-San Rafael Bridge. Freeways provide direct access from Richmond to major new growth areas along Interstate 80 north and east to Vallejo, Fairfield and Sacramento; along Interstate 680 in central Contra Costa County; and south along Interstate 880 to the San Jose area.

Richmond's population is 103,828. The population within a 30-mile radius of Richmond is over 3.7 million, and within a 70-mile radius is approximately 7.8 million. Richmond is located on the western shore of Contra Costa County, and is the largest city in the "West County" region consisting of five cities: Richmond, El Cerrito, San Pablo, Hercules and Pinole.

The City of Richmond provides a full range of municipal services, including police and fire protection, construction and maintenance of highways, streets and infrastructure, library services, storm water and municipal sewer systems, wastewater treatment facility and the administration of recreational activities and cultural events. The City also operates the Richmond Memorial Convention Center and the Port of Richmond.

The City Council is the governing body of the City and has six members elected at-large to alternating 4-year terms. The Mayor is elected at large and is a seventh member of the City Council. The City of Richmond is a Council-Manager form of government. The City Manager, appointed by the Mayor and Council, has administrative authority to manage administrative and fiscal operations of the City. In addition to the City Manager, the City Attorney, City Clerk and Investigative Appeals Officer are appointed by the Mayor and Council.

The mission of the City of Richmond is:

*The City of Richmond provides services that enhance economic vitality, the environment and the quality of life of our community.*

#### **Factors Affecting Financial Condition**

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

#### **Local economy**

The economy of the City of Richmond includes heavy and light manufacturing, distribution facilities, service industry, high-tech, bio-tech and medical technologies, retail centers and a multi-terminal shipping port on San Francisco Bay. Richmond also serves as a government center for western Contra Costa County. The Richmond economy is experiencing growth in light industrial and high technology companies, as well as retail. At the same time, the Port of Richmond has recently found new success in the importation of automobiles.

A number of prime factors appear to be attracting the new high-tech firms to Richmond:

- The ongoing development and leasing of light industrial/business park property at Hilltop and along the relatively new I-580 freeway along Richmond's South Shoreline evidence that an active market for this kind of space exists in the Richmond area;
- Availability of fairly extensive vacant or under-utilized land areas zoned for industrial use;
- Relatively lower land costs than most of the Bay Area;
- Richmond's central location in western Contra Costa County; within a short distance of San Francisco, Oakland, other East Bay cities and Marin County, and a relatively easy commute to and from the State's capitol, Sacramento;
- Proximity to the University of California, Berkeley, one of the major scientific universities and library systems in the world;
- Good access and transportation (Richmond has two Interstate freeways as well as good rail and water transportation facilities, including Southern Pacific and Santa Fe Railroads, Santa Fe western terminal and the Port of Richmond and the recent Richmond Transit Village featuring an inter-modal station providing easy access to Bay Area Rapid Transit (BART, Amtrak and buses); and
- Availability of relatively affordable housing for employees in a variety of neighborhoods, housing types and price ranges.

Small business firms, 20 or fewer employees, comprise a very high percentage of Richmond businesses. The City played a major role in building capacity to service this group by establishing the West Contra Costa Business Development Center, which is located in Richmond's historical Downtown. The Center supports the Richmond Main Street Initiative, provides small business loans through a revolving loan fund and recently implemented a façade improvement program.

Public policy decisions have been made that will improve the quality and quantity of the technical workforce ready to meet the challenges of the technological labor market. The Richmond area policy makers are working as a team to accomplish the common goal of retaining components of the current economic base and creating an economic environment that will attract and retain new businesses in growth industries. Some of the special programs and projects that have been created to accomplish this goal are as follows:

**Richmond Enterprise Zone:** This City of Richmond program offers businesses within its boundaries the opportunity to reduce their state business income taxes through a variety of tax credits. Most commercial and industrial areas of the City are within the Enterprise zone. Incentives include: a Hiring Tax Credit, Sales and Use Tax Credit, Business Expense Deduction for Real Property, Net Operating Loss Carry-over, Net

Interest Deduction for Lenders and Employer Tax Credit for hiring Low-Income Employees.

**Workforce Investment Board:** The Richmond Workforce Investment Board (WIB) is the official oversight and policy-making body for federally-funded employer services and employment and training programs in Richmond. The mission of the Richmond WIB is to oversee the articulation and implementation of comprehensive workforce development strategies, policies and performance outcomes of the City of Richmond's integrated service delivery system.

### Significant Events and Accomplishments

The City of Richmond is committed to providing excellent municipal services to its diverse residents and visitors. Highlights of the City's activities and accomplishments for the fiscal year ended June 30, 2009 include the following:

#### Public Safety

- Increased the number of sworn personnel in the Police Department deployed through a community involved policing structure by eight.
- Installed additional cameras as part of the citywide surveillance camera system. This system is integrated into ongoing programs for law enforcement, blight abatement and Port security.
- Implemented ShotSpotter Gunshot Detection System that detects gunfire within four square miles.
- Worked with partner agencies, including other governmental, community-based, and faith-based organizations to implement violence prevention strategies that are centered on neighborhood change and effective street outreach.
- Initiated Crime Prevention through Environmental Design (CPTED) reviews at all Housing Authority developments.

#### Economic & Neighborhood Development

- Grand opening of the Ford Point Craneway building. The entire 40,000 square foot Craneway will handle 3,000 or more people, making it one of the East Bay's larger event venues.
- Remodeled and re-opened Macdonald Place Senior Center. This includes seventy to eighty affordable rental units and 100 for-sale units with up to 70 units affordable.
- Remodeled and re-opened Nevin Park which included rubberized ADA compliant surface and new play structures.
- Broke ground on expansion of Port facilities to accommodate the Honda Port of Entry project.
- Revitalized and enhanced key commercial areas, including the Macdonald Avenue corridor, 23<sup>rd</sup> Street improvements, the Civic Center and surrounding area. Improvements

included: curb and gutter upgrades, decorative sidewalks, landscaping, lighting, signage and public art.

- Provided over 500 jobs in the Summer Youth Employment program, with the goal to increase by 100 the number of youth employed through this program over the previous year.
- RichmondBUILD program recognized as a national "Best Practice."

#### Recreation & Cultural Services

- Refurbished Book Mobile with fresh and innovative design.
- New fitness equipment added to several recreation facilities.
- Expanded recreation programs.
- Over 2,800 summer reading program participants.
- Over 675 adults receiving pre-GED and English literacy instruction.

#### Public Works

- Repaved Hilltop Mall Circle.
- Continued to invest in street repairs and resurfacing through both Public Works department efforts and the annual pavement management contracts, to increase the City's Pavement Condition Index to 65 by 2010.
- Replaced outdated street lighting systems throughout the city to improve aesthetic appearance and public safety in these areas.
- Continued to repair and replace sewer pipes to reduce inflow and infiltration in the City's wastewater system, and to further reduce sanitary sewer overflows.
- Hired a Code Enforcement Manager in the Police Department to improve abatement of blight and code infractions throughout the city.
- Implemented a "SWAT" approach to code enforcement to increase the number of abandoned vehicle and problem property abatements, which resulted in a noticeable reduction of blight in the community.
- Implemented a comprehensive graffiti eradication program, leveraged through the organized use of community volunteers.
- Developed a Facility Condition Needs Index for City facilities and established maintenance standards based on this index.
- Established and adhered to maintenance standards for parks and landscaped areas.
- Completed a City facilities solar suitability report.
- Increased the number of ultra-low emission vehicles in the City's vehicle fleet.

#### Strategic Support

- New Enterprise Resource Planning (ERP) system fully implemented. The system complies with governmental accounting and human resources requirements, improves efficiency in business processes, and integrates new technology in planning and building functional systems.

- Grand Re-Opening of the Civic Center Plaza. This renovation included: interior renovation of the Auditorium and Art Center, restoration of the Civic Plaza (purchase of new furniture, fixtures, equipment and public art).
- Integrated new technology, including phone (voice over internet protocol) and office automation systems, into the renovated City Hall.
- Developed a Five-Year Strategic Business Plan for the City.
- Institutionalized the performance-based budgeting system into municipal operations by preparing, distributing, and analyzing quarterly progress reports on City performance measures.
- Continued to aggressively implement performance audit recommendations to improve customer service in the Planning and Building Services Department.
- Developed and implemented effective community-wide and organizational policies and programs in the areas of resource conservation, climate change, and energy efficiency, to ensure Richmond's long-term environmental sustainability.
- Developed a City environmental policy toward a "greener" environment covering issues as air and water quality, 'green' space, recycling, public health, socio-economic conditions, and transportation.
- Developed a Sustainable Procurement Strategy for the City.
- Digitized (scan) records and make them available on-line to reduce use of paper.
- Incorporated policies regarding sustainable land use into the City's updated General Plan.

#### **Long-term Financial Planning**

Adopted and adhered to a structurally balanced budget for 2008-09 that resulted in the continued designation of \$10 million for contingency reserves.

- Continued development of a Five-Year Strategic Business Plan.
- Utilization of Multi-Year Revenue and Expenditure forecasts.
- Restructure or refund debt as needed to achieve most efficient form of financing of City's capital needs and abate unacceptable risk factors.
- Continue to use one-time moneys for one-time uses, to ensure adequate revenues are available to finance the city's operations.

#### **CASH MANAGEMENT POLICIES AND PRACTICES**

Public funds held by the City Treasury were invested in accordance with established investment procedures and with the Investment Policy adopted by the City Council on July 22, 2003. An updated Investment Policy was adopted by the City Council on July 7, 2009. The Investment Policy is in compliance with Section 53601 of the State of California Code.

The permitted investments include U.S. Treasury notes, bonds, or bills; instruments issued by a U.S. federal agency or a United States government sponsored enterprise; negotiable certificates of deposit (with certain restrictions); medium term corporate notes with a rating category of "A" or better; commercial paper of "prime quality"; bankers' acceptances; repurchase agreements not to exceed one year; money market mutual funds (with certain

restrictions), the Investment Trust of California and with the State of California Local Agency Investment Fund.

The objectives of the Investment Policy are to invest up to 100% of all idle funds, guarantee that funds are always available to meet all possible cash demands of the City and to manage the portfolio in order to take advantage of changing economic conditions that can aid in increasing the total return on the City's portfolio.

The average earned interest yield for the year ended June 30, 2009 was 3.64 percent. The City Council receives reports on the City's pooled investment program on a monthly basis. Please see note 3 for a detailed discussion of the City's cash and investments.

#### **RISK MANAGEMENT**

The Risk Management Division, a component of the Human Resources Department, is responsible for managing and controlling the City's overall cost of risk. This entails a number of components including exposure assessment, loss control and mitigation, loss funding and claims management. The Division's pre-loss efforts include safety training and employee education programs, operational, financial and transactional risk and hazard evaluation, implementation of regulatory and legislative requirements and the evaluation and use of risk financing methods including self-insured retentions, risk transfer opportunities and the purchase of insurance.

Up until April 17, 2009, the City self-insured the first \$1 million of its Workers' Compensation program and purchased excess commercial insurance coverage for claims up to \$25 million in excess of the annually determined self-insured retention (\$1 million). Effective April 18, 2009, the City became a member of the California State Associate of Counties – Excess Insurance Authority (CSAC-EIA) to participate in their excess workers' compensation risk pool. The City's self-insured retention was reduced to \$750,000 effective with this change. The excess workers' compensation coverage will now be renewed on a fiscal year basis on July 1<sup>st</sup>. Risk Management is instrumental in evaluating retention and insurance costs to optimize the City's cash flow and manage its overall Workers' Compensation costs. The City also self-insures a portion of its liability risk and purchases excess insurance above an annually-determined self-insured retention from a governmental risk pool. Liability claims are administered by the risk pool. As with Workers' Compensation risk, Risk Management is instrumental in evaluating retention and insurance costs to optimize the City's cash flow and manage its overall liability costs.

Robyn Kain, the City's Risk Manger works with the City Attorney, outside legal counsel and the City Council to review claims and establish claim management strategies. The Risk Manager also works continuously to identify and coordinate practical, operational and strategic best practices to reduce the frequency and severity of losses in order to protect the general public and City employees and to reduce the overall frequency and severity of losses. Please see note 14 for a complete discussion of Richmond's risk management.

## PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan that covers substantially all eligible City employees. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance.

General Pension Plan – Retirement and other benefits are paid from Secured Pension Override and from related investment earnings. The City is required under its charter to contribute the remaining amounts necessary to fund the Plan using the entry age-normal actuarial method as specified by ordinance.

Police and Firemen's Pension Plan – Funding for the Plan is provided from the Secured Pension Override Special Revenue Fund. Employees were vested after five years of service. Members of the Plan are allowed normal retirement benefits after 25 or more continuous years of service. The City is required under its charter to contribute the remaining amounts necessary to fund the Plan using the entry age-normal actuarial method as specified by ordinance.

The City established the Secured Pension Override Special Revenue Fund to which proceeds of a special incremental property tax levy voted by the citizens of the City of Richmond are credited for the payment of benefits under the Plan.

Garfield Pension Plan – Retirement and other benefits are paid from the assets of the Plan and from related investment earnings. Benefit provisions have been established and may be amended upon agreement between the City and Mr. Garfield.

In addition to the pension benefits described in Notes 10 and 11, the City provides postretirement health care benefits, in accordance with City ordinances, to all employees who retire from the City on or after attaining retirement age (50 for policemen, 50 for firemen, and 55 for all other employees) and who have at least ten years of service. At June 30, 2009, 512 retirees met those eligibility requirements. The City has funded these benefits on a pay-as-you-go basis. During fiscal year 2009, expenditures of \$2,372,448 were recognized for post employment health care benefits. Also during fiscal year 2008, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than pensions. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB) The provisions of this statement are applied prospectively and do not affect prior year's financial statements. Please see notes 10, 11, and 12 for a complete discussion of the City's pension and other post-employment benefits

## AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2008. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGEMENTS

The preparation of this CAFR represents the culmination of a concerted team effort by the entire staff of the Finance Department. They should be commended for their professionalism, dedication, efficiency, and their personal commitment and determination demonstrated through long days of focused attention to produce this exemplary document.

In addition, staff in all City departments should be recognized for responding so positively to the requests for detailed information that accompanies each annual audit. The role of Maze & Associates, Certified Public Accountants, should also be acknowledged as a significant contribution to a fine product.

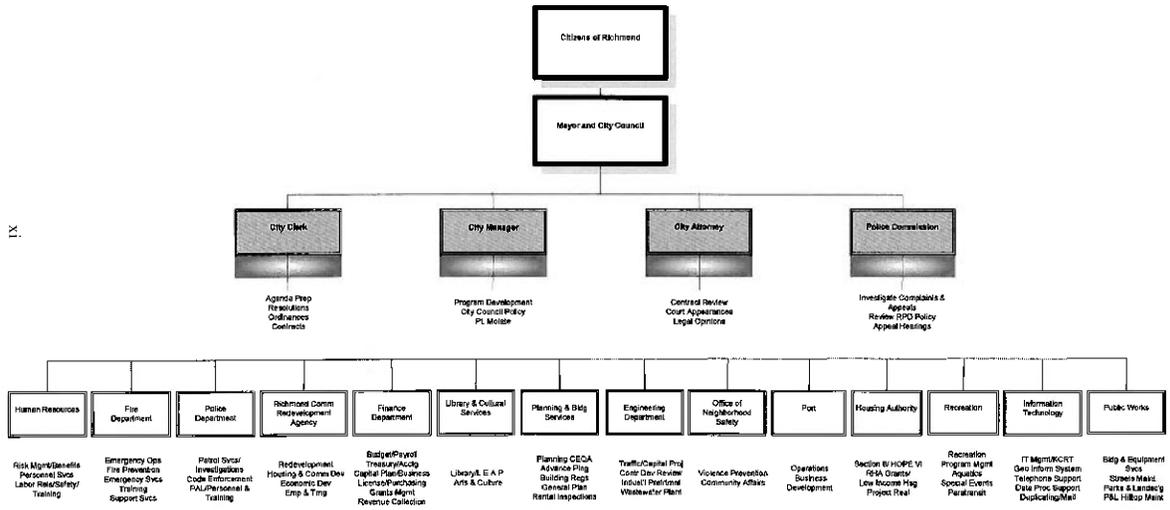
Finally, we wish to express our sincere appreciation to the Mayor and City Council for providing policy direction and a firm foundation of support for the pursuit of excellence in all realms of professional endeavors.

Respectfully submitted,

  
James C. Goins  
Finance Director/Treasurer



**City of Richmond**  
FY2009-10 Organizational Chart



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CITY OF RICHMOND, CALIFORNIA

CITY OFFICIALS

CITY COUNCIL

Mayor ..... Gayle McLaughlin  
 Vice-Mayor ..... Ludmyrna Lopez  
 Councilmember ..... Nathaniel Bates  
 Councilmember ..... Tom Butt  
 Councilmember ..... Jeff Ritterman  
 Councilmember ..... Jim Rogers  
 Councilmember ..... Maria Viramontes

ADMINISTRATION AND DEPARTMENT HEADS

City Manager ..... Bill Lindsay  
 Asst. City Manager/Human Resources Director ..... Leslie Knight  
 City Attorney ..... Randy Riddle  
 City Clerk ..... Diane Holmes  
 Community & Economic Dev. Director..... Steve Duran  
 Employment & Training Director ..... Sal Vaca  
 Engineering Director.....Rich Davidson  
 Finance Director/Treasurer ..... James Goins  
 Fire Chief ..... Michael Banks  
 Information Technology Director ..... Sue Hartman  
 Library and Cultural Services Director ..... Monique LeConge  
 Neighborhood Safety Director..... Devone Boggan  
 Planning Director..... Richard Mitchell  
 Police Chief..... Christopher Magnus  
 Port Director..... Jim Matzorkis  
 Public Housing Director..... Tim Jones  
 Public Works Director ..... Yader Bermudez  
 Recreation Director..... Keith Jabari

CITY OF RICHMOND, CALIFORNIA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For The Fiscal Year Ended June 30, 2009**

**Prepared by the City of Richmond Department of Finance  
Accounting Division**

**PROJECT TEAM**

James C. Goins  
*Finance Director/Treasurer*

General Accounting

Tina Mckenny, *Chief Accountant*  
 Nena Gapasin, *Senior Accountant*  
 Yolanda Skelton, *Senior Accountant*  
 Crispin Nunez, *Accountant II*  
 Rhonda Jackson, *Accountant II*  
 Tracie Thomas, *Accountant I*

Other Finance Department Contributors

Administration Division      Accounts Payable Division  
 Treasury Division      Purchasing Division      Revenue Division  
 Payroll Division      Budget Division  
 Capital Projects/Grants Division

Special Assistance from Other Departments

RICHMOND COMMUNITY REDEVELOPMENT AGENCY  
 HOUSING & COMMUNITY DEVELOPMENT  
 RICHMOND HOUSING AUTHORITY

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## City of Richmond California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2008

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



President

Executive Director

# MAZE & ASSOCIATES

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maze@mazeassociates.com  
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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Richmond, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit of RHA Properties, each major fund, and the aggregate remaining fund information of the City of Richmond, California as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, based on our audit the basic financial statements referred to above present fairly in all material respects the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Richmond, California at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof listed as part of the basic financial statements for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Budget and Actual Statements for the General Fund, the Redevelopment Agency Administration Fund and Redevelopment Agency Debt Service Fund, are not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Richmond. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the table of contents were not audited by us and we do not express an opinion on this information.

*Mane & Associates*

December 17, 2009

B-13

## MANAGEMENT'S DISCUSSION AND ANALYSIS Fiscal Year Ended June 30, 2009

Management of the City of Richmond (the "City") provides this Management's Discussion and Analysis of the City's Basic Financial Statements for readers of the City's financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the financial statements, which begin on page 25.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$356.4 million (net assets). Of this amount, \$136.4 million is restricted for specific purposes (restricted net assets), \$281.1 million is invested in capital assets, net of related debt, and \$61.2 million represents a deficit in unrestricted net assets.
- The City's total net assets increased by \$1.7 million during the fiscal year. Restricted net assets for governmental activities decreased \$53.1 million to \$135.8 million mainly due to expenses incurred in connection with the Civic Center renovation, while capital assets, net of related debt, increased \$13.1 million to \$201.6 million, again as the result of the Civic Center renovation. Unrestricted net assets decreased \$44.1 million to \$57.2 million deficit. Business-type activities net assets decreased \$2.4 million.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending balances of \$194 million, a decrease of \$61.5 million in comparison to prior year. This decrease of \$61.5 million includes a \$57.9 million decrease in total assets and a \$3.6 million increase in liabilities. Approximately 69 percent of the fund balance, \$134.3 million, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the fiscal year, the General Fund had fund balance of \$45.5 million, of which \$10 million was designated for contingencies. This reflects a \$900 thousand decrease over the prior year.
- The City's investment in its capital assets continues to increase. Total capital assets increased \$59.5 million over the prior year. Construction in progress increased \$65.9 million, 50 percent, from the prior year. Governmental activities total capital assets increased \$58.3 million primarily due to continued progress on the reconstruction of the City's Civic Center which is expected to be completed in fiscal year 2010.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

### Government-Wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. They are comprised of the *Statement of Net Assets and Statement of Activities and Changes in Net Assets*.

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

The *Statement of Activities and Changes in Net Assets* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, community development, culture and recreation, housing and development, and internal services. The business-type activities of the City include a housing authority, a port, a marina, a municipal sewer district, a storm sewer agency, and a cable TV operation.

**Governmental Activities** - The activities in this section are mostly supported by taxes and charges for services. The governmental activities of the City include General Government, Public Safety, Highways & Streets, Community Development, Cultural Recreation, Housing & Redevelopment and Internal Services Funds.

**Business-Type Activities** - These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the City include Richmond Housing Authority, Port of Richmond, Richmond Marina, Municipal Sewer District, Storm Sewer and Cable TV.

**Discretely Presented Component Unit** - The RHA Properties is a legally separate reporting entity, but is important because the City is financially accountable for it.

The government-wide financial statements can be found on pages 25-27 of the financial report.

### Fund Financial Statements

Fund Financial statements are designed to report information about the groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like state and other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

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

The City has 23 governmental funds, of which eight are considered major funds for presentation purposes. Each major fund is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The City's eight major funds are the General Fund, Redevelopment Agency Administration Special Revenue Fund, Redevelopment Agency Low and Moderate Income Housing, Redevelopment Agency Debt Service Fund, Redevelopment Agency Capital Projects Fund, Secured Pension Override Special Revenue Fund, Civic Center Project Fund and Community Development Block Grant Fund. The basic governmental fund financial statements can be found on pages 30 through 36 of the financial report. Data from the other fifteen governmental funds are combined into a single, aggregated presentation.

**Proprietary Funds** – Proprietary funds of the City are two types: (1) enterprise funds; and (2) internal service funds. The City maintains six enterprise funds that provide the same type of information as the government-wide financial statements, only in more detail. The major enterprise funds consist of the Richmond Housing Authority, Port of Richmond and Municipal Sewer. Enterprise funds financial statements can be found on pages 38 through 40 of the financial report.

The five internal service funds are also considered a proprietary fund type. The funds consist of the Insurance Reserves, Information Technology, Equipment Services and Replacement, Police Telecommunications and Facilities Maintenance.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of third parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The fiduciary funds for the City consist of Pension Trust Funds and Agency Funds. The accounting used for fiduciary funds is much like that used for proprietary funds. The financial statements for these funds can be found on pages 42-43.

#### Notes to the Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 45 through 121 of this report.

#### Required Supplementary Information:

In addition to the basic financial statements and accompanying notes, this report also includes certain required supplementary information providing budgetary comparison statements for the General Fund, the Redevelopment Agency Administration Special Revenue Fund and the Community Development Block Grant Special Revenue Fund. Required supplementary information can be found on pages 123 through 127 of this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

#### Analysis of Net Assets:

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets (government and business type activities) totaled \$356.4 million at the close of the fiscal year ending June 30, 2009. The City's net assets increased by \$1.7 million during the current fiscal year.

The largest portion of the City's net assets is invested in capital assets (e.g. land, streets, sewers, buildings, machinery, and equipment). Investment in capital assets totaled \$281.1 million, 79 percent of the total net asset amount. The net asset amount for capital assets is net of the outstanding debt that was incurred to acquire the assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A \$136.4 million portion of the City's net assets is accounted for as restricted net assets and represents resources that are subject to external restrictions on how they may be used.

#### City of Richmond's Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Totals	
	FY2009	FY2008	FY2009	FY2008	FY2009	FY2008
<b>Assets:</b>						
Current assets	\$ 424,009	\$ 456,937	\$ 3,106	\$ 11,486	\$ 427,115	\$ 468,423
Capital assets	361,581	303,232	126,729	125,534	488,310	428,766
Total assets	<u>785,590</u>	<u>760,169</u>	<u>129,835</u>	<u>137,020</u>	<u>915,425</u>	<u>897,189</u>
<b>Liabilities:</b>						
Current liabilities	73,129	45,173	3,535	7,613	76,664	52,786
Long-term liabilities	432,289	438,873	50,110	50,841	482,399	489,714
Total liabilities	<u>505,418</u>	<u>484,046</u>	<u>53,645</u>	<u>58,454</u>	<u>559,063</u>	<u>542,500</u>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	201,607	188,468	79,541	77,559	281,148	266,027
Restricted	135,801	188,951	612	1,527	136,413	190,478
Unrestricted	(57,236)	(101,296)	(3,963)	(520)	(61,199)	(101,816)
Total net assets	<u>\$ 280,172</u>	<u>\$ 276,123</u>	<u>\$ 76,190</u>	<u>\$ 78,566</u>	<u>\$ 356,362</u>	<u>\$ 354,689</u>

**Analysis of Activities:**

The following table indicates the changes in net assets for governmental and business-type activities:

<b>City of Richmond's Changes in Net Assets For the Year Ended June 30, 2009 (in thousands)</b>						
	Governmental Activities		Business-type Activities		Totals	
	FY2009	FY2008	FY2009	FY2008	FY2009	FY2008
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 14,187	\$ 19,137	\$ 25,766	\$ 24,637	\$ 39,953	\$ 43,774
Operating grants/contributions	8,403	9,642	18,683		27,086	9,642
Capital grants/contributions	6,998	4,067	50	24,676	7,048	28,743
General revenues:						
Property taxes-current collections	78,280	77,013		10	78,280	77,023
Sales taxes	27,923	29,006			27,923	29,006
Utility user taxes	48,953	29,553			48,953	29,553
Documentary transfer taxes	3,420	3,647			3,420	3,647
Other taxes	4,540	5,156			4,540	5,156
Use of money and property	6,851	9,990	390	920	7,241	10,910
Unrestricted Intergovernmental	2,197	4,331			2,197	4,331
Gain on sale of capital assets	5,000	4,008			5,000	4,008
Pension stabilization revenue	5,293	4,256			5,293	4,256
Developer revenue sharing	51	201			51	201
Other	9,221	3,102	8	314	9,229	3,416
Total revenues	<u>221,317</u>	<u>203,109</u>	<u>44,897</u>	<u>50,554</u>	<u>266,214</u>	<u>253,663</u>
<b>Expenses:</b>						
General government	18,746	26,826			18,746	26,826
Public safety	91,432	80,140			91,432	80,140
Public works	43,290	31,253			43,290	31,253
Community development	4,317	5,047			4,317	5,047
Cultural & recreation	16,619	19,625			16,619	19,625
Housing & redevelopment	19,209	17,472			19,209	17,472
Interest and fiscal charges	22,962	24,242			22,962	24,242
Richmond Housing Authority			23,336	24,324	23,336	24,324
Port of Richmond			4,739	4,590	4,739	4,590
Richmond Marina			235	240	235	240
Municipal Sewer			14,291	15,085	14,291	15,085
Storm Sewer			4,467	4,686	4,467	4,686
Cable TV			898	854	898	854
Total expenses	<u>216,575</u>	<u>204,605</u>	<u>47,966</u>	<u>49,779</u>	<u>264,541</u>	<u>254,384</u>
Excess (Deficiency) of Revenues Over (Under) Expenses	4,742	(1,496)	(3,069)	775	1,673	(719)
Special item				(14,426)	-	(14,426)
Transfers	(693)	(1,707)	693	1,707	-	-
Changes in Net Assets	4,049	(3,203)	(2,376)	(11,942)	1,673	(15,145)
Net assets at beginning of year	276,123	279,326	78,566	90,508	354,689	369,834
Net assets at end of year	<u>\$ 280,172</u>	<u>\$ 276,123</u>	<u>\$ 76,190</u>	<u>\$ 78,566</u>	<u>\$ 356,362</u>	<u>\$ 354,689</u>

**Governmental Activities:**

Governmental activities increased the City's net assets by \$4 million accounting for 242 percent of the City's total increase in net assets of \$1.7 million. A comparison of the cost of services by function for the City's governmental activities is shown in the preceding table, along with the revenues used to cover the net expenses of the governmental activities. Costs increased in Public Safety, Public Works and Housing and Redevelopment reflecting the increase in personnel and capital improvement costs.

Key elements of the increase in net assets for governmental activities are as follows:

*Revenue Highlights:*

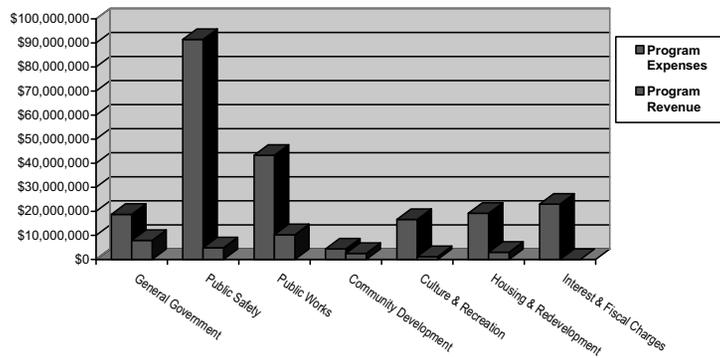
- Current year revenues of \$221.3 million reflect a \$18.2 million increase from the prior year.
- A majority of the \$18.2 million increase in revenue is attributable to Utility Users Tax. Utility Users Tax in the current year was \$49 million, an increase of \$19.4 million, or 66 percent. The majority of the \$19.4 million increase is due to the City's audit of a major manufacturer's UUT calculation which resulted in a settlement of \$13 million for prior year UUT and an increase of \$4.7 million in the amount paid in the current year.
- Property taxes (current collections) in the current year reached \$78.3 million, an increase of \$1.3 million, or approximately 2 percent.
- Current fiscal year receipts from sales tax of \$27.9 million reflect a \$1.1 million decrease over the prior year due to the downturn in the economy which would aptly reflect in less consumer spending.
- The significant decrease of \$3.1 million in use of money and property reflects the downturn in the economic environment and the decrease in City investments. The \$6.9 million realized in the current fiscal year is 31 percent less than the revenues in the prior fiscal year.
- The decline in other taxes of \$616 thousand is attributable to less franchise fee collections, Measure H and TOT taxes. The \$4.5 million realized is a 12 percent decrease over the prior year revenues.
- The \$15.4 million realized in operating and capital grants for the current fiscal year represents a \$1.7 million, or 12 percent, increase from prior year revenues due to two years of Measure C taxes being recognized in FY 08/09 due to the timing of allocations from the Contra Costa Transportation Authority.

*Expense Highlights:*

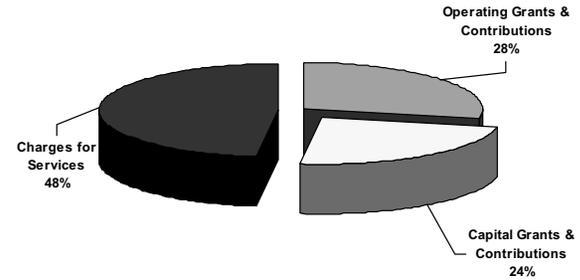
- Expenses of \$216.6 million reflect a \$12 million, or 6 percent, increase from prior year.
- Redevelopment expenses increased \$1.7 million to \$19.2 million. This increase is due to the increase in Redevelopment Agency Projects and Administration funds expenses.

- Current year interest and fiscal charges of \$23 million is a \$1.3 million, or 5 percent, decrease over the prior year. In FY2007-08, the 2007 Lease Revenue Bonds (Civic Center) and 2007 RDA Tax Allocation Bonds experienced unexpectedly high interest rate resets due to credit downgrades of bond insurers. In May 2008, the City restructured bonds into a fixed rate term, and indexed rate respectively. This resulted in a decrease of interest and fiscal charges over the prior year.
- Public Works expenses of \$43.3 million represent a \$12 million, or 39 percent, increase from prior year. The majority of the increase is attributed to Engineering and Public Works capital improvement projects.
- Public Safety expenses of \$91.4 million represent an \$11.3 million increase from prior year. The majority of this increase is due to salary increases in accordance with Employee Memorandum of Understanding since payroll comprises eighty percent of the department's budget.
- General Government expenses of \$18.7 million represent an \$8.1 million, or 30 percent, decrease from prior year. Expense appropriations were reduced at mid-year to adjust for reduced revenue projections as a result of the declining housing market.
- Cultural and recreational expenses of \$16.6 million represent a \$3.0 million, or 15 percent, decrease from prior year. The decrease is attributable to a reduction in the expenditure budget due to a decrease in revenue.

**Expenses and Program Revenues  
Governmental Activities**



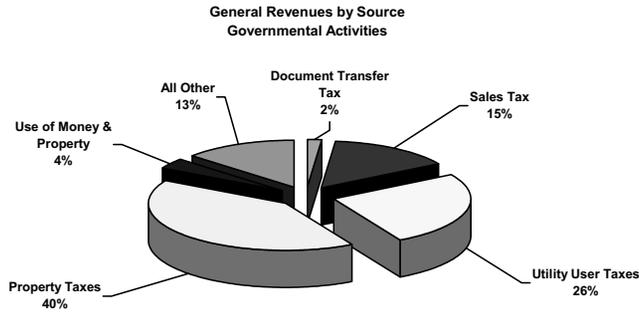
**Program Revenue by Source  
Governmental Activities**



Total governmental activities expenses were \$216.6 million in fiscal year 2009. The largest expenses, in descending order, were for Public Safety, Public Works, Interest on Long Term Debt, Housing and Redevelopment, General Government, Cultural and Recreation and Community Development. These expenses do not include capital outlays, which are now reflected in the City's capital assets.

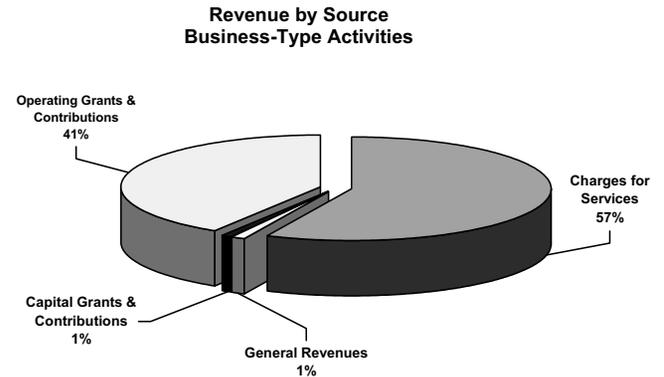
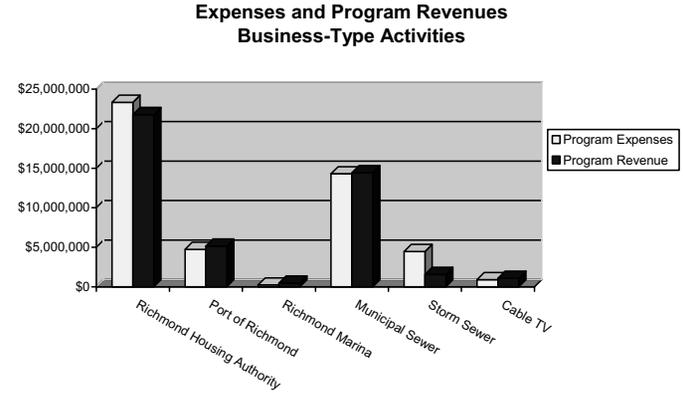
Total program revenues from governmental activities were \$29.6 million in fiscal year 2009. Program revenues are derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry. They reduce the net cost of the function to be financed from the government's general revenues. As reflected in the pie chart above, 48 percent of the governmental program revenues came from Charges for Services, which includes licenses and permits and fees, fines, forfeitures and penalties, and several other revenues. Program revenues under the Operating Grants and Contributions category include restricted revenues such as Gas Tax, Transportation and Sales Tax, and Federal/State Grants.

General revenues are all other revenues not categorized as program revenues such as property taxes, sales taxes, utility users' tax, gain on sale of capital assets, investment earnings, grants and contributions not related to specific programs and several miscellaneous general revenues. Total general revenues and transfers from governmental activities were \$191 million in fiscal year 2009. The three largest components of general revenues received during fiscal year 2009 for governmental activities were Property Taxes-current collections of \$78.3 million, Utility User Taxes of \$48.9 million and Sales Taxes of \$27.9 million. These three components represents approximately four-fifths of all general revenues.



**Business Type Activities:** Business-type activities decreased the City's net assets by \$2.4 million. Key factors in the decrease in business-type activities are as follows:

- Storm Sewer net assets decreased by \$2.2 million. The Storm Sewer Fund reported a \$2.9 million operating loss, operating expenses over operating revenues. The Storm Sewer fund revenue for the year was not sufficient to cover expenses incurred in connection with the Storm Sewer operation. The City is currently exploring additional revenue sources to help reduce this loss in the future.
- The Richmond Housing Authority net assets decreased by \$1.5 million. Total revenues of \$21.8 million represent a decrease of \$2.2 million from the previous year, operating expenses of \$23.3 million represents an decrease of \$989 thousand, or 4 percent, from the previous year.
- The Port of Richmond net assets increased \$545 thousand. The Port reported a \$718 thousand operating gain, operating revenues over operating expenses, but had a \$165 thousand non-operating loss caused, in part, by interest expenses incurred for debt service.
- The Municipal Sewer net assets increased by \$208 thousand in the current year. The Municipal Sewer reported operating income of \$2.8 million, up \$873 thousand, or 45 percent, from prior year which can be attributed to a \$569 thousand increase in operating revenues and \$305 thousand decrease in operating expenses.



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

### Governmental Funds:

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$194 million. Approximately \$134.3 million of this amount constitutes unreserved fund balance, which is available for spending at the government's discretion. Of the \$134.3 million, \$10.0 million has been designated for contingency reserve in compliance with Council's established policy. There is \$59.7 million of fund balance reserved to indicate that it is not available for spending because it has already been legally committed.

**General Fund** The General Fund is the primary operating fund of the City. It is used to report the financial results of the daily operations of the City. The major revenue sources are property taxes, utility users' tax and sales tax. The major expenditures are salaries and administrative expenses.

At the end of the current fiscal year, the General Fund had an undesignated, unreserved fund balance of \$10.9 million of a total fund balance that reached \$45.5 million. During the current year, the overall fund balance decreased by \$900 thousand primarily due to increases and decreases in revenues and transfers out to fund debt service on the Civic Center Bonds and various capital projects. The designation for contingencies remained at \$10 million. The unreserved, undesignated fund balance of \$10.9 million increased by \$1.5 million, or 16 percent, from prior year as a result of a combined decrease in the reserve for encumbrances and advances to other funds.

**Redevelopment Agency** The Richmond Community Redevelopment Agency (the "Redevelopment Agency") is responsible for redevelopment of areas identified under the Community Redevelopment Law as being blighted. The Agency's operations are funded primarily by the issuance of debt, which is expected to be repaid out of property tax increment revenue generated by increases in property assessed values in the redevelopment areas.

The Redevelopment Agency Administration Fund was established to account for all administrative activities of the Agency. At the end of fiscal year 2009, the Administration Fund had an unreserved fund balance of \$3.6 million, a decrease of \$3.1 million, or 46 percent, from the prior year. This decrease is due to a decrease of in-lieu fees of \$1 million (in-lieu fees are fees paid by a developer when they do not build low

and moderate income housing) and a decrease in interest income of \$0.5 million coupled with an increase in administrative expenses of \$1.6 million.

The Redevelopment Agency Low/Mod Income Housing Fund accounts for the twenty percent housing set-aside from the tax increment proceeds of each of the Redevelopment Agency's project areas. At the end of fiscal year 2009, the unreserved fund balance was zero since all available funds are reserved for low and moderate income housing.

The Redevelopment Agency Debt Service Fund was established to account for the accumulation of property taxes for payment of interest and principal on the Agency's long-term debt. At the end of fiscal year 2009, the unreserved fund balance was \$5.8 million, a decrease of \$1.8 million, or 24 percent, from the prior year. This decrease is a combination of transfers in and transfers out with a net effect of a transfer that increased \$2.4 million from prior year. The transfers out were to cover increased expenses in the administrative and capital project funds.

The Redevelopment Agency Projects Fund was established to account for capital projects connected with redevelopment funded by property tax revenues. At the end of fiscal year 2009, the unreserved fund balance was \$51.3 million, a decrease of \$2.3 million, or 4 percent, from the prior year. The majority of this decrease was due to interest and fiscal charges for the 2007 series bonds in the amount of \$2.1 million. The interest and fiscal charges did not occur in the fiscal year 2008 because this was the year the bonds were issued.

**Secured Pension Override Fund** This fund was established to record the receipt of Pension Tax Override funds collected through property taxes for payment of pension contributions. At the end of fiscal year 2009, the unreserved fund balance was \$1.0 million, a \$1.4 million decrease from the prior year. The majority of the decrease can be attributed to the \$2.9 million increase in the bond intercept from \$2.2 million in fiscal year 2008 to \$5.1 million in fiscal year 2009 which served to reduce the overall property tax revenues since the bond intercept is recorded directly in the corresponding debt service fund.

**Civic Center Project Fund** This fund was established to account for the activities of the new Civic Center project. At the end of fiscal year 2009, the unreserved fund balance was \$15.6 million, a \$38.5 million, or 71 percent, decrease from the prior year. The majority of the \$38.5 million decrease was due to the costs incurred as a result of the Civic Center renovation during fiscal year 2009.

**Community Development Block Grant** This fund was established to record the receipt and disbursement of grant monies used to provide new affordable housing, improve existing housing conditions, assist homeless and disabled with housing, and to expand economic opportunities in business, and employment within the City of Richmond. At the end of fiscal year 2009, the unreserved fund balance was \$490 thousand, a \$1.3 million, or 72 percent, decrease from prior year. Of the \$1.3 million decrease, \$824 thousand is a result of expenditures exceeding revenues in current operations partially

due to a decrease in grant receipts and an additional \$462 thousand represents the reservation for encumbrances.

#### **Proprietary Funds:**

The City's proprietary funds are enterprise and internal service funds. An enterprise fund is used to report any activity for which a fee is charged to external users for goods or services provided. An internal service fund is used to centralize certain services and then allocate the cost of the services within the government. The City's major enterprise funds are the Richmond Housing Authority, Port of Richmond, and Municipal Sewer District.

#### **Enterprise Funds:**

**Richmond Housing Authority** The Richmond Housing Authority ("RHA") was established to administer funds provided by the Department of Housing and Urban Development (HUD) to assist low-income families in obtaining decent, safe and sanitary housing. Although RHA is a separate legal entity, it is a component unit of the City of Richmond. The City exercises management control over the Authority, and members of the City Council serve as the governing board of the Authority. RHA's total net assets were \$51.7 million at June 30, 2009, \$1.5 million decrease from prior year. Of the \$51.7 million, \$44.8 million is invested in capital assets, net of related debt, \$194 thousand is restricted for debt service and \$6.7 million is unrestricted

**The Port of Richmond** The Port of Richmond is a public enterprise established by the City of Richmond and is administered as a department of the City. Operations include the marine terminal facilities and commercial property rentals. The Port had total net assets of \$3.8 million as of June 30, 2009, which is an increase of \$545 thousand from prior year. Although revenues decreased and expenses increased from the prior year, the Port was still able to show a positive change in net assets by continuing to control expenses and reduce the debt service expenses.

**Municipal Sewer Fund** This fund is used to account for a variety of sewer service-related revenues and expenses. At the end of fiscal year 2009, the total net assets for the sewer fund were \$11.6 million, which was a \$208 thousand increase from the prior fiscal year, primarily due to the decrease in interest expenses related to the Wastewater Revenue Bonds.

#### **Fiduciary Funds:**

The City's fiduciary funds are the pension trust funds and various agency funds. The Pension Trust Funds were established to account for revenues and expenditures related to City employee's pension activities. The City administers the activities of the pension funds on behalf of the employees. The assets are not accessible for City operations. The City maintains the following pension funds: the General Pension, Police and Firemen Pension and Garfield Pension Funds. The various agency funds are used to maintain records of assets and the fund's financial activities on behalf of a third party. The City

does not make any decisions relating to the uses of the assets nor can they be used for City operations.

**The Pension Trust Funds** total assets at June 30, 2009 were \$21 million held in trust for employees' pension benefits. Net Assets decreased by \$3.6 million primarily due to a realized loss on investments in the Police and Firemen's Pension Trust Fund.

**Agency Funds** total assets at June 30, 2009 were \$29.5 million which is recorded on the City books as a liability to third parties.

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

The adopted budget, excluding transfers and proceeds from sale of property, reflected \$130.8 million in estimated revenues and \$136.8 million in appropriations resulting in an operating deficit of \$6.0 million.

The City Council revised the City budget at mid-year. Budget adjustments reflect extensive analysis and updates arising from the Mid-Year Revenue and Expenditure Review, and Council approved amendments that occurred during the fiscal year.

The final amended budget included a \$2.4 million increase in estimated revenue and a \$3.1 million increase in appropriations. Actual revenues of \$132.7 million were \$0.5 million more than adjusted operating revenue projections, a variance of less than 1 percent. Key elements of the increases and decreases in revenues are discussed as follows:

The original budget for sales tax of \$31.8 million was followed with a mid-year adjustment downward to \$30.2 million. However, only \$27.9 million in sales tax was realized causing a \$2.2 million decrease in estimated revenues. Actual sales tax revenue decreased by \$1.1 million from prior year. Sales tax revenue declined due to the downturn in the economy and overall reduction in consumer spending. Moderate growth is expected as the economy slowly recovers and consumer spending returns. Additional increases are projected into 2009-10 as additional retail outlets open and business-to-business sales accelerate.

While projected property taxes were decreased \$1.7 million at mid-year to \$33.1 million, actual revenue received was \$220 thousand above the final projection and \$973 thousand less than prior year. Because property values have continued to decrease, the City of Richmond experienced a decline in property tax revenue even though Richmond's housing stock is fairly old with new developments making up a small percentage of the assessed valuation.

The utility user fees are based on a percentage of utility bills. Actual revenues increased \$19.4 million from prior year to \$49.0 million. A large consumer opted to use the computed actual usage method instead of the cap provision of the UUT ordinance. This

was an increase from previous year but less than what would have been paid using the cap. The final budget of \$37.1 million reflects an increase of \$3.5 million over the adopted projection of \$33.6 million.

Other taxes original budget of \$9.8 million remained unchanged at mid-year. Actual other tax revenue of \$8.0 million is \$1.8 million less than projected, however, \$300 thousand above prior year actual revenue collected. This is due primarily to a decline in franchise taxes collected for gas utilities.

The use of money and property original budget was reduced \$1.5 million to \$500 thousand at mid-year; however, only \$183 thousand was realized. This was largely due to the reduction of interest rates to record low levels by the Federal Reserve Board to stimulate credit markets, and reduced amounts of City funds to invest.

Charges for services actual revenues were \$4.5 million less than the \$7.0 million final budget projection. This is due to a decline of \$345 thousand in booking fees, \$656 thousand decline in service reimbursements, and \$3.6 million indirect cost reimbursements originally budgeted as revenue recorded as contra expenditures.

Transfers in budget of \$8.7 million was \$1.1 million less than actual transfers of \$9.8 million. This is a result of an unbudgeted transfer in the amount of \$1.1 million to reimburse the general fund for swap receipts received by the Civic Center Debt Service Fund that had not been used to reduce debt service payments made by the General Fund.

The final adjusted appropriations were \$140.0 million, an increase of \$3.0 million over the adopted budget appropriation. Actual operating expenditures of \$129.0 million were \$11.3 million below appropriations approved at the Mid-Year Budget Review, and \$245 thousand less than prior year actual. General government actual expenditures were \$9.5 million less than budget; public safety actual exceeded budget by \$147 thousand; public works actual was \$1.2 million less than budget; and cultural and recreational actual was \$724 thousand less than budget. This is largely due to salary savings from vacant positions identified at mid-year, and difficulty some departments encountered in recruiting the newly authorized personnel provided in the adopted budget to restore services.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets:

The City's investment in capital assets for its governmental and business type activities as of June 30, 2009, amounted to \$488.3 million, net of accumulated depreciation. This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the City such as roads, bridges, streets and sidewalks, drainage systems, lighting systems and similar items. The net increase in

the City's investment in capital assets for the current fiscal year was \$59.5 million or 14 percent.

Capital assets, net of depreciation, for the governmental and business-type activities are presented below to illustrate changes from the prior year:

### Capital Assets by Type

	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 29,721,376	\$ 27,674,272	\$ 11,596,510	\$ 11,215,967	\$ 41,317,886	\$ 38,890,239
Construction in Progress	164,976,640	101,731,280	32,422,868	29,801,549	197,399,508	131,532,829
Building and improvements	18,770,352	19,993,179	44,904,232	44,944,841	63,674,584	64,938,020
Machinery and equipment	14,939,675	8,282,302	2,238,044	2,054,385	17,177,719	10,336,687
Infrastructure	133,173,071	145,550,538	35,567,867	37,516,906	168,740,938	183,067,444
Total Capital assets	\$ 361,581,114	\$ 303,231,571	\$ 126,729,521	\$ 125,533,648	\$ 488,310,635	\$ 428,765,219

The City's infrastructure assets are recorded at historical cost in the government-wide financial statements.

Additional information about the City's capital assets can be found in Note 6 on pages 70 and 72 in the financial statements.

### Debt Administration:

*Long Term Debt* - At the end of the current fiscal year, the City had \$482.4 million in debt outstanding compared to the \$482.9 million the previous year; a decrease of \$500 thousand. The change is primarily a result of the payoff of the Port Terminal Lease Revenue Bonds, Series 1999, offset by the issuance of new capital leases.

### Outstanding Debt June 30

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Tax Allocation bonds	\$165,200,399	\$168,838,368			\$165,200,399	\$168,838,368
Revenue bonds	1,490,000	1,829,143	\$41,934,902	\$42,152,480	43,424,902	43,981,623
Lease revenue bonds	96,260,000	97,790,000	3,203,312	5,933,813	99,463,312	103,723,813
Pension obligation bonds	150,493,392	146,453,616			150,493,392	146,453,616
Total bonds payable	413,443,791	414,911,127	45,138,214	48,086,293	458,582,005	462,997,420
Loans payable	10,544,185	10,578,390	4,971,845	5,427,430	15,516,030	16,005,820
Capital leases	8,300,966	3,964,298			8,300,966	3,964,298
Total outstanding debt	\$432,288,942	\$429,453,815	\$50,110,059	\$53,513,723	\$482,399,001	\$482,967,538

The City does not have any general obligation bonds as of June 30, 2009.

The City maintains an Issuer Credit Rating of “A+” from Standard & Poor’s Ratings Services (“S&P”) and “A2” from Moody’s Investor Services (“Moody’s”). Other credit ratings include S&P’s assigned underlying rating (SPUR) of “A” for the RCRA, and “AA-” for the Wastewater Enterprise Fund; raised from “A+” in October, 2008. For all ratings, specific credit strengths include strong financial controls, policies, and management practices.

The City has purchased municipal bond insurance policies on its bond issuances in the past, including for the RCRA 2007 TABs and the 2007 Lease Revenue Bonds, resulting in the debt issues being assigned the ratings of the respective bond insurers. In fiscal year 2008, the City’s variable rate debt was affected by the credit downgrades of bond insurers MBIA and Ambac; resulting in higher than anticipated rate resets. In May 2008, the City restructured the RCRA 2007 TABs and the 2007 Lease Revenue Bonds to index rate and fixed rate bonds for a term of eighteen to twenty-four months. In October 2008, the City refunded its 2006 Wastewater Bonds, Series A with a new bond issue, which is supported by a Letter of Credit from Union Bank of California, and removes Ambac as the bond insurer. Since this restructuring, the bonds have traded at a level below the Securities Industry & Financial Market Association Index (“SIFMA”).

For more detailed information on the City’s long-term debt see Note 7 on pages 73-102.

#### **Economic Factors, Next Year’s Budget and Inflation Rates**

- The City currently faces a continuing weak economic environment. Although the City experienced strong growth in assessed valuation (“AV”) in past years, FY 2009-2010 AV decreased by 16.1% and consequently reduced the fiscal year 2010 budget by \$5.9 million.
- The City has formally adopted debt and investment policies to guide critical financing and investment decisions. The City is also one of the first cities to adopt a swap policy.
- The City has established a reserves policy and has funded a \$10 million contingency reserve within the General Fund, equating to over eight percent of the City’s current budget level.
- The City has adopted a structurally balanced budget policy requiring one-time revenues to be spent only on one-time expenditures, and on-going revenues to be spent on on-going expenditures.
- The City has funded the implementation of a new, integrated financial, human resources and payroll system that will be the hub of other new software, including

“best of breed” software in building permits, cash management, investments, debt management, equipment and many others.

- The City Manager has recommended to the City Council that City services only be expanded or re-opened as certain revenue milestones are met, thus preventing the creation of structural deficits.
- The City has established monthly revenue and expenditure variance monitoring reports to assure adherence to budget controls. Simultaneously, position control is being strictly enforced, ensuring that any employee hired is moving into a funded position.
- The City continues to search for and identify opportunities to refinance its debt obligations that should extract additional one-time funding for critical infrastructure improvements.
- The State budget will have a significant effect on the City’s financial condition. The impending deficit at the State level will likely manifest itself in cutbacks in state funding and resulted in State “borrowing” of municipal revenues and deferral of state allocations and reimbursements. The City participated in the California Communities’ Proposition 1A Securitization Program in 2010.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City’s finances for all of its citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Richmond, Finance Department, 450 Civic Center Plaza, Richmond, CA 94804. Alternatively, you may send your inquiries via e-mail to [Finance@ci.richmond.ca.us](mailto:Finance@ci.richmond.ca.us).

**City of Richmond  
June 30, 2009**

**STATEMENT OF NET ASSETS AND  
STATEMENT OF ACTIVITIES**

The purpose of the Statement of Net Assets and the Statement of Activities is to summarize the entire City's financial activities and financial position.

The Statement of Net Assets reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Assets focuses the reader on the composition of the City's net assets, by subtracting total liabilities from total assets and summarizes the financial position of all the City's Governmental Activities in a single column, and the financial position of all the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business Type Activities include all its Enterprise Fund activities and any portion of the Internal Service Fund balances that service Enterprise Funds. Fiduciary activity is excluded.

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

Both these Statements include the financial activities of the City, the Richmond Community Redevelopment Agency of the City of Richmond, the Richmond Joint Powers Finance Authority and the City of Richmond Housing Authority, which are legally separate but are component units of the City because they are controlled by the City, which is financially accountable for the activities of these entities. The balances and the activities of the discretely presented component unit of the RHA Properties are included in these Statements as separate columns.

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CITY OF RICHMOND  
STATEMENT OF NET ASSETS  
JUNE 30, 2009

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	RHA Properties
<b>ASSETS</b>				
Cash and investments (Note 3)	\$105,206,555	\$11,782,497	\$116,989,052	\$1,023,137
Restricted cash and investments (Note 3)	125,229,752	3,533,794	128,763,546	2,527,605
Receivables:				
Accounts, net	14,749,388	1,708,264	16,457,652	18,917
Interest	53,020	3,946	56,966	
Grants	863,249	1,292,142	2,155,391	
Due from developer (Note 16)		8,628,540	8,628,540	
Loans, net of reserves (Note 5)	36,028,120	28,265	36,056,385	
Internal balances (Note 4)	25,380,756	(25,380,756)		
Prepays, supplies, and other assets	984,205	440,532	1,424,737	2,304
Bond issuance costs and other investments, net of amortization		1,068,625	1,068,625	1,027,784
Net pension asset (Notes 10 and 11)	110,908,323		110,908,323	
Net OPEB asset (Note 12)	4,605,272		4,605,272	
Capital assets (Note 6):				
Nondepreciable	194,698,016	44,019,378	238,717,394	10,431,153
Depreciable, net	166,883,098	82,710,143	249,593,241	18,865,983
Total Assets	<u>785,589,754</u>	<u>129,835,370</u>	<u>915,425,124</u>	<u>33,896,883</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	32,398,427	1,481,996	33,880,423	1,100,611
Interest payable	4,732,829	990,726	5,723,555	
Refundable deposits	1,784,745	169,793	1,954,538	232,715
Unearned revenue (Note 8)	93,590		93,590	
Net pension obligation (Note 11)	174,242		174,242	
Compensated absences (Note 2):				
Due within one year	1,367,473	262,265	1,629,738	
Due in more than one year	10,176,381	630,692	10,807,073	
Claims liabilities (Note 14):				
Due within one year	9,918,000		9,918,000	
Due in more than one year	12,483,000		12,483,000	
Long-term debt (Note 7):				
Due within one year	15,468,725	1,695,113	17,163,838	690,000
Due in more than one year	416,820,217	48,414,946	465,235,163	32,228,540
Total Liabilities	<u>505,417,629</u>	<u>53,645,531</u>	<u>559,063,160</u>	<u>34,251,866</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	201,607,368	79,540,643	281,148,011	(1,093,799)
Restricted for:				
Capital projects	86,546,929		86,546,929	
Debt service	36,494,737	612,613	37,107,350	
Housing and redevelopment	11,735,592		11,735,592	2,527,605
Pension benefits	1,023,921		1,023,921	
Total Restricted Net Assets	<u>135,801,179</u>	<u>612,613</u>	<u>136,413,792</u>	<u>2,527,605</u>
Unrestricted (Deficit)	<u>(57,236,422)</u>	<u>(3,963,417)</u>	<u>(61,199,839)</u>	<u>(1,788,789)</u>
Total Net Assets (Deficit)	<u>\$280,172,125</u>	<u>\$76,189,839</u>	<u>\$356,361,964</u>	<u>(\$354,983)</u>

See accompanying notes to financial statements

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CITY OF RICHMOND  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Net (Expense) Revenue and Changes in Net Assets Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	RHA Properties
<b>Primary Government:</b>								
Governmental Activities:								
General government	\$18,745,594	\$7,813,724	\$83,701		(\$10,848,169)		(\$10,848,169)	
Public safety	91,432,506	3,931,893	872,537		(86,628,076)		(86,628,076)	
Public works	43,289,943	1,669,681	2,802,266	\$5,801,196	(33,016,800)		(33,016,800)	
Community development	4,316,710	170,872	2,329,962		(1,815,876)		(1,815,876)	
Cultural and recreational	16,618,663	594,205	564,148		(15,460,310)		(15,460,310)	
Housing and redevelopment	19,209,243	7,000	1,750,022	1,196,470	(16,255,751)		(16,255,751)	
Interest on long-term debt	22,961,838				(22,961,838)		(22,961,838)	
Total Governmental Activities	216,574,497	14,187,375	8,402,636	6,997,666	(186,986,820)		(186,986,820)	
Business-type Activities:								
Richmond Housing Authority	23,335,623	3,096,831	18,683,329		(\$1,555,463)	(1,555,463)		
Port of Richmond	4,739,269	5,095,840		50,027	406,598	406,598		
Richmond Marina	235,571	476,588			241,017	241,017		
Municipal Sewer	14,290,536	14,432,849			142,313	142,313		
Storm Sewer	4,466,645	1,579,698			(2,886,947)	(2,886,947)		
Cable TV	898,370	1,084,389			186,019	186,019		
Total Business-type Activities	47,966,014	25,766,195	18,683,329	50,027	(3,466,463)	(3,466,463)		
Total Primary Government	\$264,540,511	\$39,953,570	\$27,085,965	\$7,047,693	(186,986,820)	(3,466,463)	(190,453,283)	
<b>Component Unit:</b>								
RHA Properties	\$3,867,348	\$3,683,603					(\$183,745)	
General revenues:								
Taxes:								
Property taxes-current collections					78,279,818		78,279,818	
Sales taxes					27,922,698		27,922,698	
Utility user taxes					48,953,004		48,953,004	
Documentary transfer taxes					3,419,724		3,419,724	
Other taxes					4,539,959		4,539,959	
Use of money and property					6,851,266	390,189	7,241,455	6,083
Unrestricted intergovernmental					2,197,148		2,197,148	
Gain on sale of capital assets					5,000,000		5,000,000	
Pension stabilization revenue					5,292,746		5,292,746	
Developer revenue sharing					51,767		51,767	
Other					9,220,595	7,701	9,228,296	183,825
Transfers (Note 4)					(692,391)	692,391		
Total general revenues and transfers					191,036,334	1,090,281	192,126,615	189,908
Change in Net Assets					4,049,514	(2,376,182)	1,673,332	6,163
Net Assets (Deficit)-Beginning					276,122,611	78,566,021	354,688,632	(361,146)
Net Assets (Deficit)-Ending					\$280,172,125	\$76,189,839	\$356,361,964	(\$354,983)

See accompanying notes to financial statements

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**City of Richmond  
June 30, 2009**

**FUND FINANCIAL STATEMENTS**

Major funds are defined generally as having significant activities or balances in the current year.

The funds described below were determined to be Major Funds by the City in fiscal 2009. Individual non-major funds may be found in the Supplemental section.

**GENERAL FUND**

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

**REDEVELOPMENT AGENCY ADMINISTRATION SPECIAL REVENUE FUND**

The Redevelopment Agency Administration Fund accounts for all administrative activities of the Agency.

**REDEVELOPMENT AGENCY LOW AND MODERATE INCOME HOUSING CAPITAL PROJECTS FUND**

The Redevelopment Agency Low and Moderate Income Housing Fund accounts for the twenty percent housing set-aside from the tax increment proceeds of each of the Redevelopment Agency's project areas. This set-aside is required by California redevelopment law, and must be used to provide housing for people with low and moderate incomes.

**REDEVELOPMENT AGENCY DEBT SERVICE FUND**

The Redevelopment Agency Debt Service Fund accounts for the accumulation of property taxes for payment of interest and principal on the Agency's long-term debt.

**REDEVELOPMENT AGENCY PROJECTS CAPITAL PROJECTS FUND**

The Redevelopment Agency Projects Fund accounts for capital projects connected with redevelopment funded by property tax increment revenues.

**SECURED PENSION OVERRIDE SPECIAL REVENUE FUND**

The Secured Pension Override Fund records the receipt of Pension Tax override collected through property taxes for payment of pension contributions.

**CIVIC CENTER PROJECT CAPITAL PROJECTS FUND**

The Civic Center Project Fund accounts for activities of the new Civic Center project.

**COMMUNITY DEVELOPMENT BLOCK GRANT SPECIAL REVENUE FUND**

The Community Development Block Grant is set up to record the receipt of grant monies and the use of it. The grant is to be used to provide, within the City of Richmond, new affordable housing, improve existing housing conditions, assist homeless and disabled with housing, and to expand economic opportunities in business, and employment for low and moderate income residents.

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CITY OF RICHMOND  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2009

	General	Redevelopment Agency Administration	Redevelopment Agency Low/Mod Income Housing	Redevelopment Agency Debt Service	Redevelopment Agency Projects	Secured Pension Override	Civic Center Project	Community Development Block Grant	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>										
Cash and investments	\$30,855,630	\$2,918,983	\$2,822,007	\$6,990,229	\$6,634,959	\$1,022,463	\$2,894,873		\$20,969,682	\$75,108,826
Restricted cash and investments	5,154	1,426,352	9,426,337	9,052,908	58,023,221		15,567,537	\$2,188,436	23,487,785	119,177,730
Receivables:										
Accounts, net	8,440,156	267,882	107,009		1,126,226			4,242	4,594,207	14,539,722
Interest	7,190	1,240	1,210	8,173	769	1,458	1,699		9,439	31,178
Grants	3,840								859,409	863,249
Loans	1,351,853	2,491,970	17,694,540		10,518,104			7,081,686		39,138,153
Due from other funds	6,345,529	54,688	189,226					2,457		6,591,900
Advances to other funds	22,660,371	2,174,067			99,685					24,934,123
Prepays, supplies and other assets	496,888								21,884	518,772
<b>Total Assets</b>	<b>\$70,166,611</b>	<b>\$9,335,182</b>	<b>\$30,240,329</b>	<b>\$16,051,310</b>	<b>\$76,402,964</b>	<b>\$1,023,921</b>	<b>\$18,464,109</b>	<b>\$9,276,821</b>	<b>\$49,942,406</b>	<b>\$280,903,653</b>
<b>LIABILITIES</b>										
Accounts payable and accrued liabilities	\$23,529,209	\$400,564	\$2,378		\$1,480,539		\$516,633	\$24,897	\$3,790,055	\$29,744,275
Refundable deposits	178,849	168,155			65,453				1,372,288	1,784,745
Due to other funds	25,570	164,367	977,262		4,636,430			1,210,151	2,027,047	9,040,827
Advances from other funds	99,685				2,500,000		2,000,000		211,686	4,811,371
Deferred revenue	795,620	2,666,037	17,525,097		11,644,330			7,088,970	1,868,397	41,588,451
<b>Total Liabilities</b>	<b>24,628,933</b>	<b>3,399,123</b>	<b>18,504,737</b>		<b>20,326,752</b>		<b>2,516,633</b>	<b>8,324,018</b>	<b>9,269,473</b>	<b>86,969,669</b>
<b>FUND BALANCES</b>										
Fund balance										
Reserved for:										
Encumbrances	875,407	346,180	3,231,998		4,662,979		323,784	462,344	5,054,981	14,957,673
Prepays, supplies and other assets	496,888								21,884	518,772
Debt service				\$10,274,763						10,274,763
Advances to other funds	22,660,371	2,000,000			99,685					24,760,056
Loans receivable	649,823		169,443							819,266
Low and moderate income housing			8,334,151							8,334,151
Unreserved, designated for:										
Contingencies	10,000,000									10,000,000
Unreserved, Undesignated, Reported in:										
General Fund	10,855,189									10,855,189
Special Revenue Funds		3,589,879				\$1,023,921		490,459	5,023,767	10,128,026
Debt Service Funds				5,776,547					20,443,427	26,219,974
Capital Projects Funds					51,313,548		15,623,692		10,128,874	77,066,114
<b>Total Fund Balances</b>	<b>45,537,678</b>	<b>5,936,059</b>	<b>11,735,592</b>	<b>16,051,310</b>	<b>56,076,212</b>	<b>1,023,921</b>	<b>15,947,476</b>	<b>952,803</b>	<b>40,672,933</b>	<b>193,933,984</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$70,166,611</b>	<b>\$9,335,182</b>	<b>\$30,240,329</b>	<b>\$16,051,310</b>	<b>\$76,402,964</b>	<b>\$1,023,921</b>	<b>\$18,464,109</b>	<b>\$9,276,821</b>	<b>\$49,942,406</b>	<b>\$280,903,653</b>

See accompanying notes to financial statements

CITY OF RICHMOND  
 Reconciliation of the  
 GOVERNMENTAL FUNDS -- BALANCE SHEET  
 with the  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2009

Total fund balances reported on the governmental funds balance sheet \$193,933,984

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

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and  
 therefore are not reported in the Governmental Funds. 361,581,114

ALLOCATION OF INTERNAL SERVICE FUND NET ASSETS

Internal service funds are not governmental funds. However, they are used by management to  
 charge the costs of certain activities, such as insurance and central services and maintenance  
 to individual governmental funds. The net current assets of the Internal Service Funds are therefore  
 included in Governmental Activities in the following line items in the Statement of Net Assets.

Cash and investments	30,097,729
Restricted cash and investments	6,052,022
Accounts receivable	209,666
Interest receivable	21,842
Due from other funds	3,448,589
Advances to other funds	4,258,342
Prepays and supplies	465,433
Accounts payable, accrued liabilities and interest payable	(2,654,152)
Compensated absences	(947,133)
Claims payable	(22,401,000)

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ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Fund Balance Sheets because they are not available currently  
 are taken into revenue in the Statement of Activities. 38,384,828

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not  
 reported in the Funds:

Interest payable	(4,732,829)
Long-term debt	(432,288,942)
Net pension obligation	(174,242)
Net pension asset	110,908,323
Net OPEB asset	4,605,272
Governmental activities portion of compensated absences	<u>(10,596,721)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$280,172,125

See accompanying notes to financial statements

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CITY OF RICHMOND  
 GOVERNMENTAL FUNDS  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 FOR THE YEAR ENDED JUNE 30, 2009

	General	Redevelopment Agency Administration	Redevelopment Agency Low/Mod Income Housing	Redevelopment Agency Debt Service	Redevelopment Agency Projects	Secured Pension Override	Civic Center Project	Community Development Block Grant	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>										
Property taxes	\$33,296,446			\$28,012,195		\$11,855,505			\$5,882,904	\$79,047,050
Sales taxes	27,922,698									27,922,698
Utility user taxes	48,953,004									48,953,004
Other taxes	7,959,683									7,959,683
Licenses, permits and fees	2,191,711	\$7,000						4,217,185		6,415,896
Developer revenue sharing					\$51,767					51,767
Fines, forfeitures and penalties	332,524							27,346		359,870
Use of money and property	183,318	216,820	\$80,482	350,850	420,999	140,911	\$2,555,360	\$12,423	1,317,442	5,278,605
Intergovernmental	747,134	3,670			1,192,802			1,750,022	12,060,056	15,753,684
Charges for services	2,566,597							3,018,786		5,585,383
Pension stabilization revenue								5,292,746		5,292,746
Other	8,240,818	176,344	15,627		2,558,792			576,648		11,685,170
Rent	295,064				17,032					312,096
<b>Total Revenues</b>	<b>132,688,997</b>	<b>403,834</b>	<b>96,109</b>	<b>28,363,045</b>	<b>4,241,392</b>	<b>11,996,416</b>	<b>2,555,360</b>	<b>1,879,386</b>	<b>32,393,113</b>	<b>214,617,652</b>
<b>EXPENDITURES</b>										
Current:										
General government	10,169,478								8,874,826	19,044,304
Public safety	87,578,216							981,224		93,507,626
Public works	14,411,773						376,922	5,724,678		20,513,373
Community development								4,334,599		4,334,599
Cultural and recreational	15,188,002							1,608,526		16,796,528
Housing and redevelopment		8,007,602	4,165,396		7,175,903			2,700,975		22,049,876
Capital outlay	776,014	16,231	502,578		16,103,131		47,112,332	15,955,865		80,466,151
Debt services:										
Principal	520,439	780,000	465,000	2,460,000	1,125,000			4,334,143		9,684,582
Interest and fiscal charges	26,552	1,502,012	456	2,760,999	2,124,024			7,624,222		14,038,265
<b>Total Expenditures</b>	<b>128,670,474</b>	<b>10,305,845</b>	<b>5,133,430</b>	<b>5,220,999</b>	<b>26,528,058</b>	<b>4,948,186</b>	<b>47,489,254</b>	<b>2,700,975</b>	<b>49,438,083</b>	<b>280,435,304</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>4,018,523</b>	<b>(9,902,011)</b>	<b>(5,037,321)</b>	<b>23,142,046</b>	<b>(22,286,666)</b>	<b>7,048,230</b>	<b>(44,933,894)</b>	<b>(821,589)</b>	<b>(17,044,970)</b>	<b>(65,817,652)</b>
<b>OTHER FINANCING SOURCES (USES)</b>										
Proceeds from sale of property	40,000								5,000,000	5,040,000
Transfers in	9,752,825	7,640,223	6,030,960	2,167,778	16,878,850		6,562,962		30,381,133	79,414,731
Transfers (out)	(14,710,298)	(687,600)	(1,029,704)	(28,373,923)	(1,138,074)	(8,405,329)		(2,857)	(25,800,403)	(80,148,188)
<b>Total Other Financing Sources (Uses)</b>	<b>(4,917,473)</b>	<b>6,952,623</b>	<b>5,001,256</b>	<b>(26,206,145)</b>	<b>15,740,776</b>	<b>(8,405,329)</b>	<b>6,562,962</b>	<b>(2,857)</b>	<b>9,580,730</b>	<b>4,306,543</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(898,950)</b>	<b>(2,949,388)</b>	<b>(36,065)</b>	<b>(3,064,099)</b>	<b>(6,545,890)</b>	<b>(1,357,099)</b>	<b>(38,370,932)</b>	<b>(824,446)</b>	<b>(7,464,240)</b>	<b>(61,511,109)</b>
<b>BEGINNING FUND BALANCES</b>	<b>46,436,628</b>	<b>8,885,447</b>	<b>11,771,657</b>	<b>19,115,409</b>	<b>62,622,102</b>	<b>2,381,020</b>	<b>54,318,408</b>	<b>1,777,249</b>	<b>48,137,173</b>	<b>255,445,093</b>
<b>ENDING FUND BALANCES</b>	<b>\$45,537,678</b>	<b>\$5,936,059</b>	<b>\$11,735,592</b>	<b>\$16,051,310</b>	<b>\$56,076,212</b>	<b>\$1,023,921</b>	<b>\$15,947,476</b>	<b>\$952,803</b>	<b>\$40,672,933</b>	<b>\$193,933,984</b>

See accompanying notes to financial statements

CITY OF RICHMOND  
Reconciliation of the  
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
with the  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2009

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (S61,511,109)

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

**CAPITAL ASSETS TRANSACTIONS**

Governmental Funds include capital outlays in departmental expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.  
The capital outlay expenditures are therefore added back to fund balance 67,654,920  
Depreciation expense is deducted from the fund balance  
(Depreciation expense is net of internal service fund depreciation of \$1,574,168 which has already been allocated to serviced funds) (14,342,287)  
Retirements of capital assets are deducted from the fund balance (145,380)

**LONG TERM DEBT PROCEEDS AND PAYMENTS**

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.  
Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.  
Repayment of debt principal is added back to fund balance 9,684,582  
Capital appreciation bonds accretion is deducted from fund balance (7,696,807)  
Interest accrued to principal is deducted from fund balance (75,000)

**ACCRUAL OF NON-CURRENT ITEMS**

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):  
Interest payable (1,151,766)  
Deferred revenue 3,294,560  
Compensated absences (1,343,183)  
Net pension asset (obligation) (6,126)  
Net OPEB asset 2,408,396

**ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY**

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.  
Change in Net Assets - All Internal Service Funds 7,278,714

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$4,049,514

See accompanying notes to financial statements

**City of Richmond  
June 30, 2009**

**MAJOR PROPRIETARY FUNDS**

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds established by GASB Statement 34 extends to Proprietary Funds. The City has identified the funds below as major proprietary funds in fiscal 2009.

GASB 34 does not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

**RICHMOND HOUSING AUTHORITY**

This fund accounts for all funds provided by the Department of Housing and Urban Development (HUD) to assist low income families in obtaining decent, safe and sanitary housing.

**PORT OF RICHMOND**

This fund accounts for all financial transactions relating to the City-owned marine terminal facilities and commercial property rentals.

**MUNICIPAL SEWER**

This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Richmond.

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CITY OF RICHMOND  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2009

	Business-type Activities-Enterprise Funds				Totals	Governmental Activities- Internal Service Funds
	Richmond Housing Authority	Port of Richmond	Municipal Sewer	Other Enterprise Funds		
<b>ASSETS</b>						
Current assets:						
Cash and investments	\$2,403,992	\$544,062	\$3,930,671	\$4,903,772	\$11,782,497	\$30,097,729
Restricted cash and investments	194,058	418,555	2,921,181		3,533,794	6,052,022
Receivables:						
Accounts, net	996,169	247,720	97,809	366,566	1,708,264	209,666
Interest		(136)	2,197	1,885	3,946	21,842
Grants	1,280,930	11,212			1,292,142	
Notes				28,265	28,265	
Prepays and other assets	440,532			440,532	440,532	465,433
Due from other funds						3,448,589
Due from developer	8,628,540				8,628,540	
Total current assets	13,944,221	1,221,413	6,951,858	5,300,488	27,417,980	40,295,281
Noncurrent assets:						
Capital assets:						
Nondepreciable	8,445,570	8,596,768	26,977,040		44,019,378	1,239,708
Depreciable, net	36,386,019	14,603,743	21,533,071	10,187,310	82,710,143	10,797,632
Advances to other funds						4,258,342
Bond issuance costs net of amortization			1,068,625		1,068,625	
Total noncurrent assets	44,831,589	23,200,511	49,578,736	10,187,310	127,798,146	16,295,682
Total Assets	58,775,810	24,421,924	56,530,594	15,487,798	155,216,126	56,590,963
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and accrued liabilities	716,911	88,325	444,874	231,886	1,481,996	2,649,709
Interest payable		55,805	800,288	134,633	990,726	4,443
Due to other funds				999,662	999,662	
Refundable deposits	152,893	16,900			169,793	
Compensated absences - due within one year	182,064			80,201	262,265	
Claims payable						9,918,000
Current portion of long-term debt		360,000	1,275,170	59,943	1,695,113	1,334,284
Total current liabilities	1,051,868	521,030	2,520,332	1,506,325	5,599,555	13,906,436
Noncurrent liabilities:						
Advances from other funds	5,582,897	17,039,855		1,758,342	24,381,094	
Compensated absences	456,111	165,589	8,992		630,692	947,133
Claims payable						12,483,000
Long-term debt, net		2,843,312	42,367,757	3,203,877	48,414,946	5,078,014
Total noncurrent liabilities	6,039,008	20,048,756	42,376,749	4,962,219	73,426,732	18,508,147
Total Liabilities	7,090,876	20,569,786	44,897,081	6,468,544	79,026,287	32,414,583
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	44,831,589	19,997,199	7,788,365	6,923,490	79,540,643	4,926,961
Restricted for debt service	194,058	418,555			612,613	
Unrestricted	6,659,287	(16,563,616)	3,845,148	2,095,764	(3,963,417)	19,249,419
Total Net Assets	\$51,684,934	\$3,852,138	\$11,633,513	\$9,019,254	\$76,189,839	\$24,176,380

See accompanying notes to financial statements

CITY OF RICHMOND  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2009

	Business-type Activities-Enterprise Funds				Totals	Governmental Activities- Internal Service Funds
	Richmond Housing Authority	Port of Richmond	Municipal Sewer	Other Enterprise Funds		
<b>OPERATING REVENUES</b>						
Rental	\$1,624,633				\$1,624,633	
Marina berth rentals						
Service charges		\$4,031,381	\$13,953,314	\$2,449,711	20,434,406	\$44,248,929
Lease income		862,349		479,288	1,341,637	
Other	1,472,198	202,110	479,535	211,676	2,365,519	
Total Operating Revenues	3,096,831	5,095,840	14,432,849	3,140,675	25,766,195	44,248,929
<b>OPERATING EXPENSES</b>						
Salaries and benefits	4,421,162	1,008,522	606,396	1,738,072	7,774,152	12,347,769
General and administrative	1,085,412	2,284,256	10,229,132	2,658,236	16,257,036	10,746,916
Maintenance	1,040,260	187,023	41,467		1,268,750	5,028,588
Depreciation	396,046	886,392	660,833	1,055,683	2,998,954	1,574,168
Housing assistance	16,392,743				16,392,743	
Claims losses						7,801,892
Other		11,312	81,572	1,508	94,392	856,100
Total Operating Expenses	23,335,623	4,377,505	11,619,400	5,453,499	44,786,027	38,355,433
Operating Income (Loss)	(20,238,792)	718,335	2,813,449	(2,312,824)	(19,019,832)	5,893,496
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Gain from sale of capital assets						83,870
Interest income	21,405	146,422	65,863	156,499	390,189	1,572,661
Grants	18,683,329	50,027			18,733,356	
Other income	7,701				7,701	
Interest (expense)		(361,764)	(2,671,136)	(147,087)	(3,179,987)	(312,379)
Total Nonoperating Revenues (Expenses)	18,712,435	(165,315)	(2,605,273)	9,412	15,951,259	1,344,152
Income (Loss) Before Transfers	(1,526,357)	553,020	208,176	(2,303,412)	(3,068,573)	7,237,648
<b>TRANSFERS</b>						
Transfers in				700,000	700,000	190,595
Transfers (out)		(7,609)			(7,609)	(149,529)
Net transfers		(7,609)		700,000	692,391	41,066
Change in net assets	(1,526,357)	545,411	208,176	(1,603,412)	(2,376,182)	7,278,714
BEGINNING NET ASSETS (DEFICIT)	53,211,291	3,306,727	11,425,337	10,622,666	78,566,021	16,897,666
ENDING NET ASSETS	\$51,684,934	\$3,852,138	\$11,633,513	\$9,019,254	\$76,189,839	\$24,176,380

See accompanying notes to financial statements

CITY OF RICHMOND  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2009

	Business-type Activities-Enterprise Funds				Totals	Governmental Activities-Internal Service Funds
	Richmond Housing Authority	Port of Richmond	Municipal Sewer	Other Enterprise Funds		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$3,015,357	\$5,312,404	\$14,701,041	\$3,066,134	\$26,094,936	\$44,126,735
Payments to suppliers	(18,362,220)	(3,888,279)	(10,464,694)	(2,552,274)	(35,267,567)	(5,884,688)
Payments to employees	(4,314,208)	(911,225)	(610,847)	(1,755,763)	(7,592,043)	(23,195,596)
Other income	7,701			7,701		
Insurance premiums and claims paid						(5,774,867)
<b>Cash Flows from Operating Activities</b>	<b>(19,653,470)</b>	<b>512,900</b>	<b>3,625,500</b>	<b>(1,241,903)</b>	<b>(16,756,973)</b>	<b>9,271,584</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Interfund receipts	65,059			999,662	1,064,721	
Interfund payments						(7,706,931)
Receipts from other governments	18,404,225	38,814			18,443,039	
Transfers in				700,000	700,000	190,595
Transfers (out)		(7,609)			(7,609)	(149,529)
<b>Cash Flows from Noncapital Financing Activities</b>	<b>18,469,284</b>	<b>31,205</b>		<b>1,699,662</b>	<b>20,200,151</b>	<b>(7,665,865)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Acquisition of capital assets, net of retirements	(1,281,251)	(5,617)	(2,849,272)	(58,687)	(4,194,827)	(6,756,458)
Proceeds from sale of capital assets						83,870
Proceeds from issuance of debt			33,015,000		33,015,000	6,027,631
Cost of issuance			(771,601)		(771,601)	
Principal payments on capital debt		(2,745,000)	(32,658,224)	(57,362)	(35,460,586)	(1,279,729)
Interest paid		(292,367)	(2,690,437)	(149,453)	(3,132,257)	(310,967)
<b>Cash Flows from Capital and Related Financing Activities</b>	<b>(1,281,251)</b>	<b>(3,042,984)</b>	<b>(5,954,534)</b>	<b>(265,502)</b>	<b>(10,544,271)</b>	<b>(2,235,653)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest	21,405	150,227	70,862	160,423	402,917	1,617,486
<b>Cash Flows from Investing Activities</b>	<b>21,405</b>	<b>150,227</b>	<b>70,862</b>	<b>160,423</b>	<b>402,917</b>	<b>1,617,486</b>
<b>Net Cash Flows</b>	<b>(2,444,032)</b>	<b>(2,348,652)</b>	<b>(2,258,172)</b>	<b>352,680</b>	<b>(6,698,176)</b>	<b>987,552</b>
Cash and investments at beginning of period	5,042,082	3,311,269	9,110,024	4,551,092	22,014,467	35,162,199
<b>Cash and investments at end of period</b>	<b>\$2,598,050</b>	<b>\$962,617</b>	<b>\$6,851,852</b>	<b>\$4,903,772</b>	<b>\$15,316,291</b>	<b>\$36,149,751</b>
<b>Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:</b>						
Operating income (loss)	(\$20,238,792)	\$718,335	\$2,813,449	(\$2,312,824)	(\$19,019,832)	\$5,893,496
Adjustments to reconcile operating income to cash flows from operating activities:						
Depreciation	396,046	886,392	660,833	1,055,683	2,998,954	1,574,168
Other income	7,701				7,701	
Change in assets and liabilities:						
Receivables, net	(94,611)	231,564	268,192	(74,541)	330,604	(122,194)
Prepays and other assets	(1,545)				(1,545)	(109,975)
Accounts payable and accrued liabilities and other accrued expenses	157,640	(1,405,688)	(112,523)	107,470	(1,253,101)	(330,838)
Refundable deposits	13,137	(15,000)			(1,863)	
Compensated absences payable	106,954	97,297	(4,451)	(17,691)	182,109	229,927
Claims payable						2,137,000
<b>Cash Flows from Operating Activities</b>	<b>(\$19,653,470)</b>	<b>\$512,900</b>	<b>\$3,625,500</b>	<b>(\$1,241,903)</b>	<b>(\$16,756,973)</b>	<b>\$9,271,584</b>
Non cash transactions:						
Amortization of bond issuance costs				(532,883)		

See accompanying notes to financial statements

**City of Richmond**  
**June 30, 2009**

**FIDUCIARY FUNDS**

Fiduciary funds are presented separately from the Government-wide and Fund financial statements.

Trust funds are used to account for assets held by the City as a trustee agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

CITY OF RICHMOND  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2009

	Pension Trust Funds	Agency Funds
<b>ASSETS</b>		
Cash and investments (Note 3)		\$6,826,063
Restricted cash and investments (Note 3)		5,039,919
Investment in reassessment bonds (Note 3)		17,335,000
Pension plan cash and investments (Note 11):		
City of Richmond Investment Pool	\$4,578,634	
Local Agency Investment Fund	187,348	
Mutual Fund Investments	16,193,194	
Accounts receivable		286,349
Interest receivable	2,054	3,567
Due from City		16,296
Total Assets	20,961,230	\$29,507,194
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	4,242	\$750,264
Refundable deposits payable		908,392
Due to assessment district bondholders		27,848,538
Total Liabilities	4,242	\$29,507,194
<b>NET ASSETS</b>		
Held in trust for employees' pension benefits	\$20,956,988	

See accompanying notes to financial statements

CITY OF RICHMOND  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2009

	Pension Trust Funds
<b>ADDITIONS</b>	
Net investment income:	
Net increase (decrease) in the fair value of investments	(\$3,933,928)
Interest income	859,599
Investment management fees	(78,747)
Contribution from the City	380,432
Contribution from Pension Reserve	4,800,000
Total Additions	2,027,356
<b>DEDUCTIONS</b>	
Pension benefits	5,636,557
Total Deductions	5,636,557
Net Increase (Decrease)	(3,609,201)
NET ASSETS, BEGINNING OF YEAR	24,566,189
NET ASSETS, END OF YEAR	\$20,956,988

See accompanying notes to financial statements

**City of Richmond**  
**Notes to Basic Financial Statements**  
**June 30, 2009**

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**NOTE 1 - ORGANIZATION AND DEFINITION OF REPORTING ENTITY**

The City was incorporated in 1905 under the laws of the State of California and adopted its charter in 1909. The City operates under a Council-Manager form of government and provides the following services to its citizens as authorized by its charter: police and fire protection, planning and community development, streets and roads, parks and recreation, sewage treatment, drainage and capital projects. In addition, the City has a port, marina, municipal and storm sewer enterprises, a housing authority, a redevelopment agency, a joint powers financing authority, and a parking authority which is inactive.

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. Each discretely presented component unit, on the other hand, is reported in a separate column in the basic financial statements to emphasize it is legally separate from the government.

**PRIMARY GOVERNMENT**

The financial statements of the primary government of the City include the activities of the City as well as the Richmond Community Redevelopment Agency, the Richmond Housing Authority, the Richmond Joint Powers Financing Authority, the Richmond Parking Authority and the Richmond Surplus Property Authority all of which are controlled by and dependent on the City. While these are separate legal entities, their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed "blended") with those of the primary government of the City in the accompanying financial statements.

**Blended Component Units:**

**Richmond Community Redevelopment Agency (Redevelopment Agency)** - Formed in October 1949 as a separate legal entity under the provisions of the Community Redevelopment Law, the Redevelopment Agency was established primarily to assist in the clearance and rehabilitation of areas determined to be in a blighted condition in the City. Since that time various Project Area Plans (Plans) have been developed to provide an improved physical, social, and economic environment in various Project Areas.

The Redevelopment Agency is authorized to finance redevelopment through various sources, including assistance from the City, State, Federal governments, incremental property taxes, interest income, issuance of Redevelopment Agency notes and bonds, and sale and rental of real property acquired with these funds.

Although the Redevelopment Agency is a separate legal entity, it is an integral part of the City. The City exercises significant financial and management control over the Redevelopment Agency and members of the City Council serve as the governing board of the Redevelopment Agency. The activities of Redevelopment Agency are presented in the City's basic financial statements as the following major funds: Redevelopment Administration Fund, Redevelopment Low and Moderate Income Housing Fund, Redevelopment Agency Debt Service Fund and Redevelopment Agency Capital Projects Fund. Separate financial statements for the Redevelopment Agency may be obtained by contacting the Office of Finance, City of Richmond, 450 Civic Center Plaza, Richmond, California 94804.

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**NOTE 1 - ORGANIZATION AND DEFINITION OF REPORTING ENTITY (Continued)**

**Richmond Housing Authority (Housing Authority)** - Formed in 1941 as a separate legal entity under the provisions of the Housing Act of 1937, the Housing Authority was established to use funds provided by the Department of Housing and Urban Development (HUD) to rehabilitate local deteriorated housing and to subsidize low-income families in obtaining decent, safe, and sanitary housing needs.

Although the Housing Authority is a separate legal entity, it is an integral part of the City. The City exercises significant financial and management control over the Housing Authority and members of City Council serve as the governing board of the Housing Authority. The financial statements of the Housing Authority are included in the City's basic financial statements as an enterprise fund. Separate financial statements for the Housing Authority may be obtained by contacting the Richmond Housing Authority, 330 24<sup>th</sup> Street, Richmond, California 94804.

**Richmond Joint Powers Financing Authority (JPFA)** - A joint exercise of powers authority formed on December 1, 1989, by and between the City and the Redevelopment Agency, the JPFA was created to assist the City, the Redevelopment Agency, and other local public agencies in financing and refinancing capital improvements and working capital pursuant to the Marks-Roos Local Bond Pooling Act of 1985. The JPFA is authorized to purchase obligations of the City, Redevelopment Agency, and other local public agencies.

Although the JPFA is a separate legal entity, it is an integral part of the City. The City exercises significant financial and management control over the JPFA and members of the Board of Directors are appointed by City Council. The operations of the JPFA are included in the City's basic financial statements as a debt service fund. Separate financial statements for the JPFA may be obtained by contacting the Office of Finance, City of Richmond, 450 Civic Center Plaza, Richmond, California 94804.

**Richmond Parking Authority (Parking Authority)** - Formed in 1975 pursuant to the provisions of California statutes for the purpose of financing the construction of off-street parking facilities. Although the Parking Authority is a separate legal entity, it is an integral part of the City. The City exercises significant financial and management control over the Parking Authority and members of the City Council serve as the governing board of the Parking Authority. The Parking Authority is inactive.

**Richmond Surplus Property Authority** - Formed to become the owner of certain property declared surplus by the U.S. Government, the Authority is a separate legal entity but it is an integral part of the City. The City exercises significant financial and management control over the Authority and members of the City Council serve as the governing board of the Authority. The Authority is inactive.

**Discretely Presented Component Unit**

**RHA Properties** - A joint powers agreement between the City and the Housing Authority formed in 2004 for the purpose of owning and managing the operations of an affordable housing residential complex known as The Hilltop at Westridge Apartments in the City, dedicated to the needs of elderly persons. The City and the Housing Authority funded the acquisition of this complex through the issuance of debt. The City and Housing Authority exercise significant financial and management control over RHA Properties and appoint members of the Board of Directors. Therefore, the financial activities of RHA Properties are discretely presented in the RHA Properties Component Unit column of the Statement of Net Assets and the Statement of Activities. Separate financial statements for RHA Properties may be obtained by contacting the Richmond Housing Authority, 330 24<sup>th</sup> Street, Richmond, California 94804.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Basis of Accounting and Measurement Focus**

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses. City resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

**Government-Wide Financial Statements** - The Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Fiduciary activities of the City are not included in these statements; they are presented separately.

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

The Government-wide financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets as well as infrastructure assets and long-term liabilities, are included in the Statement of Net Assets. The Statement of Activities presents all the City's revenues, expenses and other changes in Net Assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total column. In the Statement of Activities, internal service fund transactions have been eliminated. However, transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable GASB pronouncements and applicable FASB pronouncements issued on or before November 30, 1989 to the business-type activities, unless those pronouncements conflict with GASB pronouncements.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Governmental Fund Financial Statements** - Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and in the aggregate for all non-major funds. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide financial statements.

All governmental funds are accounted for on the “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received such as business licenses and fines and penalties in cash, except that revenues subject to accrual (generally sixty days after the fiscal year-end) are recognized when due. The primary revenue sources which have been treated as susceptible to accrual by the City are property taxes, sales taxes, transient occupancy taxes, franchise taxes, certain other intergovernmental revenues, and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred also generally sixty days after the fiscal year end.

Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences between the two approaches.

**Proprietary Fund Financial Statements** - Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and in the aggregate for all non-major funds. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

Proprietary funds are accounted for using the “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets.

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fiduciary Fund Financial Statements and Statement of Changes in Net Assets** - Fiduciary Fund Financial Statements include a Statement of Fiduciary Net Assets, and a Statement of Changes in Fiduciary Net Assets. The City's Fiduciary funds represent Pension Trust funds and Agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Pension trust funds are accounted for on an economic resources measurement focus under the accrual basis of accounting.

**Major Funds**

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

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

**General Fund** – The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

**Redevelopment Agency Administration Special Revenue Fund** – The Redevelopment Agency Administration Fund accounts for all administrative activities of the Agency.

**Redevelopment Agency Low and Moderate Income Housing Capital Projects Fund** - The Redevelopment Agency Low and Moderate Income Housing Fund accounts for the twenty percent housing set-aside from the tax increment proceeds of each of the Redevelopment Agency's project areas. This set-aside is required by California redevelopment law, and must be used to provide housing for people with low and moderate incomes.

**Redevelopment Agency Debt Service Fund** - The Redevelopment Agency Debt Service Fund accounts for the accumulation of property taxes for payment of interest and principal on the Agency's long-term debt.

**Redevelopment Agency Projects Capital Projects Fund** - The Redevelopment Agency Projects Fund accounts for capital projects connected with redevelopment funded by property tax increment revenues.

**Secured Pension Override Special Revenue Fund** – The Secured Pension Override Fund records the receipt of Pension Tax override collected through property taxes for payment of pension contributions.

**Civic Center Project Capital Projects Fund** – The Civic Center Project Fund accounts for activities of the new Civic Center project.

**Community Development Block Grant Fund** - The Community Development Block Grant Fund is set up to record the receipt of grant monies and the use of it. The grant is to be used to provide, within the City of Richmond, new affordable housing, improve existing housing conditions, assist homeless and disabled with housing, and to expand economic opportunities in business, and employment for low and moderate income residents.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**Richmond Housing Authority** – This fund accounts for all funds provided by the Department of Housing and Urban Development (HUD) to assist low income families in obtaining decent, safe and sanitary housing.

**Port of Richmond** – This fund accounts for all financial transactions relating to the City-owned marine terminal facilities and commercial property rentals.

**Municipal Sewer** – This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Richmond.

The City also reports the following fund types:

**Internal Service Funds.** The funds account for worker's compensation, general liability, information technology, equipment services and replacement, police telecommunications and facilities maintenance, all of which are provided to other departments on a cost-reimbursement basis.

**Trust Funds.** These Funds account for assets held by the City as an Agent for various functions. The General Pension, Police and Fireman's and Garfield Pension Funds account for the accumulation of resources to be used for retiree pension payments at appropriate amounts and times in the future. The financial activities of the Trust Funds are excluded from the Government-wide financial statements, but are presented in the separate Fiduciary Fund financial statements.

**Agency Funds.** These funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments, including special assessment districts within the City and non-public organizations. The financial activities of these funds are excluded from the government-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

**Use of Restricted/Unrestricted Net Assets**

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

**Cash, Cash Equivalents and Investments**

For purposes of reporting cash flows, the City considers each fund's share in the cash and investments pool and restricted cash and investments to be cash and cash equivalents.

All investments are stated at fair value. Market value is used as fair value for all securities.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City participates in the State of California's Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

**Prepays and Supplies**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items in governmental funds are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Supplies are valued at cost using the weighted average method. Supplies of the governmental funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure in the funds at the time individual inventory items are consumed rather than when purchased. Reported governmental fund inventories are equally offset by a fund balance reserve which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

**Capital Assets**

Capital assets are valued at historical cost or at estimated fair value on the date donated. If actual historical costs are not available, assets have been valued at approximate historical cost. The City's policy is to capitalize assets with a cost exceeding \$5,000. Depreciation is recorded on a straight-line basis over the following estimated useful lives:

Improvements other than buildings	20 years
Buildings and building improvements	50 years
Vehicles	5 – 10 years
Infrastructure	25 - 50 years
Machinery and equipment	5 – 20 years

Infrastructure includes streets systems, parks and recreation lands and improvement systems, storm water collection systems, and buildings combined with site amenities such as parking and landscaped areas used by the City in the conduct of its business. Each major infrastructure system is divided into subsystems. For example, the street system includes pavement, curbs and gutters, sidewalks, medians, streetlights, traffic control devices such as signs, signals and pavement markings, landscaping and land. In the case of the initial capitalization of general infrastructure assets reported by governmental activities, the City chose to include all such items regardless of their acquisition date or amount.

Net interest costs incurred during the construction of capital assets for the business-type and proprietary funds are capitalized as part of the asset's cost.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Compensated Absences**

Compensated absences comprise unused vacation and certain other compensated time off, which are accrued and charged to expense as earned. Governmental funds include only amounts that have matured, while their long-term liabilities are recorded in the Statement of Net Assets.

Changes in compensated absence liabilities for the fiscal year were as follows:

	Governmental Activities	Business-Type Activities	Total
Beginning Balance	\$9,970,744	\$710,848	\$10,681,592
Additions	8,651,795	324,336	8,976,131
Payments	<u>(7,078,685)</u>	<u>(142,227)</u>	<u>(7,220,912)</u>
Ending Balance	<u>\$11,543,854</u>	<u>\$892,957</u>	<u>\$12,436,811</u>
Current Portion	<u>\$1,367,473</u>	<u>\$262,265</u>	<u>\$1,629,738</u>

The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund. Compensated absences for business-type activities are liquidated by the fund that has recorded the liability.

**Property Tax Levy, Collection and Maximum Rates**

The State of California's Constitution limits the combined maximum property tax rate on any given property to one percent of its assessed value except for voter approved incremental property taxes. Assessed value equals purchase price and may be adjusted by no more than two percent per year unless the property is modified, sold, or transferred. The State Legislature distributes property tax receipts from among the counties, cities, school districts, and other districts.

Contra Costa County assesses properties and bills for and collects property taxes as follows:

	Secured	Unsecured
Valuation/lien dates	January 1	March 1
Levied dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed. Property taxes levied are recorded as revenue in the fiscal year of levy.

**Long-Term Obligations**

**Government-Wide Financial Statements** - Long-term debt is reported as liabilities of the appropriate governmental or business-type activity.

Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

**Fund Financial Statements** - Proprietary fund financial statements report long-term debt under the same principles as the City-wide financial statements. Governmental fund financial statements do not present long-term debt.

Governmental funds report bond premiums, discounts and issuance costs in the year the debt is issued. Bond proceeds are reported as other financing sources net of premium or discount. Issuance costs are reported as debt service expenditures.

**Claims Liabilities**

The City records a liability to reflect an actuarial estimate of ultimate uninsured losses for both general liability claims (including property damage claims) and workers' compensation claims. The estimated liability for workers' compensation claims and general liability claims includes "incurred but not reported" (IBNR) claims, and is recorded in the internal service funds.

**Net Assets**

In the City-wide financial statements, Net Assets are classified as follows:

**Invested in Capital Assets, Net of Related Debt** - This amount consists of capital assets net of accumulated depreciation, reduced by outstanding debt that was used for the acquisition, construction, or improvement of these capital assets.

**Restricted Net Assets** - This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments. In addition net assets restricted for pension benefits are restricted as a result of enabling legislation.

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

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Reservations and Designations**

Reservations and designations of fund balances of governmental funds and restrictions of net assets of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be to segregated or identify the portion of the fund equity not available for future expenditures.

Portions of the City's fund balances have been reserved for the following purposes:

**Reserved for Encumbrances** - represents commitments of funds to pay for future delivery of materials and services on firm purchase orders and contracts.

**Reserved for Prepays, Supplies and Other Assets** - represents the portion of fund balance already expended for these assets and not available to be used to meet expenditures in the current period.

**Reserved for Debt Service** - represents amounts set aside in accordance with a bond indenture or similar covenant.

**Reserved for Advances to Other Funds** - represents receivables from other City Funds that are not expected to be received in the next fiscal year.

**Reserved for Loans Receivable** - represents the portion of fund balance already expended for these assets and not available to be used to meet expenditures in the current period.

**Reserved for Low and Moderate Income Housing** is the portion of redevelopment fund balance legally required to be set-aside for low and moderate income housing expenditures under the California Health and Safety Code.

Portions of the City's fund balances have been designated for the following purposes:

**Designated for Contingencies** is the portion of fund balance set-aside to be used in the event of fiscal need.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Expenditures in Excess of Appropriations**

The following funds incurred departmental expenditures in excess of appropriations. The funds had sufficient fund balances or revenues to finance these expenditures.

Fund	Excess of Expenditures Over Appropriations
General Fund:	
Public Safety	\$147,163
General Purpose Special Revenue Fund:	
Public Safety	21,761
Public Works	363,090
Cultural and Recreational	25,411
Special Programs Special Revenue Fund	
General Government	167,191
Public Safety Special Revenue Fund:	
Public Safety	73,466
Cost Recovery Special Revenue Fund:	
General Government	488,792
Developer Impact Fees Special Revenue Fund:	
Public Safety	3,507
Public Works	47,873

**NOTE 3 - CASH AND INVESTMENTS**

**Investments and Cash Deposits**

The City maintains a cash and investment pool of cash balances and authorized investments of all funds except for funds required to be held by fiscal agents under the provisions of bond indentures, which the City Treasurer invests to enhance interest earnings. The pooled interest earned is allocated to the funds based on average month-end cash and investment balances in these funds.

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the City's fiscal agents as required under its debt issues. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all City managed investments, regardless of their form.

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**NOTE 3 - CASH AND INVESTMENTS (Continued)**

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name. The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

**Classification**

Cash and investments are classified in the financial statements as shown below at June 30, 2009:

Cash and investments	\$116,989,052
Restricted cash and investments	<u>128,763,546</u>
<b>Total Primary Government cash and investments</b>	<u>245,752,598</u>
Cash and investments	1,023,137
Restricted cash and investments	<u>2,527,605</u>
<b>Total Component Unit cash and investments</b>	<u>3,550,742</u>
Cash and investments in Fiduciary Funds (Separate Statement)	
Cash and investments	6,826,063
Restricted cash and investments	5,039,919
Investments in reassessment bonds	<u>17,335,000</u>
<b>Total cash and investments</b>	<u><u>\$278,504,322</u></u>

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

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

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

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Bills, Bonds and Notes	5 years		None	None
Obligations issued by United States Government or its Agencies	5 years		None	None
Treasury bonds and notes issued by the State of California or any local agency with California	5 years	A	None	None
Bankers Acceptances	180 days		40%	30%
Commercial Paper	270 days	A1/P1/F1	10% <b>(A)</b>	10%
Negotiable Certificates of Deposit	5 years	A	30%	None
Medium Term Corporate Notes	5 years	A	30%	None
Money Market Mutual Funds	N/A	Top rating category	15%	None
California Local Agency Investment Fund	N/A		None	\$40 Mil
Investment Trust of California (CalTrust)	N/A		N/A	None
Collateralized Time Deposits	5 years		30%	10%
Repurchase Agreements	5 years		None <b>(B)</b>	None

**(A):** City may invest an additional 10% or a total of 20% of City surplus money, only if dollar-weighted average maturity of the entire amount does not exceed 31 days.

**(B):** City may not utilize Reverse Repurchase Agreement without the prior approval of the Council.

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**NOTE 3 - CASH AND INVESTMENTS (Continued)**

**Investments Authorized by Debt Issues and Lease Agreements:**

Under the terms of the City's and RHA Properties' debt issues and lease agreements, it is subject to various restrictions in the type, maturity and credit ratings of investments of the unspent proceeds of these issues. These restrictions are generally no more restrictive than those listed above regarding investment of the City's and RHA Properties' funds. In addition, some bond indentures authorize investments in guaranteed investment contracts and investment agreements with maturity dates that coincide with the applicable debt maturities. At June 30, 2009, the City and RHA Properties were in compliance with the terms of all these restrictions.

**Interest Rate Risk:**

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

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

	Remaining Maturity (in Months)				Total
	12 months or Less	13 to 24 Months	25 to 60 Months	More than 60 months	
<b>Primary Government:</b>					
Federal Agency Securities			\$68,547,600		\$68,547,600
Money Market Mutual Funds (U.S. Securities)	\$58,188				58,188
California Local Agency Investment Fund	6,887,889				6,887,889
CalTrust Short Term Fund	295,500				295,500
Certificates of Deposit	252,073				252,073
Held by Bond Trustee:					
Federal Agency Securities	425,834		4,972,400		5,398,234
Money Market Mutual Funds (U.S. Securities)	114,601,188				114,601,188
California Local Agency Investment Fund	90,278				90,278
Investment Agreements				\$1,039,778	1,039,778
Guaranteed Investment Contracts	224,420			4,580,948	4,805,368
Repurchase Agreement	1,146,500				1,146,500
Reassessment Bonds	815,000	\$812,500	2,562,500	13,145,000	17,335,000
<b>RHA Properties:</b>					
Money Market Mutual Funds (U.S. Securities)	2,527,605				2,527,605
<b>Total Investments</b>	<u>\$127,324,475</u>	<u>\$812,500</u>	<u>\$76,082,500</u>	<u>\$18,765,726</u>	<u>222,985,201</u>
Cash in Banks and on hand - <i>Primary Government</i>					54,495,984
Cash in banks - <i>RHA Properties</i>					<u>1,023,137</u>
<b>Total Cash and Investments</b>					<u>\$278,504,322</u>

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2009, these investments matured in an average of 235 days.

The City is a participant in the Short-Term Fund of the Investment Trust of California (CalTrust), a joint powers authority and public agency established by its members under the provisions of Section 6509.7 of the California Government Code. Members and participants are limited to California public agencies. CalTrust is governed by a Board of Trustees of seven Trustees, at least seventy-five percent of whom are from the participating agencies. The City reports its investment in CalTrust at the fair value amount provided by CalTrust, which is the same as the value of the pool shares. The balance is available for withdrawal on demand, and is based on the accounting records maintained by CalTrust. Included in CalTrust's investment portfolio are: United States Treasury Notes, Bills, Bonds or Certificates of Indebtedness; registered state warrants or treasury notes or bonds; California local agency bonds, notes, warrants or other indebtedness; federal agency or United States government-sponsored enterprise obligations; bankers acceptances; commercial paper; negotiable certificates of deposit; repurchase agreements; medium-term notes; money market mutual funds; notes, bonds or other obligation secured by a first priority security interest in securities authorized under Government Code Section 53651; and mortgage passthrough securities, collateralized mortgage obligations, and other asset-backed securities. CalTrust's Short-Term Fund has a target portfolio duration of 0 to 2 years. At June 30, 2009, these investments matured in an average of 1 day.

Money market funds and mutual funds are available for withdrawal on demand and as of June 30, 2009 have an average maturity from 1 to 52 days.

**City of Richmond**  
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**NOTE 3 - CASH AND INVESTMENTS (Continued)**

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2009 for each investment type:

Investment Type	AAA/AAAm	AA+/S1+	Total
Federal Agency Securities	\$73,945,834		\$73,945,834
Money Market Mutual Funds (U.S. Securities)	117,186,981		117,186,981
CallTrust Short Term Fund		\$295,500	295,500
Totals	<u>\$191,132,815</u>	<u>\$295,500</u>	191,428,315
<i>Not rated:</i>			
California Local Agency Investment Fund			6,978,167
Investment Agreements			1,039,778
Guaranteed Investment Contracts			4,805,368
Certificates of Deposit			252,073
Repurchase Agreement			1,146,500
Reassessment Bonds			<u>17,335,000</u>
<b>Total Investments</b>			<u>222,985,201</u>
Cash in Banks and on hand			<u>55,519,121</u>
<b>Total Cash and Investments</b>			<u>\$278,504,322</u>

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**City of Richmond**  
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**NOTE 3 - CASH AND INVESTMENTS (Continued)**

**Concentration of Credit Risk**

Investments in the securities of any individual issuer, other than U. S. Treasury securities, mutual funds, and external investment fund that represent 5% or more of total Government-wide investments are as follows at June 30, 2009:

Issuer	Type of Investments	Amount
Federal Home Loan Bank	Federal Agency Securities	\$21,806,400
Federal National Mortgage Association	Federal Agency Securities	20,896,834
Federal Farm Credit Banks	Federal Agency Securities	18,976,700
Federal Home Loan Mortgage Corporation	Federal Agency Securities	12,265,900

Significant investments in the securities of any individual issuers, other than U. S. Treasury securities, in individual major funds and in non-major funds at June 30, 2009 were as follows:

Fund	Issuer	Type of Investments	Amount
Redevelopment Agency Administration Fund	MBIA Inc	Guaranteed Investment Contract	\$1,429,000
Redevelopment Agency Low/Mod Income Housing Fund	Federal Home Loan Mortgage Corporation	Federal Agency Securities	795,584
Redevelopment Agency Debt Service Fund	FGIC Capital Market Services	Guaranteed Investment Contract	2,226,948
Redevelopment Agency Debt Service Fund	Bayerische Landesbank Girozentrale	Investment Repurchase Agreement	1,146,500
Redevelopment Agency Debt Service Fund	Morgan Guaranty Trust of NY	Investment Agreement	1,039,778
Redevelopment Agency Projects Fund	Federal Home Loan Bank	Federal Agency Securities	4,176,816

Significant investments in the securities of any individual issuers, other than U. S. Treasury securities, in Agency Funds at June 30, 2009 were as follows:

Agency Fund	Issuer	Type of Investment	Amount
JPFA Reassessment District	City of Richmond	Municipal Bonds	\$7,022,500
2006A&B Reassessment District	City of Richmond	Municipal Bonds	10,312,500

**City of Richmond**  
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**NOTE 4 - INTERFUND TRANSACTIONS**

**A. Current Interfund Balances**

Current interfund balances arise in the normal course of business and represent short-term borrowings occurring as a result of expenditures which are paid prior to the receipt of revenues. These balances are expected to be repaid shortly after the end of the fiscal year when revenues are received. Current amounts due from one fund to another at June 30, 2009 were as follows:

Due From Other Funds	Due To Other Funds	Amount
General Fund	Redevelopment Agency Administration Fund	\$161,910
	Redevelopment Agency Low/Mod Income Housing Fund	977,262
	Redevelopment Agency Projects Fund	4,636,430
	Community Development Block Grant	569,927
Redevelopment Agency Administration Fund	General Fund	25,570
	Community Development Block Grant	29,118
Redevelopment Agency Low/Mod Income Housing Fund	Community Development Block Grant	189,226
Community Development Block Grant	Redevelopment Agency Administration Fund	2,457
Internal Service Fund	Community Development Block Grant	421,880
	Non Major Governmental Funds	2,027,047
	Non Major Enterprise Fund	999,662
		<u>\$10,040,489</u>

**B. Long-Term Interfund Advances**

At June 30, 2009 the funds below had made advances which were not expected to be repaid within the next year.

Fund Receiving Advance	Fund Making Advance	Amount of Advance
General Fund	Redevelopment Agency Projects Fund	\$99,685
Redevelopment Agency Projects Fund	Internal Service Fund	2,500,000
Civic Center Project Capital Projects Fund	Redevelopment Agency Administration Fund	2,000,000
Non Major Governmental Fund	General Fund	211,686
Richmond Housing Authority Enterprise Fund	General Fund	5,408,830
	Redevelopment Agency Administration Fund	174,067
Port of Richmond Enterprise Fund	General Fund	17,039,855
Non Major Enterprise Fund	Internal Service Fund	1,758,342
<b>Total</b>		<u>\$29,192,465</u>

In fiscal 2007, the Redevelopment Agency advanced \$174,067 to the Richmond Housing Authority Enterprise Fund, collateralized by a deed of trust on the Westridge at Hilltop Apartments, to assist the Authority with its lease payments for the 2003 A-S Multifamily Housing Revenue Bonds. The loan bears interest of 3%.

**NOTE 4 - INTERFUND TRANSACTIONS (Continued)**

In fiscal 2007, 2008 and 2009 the General Fund made advances to the Richmond Housing Authority Enterprise Fund for police, sewer, and other services as well as the Housing Authority's employee payroll. The advance bears no interest and is payable in 360 monthly installments of \$12,531. The balance as of June 30, 2009 is \$5,408,830.

In fiscal 2007 the Redevelopment Agency advanced \$2,000,000 to the City's Civic Center Capital Projects Fund for the Civic Center Project.

In fiscal 2006 the General Fund established repayment terms for its advance of \$17,139,855 to the Port of Richmond Enterprise Fund to assist the Port with various lease transactions and other projects. The advance does not bear interest for the first three years; the next five years it bears an interest rate of 4% and is payable as follows: \$50,000 in fiscal years 2007 and 2008, \$6.35 million in fiscal year 2009, five annual installments of \$2,000,000 for fiscal years 2010 to 2014 and a final payment of \$689,855 in 2015. The Port did not make the scheduled payment in fiscal year 2009 and the City is in the process of establishing new repayment terms.

In fiscal 2008 the General Fund advanced \$211,686 to the Impact Fees Special Revenue Fund for the purpose of redeeming a portion of the letter of credit with Pinole Point Properties, Inc. that was redeemed with a settlement payment of \$1,750,000. The advance is to be repaid with future developer's fees.

In fiscal 2008 the General Fund advanced \$1,758,342 to the Storm Sewer Enterprise Fund for the purpose of providing a clean storm sewer system and street sweeping activities. The advance bears an interest rate of 4.34% and is payable as follows: Semi-annual principal and interest payments in the amount of \$52,460 to be made April 30 and December 31 of each year commencing in December 2009 until December 2038. The final payment of \$52,298 is due April 30, 2039.

In fiscal 2009 the Insurance Reserves Internal Service Fund advanced \$2,500,000 to the Redevelopment Agency to assist with funding the loan for the renovation of the East Bay Center of Performing Arts Winters Building. The advance bears interest at a rate of 3% and payments begin July 15, 2009 with a maturity date of June 30, 2012.

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**City of Richmond**  
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**NOTE 4 - INTERFUND TRANSACTIONS (Continued)**

**C. Transfers between funds**

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2009 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
General Funds	Secured Pension Override Fund	\$5,266,577
	Redevelopment Agency Administration Fund	50,000
	Non-Major Governmental Funds	4,427,300
	Internal Service Funds	8,948
Redevelopment Agency Administration Fund	General Fund	1,545,653
	Redevelopment Agency Debt Service Fund	6,091,713
	Community Development Block Grant	2,857
Redevelopment Agency Low/Mod Income Housing	Redevelopment Agency Debt Service Fund	6,030,960
Redevelopment Agency Debt Service Fund	Redevelopment Agency Low/Mod Income Housing	1,029,704
	Redevelopment Agency Projects Fund	1,138,074
Redevelopment Projects Fund	Redevelopment Agency Administration Fund	627,600
	Redevelopment Agency Debt Service Fund	16,251,250
Civic Center Project Fund	Non-Major Governmental Funds	6,562,962
Non-Major Governmental Funds	General Fund	12,274,050
	Secured Pension Override Fund	3,138,752
	Redevelopment Agency Administration Fund	10,000
	Non-Major Governmental Funds	14,810,141
	Port of Richmond Enterprise Fund	7,609
	Internal Service Funds	140,581
Non-Major Enterprise Funds	General Fund	700,000
Internal Service Funds	General Fund	190,595
	Total Interfund Transfers	\$80,305,326

None of these transfers were unusual or non-recurring in nature.

**D. Internal Balances**

Internal balances are presented in the Government-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

**NOTE 5 - NOTES AND LOANS RECEIVABLE**

At June 30, 2009, notes and loans receivable consisted of the following:

	Amount
<b>City's Loans:</b>	
CalTrans Loan	\$801,715
Police Activities League Loan	426,000
Police Chief Loan	124,138
Watershed Nursery Loan	28,265
<b>Community Development Block Grant and Home Investment Partnership Program Loans:</b>	
Mechanics Bank Loans	41,096
Deferred Loans	3,541,774
Home Improvement Program Loans	730,341
Rental Rehab Loans	310,419
Arbors Loan	1,605,056
Wood Development Loan	853,000
<b>Subtotal - CDBG and HOME Loans</b>	<b>7,081,686</b>
<b>Redevelopment Agency Loans:</b>	
EDA Loans	600,602
Olson Urban Housing, LLC.	4,951,143
Harbour Capital Projects Loan	2,040,359
MacDonald Housing	3,411,328
Arbors Loan	1,594,057
Wood Development Loan	800,000
Rental Rehab Loans	30,700
Atchison Village Annex Apartments	417,309
Heritage Park Development	350,797
Silent Second Mortgage Loans	2,074,661
Chesley Avenue Development	4,741,492
Ford Point Building Loan	3,000,000
CALHome Program	910,206
Easter Hill Project	2,281,960
East Bay Center for the Performing Arts	2,500,000
The Carquinez Project	1,000,000
<b>Subtotal- Redevelopment Agency Loans</b>	<b>30,704,614</b>
<b>Total Notes and Loans Receivable</b>	<b>39,166,418</b>
<b>Less Reserve For Conditional Grant</b>	<b>(3,110,033)</b>
<b>Net Notes and Loans Receivable</b>	<b>\$36,056,385</b>

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**City of Richmond**  
**Notes to Basic Financial Statements**  
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**City of Richmond**  
**Notes to Basic Financial Statements**  
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**NOTE 5 - NOTES AND LOANS RECEIVABLE (Continued)**

**CalTrans Loan**

The total of \$801,715 consists of two loans from the City of Richmond to Richmond Neighborhood Housing Services. These are pass-through loans from CalTrans for the construction of 27 new homes located in North Richmond.

**Police Activities League**

On January 23, 2007, the City approved a loan of \$300,000 to provide temporary support for the Police Activities League (PAL) Youth Center expansion project to allow PAL to complete construction of the project. The loan is secured by a deed of trust on the property. The loan is due upon PAL's receipt of the remaining balance of the State of California department of Parks and Recreation, 2002 Resources-Bond Act, Murray-Hayden Program Grant in the sum of \$500,000. The loan bears a fixed rate of 4.546%. In addition, on August 3, 2007 the City approved \$126,000 of additional funding for PAL to complete the construction of the youth center gymnasium and office complex. The same terms as the first loan apply to the second loan.

**Police Chief Loan**

Under the Resolution Number 169-05, the City made a long-term loan of \$150,000, and a short-term loan of \$50,000, for a total loan amount of \$200,000, to finance the acquisition of the new Police Chief's personal residence located within the City of Richmond. The loan is secured by a deed of trust on the property. The loan is due upon sale of the property, within eighteen months after the Police Chief's employment with the City terminates, or fifteen years from the date of the loan, whichever occurs first. The loan bears a variable interest rate from the date of disbursement until repaid in full at an amount equal to the average annual interest rate of the California State Treasurer's Office Local Agency Investment Fund, adjusted effective as of each annual anniversary date of the close of escrow of the Property purchased by the Police Chief. The short-term loan of \$50,000 was repaid during fiscal year 2006.

**Watershed Nursery Loan**

On October 28, 2008, the City approved a loan of \$35,601 to the Watershed Nursery to help fund set-up costs for the Nursery. The loan does not bear interest and is payable in equal monthly payments in the amount of \$1,048. The final payment on the loan is due September 1, 2011.

**Mechanics Bank Loans**

Loans are amortized home improvement loans to low and moderate income borrowers and are repaid at 3% per annum. CDBG loan contracts are forwarded to Mechanics Bank for servicing.

**Deferred Loans**

Deferred loans are granted to low and moderate income families to assist them in purchasing their homes. Emergency repair loans not exceeding \$10,000 funded by the HOME Investment Partnership Program (HIPP) are provided to low income families in Richmond to assist them in rehabilitating their existing housing units. These loans are required to be repaid over a period of 15 years to 30 years.

**NOTE 5 - NOTES AND LOANS RECEIVABLE (Continued)**

**Home Improvement Program Loans**

"Silent second" mortgage loans are provided to low and moderate income first time homebuyers as gap financing to provide the minimum amount needed to close the gap between the primary lender's requirements and the borrower's ability to pay down payments or closing costs.

Home improvement program loans include amortized loans to assist low income families in Richmond in the improvement of their homes. The interest rates for these loans range from 0% to 3% and are payable over a period of 15 to 30 years.

**Rental Rehabilitation Loans**

Rental Rehabilitation Loans help make rental units affordable to low and very low income housing families. Loans assist private and non-profit owners in purchasing and rehabilitating existing multifamily housing units.

**Creely Avenue Housing Rehabilitation (Arbors)**

On September 15, 2006, the Redevelopment Agency loaned Arbors Preservation Limited Partnership the amount of \$2,558,557, to construct extremely low, very low and low income rental housing units and a new community room on Creely Avenue. Funding for the loan is as follows: \$889,500 in HOME funds, \$75,000 in CDBG funds and \$1,594,057 in 2007 Series B bond funds. The loan bears simple interest at the rate of 3% per year. All unpaid principal and interest on the loan is due on April 29, 2063. Interest for the loan is 3% per annum.

**Scattered Site Infill Housing Development (Wood)**

On March 1, 2006, the Redevelopment Agency loaned Wood Development Corporation, a California nonprofit public benefit corporation the amount of \$1,653,000, to construct and develop single family homes which will be made available for sale to low and moderate income households on 8 parcels within City Richmond. Funding for the loan is as follows: \$853,000 in HOME funds and \$800,000 in 2007 Series B bond funds. The loan bears simple interest at the rate of 3% per year. During fiscal year 2009 the loan was amended to extend the repayment date and all unpaid principal and interest on the loan is due on June 30, 2011.

**EDA loans**

The City's Revolving Loan Fund (RLF) is a community based program with the goal of fostering local economic growth through the creation and retention of employment opportunities for Richmond residents and complementing community and individual development initiatives.

**Olson Urban Housing, LLC.**

This loan was made to provide assistance in the construction of low and moderate income housing. It provides for the eventual forgiveness of the balance upon the issuance of the Certificate of Completion for the Phase One Residential/ Retail Improvements.

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**City of Richmond**  
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**NOTE 5 - NOTES AND LOANS RECEIVABLE (Continued)**

**Harbour Capital Projects Loan**

The \$5,440,359 was based on two promissory notes resulting from the sale of the Ford building of \$3,400,000 and the sale of the North Shore properties of \$2,040,359. During fiscal year 2008, the developer repaid \$1 million of the loan balance by a cash payment of \$310,345 and the dedication of parking lot improvements with a value of \$689,655. During fiscal year 2009, the developer paid \$2.4 million of the loan by a cash payment.

**MacDonald Place Senior Housing**

On June 26, 2007, the Redevelopment Agency agreed to loan MacDonald Housing Partners, L.P., and Richmond Labor and Love Community Development Corporation the amount of \$4,720,000, to construct senior housing units, a management office, small meeting rooms and ancillary retail use, and a separate space for community services. The loan's principal is due 57 years from the date of disbursement. The loan bears simple interest of 2% per year payable from any residual receipts available from the prior calendar year with an additional 1% per year, but only to the extent that funds are available to pay such contingent interest from the Agency's share of residual receipts, as defined in the agreement.

**Atchison Village Annex Apartments**

In 1998, the Redevelopment Agency loaned Atchison Village Associates, LP \$464,000 collateralized by a deed of trust to finance the acquisition and rehabilitation of 100 units of family housing. Interest on the unpaid principal balance is 3% per annum. Loan payments of principal and interest are payable in equal monthly payments of \$2,651.

In 2006, the Redevelopment Agency loaned Atchison Village Associates, LP \$44,000 collateralized by a deed of trust to finance the rehabilitation of low- and moderate-income housing. The loan bears no interest and the entire principal is due in 25 years.

**Heritage Park Development**

In 1999, the Redevelopment Agency loaned Hilltop Group, LP a total of \$500,000, collateralized by deeds of trust and bearing interest at an effective rate of 1½% starting September 2004. The loans were used to finance the development of the Heritage Park Development in the City. Monthly installments of interest and principal in the total amount of \$3,115 are payable through September 1, 2019.

**Silent Second Mortgage Loans**

Loans were provided to qualifying individuals for the difference between the amount received by the individuals who qualified for low and moderate income housing loans and the amount needed to purchase the homes. The loans are to be forgiven in the future if the property owners do not sell or refinance the property.

**NOTE 5 - NOTES AND LOANS RECEIVABLE (Continued)**

**Chesley Avenue Mutual Housing Development**

On December 1, 2003, the Redevelopment Agency loaned Chesley Avenue Limited Partnership the amount of \$4,741,492, to construct very low and low income housing units. The loan's principal is due in 2058; interest is payable starting May 1, 2006, at the rate of 2% per annum or in the amount of 95% of any residual receipts remaining from the prior year, whichever is less.

**Ford Assembly Building Loan**

Under a loan agreement dated November 22, 2004 between the Redevelopment Agency and Ford Point LLC, the Redevelopment Agency agreed to loan \$3,000,000 to fund improvements to the Ford Assembly Building, collateralized by a Deed of Trust. The Redevelopment Agency funded the loan in fiscal 2006 with proceeds from the Section 108 HUD loan discussed in Note 7. The loan's principal is due in August 2025. Interest is payable starting August 2006 at a variable rate based on the 90-day LIBOR rate plus 70 basis points; adjusted quarterly. The interest rate converts to a fixed rate in accordance with the terms of the agreement after the Section 108 loan is sold by HUD.

**CALHome Program**

The CalHome loan program provides housing assistance to Richmond residents to assist with first-time homeowner down payments or rehabilitation projects for owner-occupied homes. The loans are secured by deeds of trust on the properties. Principal and interest on the loans are deferred for 30 years, unless otherwise specified in the promissory note. At June 30, 2009, the Agency had issued loans of \$910,206.

**Easter Hill Project**

The loan from the Redevelopment Agency to Easter Hill Development, L.P. is providing financial assistance in the development of the Easter Hill Project. The Easter Hill Project consists of single and multifamily home components. Easter Hill Development, L.P. shall use the loan to pay for predevelopment, acquisition and construction costs. The outstanding balance of the loan bears simple interest at the rate of 2% per year. Repayments on the loan are to be made from residual receipts as defined in the agreement. All unpaid principal and accrued interest on the loan is due February 1, 2069.

**East Bay Center for the Performing Arts**

On June 12, 2009 the Redevelopment Agency entered into an agreement to loan \$2,500,000 to the East Bay Center for the Performing Arts to fund renovations to the Winters Building. The East Bay Center for the Performing Arts is a California nonprofit public benefit corporation that offers programs and training in theater, music and dance. The Loan bears an interest rate of 3% per year and repayments of accrued interest that shall be made in quarterly installments. All unpaid principal and accrued interest is due on June 30, 2012.

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**NOTE 5 - NOTES AND LOANS RECEIVABLE (Continued)**

**The Carquinez Project**

Under a loan agreement dated November 14, 2008, the Redevelopment Agency loaned Carquinez Associates, L.P., \$1,000,000 to fund rehabilitation of a five story building, with 36 apartments housing low-income seniors. Repayments on the loan are to be made from residual receipts as defined in the agreement. The loan does not bear interest and the unpaid principal balance is due in November 2043.

**Conditional Grant**

The loan to Olson Urban Housing, LLC, provides for the eventual forgiveness of the loan balance if the borrower complies with all the terms of the loan over its full term. The City accounts for this loan as a conditional grant in the Government-wide financial statements, and provides a reserve against the eventual forgiveness.

**NOTE 6 - CAPITAL ASSETS**

The following is a summary of capital assets for governmental activities:

	Balance at June 30, 2008	Additions	Retirements	Transfers	Balance at June 30, 2009
<i>Governmental activities</i>					
Capital assets not being depreciated:					
Land	\$27,674,272	\$2,047,104			\$29,721,376
Construction in progress	101,731,280	64,152,041	(\$63,619)	(\$843,062)	164,976,640
Total capital assets not being depreciated	<u>129,405,552</u>	<u>66,199,145</u>	<u>(63,619)</u>	<u>(843,062)</u>	<u>194,698,016</u>
Capital assets being depreciated:					
Buildings and improvements	33,732,481				33,732,481
Machinery and equipment	36,144,888	8,212,233	(890,968)	843,062	44,309,215
Land improvements and infrastructure	408,750,036				408,750,036
Total capital assets being depreciated	<u>478,627,405</u>	<u>8,212,233</u>	<u>(890,968)</u>	<u>843,062</u>	<u>486,791,732</u>
Less accumulated depreciation for:					
Buildings and improvements	(13,739,302)	(1,222,827)			(14,962,129)
Machinery and equipment	(27,862,586)	(2,316,161)	809,207		(29,369,540)
Land improvements and infrastructure	(263,199,498)	(12,377,467)			(275,576,965)
Total accumulated depreciation	<u>(304,801,386)</u>	<u>(15,916,455)</u>	<u>809,207</u>		<u>(319,908,634)</u>
Capital asset being depreciated, net	<u>173,826,019</u>	<u>(7,704,222)</u>	<u>(81,761)</u>		<u>166,883,098</u>
Governmental activity capital assets, net	<u>\$303,231,571</u>	<u>\$58,494,923</u>	<u>(\$145,380)</u>		<u>\$361,581,114</u>

**NOTE 6 - CAPITAL ASSETS (Continued)**

Governmental activities depreciation expenses for capital assets is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program for the year ended June 30, 2009 were as follows:

<b>Governmental Activities</b>	
General Government	\$189,521
Public Safety	590,409
Public Works	12,769,653
Community Development	11,012
Cultural and Recreational	669,101
Housing and Redevelopment	112,591
Internal Service Funds	1,574,168
<b>Total Governmental Activities</b>	<u>\$15,916,455</u>

The following is a summary of capital assets for business activities:

	Balance at June 30, 2008	Additions	Retirements	Transfers	Balance at June 30, 2009
<i>Business-type activities</i>					
Capital assets not being depreciated:					
Land	\$11,215,967	\$381,051	(\$508)		\$11,596,510
Construction in progress	29,801,549	3,656,324		(\$1,035,005)	32,422,868
Total capital assets not being depreciated	<u>41,017,516</u>	<u>4,037,375</u>	<u>(508)</u>	<u>(1,035,005)</u>	<u>44,019,378</u>
Capital assets being depreciated:					
Buildings and improvements	86,782,297			744,384	87,526,681
Machinery and equipment	12,481,469	60,901	(45,720)	290,621	12,787,271
Infrastructure	104,552,246				104,552,246
Total capital assets being depreciated	<u>203,816,012</u>	<u>60,901</u>	<u>(45,720)</u>	<u>1,035,005</u>	<u>204,866,198</u>
Less accumulated depreciation for:					
Buildings and improvements	(41,837,456)	(882,051)	97,058		(42,622,449)
Machinery and equipment	(10,427,084)	(133,121)	10,978		(10,549,227)
Infrastructure	(67,035,340)	(1,983,782)	34,743		(68,984,379)
Total accumulated depreciation	<u>(119,299,880)</u>	<u>(2,998,954)</u>	<u>142,779</u>		<u>(122,156,055)</u>
Capital asset being depreciated, net	<u>84,516,132</u>	<u>(2,938,053)</u>	<u>97,059</u>	<u>1,035,005</u>	<u>82,710,143</u>
Business-type activity capital assets, net	<u>\$125,533,648</u>	<u>\$1,099,322</u>	<u>\$96,551</u>		<u>\$126,729,521</u>

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**NOTE 6 - CAPITAL ASSETS (Continued)**

The following is a summary of capital assets for RHA Properties:

	Balance at June 30, 2008	Additions	Balance at June 30, 2009
Capital assets not being depreciated:			
Land	\$10,431,153		\$10,431,153
Total capital assets not being depreciated	10,431,153		10,431,153
Capital assets being depreciated:			
Buildings and improvements	23,917,143	\$17,838	23,934,981
Machinery and equipment	49,600	7,672	57,272
Total capital assets being depreciated	23,966,743	25,510	23,992,253
Less accumulated depreciation for:			
Buildings and improvements	(4,205,214)	(871,200)	(5,076,414)
Machinery and equipment	(49,246)	(610)	(49,856)
Total accumulated depreciation	(4,254,460)	(871,810)	(5,126,270)
Capital asset being depreciated, net	19,712,283	(846,300)	18,865,983
Business-type activity capital assets, net	\$30,143,436	(\$846,300)	\$29,297,136

Business activities depreciation expenses for capital assets allocated to each program for the year ended June 30, 2009 were as follows:

<b>Business-Type Activities</b>	
Richmond Housing Authority	\$396,046
Port of Richmond	886,392
Municipal Sewer	660,833
Richmond Marina	88,484
Storm Sewer	915,849
Cable TV	51,350
<b>Total Business-Type Activities</b>	<u>\$2,998,954</u>
<b>Component Unit</b>	
RHA Properties	<u>\$871,810</u>

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS**

**A. Governmental Activities:**

Following is a summary of governmental activities long-term debt transactions during the fiscal year ended June 30, 2009:

	Balance July 01, 2008	Additions	Deletions	Balance June 30, 2009	Due Within One Year	Due in More than One Year
Bonds payable	\$414,911,127	\$7,696,807	(\$9,164,143)	\$413,443,791	\$13,545,000	\$399,898,791
Loans payable	10,578,390	75,000	(109,205)	10,544,185	158,972	10,385,213
Capital leases	3,964,298	6,027,631	(1,690,963)	8,300,966	1,764,753	6,536,213
<b>Total</b>	<u>\$429,453,815</u>	<u>\$13,799,438</u>	<u>(\$10,964,311)</u>	<u>\$432,288,942</u>	<u>\$15,468,725</u>	<u>\$416,820,217</u>

**Bonds Payable**

Bonds payable at June 30, 2009 consisted of the following:

	Net
JPFA Revenue Refunding Bonds - 1995 Series A	\$1,490,000
Harbour Tax Allocation Refunding Bonds - 1991	35,000
Harbour Tax Allocation Refunding Bonds - 1998 Series A	24,406,799
Pension Obligation Bonds - 1999 Series A	19,545,000
JPFA Tax Allocation Revenue Bonds - 2000 Series A	18,330,000
JPFA Tax Allocation Revenue Bonds - 2000 Series B	4,050,000
JPFA Tax Allocation Revenue Bonds - 2003 Series A	15,655,000
JPFA Tax Allocation Revenue Bonds - 2003 Series B	12,145,000
JPFA Tax Allocation Revenue Bonds - 2004 Series A	14,285,000
JPFA Tax Allocation Revenue Bonds - 2004 Series B	1,725,000
Pension Funding Bond Series 2005	130,948,392
Subordinate Tax Allocation Bonds - 2007 Series A	64,275,000
Subordinate Tax Allocation Bonds - 2007 Series B	10,293,600
JPFA Lease Revenue Bonds - 2007	96,260,000
<b>Total</b>	<u>\$413,443,791</u>

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**1995 Richmond Joint Powers Financing Authority Refunding Revenue Bonds Series A - Original Issue Series A \$17,320,000**

The Bonds were issued by the Richmond JPFA for the purpose of refinancing the cost of certain public capital improvements financed by 1990 Series A Revenue Bonds. The Series A Bonds consist of serial bonds that mature annually through 2013, in amounts ranging from \$525,000 to \$1,450,000. Interest rates vary from 4.0% to a maximum of 5.25% and payments are due semiannually on May 15 and November 15. The Series 1995A Local Obligations consist of a Master Lease with the City and an Installment Purchase Agreement with the City payable solely from gas tax revenues. During the year ended June 30, 2008 the Master Lease portion of the Bonds in the principal amount of \$5,498,291 was defeased by the 2007 Lease Revenue Bonds. The Installment Purchase Agreement portion of the Bonds with the outstanding principal balance of \$1,829,143 at the time of the defeasance remained outstanding.

The total principal and interest remaining to be paid on the bonds is \$1,691,075. Principal and interest paid for the current fiscal year and total Gas Tax Revenues were \$420,288 and \$1,695,634, respectively.

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

For the Years Ending June 30,	Principal	Interest	Total
2010	\$340,000	\$78,225	\$418,225
2011	365,000	60,375	425,375
2012	380,000	41,213	421,213
2013	405,000	21,262	426,262
<b>Total</b>	<b>\$1,490,000</b>	<b>\$201,075</b>	<b>\$1,691,075</b>

**1991 Harbour Redevelopment Project Tax Allocation Refunding Bonds – Original Issue \$11,465,000**

The Bonds were issued by the Redevelopment Agency to refund 1985 Tax Allocation and Refunding Bonds used for the Urban Renewal Plan for Project 11-A, the Harbour Redevelopment Plan. The Bonds consist of serial bonds in the amount of \$6,365,000 that mature annually through 2004, in amounts ranging from \$50,000 to \$740,000. Interest rates vary from 3.75% to a maximum of 6% and payments are due semiannually on January 1 and July 1. The Term Bonds bear interest at 7% and mature on July 1, 2009 with sinking fund payment requirements starting in 2004 and are secured by a pledge of incremental tax revenues derived from taxable property within the Harbour Project Area.

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

For the Year Ending June 30,	Principal	Interest	Total
2010	\$35,000	\$1,225	\$36,225

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**1998 Harbour Redevelopment Project Tax Allocation Refunding Bonds Series A – Original Issue \$21,862,779**

The bonds were issued by the Agency to refinance a portion of the 1991 Harbour Redevelopment Project Tax Allocation Refunding Bonds, refinance certain loans from the City to the Agency, which amount will be used by the City to finance certain publicly owned capital projects, finance certain redevelopment activities within the Harbour Redevelopment Project Area, fund a reserve account and pay certain costs of issuance of the 1998 bonds. The bonds mature annually through 2023, in amounts ranging from \$50,000 to \$1,130,000. Interest rates vary from 3.5% to a maximum of 5.2% and are payable semiannually on January 1 and July 1. The bonds are secured by a pledge of tax revenues derived from taxable property within the Harbour Project Area.

At June 30, 2009, the Bonds consisted of the following:

	Maturity Value	Accretion/ Amortization	Unamortized Premium (Discount)	Net
Current interest bonds	\$12,305,000			\$12,305,000
Capital appreciation bonds	16,935,000	\$582,897	(\$5,416,098)	12,101,799
	<b>\$29,240,000</b>	<b>\$582,897</b>	<b>(\$5,416,098)</b>	<b>\$24,406,799</b>

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

For the Years Ending June 30,	Principal	Interest	Total
2010	\$1,575,000	\$600,571	\$2,175,571
2011	1,595,000	574,826	2,169,826
2012	1,760,000	547,525	2,307,525
2013	1,800,000	518,513	2,318,513
2014	1,830,000	484,863	2,314,863
2015-2019	9,765,000	1,802,127	11,567,127
2020-2024	10,915,000	635,908	11,550,908
<b>Total</b>	<b>\$29,240,000</b>	<b>\$5,164,333</b>	<b>\$34,404,333</b>

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**1999 City of Richmond Taxable Limited Obligation Pension Bonds – Original Issue \$36,280,000**

The bonds were issued to fund a portion of the unfunded accrued actuarial liability in the Pension Fund together with the prepayment of certain pension benefit costs of the Beneficiaries and to pay the costs of issuance associated with the issuance of the bonds. The bonds consist of serial bonds in the amount of \$23,885,000 that mature annually on through 2013, in amounts ranging from \$1,280,000 to \$3,240,000. Interest rates vary from 6.37% to a maximum of 7.39% and are payable semiannually on February 1, and August 1. The term bonds consist of \$8,960,000 due August 1, 2020 with an interest rate of 7.57% and \$3,435,000 due August 1, 2029 with an interest rate of 7.62%. The bonds are payable from certain pension tax override revenues received by the City from a special tax pursuant to City Council Ordinance 9-99 adopted by the City Council on March 30, 1999. The total principal and interest remaining to be paid on the bonds is \$30,306,010. Principal and interest paid for the current fiscal year and total pension tax override revenues were \$3,138,726 and \$11,855,505 respectively.

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

For the Years Ending June 30,	Principal	Interest	Total
2010	\$1,570,000	\$1,404,450	\$2,974,450
2011	1,505,000	1,293,528	2,798,528
2012	1,435,000	1,186,741	2,621,741
2013	1,360,000	1,084,523	2,444,523
2014	1,280,000	987,315	2,267,315
2015-2019	7,280,000	3,342,417	10,622,417
2020-2024	3,550,000	1,205,810	4,755,810
2025-2029	1,490,000	253,367	1,743,367
2030	75,000	2,859	77,859
<b>Total</b>	<b>\$19,545,000</b>	<b>\$10,761,010</b>	<b>\$30,306,010</b>

**2000 Richmond Joint Powers Financing Authority Housing Set-Aside Tax Allocation Bonds Series A and Series B – Original Issue Series A \$25,720,000, Series B \$5,795,000**

The Bonds consist of Series A Bonds issued to fund certain capital improvements of the Redevelopment Agency. The Series B Bonds were issued for use in certain low and moderate income housing activities.

The Series A Bonds consist of Serial Bonds in the amount of \$25,210,000 and Term Bonds in the amount of \$510,000. The Serial Bonds mature annually through 2018 in amounts ranging from \$1,110,000 to \$2,205,000. Interest rates range from 4.0% to 5.5% and payments are due semiannually on March 1 and September 1. The Term Bonds mature in 2029 and bear interest at 5.25%.

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

The Series B Bonds consist of Serial Bonds in the amount of \$1,245,000 and term bonds in the amount of \$4,550,000. The Serial Bonds mature annually through 2006 in amounts ranging from \$170,000 to \$260,000. Interest rate is 7% and payments are due semiannually on March 1 and September 1. The Term Bonds mature as follows: \$1,075,000 in 2010 at an interest rate of 7.35%, \$3,365,000 in 2018 at an interest rate of 7.7% and \$110,000 in 2029 at an interest rate of 8.0%. The Bonds are secured by a pledge of certain tax increment revenues derived from taxable property within the Pre-2004 Limit Area and the Post-2004 Limit Area.

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

For the Years Ending June 30,	Principal	Interest	Total
2010	\$1,435,000	\$885,040	\$2,320,040
2011	1,500,000	819,720	2,319,720
2012	1,570,000	749,860	2,319,860
2013	1,640,000	675,210	2,315,210
2014	1,715,000	595,510	2,310,510
2015-2019	9,960,000	1,539,663	11,499,663
2020-2024	315,000	83,344	398,344
2025-2029	160,000	30,975	190,975
2030	35,000	919	35,919
<b>Total</b>	<b>\$18,330,000</b>	<b>\$5,380,241</b>	<b>\$23,710,241</b>

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

For the Years Ending June 30,	Principal	Interest	Total
2010	\$275,000	\$300,061	\$575,061
2011	300,000	278,930	578,930
2012	320,000	255,585	575,585
2013	345,000	229,983	574,983
2014	370,000	202,455	572,455
2015-2019	2,330,000	518,706	2,848,706
2020-2024	70,000	26,400	96,400
2025-2029	30,000	10,800	40,800
2030	10,000	400	10,400
<b>Total</b>	<b>\$4,050,000</b>	<b>\$1,823,320</b>	<b>\$5,873,320</b>

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**2003 Richmond Joint Powers Financing Authority Tax Allocation Revenue Bonds Series A and Series B – Original Issue Series A (\$16,080,000), Series B (\$12,500,000)**

The Bonds were issued on August 27, 2003 by the Richmond JPFA. The proceeds of the Series A Bonds were used to finance certain capital improvements for the Richmond Redevelopment Agency and pay \$13,000,000 to the City in partial payment of the Prior Obligations. The proceeds of the Series B Bonds were used to finance certain capital improvements for the Agency and pay \$5,000,000 to the City in partial payment of the Prior Obligations. Interest rates range from 3.00% to 6.30% and are payable semiannually on March 1 and September 1. The bonds are secured by a pledge of certain tax increment revenues derived from taxable property within the Post-2004 Limit Area.

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

For the Years Ending June 30,	Principal	Interest	Total
2010	\$810,000	\$1,472,834	\$2,282,834
2011	840,000	1,440,250	2,280,250
2012	870,000	1,403,606	2,273,606
2013	915,000	1,363,127	2,278,127
2014	955,000	1,319,253	2,274,253
2015-2019	5,530,000	5,804,578	11,334,578
2020-2024	9,725,000	3,737,333	13,462,333
2025-2026	8,155,000	465,223	8,620,223
<b>Total</b>	<b>\$27,800,000</b>	<b>\$17,006,204</b>	<b>\$44,806,204</b>

**2004 Richmond Joint Powers Financing Authority Tax Allocation Revenue Bonds Series A and Series B – Original Issue Series A \$15,000,000, Series B \$2,000,000**

The Bonds were issued on October 28, 2004 by the Richmond JPFA. The proceeds from the Series A Bonds were used to repay advances from the City and finance certain working capital requirements and low and moderate income housing activities of the Redevelopment Agency. The proceeds of the Series B Bonds were used to finance certain low and moderate income housing activities of the Redevelopment Agency. Interest rates range from 2.00% to 5.44% and payments are due semiannually on March 1 and September 1. The Bonds are secured by certain amounts payable by the Redevelopment Agency to the Authority and certain subordinate housing and non-housing tax increment revenues derived from the taxable property within the Merged Project Area.

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

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

For the Years Ending June 30,	Principal	Interest	Total
2010	\$230,000	\$816,766	\$1,046,766
2011	235,000	808,290	1,043,290
2012	250,000	798,832	1,048,832
2013	260,000	788,286	1,048,286
2014	270,000	776,801	1,046,801
2015-2019	1,535,000	3,683,660	5,218,660
2020-2024	6,160,000	2,484,175	8,644,175
2025-2027	7,070,000	817,951	7,887,951
<b>Total</b>	<b>\$16,010,000</b>	<b>\$10,974,761</b>	<b>\$26,984,761</b>

**2005 Taxable Pension Funding Bonds – Original Issue \$114,995,133**

These Bonds were issued to prepay the unfunded liability of the Miscellaneous and Safety pension plans provided through the California Public Employees' Retirement System (See Note 11). As of June 30, 2009, the City's net pension asset amounted to \$104,181,919. The Bonds consist of three series as shown below:

Bond Type & Series	Initial Interest Rate	Less: Credit Adjust-ment	Adjusted Interest Rate	Maturity Date	Original Principal Amount	Index Rate Conversion Data		
						Full Accretion Date	Adjusted Subsequent Interest Rate	Adjusted Maturity Value
Current Interest - 2005A	5.9350%	-0.1000%	5.8350%	8/1/13	\$26,530,000	n/a	n/a	n/a
Convertible Auction Rate Securities, Capital Appreciation Bonds -								
2005B-1	6.2550%	-0.1000%	6.1550%	8/1/23	47,061,960	8/1/13	LIBOR + 1.4%	\$75,218,000
2005B-2	6.5650%	-0.1000%	6.4650%	8/1/34	41,403,173	8/1/23	LIBOR + 1.4%	127,968,000
					<u>\$114,995,133</u>			<u>\$203,186,000</u>

*Credit Adjustment* - The Bonds were issued on November 1, 2005 in a private placement at the initial interest rates. Included in the Indenture were provisions which adjust the initial interest rates on each series based on the City's meeting certain conditions. As a result of the City issuing its June 30, 2005 financial statements and receiving an upgraded credit rating of A3 by Moody's by May 1, 2006, the initial interest rates were reduced by 1/10<sup>th</sup> of one percent.

*Current Interest Bonds* - The Series 2005A Bonds have principal payments due each August 1 in amounts ranging from \$845,000 to \$4,930,000. Interest is fixed and is payable semiannually on February 1 and August 1.

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

*Capital Appreciation Bonds* - The Series 2005B-1 Bonds and 2005B-2 Bonds are capital appreciation bonds, which means no interest is paid until the Adjusted Maturity Value is reached on the Full Accretion Date. Capital appreciation bonds are issued at a deep discount which then "accretes" over time. The discount on these bonds represented as the effective interest rate on each series is shown above.

**Mandatory Index Rate Conversion** – On the respective Full Accretion Date, the Series 2005B-1 or 2005B-2 Bonds convert from Capital Appreciation Bonds to Index Rate Bonds. From that date forward, the Bonds bear interest at a rate based on the LIBOR index plus 1.4%. This rate fluctuates according to the market conditions is limited to 17 percent per year. Following the applicable Full Accretion Date, interest on the converted bond series is due semiannually each February 1 and August 1. The Series 2005B-1 Bonds are due in annual installments from 2014 to 2023 ranging from \$4,468,000 to \$11,593,000. The 2005B-2 Bonds are due in annual installments from 2024 to 2034 ranging from \$6,466,000 to \$18,538,000.

**Optional Auction Rate Conversion** – On the respective Full Accretion Date, the 2005B-1 and the 2005B-2 Bonds may be converted to Auction Rate Bonds provided that certain conversion requirements are met. Auction rates fluctuate according to the market conditions is limited to a maximum 17 percent per year and a minimum of 80 percent of the LIBOR index rate.

**Swap Agreements** - The City entered into two interest rate swap agreements related to the 2005B-1 and 2005B-2 Bonds, which will become effective August 1, 2013 and August 1, 2023, respectively, in the same amount as the outstanding principal balances of the Bonds on that date. The combination of the variable rate bonds and a floating swap rate will create synthetic fixed-rate debt for the City. Because neither the variable rate nor the swap rates are effective as of June 30, 2009 the initial bond interest rates discussed above are used for disclosure purposes. The terms of the swap agreements will be disclosed when they become effective.

At June 30, 2009, the Bonds consisted of the following:

	Maturity Value	Accretion/ Amortization	Unamortized Premium (Discount)	Net
Current interest bonds	\$22,805,000			\$22,805,000
Capital appreciation bonds	203,186,000	\$6,504,776	(\$101,547,384)	108,143,392
	<u>\$225,991,000</u>	<u>\$6,504,776</u>	<u>(\$101,547,384)</u>	<u>\$130,948,392</u>

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

The annual debt service requirements are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2010	\$3,785,000	\$1,220,244	\$5,005,244
2011	4,330,000	983,489	5,313,489
2012	4,930,000	713,329	5,643,329
2013	5,555,000	407,429	5,962,429
2014	4,205,000	2,003,131	6,208,131
2015-2019	29,193,000	15,578,625	44,771,625
2020-2024	46,025,000	8,853,075	54,878,075
2025-2029	39,975,000	27,451,175	67,426,175
2030-2034	70,635,000	14,291,275	84,926,275
2035	17,358,000	433,950	17,791,950
<b>Total</b>	<u>\$225,991,000</u>	<u>\$71,935,722</u>	<u>\$297,926,722</u>

**Richmond Community Redevelopment Agency Subordinate Tax Allocation Bonds Series 2007 A and Series B - Original Issue Series A \$65,400,000, Series B \$9,772,622**

On July 12, 2007 the Redevelopment Agency issued Series 2007 A Subordinate Tax Allocation Bonds in the amount of \$65,400,000. The proceeds from the Bonds will be used to pay the amount of \$22,000,000 to the City to assist with the financing of the Civic Center Project, and to fund other Redevelopment Agency projects.

The 2007 A Subordinate Tax Allocation Bonds were issued as variable auction rate bonds with interest calculated every thirty-five days. The rate fluctuates according to the market conditions, but is capped at 12%. However, the City entered into a 29-year interest rate swap agreement for the entire amount of its 2007 A Subordinate Tax Allocation Bonds as discussed below. The combination of the variable rate Bonds and a floating rate swap creates synthetic fixed-rate debt for the Agency. The synthetic fixed rate for the Bonds was 5.722% at June 30, 2009.

At June 30, 2009, the Bonds consisted of the following:

	Maturity Value	Accretion/ Amortization	Unamortized Premium (Discount)	Net
Current interest bonds	\$64,275,000			\$64,275,000
Capital appreciation bonds	23,995,000	\$609,134	(\$14,310,534)	10,293,600
	<u>\$88,270,000</u>	<u>\$609,134</u>	<u>(\$14,310,534)</u>	<u>\$74,568,600</u>

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

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

For the Years Ending June 30,	Principal	Interest	Total
2010	\$1,525,000	\$3,795,336	\$5,320,336
2011	1,600,000	3,701,792	5,301,792
2012	1,675,000	3,603,763	5,278,763
2013	1,750,000	3,501,251	5,251,251
2014	1,825,000	3,394,253	5,219,253
2015-2019	10,475,000	15,187,315	25,662,315
2020-2024	13,575,000	11,585,919	25,160,919
2025-2029	15,450,000	7,437,046	22,887,046
2030-2034	9,600,000	3,501,126	13,101,126
2035-2037	6,800,000	609,897	7,409,897
<b>Total</b>	<b>\$64,275,000</b>	<b>\$56,317,698</b>	<b>\$120,592,698</b>

On July 12, 2007 the Redevelopment Agency issued Series 2007 B Housing Set-Aside Subordinate Tax Allocation Capital Appreciation Bonds in the amount of \$9,772,622 at interest rates ranging from 5.57% to 6.40%. The proceeds from the Bonds will be used to finance certain low and moderate income housing activities of the Redevelopment Agency. The bonds mature annually through 2037, in amounts ranging from \$465,000 to \$2,020,000. The bonds are secured by a pledge of subordinated housing and non-housing tax revenues.

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

For the Years Ending June 30,	Principal
2010	\$535,000
2011	580,000
2012	625,000
2013	675,000
2014	725,000
2015-2019	1,925,000
2020-2024	5,715,000
2025-2029	6,540,000
2030-2034	4,170,000
2035-2037	2,505,000
<b>Total</b>	<b>\$23,995,000</b>

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**Pledge of Redevelopment Tax Increment Revenues**

The six Tax Allocation Bond issues discussed above consist of senior and parity obligations secured by future tax increment revenues. The pledge of all future tax increment revenues (housing and non-housing revenue) ends upon repayment of \$280,402,782 remaining debt service on the Tax Allocation Bonds which is scheduled to occur in 2037. For fiscal year 2009, non-housing tax increment revenue and housing tax increment revenue pledged for both senior and parity obligations along with the associated debt service are listed below:

	Tax Revenue Pledged	Outstanding Obligation	For the Year Ended June 30, 2009		
			Debt Service	Tax Increment	Coverage
<b>Senior Non-Housing Obligations:</b>					
1991 Harbour Tax Allocation Refunding Bonds	Harbour Project Area	\$36,225	\$64,550		
1998 Harbour Tax Allocation Refunding Bonds	Harbour Project Area	34,404,333	1,174,903		
	Subtotal	34,440,558	\$1,239,453	\$10,948,146	883%
<b>Senior Non-Housing Obligations:</b>					
2000 A JPFA Tax Allocation Revenue Bonds	All project areas except Harbour and Pilot	23,710,241	\$2,317,441	\$11,343,028	489%
<b>Senior Non-Housing Obligations:</b>					
2003 A & B JPFA Tax Allocation Revenue Bonds	All project areas except Pilot	44,806,204	\$2,282,012		
<b>Subordinate Non-Housing Obligations:</b>					
2004 A JPFA Tax Allocation Revenue Bonds (Two-thirds)	All project areas except Pilot	16,331,781	605,039		
2007 A Subordinate Tax Allocation Bonds	All project areas except Pilot	120,592,698	4,967,926		
	Subtotal	181,730,683	\$7,854,977	\$22,791,174	284%
<b>Senior Housing Obligations:</b>					
2000 B JPFA Tax Allocation Revenue Bonds	Low and Moderate Income Housing Setaside Revenues	5,873,320	\$579,723		
<b>Subordinate Housing Obligations:</b>					
2004 B & One-third of 2004 A JPFA Tax Allocation Revenue Bonds	Low and Moderate Income Housing Setaside Revenues	10,652,980	547,728		
2007 B Subordinate Tax Allocation Bonds	Low and Moderate Income Housing Setaside Revenues	23,995,000	465,456		
	Subtotal	40,521,300	\$1,592,907	\$6,030,980	379%
	Total Outstanding Obligations	\$280,402,782			

**Richmond Joint Powers Financing Authority Lease Revenue Bonds Series 2007 - Original Issue \$101,420,000**

On September 11, 2007 the Richmond Joint Powers Financing Authority issued Series 2007 Lease Revenue Bonds in the amount of \$101,420,000. The proceeds from the Bonds were used to finance a portion of the costs of the new Civic Center Project, and to refund a portion of the 1995A Joint Powers Financing Authority Revenue Refunding Bonds and the remaining principal amount of the 2001A Joint Powers Financing Authority Lease Revenue Bonds. The 2007 Bonds were also used to refund the remaining 1996 Port Terminal Lease Revenue Bonds, which is discussed in Note 7B below. Net proceeds from the Series 2007 Bonds were used to purchase U.S. government securities placed in an irrevocable trust to provide all the future debt service payments for the refunded 1995 A and 2001 A Bonds. The 1995 A Bonds were called in November 2007. The outstanding balance of the defeased 2001 A Bonds was \$24,880,000 at June 30, 2009. The Series 2007 Bonds in the principal amount of \$97,790,000 have been recorded as governmental activities debt, and \$3,630,000 has been recorded as business-type activities as discussed in Note 7B below.

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

The 2007 Lease Revenue Bonds were originally issued as variable rate Bonds, however, on May 28, 2008 the Authority entered into an Interest Rate Conversion Agreement, adjusting from a weekly interest rate period to a Long-Term Interest Rate Period. The Long-Term Interest Rate Period fixes the interest rate on the bonds to 4.125% until November 25, 2009. With the original issuance, the Authority entered into a 31 year interest rate swap agreement for the entire amount of the 2007 Lease Revenue Bonds. In connection with the Interest Rate Conversion Agreement the City entered into a second interest rate swap agreement for the entire amount of the 2007 Lease Revenue Bonds to offset the economic effect of the original swap agreement during the long term interest rate period that is effective until November 25, 2009. The combination of the fixed rate Bonds and two interest rate swaps creates synthetic variable-rate debt. The synthetic variable rate for the Bonds was 5.732% at June 30, 2009.

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

For the Years Ending June 30,	Principal	Interest	Total
2010	\$1,430,000	\$5,613,084	\$7,043,084
2011	1,660,000	5,516,560	7,176,560
2012	1,720,000	5,415,094	7,135,094
2013	1,785,000	5,309,295	7,094,295
2014	1,850,000	5,199,917	7,049,917
2015-2019	11,335,000	24,162,811	35,497,811
2020-2024	15,250,000	20,125,730	35,375,730
2025-2029	18,340,000	15,105,661	33,445,661
2030-2034	22,060,000	9,066,966	31,126,966
2035-2038	20,830,000	2,091,262	22,921,262
<b>Total</b>	<b>\$96,260,000</b>	<b>\$97,606,380</b>	<b>\$193,866,380</b>

**Interest Rate Swap Agreements**

The City entered into interest swap agreements in connection with the 2007A Subordinate Tax Allocation Bonds and the 2007 Lease Revenue Bonds. The transactions allow the City to create a synthetic fixed rate or a synthetic variable rate on the Bonds, protecting it against increases and decreases in short-term interest rates. The terms, fair value and credit risk of the swap agreements are disclosed below. For the swap agreements pertaining to the 2005B-1 and 2005B-2 Taxable Pension Funding Bonds, these disclosures are included below, but the swap agreements do not become effective until August 1, 2013 and August 1, 2023, respectively.

*Terms.* The terms, including the counterparty credit ratings of the outstanding swaps, as of June 30, 2009, are included below. The swap agreements contain scheduled reductions to the outstanding notional amount that are expected to follow scheduled reductions in the Bonds.

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**Pay-Fixed, Receive-Variable Swap Agreements:**

For the following Pay-Fixed, Receive-Variable swap agreements, the City owes interest calculated at a fixed rate to the counterparty of the swaps. In return, the counterparty owes the City interest based on a variable rate that *approximates* the rate required by the Bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

**Pay-Fixed, Receive-Variable**

Notional Amount	Effective Date	Counterparty	Long-Term Credit Rating (S&P/Moody's/Fitch)	Fixed Rate Paid	Variable Rate Received	Fair Value at June 30, 2009	Termination Date
<b>2005B-1 Taxable Pension Funding Bonds</b>							
\$75,230,476	8/1/2013	JPMorgan Chase Co.	A+/-Aa3/AA-	5.712%	100% of USD-3 Month LIBOR	(\$3,570,442)	8/1/2023
<b>2005B-2 Taxable Pension Funding Bonds</b>							
\$127,990,254	8/1/2023	JPMorgan Chase Co.	A+/-Aa3/AA-	5.730%	100% of USD-3 Month LIBOR	(\$5,151,250)	8/1/2034
<b>2007A Subordinate Tax Allocation Bonds</b>							
\$64,875,000	7/12/2007	Royal Bank of Canada	AA-/Aaa/AA	3.990%	68% of USD-1 Month LIBOR	(\$9,238,547)	9/1/2036

**Offsetting Swap Agreements:**

The City entered into a Pay-Variable, Receive-Fixed swap agreement related to the 2007 Lease Revenue Bonds under which, the City owes interest calculated at a variable rate to the counterparty of the swap and in return, the counterparty owes the City interest based on a fixed rate to offset the economic effect of the Pay-Fixed Receive-Variable swap agreement on the Bonds during the long term interest rate period that fixed the interest rate on the bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

Notional Amount	Effective Date	Counterparty	Long-Term Credit Rating (S&P/Moody's/Fitch)	Fixed Rate Paid	Variable Rate Received	Fair Value at June 30, 2009	Termination Date
<b>Pay-Fixed, Receive-Variable</b>							
<b>2007 Lease Revenue Bonds</b>							
\$99,530,000	9/11/2007	Royal Bank of Canada	AA-/Aaa/AA	3.657%	68% of USD-1 Month LIBOR	(\$11,855,487)	8/1/2037
<b>Pay-Variable, Receive-Fixed</b>							
<b>2007 Lease Revenue Bonds</b>							
\$99,530,000	5/28/2008	Royal Bank of Canada	AA-/Aaa/AA	100% of SIFMA Municipal Swap Index	2.1825%	\$821,240	11/25/2009

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

*Fair value.* Fair value of the swaps take into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swaps, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap. As of June 30, 2009, the fair value for the each of the outstanding Pay-Fixed, Receive-Variable swaps was in favor of the respective counterparties, and the fair value for the Pay-Variable, Receive-Fixed swap was in favor of the City.

*Credit risk.* The fair values of the swaps represent the City's credit exposure to the counterparties. As of June 30, 2009, the City was not exposed to credit risk on the outstanding Pay-Fixed, Receive-Variable swaps because the swaps had negative fair values. However, if *interest* rates change and the fair value of the swaps were to become positive, the City would be exposed to credit risk. The City was exposed to credit risk on the outstanding Pay-Variable, Receive-Fixed swap because the swap had a positive fair value. This amount may increase if interest rates change in the future.

*Interest rate risk.* The City will be exposed to interest rate risk for the Pay-Fixed, Receive-Variable swaps only if the counterparty to the swaps defaults or if the swaps are terminated. The Pay-Variable, Receive-Fixed swap increases the City's exposure to variable interest rates. As the SIFMA Municipal Swap Index Rate increases, the City's net payment on the swap increases.

*Basis risk.* Basis risk is the risk that the interest rate paid by the City on the underlying variable rate bonds to the *bondholders* temporarily differs from the variable swap rate received from the counterparty. The City bears basis risk on the Pay-Fixed, Receive-Variable swaps. The swaps have basis risk since the City receives a percentage of the LIBOR Index to offset the actual variable bond rate the City pays on the underlying Bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

A portion of this basis risk is tax risk. The City is exposed to tax risk when the relationship between the taxable LIBOR based swap and tax-exempt variable rate bond changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the City is exposed to this basis risk.

*Termination risk.* The City may terminate if the other party fails to perform under the terms of the contract. The City will be exposed to variable rates if the counterparty to the swap contracts defaults or if the swap contracts are terminated. A termination of the swap contracts may also result in the City's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swaps have a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

*Swap payments and associated debt.* Using rates as of June 30, 2009, debt service requirements of the City's outstanding variable-rate 2007 Subordinate Tax Allocation Bonds and fixed rate 2007 Lease Revenue Bonds and net swap payments, assuming current interest rates remain the same for their term, are as follows. The 2005B-1 and 2005B-2 Bonds are not included in the table, because the swaps are not effective until August 1, 2013 and August 1, 2034, respectively. As rates vary, variable-rate bond interest payments and net swap payments will vary. These payments below for each of the Bonds are included in the Debt Service Requirements above:

**2007 Subordinate Tax Allocation Bonds**

For the Years Ending June 30,	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swap, Net	
2010	\$1,525,000	\$1,418,567	\$2,376,769	\$5,320,336
2011	1,600,000	1,384,910	2,316,882	5,301,792
2012	1,675,000	1,349,597	2,254,166	5,278,763
2013	1,750,000	1,312,630	2,188,621	5,251,251
2014	1,825,000	1,274,007	2,120,246	5,219,253
2015-2019	10,475,000	5,727,236	9,460,079	25,662,315
2020-2024	13,575,000	4,433,920	7,151,999	25,160,919
2025-2029	15,450,000	2,924,313	4,512,733	22,887,046
2030-2034	9,600,000	1,403,672	2,097,454	13,101,126
2035-2037	6,800,000	304,019	305,878	7,409,897
<b>Total</b>	<b>\$64,275,000</b>	<b>\$21,532,871</b>	<b>\$34,784,827</b>	<b>\$120,592,698</b>

**2007 Lease Revenue Bonds**

For the Years Ending June 30,	Fixed-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swaps, Net	
2010	\$1,790,000	\$4,227,277	\$1,572,981	\$7,590,258
2011	2,030,000	4,141,569	1,540,682	7,712,251
2012	2,105,000	4,051,656	1,506,958	7,663,614
2013	2,185,000	3,957,788	1,471,954	7,614,742
2014	2,265,000	3,860,742	1,435,665	7,561,407
2015-2019	12,675,000	17,715,326	6,584,212	36,974,538
2020-2024	15,250,000	14,677,602	5,448,128	35,375,730
2025-2029	18,340,000	11,023,840	4,081,821	33,445,661
2030-2034	22,060,000	6,628,764	2,438,202	31,126,966
2035-2038	20,830,000	1,545,786	545,476	22,921,262
<b>Total</b>	<b>\$99,530,000</b>	<b>\$71,830,350</b>	<b>\$26,626,079</b>	<b>\$197,986,429</b>

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**Loans Payable**

Loans payable at June 30, 2009 consisted of the following:

Wells Fargo Loan	\$500,000
CalTrans Home Loans	702,030
CHFA Help Loans	2,842,155
HUD Section 108 Loans	6,500,000
<b>Total</b>	<u><u>\$10,544,185</u></u>

**Wells Fargo Loan – Original Amount \$500,000**

The Richmond Redevelopment Agency entered into a loan agreement with Wells Fargo Bank for an original amount of \$500,000 to be used to provide direct predevelopment loans, subordinated loans, and line of credit to non-profit and profit developers primarily located in targeted community development areas in the City's jurisdiction. The interest rate on the loan is fixed at 1.5% for the first 10 years and adjustable to a fixed rate 3.5% below the ten year U.S. Treasury Note rate. The principal balance is due and payable 10 years from the date of the initial disbursement.

The annual debt service requirements on the Wells Fargo note are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2010		\$7,500	\$7,500
2011		7,500	7,500
2012		7,500	7,500
2013		7,500	7,500
2014		7,500	7,500
2015-2017	\$500,000	22,500	522,500
<b>Total</b>	<u><u>\$500,000</u></u>	<u><u>\$60,000</u></u>	<u><u>\$560,000</u></u>

**CalTrans Home Loans – Original Amount \$1,467,160**

The City has a loan from CalTrans which it used to purchase 43 homes in 1991. These homes were resold to Richmond Neighborhood Housing Services in order to provide housing to very low, and low and moderate income persons. Interest on the loan is computed annually based upon the average rate of return by the Pooled Money Investment Board for the past five years. Payment of principal and interest for 16 of the homes is made in quarterly payments over a 40 year period. Payment of principal and interest for 27 of the homes is deferred at least for the period that each home was committed by CalTrans to be used as affordable housing, which varies from seven to ten years. When the payments mature for the 27 homes, the City has the option to either make the full payment of principal and interest to CalTrans or execute a promissory note to pay the balance in quarterly payments over thirty to thirty-three years.

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**CHFA Help Loans – Original Amounts \$1,500,000 and \$1,000,000**

The Agency entered into two loan agreements with California Housing Finance Agency in September 2000 and November 2004 to assist the Agency with operating a local housing program, which provides loans to non-profit developers for the purpose of financing the acquisition, preconstruction, and construction of single-family ownership and multifamily rental properties. The loans are due 10 years from the date of each loan. The loans bear a simple 3% per annum interest rate, and all payments of principal and interest are deferred for a ten-year period. During fiscal year 2009 the interest accrued to principal totaled \$75,000.

**HUD Section 108 – Original Amount \$3,000,000**

In fiscal 2004, the Agency entered into a Disposition and Development Agreement to receive a Section 108 loan from the Department of Housing and Urban Development to finance costs related to the Ford Assembly Building project. Interest is payable quarterly and the interest rate is fixed at 2.58% or, in specific conditions, adjusted to the latest LIBOR Rate. The principal payments are due annually from 2009 through 2026.

For the Years Ending June 30,	Principal	Interest	Total
2010	\$143,000	\$132,955	\$275,955
2011	147,000	128,797	275,797
2012	150,000	123,931	273,931
2013	154,000	118,409	272,409
2014	158,000	112,308	270,308
2015-2019	854,000	455,118	1,309,118
2020-2024	970,000	238,246	1,208,246
2025-2026	424,000	22,578	446,578
<b>Total</b>	<u><u>\$3,000,000</u></u>	<u><u>\$1,332,342</u></u>	<u><u>\$4,332,342</u></u>

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**HUD Section 108 – Original Amount \$3,500,000**

In fiscal 2006, the Agency received a Section 108 loan from the Department of Housing and Urban Development to finance costs related to the North Richmond-Iron Triangle project. Interest is payable quarterly and the interest rate is fixed at 2.58% or, in specific conditions, adjusted to the latest LIBOR Rate. The principal payments are due annually from 2012 through 2026.

For the Years Ending June 30,	Principal	Interest	Total
2010		\$90,300	\$90,300
2011		90,300	90,300
2012	\$160,000	90,300	250,300
2013	170,000	81,786	251,786
2014	180,000	77,142	257,142
2015-2019	1,050,000	307,020	1,357,020
2020-2024	1,300,000	152,220	1,452,220
2025-2026	640,000	8,772	648,772
<b>Total</b>	<b>\$3,500,000</b>	<b>\$897,840</b>	<b>\$4,397,840</b>

**Capital Leases**

Capital leases payable at June 30, 2009 consisted of the following:

Municipal Finance Corporation - Viron	\$1,888,668
Sun Trust Leasing Corporation	6,412,298
<b>Total</b>	<b>\$8,300,966</b>

**Municipal Finance Corporation (CNB) Viron Mechanical Retrofit & Energy Management – Original Amount \$4,069,623**

In 2002 the City entered into a lease agreement with Municipal Finance Corporation to finance the purchase of the Viron mechanical retrofit and energy management equipment. The lease is payable in monthly installments of \$15,532 interest for the first nine months, then \$42,334 including principal and interest through July 2013.

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

The annual debt service requirements on this capital lease are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2010	\$430,469	\$77,539	\$508,008
2011	450,604	57,405	508,009
2012	471,680	36,328	508,008
2013	493,742	14,266	508,008
2014	42,173	161	42,334
<b>Total</b>	<b>\$1,888,668</b>	<b>\$185,699</b>	<b>\$2,074,367</b>

**SunTrust Leasing Corporation Computer Equipment Lease– Original Amount \$2,660,000**

In 2006, the City entered into a lease agreement with SunTrust Leasing Corporation to finance the purchase of computer equipment and software. The lease is payable in semi-annual installments of \$299,013 including principal and interest through June 2011.

The annual debt service requirements on this capital lease are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2010	\$554,486	\$43,540	\$598,026
2011	578,883	19,045	597,928
<b>Total</b>	<b>\$1,133,369</b>	<b>\$62,585</b>	<b>\$1,195,954</b>

**SunTrust Leasing Corporation Equipment Leases – Original Amount \$6,027,628**

On July 2, 2008 the City entered into three new capital leases for with SunTrust Leasing Corporation to finance the acquisition of street sweeping vehicles and trucks, fire vehicles and related equipment and various other vehicles. The leases bear interest rates that range from 3.90% to 4.35%. Principal and interest payments on the leases are due semi-annually on each June 26 and December 26 commencing on December 26, 2008 through 2018.

The annual debt service requirements on the capital leases are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2010	\$779,798	\$212,869	\$992,667
2011	812,189	180,478	992,667
2012	845,929	146,738	992,667
2013	881,074	111,593	992,667
2014	535,403	78,678	614,081
2015-2018	1,424,536	112,920	1,537,456
<b>Total</b>	<b>\$5,278,929</b>	<b>\$843,276</b>	<b>\$6,122,205</b>

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**B. Business-Type Activities**

The following is a summary of long-term debt of business-type activities during the fiscal year ended June 30, 2009:

	Balance			Balance June 30, 2009	Due Within One Year	Due in More than One Year
	July 01, 2008	Additions	Deletions			
Bonds payable	\$48,086,293	\$33,015,000	(\$35,963,079)	\$45,138,214	\$1,225,000	\$43,913,214
Loans and leases payable	5,427,430		(455,585)	4,971,845	470,113	4,501,732
<b>Total</b>	<u>\$53,513,723</u>	<u>\$33,015,000</u>	<u>(\$36,418,664)</u>	<u>\$50,110,059</u>	<u>\$1,695,113</u>	<u>\$48,414,946</u>

Bonds payable at June 30, 2009 consisted of the following:

Wastewater Revenue Bonds Series 2006A	\$14,825,306
2007 Lease Revenue Bonds - Port Portion	3,203,312
Wastewater Refunding Revenue Bonds 2008A	27,109,596
<b>Total</b>	<u>\$45,138,214</u>

**Port Terminal Lease Revenue Refunding Bonds Series 1999 – Original Issue \$10,955,000**

The Bonds were issued by the Authority to refund the Port Terminal Lease Revenue Bonds, Series 1994. The Bonds are special limited obligations of the Authority payable solely from revenues of the Authority pursuant to a Facilities Lease agreement with the City. The City has pledged subordinated Port revenues to the payment of the base rental payments of the Facilities Lease agreement. The Bonds consist of Serial Bonds that mature annually through 2009 in amounts ranging from \$930,000 to \$2,385,000. Interest rates vary from 3.7% to a maximum of 4.6% and payments are due semiannually on June 1 and December 1. The bonds were fully repaid during fiscal year 2009.

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**Wastewater Revenue Refunding Bonds Series 2006A and 2006B – Original Issue \$48,830,000**

On October 17, 2006 the City issued \$16,570,000 of Wastewater Revenue Bonds, Series 2006A and \$32,260,000 of Wastewater Revenue Bonds, Series 2006B to refund the remaining \$38,516,264 principal amount of the Wastewater Revenue Bonds, Series 1999 and to fund certain capital costs of the City's Wastewater Enterprise. Net proceeds were used to purchase U.S. government securities placed in an irrevocable trust to provide all the future debt service payments for the 1999 Wastewater Bonds. The outstanding balance of the defeased bonds as of June 30, 2009 was \$36,081,354. During the fiscal year ended June 30, 2009, the City issued \$33,015,000 of Wastewater Revenue Refunding Bonds, Series 2008A to refund the 2006B Bonds.

2006A Bonds outstanding are carried net of the unamortized loss on refunding, as follows:

Bonds outstanding:	
Series 2006 A	\$16,570,000
Unamortized deferred amount on refunding	(2,262,667)
Unamortized premium	517,973
<b>Net</b>	<u>\$14,825,306</u>

Principal and interest payments are due semi-annually on February 1 and August 1 of each year through August 2022 for the Series 2006A bonds. The annual debt service requirements on the 2006A Bonds are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2010	\$865,000	\$723,088	\$1,588,088
2011	905,000	683,263	1,588,263
2012	945,000	641,638	1,586,638
2013	990,000	595,625	1,585,625
2014	1,040,000	544,875	1,584,875
2015-2019	6,020,000	1,895,925	7,915,925
2020-2023	5,805,000	514,413	6,319,413
<b>Total</b>	<u>\$16,570,000</u>	<u>\$5,598,827</u>	<u>\$22,168,827</u>

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**Richmond Joint Powers Financing Authority Lease Revenue Bonds Series 2007 – Port Refunding Bonds Original Issue \$3,630,000**

On September 11, 2007 the Richmond Joint Powers Financing Authority issued Series 2007 Lease Revenue Bonds in the amount of \$101,420,000 as discussed in Note 7A above. A portion of the proceeds from the 2007 Bonds were used to refund the remaining \$3,865,000 principal amount of the 1996 Port Terminal Lease Revenue Bonds. The Series 2007 Bonds in the principal amount of \$97,790,000 have been recorded as governmental activities debt, as discussed in Note 7A above, and \$3,630,000 has been recorded as debt in the Port of Richmond Enterprise Fund. Net proceeds from the Series 2007 Bonds were used to purchase U.S. government securities placed in an irrevocable trust to provide all the future debt service payments for the refunded Bonds. The 1996 Bonds were called in March 2008. 2007 Bonds outstanding are carried net of the unamortized loss on refunding as follows:

Bonds outstanding:	
2007 Port Portion	\$3,270,000
Unamortized deferred amount on refunding	(66,688)
<b>Net</b>	<b><u>\$3,203,312</u></b>

The 2007 Lease Revenue Bonds were originally issued as variable rate Bonds, however, on May 28, 2008 the Authority entered into an Interest Rate Conversion Agreement, adjusting from a weekly interest rate period to a Long-Term Interest Rate Period. The Long-Term Interest Rate Period fixes the interest rate on the bonds at 4.125% until November 25, 2009. With the original issuance, the Authority entered into a 31-year interest rate swap agreement for the entire amount of the 2007 Lease Revenue Bonds. In connection with the Interest Rate Conversion Agreement the City entered into a second interest rate swap agreement for the entire amount of the 2007 Lease Revenue Bonds to offset the economic effect of the original swap agreement during the long term interest rate period that is effective until November 25, 2009. The combination of the fixed rate Bonds and two interest rate swaps creates synthetic variable-rate debt. Information regarding the interest rate swap agreement in connection with the 2007 Lease Revenue Bonds is discussed in Note 7A above.

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

For the Years	Principal	Interest	Total
Ending June 30,			
2010	\$360,000	\$187,174	\$547,174
2011	370,000	165,691	535,691
2012	385,000	143,520	528,520
2013	400,000	120,447	520,447
2014	415,000	96,490	511,490
2015-2017	1,340,000	136,727	1,476,727
<b>Total</b>	<b><u>\$3,270,000</u></b>	<b><u>\$850,049</u></b>	<b><u>\$4,120,049</u></b>

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**Richmond Variable Rate Wastewater Revenue Refunding Bonds, Series 2008 A**

On October 17, 2008 the City issued Series 2008A Wastewater Revenue Refunding Bonds in the amount of \$33,015,000. The proceeds from the Bonds were used to refund the City's 2006B Wastewater Revenue Bonds. The 2008A Bonds were issued as variable rate Bonds. The rate fluctuates according to the market conditions, but is capped at 12%. Along with the issuance, the City entered into an irrevocable, direct-pay letter of credit issued by Union Bank of California in order to remarket the bonds at lower interest rates. The Union Bank letter of credit is valid through October 13, 2013. The City originally entered into a 31-year interest rate swap agreement for the entire amount of the 2006B Bonds, and the City continued this interest rate swap agreement after the redemption of the 2006B Bonds, and the 2008A Bonds are associated with the interest rate swap agreement, but the notional amount of the swap is based on the 2006B Bonds. The combination of the variable rate bonds and a floating rate swap creates a synthetic fixed-rate debt for the City. The synthetic fixed rate for the Bonds was 3.468% at June 30, 2009.

Bonds outstanding	\$33,015,000
Unamortized discount	(209,775)
Unamortized deferred amount on refunding	(5,695,629)
<b>Net</b>	<b><u>\$27,109,596</u></b>

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

For the Years	Principal	Interest	Total
Ending June 30,			
2010		\$1,129,019	\$1,129,019
2011	\$15,000	1,392,306	1,407,306
2012	15,000	1,392,147	1,407,147
2013	15,000	1,392,688	1,407,688
2014	15,000	1,391,786	1,406,786
2015-2019	100,000	6,956,875	7,056,875
2020-2024	1,725,000	6,896,669	8,621,669
2025-2029	9,220,000	5,540,776	14,760,776
2030-2034	11,200,000	3,355,578	14,555,578
2035-2039	10,710,000	799,060	11,509,060
<b>Total</b>	<b><u>\$33,015,000</u></b>	<b><u>\$30,246,904</u></b>	<b><u>\$63,261,904</u></b>

**Pledge of Wastewater Revenues**

The City has pledged future wastewater customer revenues, net of specified operating expenses, to repay the 2006A and 2008A Bonds through 2039. The Municipal Sewer Enterprise Fund's total principal and interest remaining to be paid on the bonds is \$85,430,731. The Municipal Sewer Enterprise Fund's principal and interest paid for the current year (excluding the current refunding of the 2006B Bonds of \$32,260,000) and total customer net revenues were \$2,671,136 and \$3,092,341 respectively.

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**Interest Rate Swap Agreement**

The City originally entered into an interest swap agreement in connection with the 2006B Wastewater Revenue Bonds, this agreement is being continued in association with the 2008A Wastewater Revenue Refunding Bonds. Therefore, the notional amount of the swap is based on the 2006B Bonds. The transaction allows the City to create a synthetic fixed rate on the Bonds, protecting it against increases in short-term interest rates. The terms, fair value and credit risk of the swap agreement is disclosed below.

*Terms.* The terms, including the counterparty credit rating of the outstanding swap, as of June 30, 2009, are included below. The swap agreement contains scheduled reductions to the outstanding notional amount that are expected to follow scheduled reductions in the Bonds.

Notional Amount	Effective Date	Counterparty	Long-Term Credit Rating (S&P/Moody's/Fitch)	Fixed Rate Paid	Variable Rate Received	Fair Value at June 30, 2009	Termination Date
\$32,260,000	10/17/2006	JPMorgan Chase Co.	A+/-Aa3/AA-	3.661%	63.42% of USD-LIBOR-BBA	(\$4,528,978)	8/1/2037

Based on the swap agreement, the City owes interest calculated at a fixed rate to the counterparty of the swap. In return, the counterparty owes the City interest based on the variable rate that *approximates* the rate required by the Bonds. Debt principal is not exchanged; it is only the basis on which the swap receipts and payments are calculated.

*Fair value.* Fair value of the swap takes into consideration the prevailing interest rate environment, the specific terms and conditions of each transaction and any upfront payments that may have been received. Fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swap. As of June 30, 2009, the fair value of the swap was in favor of the counterparty.

*Credit risk.* As of June 30, 2009, the City was not exposed to credit risk on the outstanding swap because the swap had a negative fair value. However, if *interest* rates increase and the fair value of the swap were to become positive, the City would be exposed to credit risk. The City will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated.

*Basis risk.* Basis risk is the risk that the interest rate paid by the City on the underlying variable rate bonds to the *bondholders* temporarily differs from the variable swap rate received from the counterparty. The City bears basis risk on the swap. The swap has basis risk since the City receives a percentage of the LIBOR Index to offset the actual variable bond rate the City pays on the underlying Bonds. The City is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the City pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary.

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

A portion of this basis risk is tax risk. The City is exposed to tax risk when the relationship between the taxable LIBOR based swap and tax-exempt variable rate bond changes as a result of a reduction in federal and state income tax rates. Should the relationship between LIBOR and the underlying tax-exempt variable rate bonds converge the City is exposed to this basis risk.

*Termination risk.* The City may terminate if the other party fails to perform under the terms of the contract. The City will be exposed to variable rates if the counterparty to the swap contract defaults or if the swap contract is terminated. A termination of the swap contract may also result in the City's making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

*Swap payments and associated debt.* Using rates as of June 30, 2009, debt service requirements of the City's outstanding variable-rate Bonds and net swap payments, assuming current interest rates remain the same for their term, are as follows. As rates vary, variable-rate bond *interest payments* and net swap payments will vary. These payments below are included in the Debt Service Requirements above:

For the Years Ending June 30,	Variable-Rate Bonds		Interest Rate	Total
	Principal	Interest	Swap, Net	
2010		\$84,422	\$1,044,597	\$1,129,019
2011	\$15,000	347,709	1,044,597	1,407,306
2012	15,000	347,550	1,044,597	1,407,147
2013	15,000	348,091	1,044,597	1,407,688
2014	15,000	347,189	1,044,597	1,406,786
2015-2019	100,000	1,733,890	5,222,985	7,056,875
2020-2024	1,725,000	1,725,979	5,170,690	8,621,669
2025-2029	9,220,000	1,439,130	4,101,646	14,760,776
2030-2034	11,200,000	909,550	2,446,028	14,555,578
2035-2039	10,710,000	271,580	527,480	11,509,060
<b>Total</b>	<b>\$33,015,000</b>	<b>\$7,555,090</b>	<b>\$22,691,814</b>	<b>\$63,261,904</b>

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**Loans and Leases Payable**

Loans and leases payable at June 30, 2009, consisted of the following:

State Revolving Fund Loan Contract	\$1,708,026
California Department of Boating and Waterways	<u>3,263,820</u>
<b>Total</b>	<u><u>\$4,971,846</u></u>

**State Revolving Fund Loan Contract**

In 1992 the State of California Water Resources Control Board loaned the City \$6,737,658 at 3% interest for the improvement of the Richmond Wastewater Treatment Facility. Payments on the loan are due annually through 2013.

The annual debt service requirements on the State Revolving Fund Loan are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2010	\$410,170	\$51,241	\$461,411
2011	422,475	38,936	461,411
2012	435,221	26,190	461,411
2013	440,160	13,205	453,365
<b>Total</b>	<u>\$1,708,026</u>	<u>\$129,572</u>	<u>\$1,837,598</u>

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**California Department of Boating and Waterways**

The Agency has three loan agreements with the California Department of Boating and Waterways for total borrowings of \$9,427,000. Proceeds from the loans were used to finance marina construction projects. The loans bear interest at rates ranging from 4.5% to 7.9% and are due in annual installments through 2042. The total amount outstanding at June 30, 2009 was \$3,263,820.

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

For the Years Ending June 30,	Principal	Interest	Total
2010	\$59,943	\$146,872	\$206,815
2011	62,641	144,174	206,815
2012	65,459	141,356	206,815
2013	68,405	138,410	206,815
2014	71,483	135,332	206,815
2015-2019	408,662	625,414	1,034,076
2020-2024	509,267	524,808	1,034,075
2025-2029	634,639	399,436	1,034,075
2030-2034	704,945	245,091	950,036
2035-2039	550,706	101,394	652,100
2040-2043	127,670	6,801	134,471
<b>Total</b>	<u>\$3,263,820</u>	<u>\$2,609,088</u>	<u>\$5,872,908</u>

**C. Business-Type Activities – RHA Properties**

The following is a summary of RHA Properties long-term debt activities during the fiscal year ended June 30, 2009:

	Balance July 01, 2008	Deletions	Balance June 30, 2009	Due Within One Year	Due in More than One Year
Bonds payable	<u>\$33,331,188</u>	<u>(\$412,648)</u>	<u>\$32,918,540</u>	<u>\$690,000</u>	<u>\$32,228,540</u>

Bonds payable at June 30, 2009 consisted of the following:

RHA Properties Affordable Housing Agency Bonds Series 2003 A	\$21,160,000
JPFA Subordinate Multifamily Housing Revenue Bonds Series 2007	<u>11,758,540</u>
	<u><u>\$32,918,540</u></u>

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**RHA Properties Affordable Housing Agency Bonds 2003 Series A**

The Affordable Housing Agency, a financial intermediary, issued Variable Rate Demand Multifamily Housing Revenue Bonds (Westridge at Hilltop Apartments), 2003 Series A (Senior Bonds), in the initial aggregate principal amount of \$23,000,000, and Subordinate Multifamily Housing Revenue Bonds, 2003 Series A-S (Subordinated Bonds), in the initial aggregate principal amount of \$12,000,000 and has loaned the proceeds to RHA Properties which used the proceeds to acquire a 401-unit multifamily apartment project.

Pursuant to lease and sublease agreements, RHA Properties remits lease payments to a trustee acting on behalf of the financial intermediary which are sufficient in timing and amount to be used to pay debt service on the bonds. In substance RHA Properties is repaying these Bonds and they have therefore been included in these financial statements.

The *Senior Bonds* were issued August 1, 2003, mature on September 15, 2033 and bear a variable rate of interest (1.80% at June 30, 2009) with interest payments due monthly commencing September 15, 2003.

Interest rates on the Senior Bonds are reset periodically, using the "put" mechanism described below. The Senior Bonds are periodically subject to repurchase at par, referred to as a "put". Once a put occurs, a remarketing agent resells the Senior Bonds at par by setting new interest rates and repurchase dates. RHA Properties has obtained an irrevocable transferable credit enhancement instrument which expires September 20, 2033 in the amount of \$23,000,000 to be used in the event the remarketing agent is unable to resell any Senior Bonds and to ensure RHA Properties will not be required to repurchase the Senior Bonds before they mature. RHA Properties paid the agent an annual fee equal 0.10% of the average aggregate principal amount of Bonds outstanding for the immediately preceding 12 months period.

The annual debt service requirements are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2010	\$400,000	\$913,576	\$1,313,576
2011	400,000	895,514	1,295,514
2012	400,000	878,471	1,278,471
2013	500,000	856,319	1,356,319
2014	500,000	836,169	1,336,169
2015-2019	3,000,000	3,817,691	6,817,691
2020-2024	4,100,000	3,054,682	7,154,682
2025-2029	5,600,000	2,013,751	7,613,751
2030-2034	6,260,000	618,021	6,878,021
<b>Total</b>	<b>\$21,160,000</b>	<b>\$13,884,194</b>	<b>\$35,044,194</b>

The *Subordinate Bonds* were issued August 1, 2003, mature December 15, 2033 and are subordinates in payment and security to the Senior Bonds. The Subordinate Bonds bear interest at 6.375% per year, payable semi-annually commencing December 15, 2003. The Bonds were refunded as described below.

**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**JPFA Subordinate Multifamily Housing Revenue Bonds, Series 2007**

On April 12, 2007, the Richmond Joint Powers Financing Authority issued \$12,540,000 of Subordinate Multifamily Housing Revenue Bonds (Westridge at Hilltop Apartments), Series 2007 to advance refund and defease \$11,345,000 of the Subordinate Multifamily Housing Revenue Bonds, 2003 Series A-S (Subordinated Bonds). The *2007 Series Subordinate Bonds* bear interest from 3.850% to 5% per annum, payable semi-annually commencing June 15, 2007. Net proceeds were used to purchase U.S. government securities for the 2003 Series A-S Bonds. Those securities were deposited in irrevocable trust with an escrow agent to provide for all future debt service payments. The 2003 Series A-S Bonds are considered to be defeased and the liabilities for those bonds have been removed. The Series 2003 A-S Bonds were called on December 15, 2008.

Bonds outstanding are carried net of the deferred amount of refunding, as follows:

Bonds outstanding	\$12,535,000
Deferred amount on refunding	(776,460)
<b>Net</b>	<b>\$11,758,540</b>

The annual debt service requirements are as follows:

For the Years Ending June 30,	Principal	Interest	Total
2010	\$290,000	\$596,989	\$886,989
2011	300,000	585,508	885,508
2012	310,000	573,218	883,218
2013	325,000	560,170	885,170
2014	340,000	546,310	886,310
2015-2019	1,930,000	2,498,260	4,428,260
2020-2024	2,420,000	1,999,838	4,419,838
2025-2029	3,100,000	1,321,875	4,421,875
2030-2034	3,520,000	454,125	3,974,125
<b>Total</b>	<b>\$12,535,000</b>	<b>\$9,136,293</b>	<b>\$21,671,293</b>

RHA Properties has pledged future revenues to repay the Bonds through 2033. Annual principal and interest payments on the bonds are expected to require less than 17 percent of revenues. The RHA properties total principal and interest remaining to be paid on the bonds is \$56,715,487. The RHA properties principal and interest paid for the current fiscal year and total rental revenues were \$1,973,202 and \$3,683,603, respectively.

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**NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)**

**Special Assessment Debt Without City Commitment**

Special assessment districts have been established in various parts of the City to provide improvements to properties located in those districts. Properties in these districts are assessed for the cost of improvements; these assessments are payable solely by property owners over the term of the debt issued to finance these improvements. The City is not legally or morally obligated to pay these debts or be the purchaser of last resort of any foreclosed properties in these special assessment districts, nor is it obligated to advance City funds to repay these debts in the event of default by any of these districts. At June 30, 2009, the balance of these Districts' outstanding debts was as follows:

1999 JPFA Revenue Refunding Bonds, Series A, secured solely by revenues from Hilltop Area Development District F and Cutting Boulevard/Canal Boulevard	\$1,140,000
Richmond JPFA Reassessment Revenue Bonds, 2003 Series A, secured solely by revenues from Reassessment District 2003-1 (Atlas Interchange/Atlas Road West)	7,480,000
Harbor Navigation Improvement District	1,280,000
Community Facilities District No. 1998-1	3,770,000
San Pablo Avenue Street Lighting District No. 854	30,000
Richmond JPFA Reassessment Revenue Refunding Bonds, Series 2006A (including Series 2006AT)	9,605,000
Richmond JPFA Reassessment Revenue Refunding Bonds, Series 2006B	1,895,000

**Conduit Debt**

The City has assisted private-sector entities by sponsoring their issuance of debt for purposes the City deems to be in the public interest. These debt issues are secured solely by the property financed by the debt. The City is not legally or morally obligated to pay these debts or be the purchaser of last resort of any foreclosed properties secured by these debts, nor is it obligated to advance City funds to repay these debts in the event of default by any of these issuers. At June 30, 2009, the balance of these issuers' outstanding debts was as follows:

Bridge Housing Acquisitions, Inc.	\$13,105,000
YMCA of the East Bay, 1996 Revenue Bonds	3,135,000
Baycliff Apartment Project, 2004 Revenue Bonds	32,000,000
Crescent Park Apartment Project, 2007 Series A & Series A-T Revenue Bonds	67,000,000

**NOTE 8 - DEFERRED REVENUE AND UNEARNED REVENUE**

**Fund Financial Statements**

At June 30, 2009, the following deferred revenues were recorded in the Fund Financial Statements because either the revenues had not been earned or the funds were not available to finance expenditures of the current period:

	General Fund	Redevelopment Agency Administration	Redevelopment Agency Low/Med Income Housing	Redevelopment Agency Projects	Community Development Block Grant	Non-Major Governmental Funds	Total
Loans Receivable	\$702,030	\$2,666,037	\$17,525,097		\$7,088,970		\$38,505,000
Grants Receivable				1,121,464		\$1,868,397	2,989,861
Park & recreation receivable - unearned rents	93,590						93,590
<b>Total</b>	<b>\$795,620</b>	<b>\$2,666,037</b>	<b>\$17,525,097</b>	<b>\$1,121,464</b>	<b>\$7,088,970</b>	<b>\$1,868,397</b>	<b>\$41,588,451</b>

**NOTE 9 - DEFICIT FUND BALANCES AND ACCUMULATED DEFICITS**

Deficit fund balance of \$561,219 and \$416,107 in the Paratransit Operations and Cost Recovery Special Revenue Funds will be eliminated by future service revenues.

**NOTE 10 - CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

**Plan Description and Provisions**

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan that covers substantially all eligible City employees. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

**Funding Policy**

Active plan members are required by state statute to contribute 7%-8% for miscellaneous and 9% for safety employees of their annual covered salary. The City, as employer, was required to contribute at an actuarially determined rate of 11.201% and 16.807% of annual covered payroll for miscellaneous and safety employees, respectively. Total employer contributions based on the actuarially determined rates amounted to \$9,419,549 for the year ended June 30, 2009.

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**NOTE 10 - CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (Continued)**

**Annual Pension Cost and Net Pension Asset**

For 2008-2009, the City's annual pension cost of \$11,948,149 for PERS was equal to the City's required and actual contributions and amortization of the prepaid pension contributions discussed below. The required contribution was determined by PERS using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.25% to 14.45% for miscellaneous employees and from 3.25% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization periods at June 30, 2009, were 32 years for both the miscellaneous and the safety employees plans for prior and current service unfunded liability.

The City uses the actuarially determined percentages of payroll to calculate and pay contributions to PERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by PERS, for the last three fiscal years for each Plan were:

<i>Safety Plan:</i>			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
6/30/2007	\$5,506,687	75%	\$63,785,279
6/30/2008	6,086,347	76%	62,354,249
6/30/2009	6,464,293	77%	60,876,710

<i>Miscellaneous Plan:</i>			
Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
6/30/2007	\$4,830,259	80%	\$45,374,247
6/30/2008	5,690,141	82%	44,356,270
6/30/2009	5,483,856	81%	43,305,209

**NOTE 10 - CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (Continued)**

The City prepaid its pension contributions with proceeds from the 2005 Pension Obligation Bonds (See Note 7). These prepaid contributions are reflected in the accompanying financial statements as Net Pension Asset which amounted to \$104,181,919 at June 30, 2009. During fiscal 2009, the amortization of the prepayment increased the actuarially required contributions by \$2,528,600 to arrive at Annual Pension Costs of \$11,948,149, as shown below for each Plan:

	<u>Safety</u>	<u>Miscellaneous</u>	<u>Total</u>
Annual required contribution	\$4,986,754	\$4,432,795	\$9,419,549
Interest on net pension obligation	(4,832,454)	(3,437,611)	(8,270,065)
Adjustment to annual required contribution	6,309,993	4,488,672	10,798,665
Annual pension cost	6,464,293	5,483,856	11,948,149
Contributions made	(4,986,754)	(4,432,795)	(9,419,549)
(Decrease) increase in net pension obligations	1,477,539	1,051,061	2,528,600
Net pension obligation (asset) June 30, 2008	(62,354,249)	(44,356,270)	(106,710,519)
<b>Net pension obligation (asset) June 30, 2009</b>	<b><u>(\$60,876,710)</u></b>	<b><u>(\$43,305,209)</u></b>	<b><u>(\$104,181,919)</u></b>

<i>Safety Plan:</i>						
Actuarial						
Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
06/30/06	\$339,241,980	\$339,619,607	(\$377,627)	100.1%	\$21,314,998	(1.8%)
06/30/07	362,133,278	359,089,009	3,044,269	99.2%	24,752,789	12.3%
06/30/08	382,363,901	374,325,089	8,038,812	97.9%	27,344,889	29.4%

<i>Miscellaneous Plan:</i>						
Actuarial						
Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
06/30/06	\$277,497,262	\$278,531,185	(\$1,033,923)	100.4%	\$29,837,781	(3.5%)
06/30/07	294,179,170	294,827,825	(648,655)	100.2%	33,931,419	(1.9%)
06/30/08	308,163,049	308,983,271	(820,222)	100.3%	37,795,755	(2.2%)

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**NOTE 11 – OTHER CITY PENSION PLANS**

**Plan Descriptions and Funding Policies**

The City maintains three, single-employer pension plans, which are funded entirely by City contributions. These are the General Pension Plan, Police and Firemen’s Pension Plan, and Garfield Pension Plan (collectively, the “Plans”). The General Pension Plan, a defined benefit pension plan, covering 29 former City employees not covered by PERS, all of whom have retired. The Police and Firemen’s Pension Plan, a defined benefit pension plan covers 84 police and fire personnel employed prior to October 1964. The Garfield Pension Plan is a defined benefit pension plan established for a retired police chief. The Plans provide retirement, disability, and death benefits based on the employee’s years of service, age, and final compensation. Benefit provisions for the Plans are established by City ordinance. No separate financial statements are issued for the Plans.

**General Pension Plan** – Retirement and other benefits are paid from the assets of the Plan and from related investment earnings. The City is required under its charter to contribute the remaining amounts necessary to fund the Plan using the entry age-normal actuarial method as specified by ordinance.

**Police and Firemen’s Pension Plan** – Funding for the Plan is provided from the Secured Pension Override Special Revenue Fund. Employees were vested after five years of service. Members of the Plan are allowed normal retirement benefits after 25 or more continuous years of service. The City is required under its charter to contribute the remaining amounts necessary to fund the Plan using the entry age-normal actuarial method as specified by ordinance.

The City established the Secured Pension Override Special Revenue Fund to which proceeds of a special incremental property tax levy voted by the citizens of the City of Richmond are credited for the payment of benefits under the Plan.

**Garfield Pension Plan** – Retirement and other benefits are paid from the assets of the Plan and from related investment earnings. Plan provisions have been established and may be amended upon agreement between the City and Mr. Garfield.

**Pension Plan Assets**

At June 30, 2009 the pension plans’ reported assets available for benefits of \$20,959,176. The composition of these assets at June 30, 2009 is shown below. For actuarial purposes, the value of the Plans’ assets was determined to be fair value.

Pooled cash and investments	\$ 4,578,634
Local Agency Investment Fund	187,348
Wellington Trust Company Fund	<u>16,193,194</u>
Assets available for benefits at June 30, 2009	<u>\$ 20,959,176</u>

**NOTE 11 – OTHER CITY PENSION PLANS (Continued)**

**Actuarially Determined Required Contributions**

**General Pension Plan** – As of July 1, 2007, the date of the most recent actuarial valuation available, the actuarial present value of pension benefits under the Plan was \$5,242,136 and the assets of the Plan at fair value were \$2,416,881 resulting in an unfunded actuarial liability of \$2,825,255. In computing the actuarial valuation, Plan assets were assumed to yield a 4.5% return and benefit payments were assumed to increase 3.5% annually. Assumptions for retirement age, disability, withdrawal, and salary increases were not meaningful as all of the participants had retired. The required contribution was determined by using the entry age normal actuarial cost method.

**Police and Firemen’s Pension Plan** – The City established the Secured Pension Override Special Revenue Fund to which proceeds of a special incremental property tax levy voted by the citizens of the City of Richmond are credited for the payment of benefits under the Plan. The incremental property tax revenue received for the year ended June 30, 2009 was \$4,800,000. Pension benefits for the 2008/2009 fiscal year were \$4,828,836. The actuarial present value of future pension liabilities under the Plan at July 1, 2007, the date of the most recent actuarial valuation, was approximately \$43,591,093, representing principally prior service costs. Assets of the Plan were \$22,910,310 resulting in an unfunded actuarial liability of \$20,680,783. Actuarial assumptions included an assumed rate of return of 6.5%. Mortality rates were based on the mortality tables currently used by California PERS. These PERS mortality tables were further adjusted to reflect anticipated future mortality improvement. Benefit payments were assumed to increase 3.5% annually. Assumptions for retirement age, disability, withdrawal, and salary increases have an insignificant effect on the valuation as substantially all of the participants had retired. The required contribution was determined by using the entry age normal actuarial cost method.

**Garfield Pension Plan** – As of July 1, 2007, the date of the most recent actuarial valuation available, the actuarial present value of pension benefits under the Plan was \$899,777 and the assets of the Plan at fair value were \$326,228 resulting in an unfunded actuarial liability of \$573,549. In computing the actuarial valuation, Plan assets were assumed to yield a 4.5% return and benefit payments were assumed to increase 3.5% annually. Assumptions for retirement age, disability, withdrawal, and salary increases were not meaningful as the only participant had retired. The required contribution was determined by using the entry age normal actuarial cost method.

Six-year historical trend information relative to contributions is presented below:

Fiscal Year	General Pension Plan			Police and Firemen's Pension Plan		
	Annual Required Contribution	Amount Contributed	Percent Contributed	Annual Required Contribution	Amount Contributed	Percent Contributed
2003/04	\$357,744	\$1,119,537	313%	\$2,428,906	\$2,899,909	119%
2004/05	299,319	946,476	316%	2,191,252	2,440,857	111%
2005/06	238,264	238,264	100%	2,215,648	2,215,648	100%
2006/07	238,264	238,264	100%	2,215,648	6,215,648	281%
2007/08	307,948	307,948	100%	2,199,459	5,000,000	227%
2008/09	307,948	307,948	100%	2,199,459	4,800,000	218%

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**NOTE 11 – OTHER CITY PENSION PLANS (Continued)**

Fiscal Year	Garfield Pension Plan		
	Annual Required Contribution	Amount Contributed	Percent Contributed
2003/04	\$56,920	\$0	0%
2004/05	62,856	0	0%
2005/06	73,917	73,917	100%
2006/07	73,917	73,917	100%
2007/08	72,484	72,484	100%
2008/09	72,484	72,484	100%

The Entry Age Normal Cost Method was used for the actuarial valuation of the plans.

**Significant Accounting Policies**

City contributions for all plans are recognized when due and the City has made a formal commitment to provide contributions. Benefit payments and refunds are recognized when due and payable in accordance with the terms of the Plan. Administrative costs for all plans, except the investment management fees of the Police and Fireman's Pension Plan, are paid by the City's General Fund. The investment management fees are financed through investment earnings. Assets are valued at fair value based on available market information obtained from independent sources.

**Net Pension Obligation (Asset)**

The net pension liability (asset) was determined in accordance with the provisions of GASB Statement No. 27 and represents contributions in excess of actuarially required contributions (net pension asset), or actuarially required contributions in excess of actual contributions (net pension obligation or liability). At June 30, 2009, the Police and Firemen's Pension Plan and the General Pension Plan had net pension assets of \$5,049,165 and \$1,677,239, respectively. At June 30, 2009, the Garfield Pension Plan had a net pension liability of \$174,242. The net pension assets and the net pension liability have been recorded in the City-wide financial statements as Net Pension Asset and Net Pension Obligation.

The net pension liability (asset) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization periods at June 30, 2009, were fourteen, twelve, and eight years for the Police and Fireman's Plan, the General Pension Plan, and the Garfield Pension Plan, respectively for prior and current service unfunded liability.

**NOTE 11 – OTHER CITY PENSION PLANS (Continued)**

The Plans' annual pension cost and net pension obligation for Fiscal 2008-2009 were as follows:

	Police and Firemen's Plan	General Pension Plan	Garfield Pension Plan
Annual required contribution	\$2,199,459	\$307,948	\$72,484
Interest on net pension obligation	24,203	(85,186)	9,319
Adjustment to annual required contribution	(39,600)	195,503	(26,172)
Annual pension cost	2,184,062	418,265	55,631
Contributions made	(4,800,000)	(307,948)	(72,484)
(Decrease) increase in net pension obligations	(2,615,938)	110,317	(16,853)
Net pension obligation (asset) June 30, 2008	(2,433,227)	(1,787,556)	191,095
<b>Net pension obligation (asset) June 30, 2009</b>	<b>(\$5,049,165)</b>	<b>(\$1,677,239)</b>	<b>\$174,242</b>

The Plans' annual pension cost, percentage contributed, and net pension obligation (asset) for the last three fiscal years were as follows:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
<b>Police and Fireman's Plan</b>			
June 30, 2007	\$2,056,237	302%	\$382,711
June 30, 2008	2,184,062	229%	(2,433,227)
June 30, 2009	2,184,062	229%	(5,049,165)
<b>General Pension Plan</b>			
June 30, 2007	335,200	71%	(1,897,873)
June 30, 2008	418,265	74%	(1,787,556)
June 30, 2009	418,265	74%	(1,677,239)
<b>Garfield Pension Plan</b>			
June 30, 2007	56,882	130%	207,948
June 30, 2008	55,631	130%	191,095
June 30, 2009	55,631	130%	174,242

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**NOTE 11 – OTHER CITY PENSION PLANS (Continued)**

**Police and Firemen's Plan:**

Actuarial						
Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
July 1, 2002	\$49,135,204	\$25,177,947	\$23,957,257	51%	(A)	N/A
July 1, 2003	46,523,759	20,450,153	26,073,606	44%	(A)	N/A
July 1, 2004	43,244,772	20,384,607	22,860,165	47%	(A)	N/A
July 1, 2005	41,653,180	19,251,702	22,401,478	46%	(A)	N/A
July 1, 2006	N/A (C)	N/A (C)	N/A (C)	N/A (C)	(A)	N/A
July 1, 2007	43,591,093	22,910,310	20,680,783	53%	(A)	N/A

**General Pension Plan:**

Actuarial						
Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
July 1, 2002	\$6,246,070	\$2,145,405	\$4,100,665	34%	(B)	N/A
July 1, 2003	6,331,911	2,298,683	4,033,228	36%	(B)	N/A
July 1, 2004	6,030,516	2,786,571	3,243,945	46%	(B)	N/A
July 1, 2005	5,614,489	3,141,392	2,473,097	56%	(B)	N/A
July 1, 2006	N/A (C)	N/A (C)	N/A (C)	N/A (C)	(B)	N/A
July 1, 2007	5,242,136	2,416,881	2,825,255	46%	(B)	N/A

**Garfield Plan:**

Actuarial						
Valuation Date	Accrued Liability	Actuarial Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) as % of Payroll
July 1, 2002	N/A (C)	N/A (C)	N/A (C)	N/A (C)	(B)	N/A
July 1, 2003	N/A (C)	N/A (C)	N/A (C)	N/A (C)	(B)	N/A
July 1, 2004	N/A (C)	N/A (C)	N/A (C)	N/A (C)	(B)	N/A
July 1, 2005	\$915,287	\$301,298	\$613,989	33%	(B)	N/A
July 1, 2006	N/A (C)	N/A (C)	N/A (C)	N/A (C)	(B)	N/A
July 1, 2007	899,777	326,228	573,549	36%	(B)	N/A

- (A) Shown at zero, because only one participant had not retired and was assumed to retire on valuation date.  
 (B) All participants were retired as of valuation date.  
 (C) Actuarial valuations were not completed.

**NOTE 11 – OTHER CITY PENSION PLANS (Continued)**

**Plan Financial Statements**

The Statement of Net Assets for the Plans at June 30, 2009 follows:

	General Pension	Police and Fireman's Pension	Garfield Pension
<b>ASSETS</b>			
Pension plan cash and investments:			
City of Richmond Investment Pool	\$1,769,411	\$2,661,048	\$148,175
Local Agency Investment Fund			187,348
Mutual Fund Investments		16,193,194	
Interest receivable	799	504	751
<b>Total Assets</b>	<b>1,770,210</b>	<b>18,854,746</b>	<b>336,274</b>
<b>LIABILITIES</b>			
Accounts payable		4,242	
<b>NET ASSETS</b>			
Held in trust for employees' pension benefits	\$1,770,210	\$18,850,504	\$336,274

The Statement of Changes in Plan Net Assets for the year ended June 30, 2009 follows:

	General Pension	Police and Fireman's Pension	Garfield Pension
<b>ADDITIONS</b>			
Net investment income:			
Net increase (decrease) in the fair value of investments	\$2,268	(\$3,936,344)	
Interest income	74,462	777,024	\$8,113
Investment management fees		(78,747)	148
Contribution from the City	307,948		72,484
Contribution from Pension Reserve		4,800,000	
<b>Total Additions</b>	<b>384,678</b>	<b>1,561,933</b>	<b>80,745</b>
<b>DEDUCTIONS</b>			
Pension benefits	728,794	4,828,836	78,927
<b>Total Deductions</b>	<b>728,794</b>	<b>4,828,836</b>	<b>78,927</b>
<b>Net Increase (Decrease)</b>	<b>(344,116)</b>	<b>(3,266,903)</b>	<b>1,818</b>
<b>NET ASSETS</b>			
Beginning of year	2,114,326	22,117,407	334,456
<b>End of year</b>	<b>1,770,210</b>	<b>18,850,504</b>	<b>336,274</b>

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**NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS**

In order to qualify for postemployment medical and dental benefits an employee must retire from the City and maintain enrollment in one of the City's eligible health plans. The City pays a portion of the CalPERS premiums for retirees and their dependents that vary by employment classification. In addition, the following eligibility rules and contribution requirements apply for future retirees, followed by current retirees:

**Plan Provisions for Future Retirees**

Classification	Eligibility (Age/Service)	Monthly Premium Paid by City Before/After Medicare Eligibility
SEIU Local 1021	Service Retirement: 50/20, 51/18, 52/16, 53/14, 54/12, 55/10 Disability Retirement: any age/10	Retiree only or surviving spouse: \$414/\$414 Retiree +1 or more: \$540/\$540
IFPTE, Miscellaneous Executive Management, City Council	Service Retirement: Same as SEIU Disability Retirement: 50/20, 51/18, 52/16, 53/14, 54/12, 55/10	Same as SEIU
Fire Local 188, Fire Management, and Fire Executive Management	35/15	Percentage of premium for retiree/dependents/surviving spouse up to 2nd highest premium plan. Percentage is 90%, increased to 100% after 27 years of service
Richmond Police Officer Association (RPOA)	10 years of service	Percentage of premium for retiree/dependents/surviving spouse but no more than \$714 per month, including dental and vision. Percentage is 50%, increased to 90% after 15 years of service, and 100% after 25 years of service
Police Widows	Death in line of duty	Full premium
Police Management and Police Executive Management	50/20, 51/18, 52/16, 53/14, 54/12, 55/10	Percentage of premium for retiree/dependents/surviving spouse up to Kaiser (1) (Pre Medicare) and 2nd highest premium plan (post Medicare). Percentage is 65%, increased to 75% after 20 years of service, and 100% after 27 years of service

(1) Effective for retirements on January 1, 2007 or later. Prior to that time, reimbursement is based on the 2<sup>nd</sup> highest premium plan.

**NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

Plan Provisions for Current Retirees		
Classification	Subgroup	Monthly Premium Reimbursement Before/After Medicare Eligibility
SEIU Local 1021	Retired July 1, 2007 or later	Retiree only or surviving spouse: \$414/\$414 Retiree +1 or more: \$540/\$540
	Retired prior to July 1, 2007	Retiree only or surviving spouse: \$244/\$202 Retiree +1 or more: \$364/\$304
IFPTE, Miscellaneous Executive Management	Retired July 1, 2007 or later	Same as SEIU
	Retired November 5, 1999 to June 30, 2007	Retiree only or surviving spouse: \$244/\$202 Retiree +1 or more: \$364/\$304
	Retired before November 5, 1999	Retiree only or surviving spouse: \$144/\$102 Retiree +1 or more: \$264/\$204
Fire Local 188 and Fire Management		Percentage of premium for retiree/dependents/surviving spouse up to 2nd highest premium plan. Percentage is 90%, increased to 100% after 27 years of service
Richmond Police Officer Association (RPOA)		Percentage of premium for retiree/dependents/surviving spouse but no more than \$714 per month, including dental and vision. Percentage is 50%, increased to 90% after 15 years of service, and 100% after 25 years of service

**Funding Policy and Actuarial Assumptions**

In fiscal year 2007, the City hired an actuary to prepare a study to determine the unfunded liability of these benefits for both active employees and retirees. The study indicates that as of July 1, 2007, the unfunded actuarial liability was estimated to be \$45,083,965, assuming the City had made a contribution to a trust during fiscal year 2007. However, the City did not contribute to a trust until fiscal year 2008. The study indicates that as of July 1, 2007, the actuarial accrued liability was estimated to be \$47,046,989. During the year ended June 30, 2008, the City joined the Public Agencies Post-Retirement Health Care Plan, a multiple employer trust administered by Public Agency Retirement Services (PARS).

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**NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

The City's policy is to partially prefund these benefits by accumulating assets with PARS discussed above along with making pay-as-you-go payments pursuant to Resolution No. 52-06 of June 27, 2006. The annual required contribution (ARC) was determined as part of a July 1, 2007 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.75% investment rate of return, (b) 3.25% projected annual salary increase, and (c) health care cost trend rates of 4.75-5.25% for medical and 4.25% for dental. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period.

**Funding Progress and Funded Status**

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2009, the City contributed \$6,096,304 to the Plan, including \$2,372,449 for pay-as-you-go premiums, \$1,700,000 paid to PARS representing the remaining ARC plus an additional \$2,000,000 paid to PARS to prefund benefits which represented 9.1% of the \$67.1 million of covered payroll. As a result, the City has recorded the Net OPEB Asset, representing the difference between the ARC and actual contributions, as presented below:

Annual required contribution	\$3,709,303
Interest on net OPEB obligation	170,258
Adjustment to annual required contribution	<u>(215,508)</u>
Annual OPEB cost	3,664,053
Contributions made	<u>(6,072,449)</u>
Change in net OPEB asset	(2,408,396)
Net OPEB Obligation (Asset) at June 30, 2008	<u>(2,196,876)</u>
<b>Net OPEB Obligation (Asset) at June 30, 2009</b>	<b><u>(\$4,605,272)</u></b>

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2007, amounted to \$47,046,989 million and was unfunded since no assets had been transferred into PARS as of that date. However, during fiscal year 2009, the City transferred additional contributions to PARS which along with investment income to date totaled \$6,813,311 at June 30, 2009 and reduced the unfunded actuarial accrued liability to \$40,233,304.

**NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (Continued)**

The Plan's annual required contributions and actual contributions for the last two fiscal years are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2008	\$3,709,303	\$5,906,179	159%	(\$2,196,876)
6/30/2009	3,664,053	6,072,449	166%	(4,605,272)

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the July 1, 2007 actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A - B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A - B)/C]
7/1/2007	\$ -	\$47,046,989	(\$47,046,989)	0%	\$44,201,238	-106%

**NOTE 13 - DEFERRED COMPENSATION PLAN**

City employees may defer a portion of their compensation under a City sponsored deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under this plan are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

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**NOTE 14 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to theft of, damage to, and destruction of assets; general liability; errors and omissions; injuries to employees; natural disasters; and inverse condemnation. The City began self-insuring its workers' compensation in 1976. In August 2002 the City joined the Municipal Pooling Authority (MPA) for general, automobile, property, and boiler and machinery liability. In April 2009 the City joined the California State Association of Counties Excess Insurance Authority (CSAC EIA) for worker's compensation insurance. The City has chosen to establish a risk financing internal service fund where assets are accumulated for claim settlements and expenses associated with the above risks of loss up to certain limits.

Excess coverage for the risk categories excluding inverse condemnation is provided by policies with various commercial insurance carriers. Self-insurance and insurance company limits are as follows:

Type of Coverage	Self-Insurance / Deductible	Coverage Limit	Insurance Carrier
Difference in Conditions	10% pre-1970, minimum \$100,000, 5% post-1970 of total insured value of each building	\$50,000,000 in excess of SIR	Lloyd's of London
Crime/Employee Dishonesty	\$10,000 per claim	\$1,000,000 in excess of deductible	AIG Executive Liability

**MPA**

The MPA provides coverage against the following types of loss risks under the terms of a joint-powers agreement with the City and several other cities and governmental agencies as follows:

Type of Coverage (Deductible)	Coverage Limits
Liability (\$250,000)	\$25,000,000
Property	
All Risk Fire (\$5,000)	1,000,000,000
Flood*	25,000,000
Boiler & Machinery (\$5,000)	100,000,000
Employment Practices (\$10,000)	1,000,000

\* \$100,000 minimum deductible per occurrence, except Zone A & V, which are subject to a \$250,000 deductible per occurrence.

The MPA is governed by a Board consisting of representatives from member municipalities. The Board controls the operations of the MPA, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's deposits with the MPA are in accordance with formulas established by the MPA. The City paid premiums of \$3,028,052 for the year ended June 30, 2009. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

**NOTE 14 - RISK MANAGEMENT (Continued)**

Audited financial statements for the MPA are available from MPA, 1911 San Miguel Drive, Suite 100 Walnut Creek, California, 94596.

**CSAC EIA**

CSAC EIA is a public entity risk pool of cities and counties within Northern California. The CSAC EIA provides workers' compensation coverage up to the statutory limit and the City retains a self insured retention of \$750,000. Loss contingency reserves established by the CSAC EIA are funded by contributions from member agencies. The City pays an annual contribution to the CSAC EIA, which includes its pro-rata share of excess insurance premiums, charges for pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the risk pool. The City paid premiums of \$40,429 for the year ended June 30, 2009. CSAC EIA provides insurance through the pool up to a certain level, beyond which group purchased commercial excess insurance is obtained. CSAC EIA has never made an additional assessment and is currently fully funded. No provision has been made on these financial statements for liabilities related to possible additional assessments.

Audited financial statements for CSAC EIA are available from CSAC EIA, 3017 Gold Canal Drive, Rancho Cordova, CA 95670.

**Liability for Uninsured Claims**

The unpaid claims liabilities included in each of the self-insurance internal service funds are based on case reserves and include amounts for claims incurred but not reported (IBNR). At June 30, 2009, the estimated claims payable of \$22,401,000, consisting of reserves for both reported and IBNR losses, as well as allocated loss adjustment expenses, have been recorded in the Insurance Reserves internal service fund. The claims payable are reported at their present value using expected future investment yield assumptions of 3 percent and an eighty percent confidence level. The undiscounted claims totaled \$21,716,000, at June 30, 2009. Changes in the claims liabilities for the years ended June 30, 2009 and 2008 were as follows:

	2009	2008
Claims liabilities, beginning of year	\$20,264,000	\$23,000,000
Current year claims	3,328,035	5,772,840
Change in prior year claims	7,172,531	2,796,575
Claim payments	(4,850,265)	(6,754,543)
Legal, administrative and other expenses	(3,513,301)	(4,550,872)
<b>Claims liabilities, end of year</b>	<b>\$22,401,000</b>	<b>\$20,264,000</b>
<b>Claims liabilities, due in one year</b>	<b>\$9,918,000</b>	<b>\$9,619,000</b>

For the years ended June 30, 2009, 2008 and 2007 the amount of settlements did not exceed insurance coverage.

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**NOTE 15 – SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City's non-major enterprise funds include the following segments:

- Richmond Marina Fund – Marina operations and maintenance, including berth rentals and use of marina facilities.
- Storm Sewer Fund – Storm sewer management and urban runoff control.
- Cable TV Fund – Administration and enforcement of the franchise agreements with two cable television systems, management of a municipal cable channel, departmental video services, media and public information, and telecommunications planning.

Fiscal 2009 condensed financial information for the Richmond Marina Enterprise Fund is as follows:

<b>Condensed Statement of Net Assets</b>	
Assets:	
Current assets	\$4,015,325
Capital assets	2,213,936
Total assets	<u>6,229,261</u>
Liabilities:	
Current liabilities	194,576
Long-term liabilities	3,203,877
Total liabilities	<u>3,398,453</u>
Net assets:	
Invested in capital assets, net of debt	(1,049,884)
Unrestricted	3,880,692
Total net assets	<u>\$2,830,808</u>
<b>Condensed Statement of Revenues, Expenses and Changes in Net Assets</b>	
Operating revenues:	
Lease income	\$476,588
Depreciation expense	(88,484)
Operating income	<u>388,104</u>
Nonoperating revenues (expenses):	
Interest income	164,485
Interest expense	(147,087)
Change in net assets	405,502
Beginning net assets	<u>2,425,306</u>
Ending net assets	<u>\$2,830,808</u>
<b>Condensed Statement of Cash Flows</b>	
Net cash provided (used) by:	
Operating activities	\$480,250
Capital and related financing activities	(206,815)
Investing activities	<u>169,463</u>
Net increase	442,898
Beginning cash and investments	<u>3,510,455</u>
Ending cash and investments	<u>\$3,953,353</u>

**NOTE 16 - COMMITMENTS AND CONTINGENCIES**

**Commitments**

The City occupies certain leased premises under the terms of a non-cancelable lease terminating in September 2009, which calls for minimum monthly lease payments of \$121,000.

The Police Department occupies leased premises owned by DiCon Fiberoptics, Inc. under the terms of a non-cancelable lease terminating on December 31, 2009, which calls for minimum monthly lease payments of \$81,034.

The City's future commitments under construction projects totaled approximately \$12,988,600 at June 30, 2009 for various projects.

**Litigation**

The City is involved in various claims and litigation resulting from its normal operations. The ultimate outcome of these matters is not presently determinable. In City management's opinion these matters will not have significant adverse effect of the City's financial position.

**Housing Authority – Easter Hill Project**

In June 2000, the Richmond Housing Authority received a \$35 million grant (HOPE VI Grant) from the U.S. Department of Housing and Urban Development ("HUD") for the revitalization of the former Easter Hill Public Housing project. The original Easter Hill site, owned by the Richmond Housing Authority, included 300 units on 21 acres in the Cortez/Stege neighborhood of Richmond.

The California Tax Credit Committee, City of Richmond, Bank of America, Silicon Valley, Federal Home Loan Bank, California Housing Finance Agency, the Richmond Housing Authority along with the \$35 million dollar HUD grant financed this \$120 million revitalization effort. Physical costs are estimated to be approximately \$108 million and life services, relocation, acquisition, administrative and other costs are estimated to be approximately \$12 million. The physical development includes approximately 320 rental and homeownership units to replace the 300 rental units originally at the site and 273 remaining units at the time of grant approval. Amenities at the revitalized site include a pool and a 5,000 square feet community room with facilities for an after school program, computer center, gymnasium and conference room.

In addition, pursuant of the same agreement, the authority is entitled to receive reimbursement for certain costs it has incurred in development of these projects. Upon completion of the project, the authority recorded \$8,628,540, representing reimbursement from the developer which had been recorded in the accompanying financial statements as due from developer.

In 2002, the Authority chose the development team of McCormack Baron Salazar, Inc. and Em Johnson Interest, Inc. to develop the site. Em Johnson Interest has developed the 82 homeownership units affordable to low, moderate and market rate buyers. McCormack Baron was charged with the development of 300 rental units, affordable to households 60% or below the area median income for Contra Costa County.

**NOTE 16 - COMMITMENTS AND CONTINGENCIES (Continued)**

Thus far, all new construction rental units at the former Easter Hill site have been developed. Thirty-six rehab rental units at the site are underway. The remaining 202 rental units at the site have been leased up. Similarly, all 82 homeownership units at the former Easter Hill and Cortez sites have been constructed. With the exception of one unit at the Cortez site, all homeownership units have been sold

**Other**

As of June 30, 2009, a major property taxpayer filed an appeal with the County challenging the assessed valuation of their property, however as of December 16, 2009, the Contra Costa Assessment Review Board tentatively ruled that the County Assessor over-valued the property by \$1.2 billion from 2004 to 2006, however the final ruling has not been completed and the impacts, if any, on City property tax revenues could not be determined.

As of June 30, 2009 a major business license taxpayer filed a complaint challenging the legality of Measure T, a voter initiative that took effect on January 1, 2009. Measure T amended the City's business license tax calculation for manufacturers. Although the City believes Measure T to be lawful, the court ruled on December 17, 2009 that the tax was unconstitutional. The City is currently considering whether to appeal the court ruling. Nevertheless, the City has recorded the entire amount of Measure T revenues collected during the fiscal year as an accrued liability to reflect the potential refund.

**NOTE 17 - SUBSEQUENT EVENTS**

**Supplemental Educational Revenue Augmentation Fund**

The State of California adopted AB26 4X in July 2009 which directs that a portion of the incremental property taxes received by redevelopment agencies based on the property taxes received in fiscal year 2006-07 be paid instead to the County supplemental educational revenue augmentation fund (SERAF) in fiscal years 2009-10 and 2010-11. The State Department of Finance will determine each agency's SERAF payment by November 15 of each year, and payments are due by May 10 of the applicable year. Based on the calculations in AB26 4X, the Agency's SERAF is \$10,118,826 in fiscal year 2009-10 and is estimated to be \$2,081,255 in fiscal year 2010-11. The Agency can use any legally available funds to make the SERAF payments. The payment due in fiscal year 2009-10 represents 52% of the Agency's cash and investments available for operations at June 30, 2009. The obligation to make the SERAF payment is subordinate to obligations to repay bonds, however if the Agency fails to make the full SERAF payment the Agency may not encumber or expend funds other than to pay pre-existing indebtedness, contractual obligations and 75% of the amount expended on Agency administration for the preceding fiscal year until the SERAF is paid in full.

**Richmond Joint Powers Financing Authority Point Potrero Lease Revenue Bonds, Series 2009A and 2009B**

On July 13, 2009, the Authority issued Series 2009A and Series 2009B Point Potrero Lease Revenue Bonds in the amounts of \$26,830,000 and \$20,820,000, respectively. The proceeds from the Bonds will be used for the construction of an automobile warehousing and distribution facility, including rail improvements, to be located at the Point Potrero Terminal at the Port of Richmond. The Bonds bear interest rates that range from 6.25% to 8.50%. Principal payments are due annually on July 1 and semi-annual interest payments are due July 1 and January 1 commencing on January 1, 2010 through 2024 for the Series 2009A and through 2019 for the Series 2009B Bonds.

**NOTE 17 - SUBSEQUENT EVENTS (Continued)**

**California Communities Tax and Revenue Anticipation Note Program Note Participations, Series 2009 A-8**

On October 27, 2009, the City issued Series 2009A-8 California Communities Tax and Revenue Anticipation Note Program Note Participations in the amount of \$17,800,000. The proceeds from the Note will be used to provide funds to meet the City's anticipated cash flow needs for its fiscal year ending on June 30, 2010. The Note bears an interest rate of 2.00%. Principal and accrued interest on the Note is payable when the Note matures on November 4, 2010.

**Richmond Joint Powers Financing Authority Lease Revenue Refunding Bonds, Series 2009**

On November 10, 2009, the Authority issued Series 2009 Lease Revenue Refunding Bonds in the amount of \$89,795,000. The proceeds from the Bonds will be used to refund all of the Authority's outstanding principal amount of its 2007 Lease Revenue Bonds for the Civic Center Project. The Bonds bear interest rates that range from 3.50% to 5.875%. Principal payments are due annually on August 1 and semi-annual interest payments are due August 1 and February 1 commencing on February 1, 2010.

In connection with the issuance of the 2007 Lease Revenue Bonds, the Authority entered into a swap agreement for \$101,420,000, the entire amount of the Bonds. On November 10, 2009, in connection with the issuance of the Series 2009 Bonds, the Authority terminated the original swap agreement and entered into an amended swap agreement. The amended agreement requires the Authority to make and receive payments based on variable interest rates. The Authority will make payments based on a variable interest rate equal to 100% of SIFMA plus a fixed percentage of 0.56% and the Authority will receive variable rate interest payments equal to 68% of 1-month LIBOR from the swap counterparty. Floating rate payments will be made semi-annually on August 1 and February 1 commencing on February 1, 2010.

**Wastewater Revenue Bond Swap Agreement**

On November 19, 2009, the City terminated the swap agreement associated with the 2006B Wastewater Revenue Refunding Bonds discussed in Note 7B by using the proceeds from a swap agreement that is based on the \$32,260,000 notional amount of the 2006B Bonds. The swap agreement requires the City to make fixed payments at a rate of 3.897% and to receive variable rate payments at 63.42% of 1 month LIBOR plus .22%. In connection with the new swap agreement, the City received an up-front payment in the amount of \$4,431,618 that was used to make the termination payment on the prior swap agreement. The fixed rate payments to the counterparty will be due semi-annually on August 1 and February 1, commencing February 1, 2010. The variable payments from the counterparty will be due on a monthly basis on the last business day of each month commencing December 31, 2009.

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

*The following is a brief summary of certain provisions of the Indenture. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture. Reference is directed to the Indenture for the complete text thereof. Copies of the Indenture are available from the City Clerk of the City of Richmond.*

#### Definitions

“**Accreted Value**” means, with respect to any Capital Appreciation Indebtedness, the principal amount thereof plus the interest accrued thereon, compounded at the interest rate thereon on each date as specified therein.

“**Annual Debt Service**” means, for any Bond Year, the aggregate amount of principal and interest on all Bonds and Parity Debt becoming due and payable during such Bond Year calculated using the principles and assumptions set forth under the definition of Debt Service.

“**Applicable Credit Provider**” means the Credit Provider providing a Credit Facility for a particular Series of Bonds.

“**Average Annual Debt Service**” means, as of any date of calculation, an amount equal to (i) the Annual Debt Service remaining to be paid on all Bonds and Parity Debt on the date of calculation, divided by (ii) the number of Bond Years (or partial years) commencing with the Bond Year of the date of calculation to and including the Bond Year which includes the first date on which none of such Bonds or Parity Debt remains Outstanding. Such interest and principal will be calculated on the assumption that no Bonds or Parity Debt at the date of calculation will cease to be Outstanding except by reason of the payment when due of each principal installment (including mandatory sinking account payments).

“**Balloon Indebtedness**” means any Series of Bonds or Parity Debt 50% or more of the principal of which matures or is payable on the same date and which is not required by the instrument pursuant to which such Bonds or Parity Debt were issued to be amortized by payment or redemption prior to such date.

“**Bond Obligation**” means, as of any given date of calculation, (1) with respect to any Current Interest Indebtedness, the principal amount thereof, and (2) with respect to any Capital Appreciation Indebtedness, the Accreted Value thereof.

“**Bond Purchase Fund**” means the Bond Purchase Fund established pursuant to the Indenture.

“**Bond Year**” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period thereafter selected and designated as the official fiscal year period of the City which designation will be provided to the Trustee in a Certificate of the City.

“**Bonds**” means the City of Richmond, California Wastewater Revenue Bonds authorized by, and at any time Outstanding pursuant to, the Indenture, including Credit Provider Bonds.

“**Business Day**” means any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State or the State of New York or California are authorized or obligated by law or executive order to be closed, and (2) for purposes of payments and other actions relating to Bonds secured

by a letter of credit or supported by a liquidity facility, a day upon which commercial banks in the city in which is located the office of the issuing bank at which demands for payment under such letter of credit or liquidity facility are to be presented are authorized or obligated by law or executive order to be closed.

“**Capital Appreciation Indebtedness**” means Bonds and Parity Debt on which interest is compounded and paid less frequently than annually.

“**Certificate,**” “**Statement,**” “**Request,**” “**Requisition**” or “**Order**” of the City mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the City by its City Manager, Finance Director or any other person authorized by the City Manager or Finance Director to execute such instruments. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined will be read and construed as a single instrument. If and to the extent required by the Indenture, certificates and opinions will include the statements provided for in the Indenture.

“**Charter**” means the City Charter of the City, as amended from time to time.

“**City**” means the City of Richmond, California.

“**City Council**” means the City Council of the City or any other legislative body of the City thereafter provided for pursuant to law.

“**Code**” means the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder.

“**Continuing Disclosure Agreement**” means any Continuing Disclosure Agreement executed and delivered by the City relating to any Series of Bonds.

“**Corporate Trust Office**” or “corporate trust office” means the corporate trust office of the Trustee at 550 Kearny Street, Suite 600, San Francisco, California 94108, Attention: Corporate Trust Services, or such other or additional offices as may be designated by the Trustee.

“**Credit Agreement**” means, with respect to a Credit Facility, the agreement among the City, and the Applicable Credit Provider, as originally executed or as it may from time to time be replaced, supplemented or amended in accordance with the provisions of the Indenture, providing for the issuance of the Credit Facility and the reimbursement of the Credit Provider for drawings thereunder, and any subsequent agreement pursuant to which a substitute Credit Facility is provided, together with any related pledge agreement, security agreement or other security document.

“**Credit Facility**” means any letter of credit, guarantee, standby purchase agreement, bond insurance or other support arrangement or security or any combination of the foregoing, if any, provided by the City pursuant to any Supplemental Indenture.

“**Credit Provider**” means the issuer or other provider of a Credit Facility with respect any series of the Bonds as provided for in any Supplemental Indenture, and the respective successors and assigns of the business thereof and any surviving, resulting or transferee entity with or into which it may be consolidated or merged or to which it may transfer all or substantially all of its business.

**“Credit Provider Bonds”** means any Bonds purchased pursuant to a Credit Facility as provided in any Supplemental Indenture for so long as such Bonds are held by or for the account of, or are pledged to, the Applicable Credit Provider in accordance with such Supplemental Indenture.

**“Current Interest Indebtedness”** means Bonds and Parity Debt on which interest is paid at least annually.

**“Debt Service”** means, during any period of computation, the amount of principal and interest becoming due and payable on all Bonds and Parity Debt for such period, determined by totaling the following amounts:

- (a) The Bond Obligation of all Outstanding Serial Bonds and all Parity Debt coming due and payable by their terms in such period;
- (b) The minimum Bond Obligation of all Outstanding Term Bonds and all Parity Debt scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon; and
- (c) The interest which would be due during such period on the aggregate principal amount of Bonds and Parity Debt which would be Outstanding in such period if the Bonds or Parity Debt are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds or Parity Debt no longer Outstanding;

provided, that for the purposes of determining compliance with the requirements for issuance of additional Bonds or Parity Debt, the rate covenant contained in the Indenture and the amount of the Reserve Fund Requirement, the following provisions apply:

(i) Generally. Except as otherwise provided in subparagraph (ii) below with respect to Variable Interest Rate Indebtedness, in subparagraph (iii) below with respect to Bonds or Parity Debt with respect to which a Public Finance Contract is in force, and in subparagraph (iv) below with respect to Balloon Indebtedness, interest on any Bond or Parity Debt will be calculated based on the actual amount of interest that is payable under such Bond or Parity Debt;

(ii) Interest on Variable Interest Rate Indebtedness. Interest deemed to be payable on any Variable Interest Rate Indebtedness for periods when the actual interest rate can be determined will be the actual Variable Interest Rates and for periods when the actual interest rate cannot yet be determined will be calculated on the assumption that the interest rate on such Variable Interest Rate Indebtedness would be equal to (a) the average rate that accrued on such Variable Interest Rate Indebtedness over the preceding twelve (12) months, or (b) if the Variable Interest Rate Indebtedness has not been accruing interest at a variable rate for twelve (12) months, the average interest rate that accrued on any outstanding Variable Interest Rate Indebtedness for which interest is computed on substantially the same basis during the preceding twelve (12) month period, or (c) if no such comparable Variable Interest Rate Indebtedness was outstanding during the twelve (12) months preceding the date of calculation, then (x) if the interest on such Variable Interest Rate Indebtedness is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding twelve (12) months, or, if that index is no longer published, an interest rate equal to 80% of the yield for outstanding United States Treasury Bonds having an equivalent maturity as the Variable Rate Interest Indebtedness,

or if there are no such Treasury Bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if interest on such Variable Interest Rate Indebtedness is not excluded from gross income for purposes of Federal income taxation, 110% of the yield for outstanding United States Treasury Bonds having an equivalent maturity as the Variable Rate Interest Indebtedness, or if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(iii) Interest on Bonds or Parity Debt With Respect to Which a Public Finance Contract Is in Force. Interest deemed to be payable on any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be based on the net economic effect on the City expected to be produced by the terms of such Bonds or Parity Debt and such Public Finance Contract, including but not limited to the effects that (a) such Bonds or Parity Debt would, but for such Public Finance Contract, be treated as an obligation bearing interest at a Variable Interest Rate instead will be treated as an obligation bearing interest at a fixed interest rate, and (b) such Bonds or Parity Debt would, but for such Public Finance Contract, be treated as an obligation bearing interest at a fixed interest rate instead will be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Bonds or Parity Debt plus the Public Finance Contract Payments minus the Public Finance Contract Receipts, and for the purpose of calculating as nearly as practicable the Public Finance Contract Receipts and the Public Finance Contract Payments under such Bonds or Parity Debt, the following assumptions will be made:

(1) City Obligated to Pay Net Variable Payments. If a Public Finance Contract has been entered into by the City with respect to Bonds or Parity Debt resulting in the payment of a net variable interest rate with respect to such Bonds or Parity Debt and Public Finance Contract by the City, the interest rate on such Bonds or Parity Debt for future periods when the actual interest rate cannot yet be determined will be assumed (but only during the period the Public Finance Contract is in effect) to be equal to the sum of (x) the fixed rate or rates stated in such Bonds or Parity Debt, minus (y) the fixed rate paid by the Qualified Counterparty to the City, plus (z) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Public Finance Contract (but only during the period that such interest rate cap is in effect) and (B) the applicable Variable Interest Rate calculated in accordance with subparagraph (ii) above; and

(2) City Obligated to Pay Net Fixed Payments. If a Public Finance Contract has been entered into by the City with respect to Bonds or Parity Debt resulting in the payment of a net fixed interest rate with respect to such Bonds or Parity Debt and Public Finance Contract by the City, the interest on such Bonds or Parity Debt will be included in the calculation of Debt Service (but only during the period the Public Finance Contract is in effect) by including for each Bond Year or twelve (12) calendar month period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Public Finance Contract;

(iv) Interest on Balloon Indebtedness. If any outstanding Bonds or Parity Debt constitute Balloon Indebtedness (and such Bonds or Parity Debt do not constitute Short Term Indebtedness excluded from the calculation of the Debt Service pursuant to clause (v), below) or if Bonds or Parity Debt proposed to be incurred would constitute Balloon Indebtedness (and such Bonds or Parity Debt would not constitute Short Term Indebtedness excluded from the calculation of the Debt Service pursuant to clause (v), below), then such Balloon Indebtedness will be treated as if the principal amount of such Bonds or Parity Debt were amortized from the date originally incurred in substantially equal installments of principal and interest over a term of thirty (30) years; provided, however, that the full principal amount of such Balloon Indebtedness will be included in making such calculation if such principal amount is due within ninety (90) days of the date such calculation is being made); and, if interest accrues under such Balloon Indebtedness at other than a fixed rate, the interest rate used for such computation will be (x) if the interest on such Bonds or Parity Debt is excluded from gross income for purposes of Federal income taxation, 90% of the average rate of interest for The Bond Buyer Revenue Bond Index over the preceding twelve (12) months, or if that index is no longer published, an interest rate equal to 80% of the yield for outstanding United States Treasury Bonds having an equivalent maturity as the Bonds or Parity Debt on the date incurred, or if there are no such United States Treasury Bonds having equivalent maturities, 80% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets, and (y) if the interest on such Bonds or Parity Debt is not excluded from gross income for purposes of Federal income taxation, the rate equal to 110% of the yield for outstanding United States Treasury bonds having an equivalent maturity as the Balloon Indebtedness, or, if there are no such United States Treasury Bonds having equivalent maturities, 110% of the lowest prevailing prime rate of any of the five largest commercial banks in the United States, ranked by assets;

(v) Exclusion of Certain Short-Term Indebtedness. If any outstanding Bonds or Parity Debt constitute Short Term Indebtedness or if the Bonds or Parity Debt proposed to be issued would constitute Short Term Indebtedness, and such Short Term Indebtedness are or will be payable only out of Net Revenues of the Bond Year in which such Short Term Indebtedness are incurred, then such Short Term Indebtedness will be disregarded and not included in calculating Debt Service;

(vi) Credit for Accrued and Capitalized Interest. If amounts constituting accrued interest or capitalized interest have been deposited with a trustee for such Bonds or Parity Debt, then the interest payable from such amounts with respect to such Bonds or Parity Debt will be disregarded and not included in calculating Debt Service.

**“Debt Service Coverage Ratio”** means, for any period, the ratio determined by dividing Net Revenues by Debt Service for such period.

**“Defeasance Securities”** means:

- (1) Cash (insured at all times by the Federal Deposit Insurance Corporation),
- (2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:
  - U.S. treasury obligations

- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

**“Event of Default”** means any of the events specified as such in the Indenture as described under the caption “Events of Default” below.

**“Excess Revenues”** means, for any period of time, all Net Revenues in excess of the amount required to pay the obligations coming due pursuant to the Indenture, inclusive, and available to the City pursuant to the Indenture for any lawful purpose of the City.

**“Fitch”** means Fitch Ratings, its successors and their assigns, and, if it shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, at the written direction of the City.

**“First Supplemental Indenture”** means the First Supplemental Wastewater Revenue Bond Indenture, dated as of October 1, 2006, by and between the City and the Trustee.

**“Fiscal Year”** means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period thereafter selected and designated as the official fiscal year period of the City which designation shall be provided to the Trustee in a Certificate of the City.

**“Fourth Supplemental Indenture”** means the Fourth Supplemental Wastewater Revenue Bond Indenture, dated as of October 1, 2010, between the City and the Trustee.

**“Gross Revenues”** means all gross income and revenue received by the City from the ownership and operation of the Enterprise, including (a) all fees and charges received by the City for the services of the Enterprise, (b) all other income and revenue howsoever derived by the City from the ownership and operation of the Enterprise or arising from the Enterprise, (c) all sums deposited, or required under the Indenture to be deposited, in the Wastewater Fund, including Subsidy Receipts, and (d) amounts transferred to the Wastewater Fund from the Rate Stabilization Fund pursuant to the Indenture; but excluding (x) the proceeds of any ad valorem property taxes received by the City to pay debt service on any outstanding obligations of the City, and (y) any contributed capital (other than connection fees)

**“Generally Accepted Accounting Principles Applicable to Governments”** means generally accepted accounting principles applicable to governments as promulgated by the Governmental Accounting Standards Board or its successor.

**“Indenture”** means the Master Indenture, as originally executed and as it may from time to time be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions thereof.

**“Independent Accountant”** means any accountant or firm of such accountants appointed and paid by the City, and who, or each of whom-

- (a) is in fact independent and not under domination of the City;
- (b) does not have any substantial interest, direct or indirect, with the City; and
- (c) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

**“Information Services”** means national information services that disseminate securities redemption notices; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds, or no such services as the City may designate in a written request delivered to the Trustee.

**“Interest Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

**“Interest Payment Date”** means, with respect to the Series 2010 Bonds, each February 1 and August 1, commencing February 1, 2011.

**“Investment Securities”** means the following:

- (A)(1) Cash (insured at all times by the Federal Deposit Insurance Corporation),
- (2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:
  - U.S. treasury obligations
  - All direct or fully guaranteed obligations
  - Farmers Home Administration
  - General Services Administration
  - Guaranteed Title XI financing
  - Government National Mortgage Association (GNMA)
  - State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

(B)(1) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration

-Federal Financing Bank

(2) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System
- Senior debt obligations of other Government Sponsored Agencies approved by the Applicable Credit Provider

(3) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(4) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

(5) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(6) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

- (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or
- (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(7) Municipal Obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P.

(8) Investment Agreements approved in writing by the Applicable Credit Provider (supported by appropriate opinions of counsel); and

(9) other forms of investments (including repurchase agreements) approved in writing by the Applicable Credit Provider.

C. The value of the above investments shall be determined as follows:

- a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns, or Lehman Brothers.
- b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest thereon; and
- c) As to any investment not specified above: the value thereof established by prior agreement among the Issuer, the Trustee, and the Applicable Credit Provider.

**“Issue Date”** means, with respect to the Series 2010 Bonds, October 20, 2010, the date of issuance and delivery of the Series 2010 Bonds.

**“Master Indenture”** means the Indenture, dated as of October 1, 2006, by and between the City and the Trustee.

**“Maximum Annual Debt Service”** means the greatest amount of principal and interest becoming due and payable on all Bonds and Parity Debt in the Bond Year in which the calculation is made or any subsequent Bond Year using the principles and assumptions set forth under the definition of Debt Service.

**“Moody’s”** means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the City.

**“Opinion of Bond Counsel”** means a written opinion of a law firm of national standing in the field of public finance selected by the City.

**“Outstanding,”** when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the City will have been discharged in accordance with the Indenture, including Bonds (or portions of Bonds) for which money has been set aside for the payment of the interest, principal or Redemption Price due as provided in the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture.

**“Owner”** or **“Bondholder”** or **“Bondowner,”** whenever used in the Indenture with respect to a Bond, means the person in whose name such Bond is registered.

**“Parity Debt”** means any indebtedness, installment sale obligation, lease obligation or other obligation of the City for borrowed money or certain designated payments under a Parity Public Finance Contract having an equal lien and charge upon the Net Revenues, therefore payable on a parity with the Bonds (whether or not any Bonds are Outstanding).

**“Parity Reserve Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

**“Paying Agent”** means any paying agent appointed as provided in the Indenture, or any successor thereto.

**“Person”** means an individual, a corporation, a partnership, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

**“Principal Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

**“Public Finance Contract”** means a written agreement for the purpose of managing or reducing the City’s exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the City and a Qualified Counterparty as authorized under any applicable laws of the State in connection with, or incidental to, the issuance of Bonds or Parity Debt, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device.

**“Public Finance Contract Insurance Policy”** means a surety bond or insurance policy issued by an insurance company for the account of the City, as principal, and for the benefit of such insurance company, as beneficiary, relating to a Public Finance Contract.

**“Public Finance Contract Payments”** means the amounts periodically required to be paid by the City to all Qualified Counterparties under all Public Finance Contracts.

**“Public Finance Contract Receipts”** means the amounts periodically required to be paid by all Qualified Counterparties to the City under all Public Finance Contracts.

**“Qualified Counterparty”** means a party (other than the City or a party related to the City) who is the other party to a Public Finance Contract and (1) (A) who is rated at least “A2” from Moody’s and “A” from Standard & Poor’s, or (B) whose senior debt obligations are rated at least “A2” from Moody’s and “A” from Standard & Poor’s, or guaranteed by an entity so rated, or (C) whose obligations under the Public Finance Contract are guaranteed for the entire term of the Public Finance Contract by a bond insurer or other institution which has been assigned a credit rating at least equal to “A2” from Moody’s and “A” from Standard & Poor’s, or (D) whose obligations under the Public Finance Contract are collateralized in such a manner as to obtain a rating at least equal to the ratings assigned by each of the Rating Agencies to the Bonds or Parity Debt to which such Public Finance Contract relates, and (2) who is otherwise qualified to act as the other party to a Public Finance Contract under all applicable laws of the State.

**“Rate Period”** means any Weekly Rate Period or Term Rate Period.

**“Rate Stabilization Fund”** means the fund by that name established and maintained by the City pursuant to the Indenture.

**“Rating Agency”** means Standard & Poor’s Ratings Group, a division of the McGraw Hill Companies, Inc. (“S&P”), or in the event that S&P no longer maintains a rating on the Series 2010 Bonds, any other nationally recognized rating agency then maintaining a rating on such Series 2010 Bonds.

**“Rating Category”** means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

**“Rebate Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

**“Rebate Requirement”** means the Rebate Requirement defined in the Tax Certificate.

**“Record Date”** means, with respect to the Series 2010 Bonds, the fifteenth day of the month preceding an Interest Payment Date.

**“2010 Reserve Fund Requirement”** means \$3,578,546.00 , based on the lesser of (a) the Maximum Annual Debt Service on all bonds to be secured by the 2010 Reserve Fund, or (b) one hundred twenty five percent (125%) of the Average Annual Debt Service on all Bonds to be secured by the 2010 Reserve Fund; provided that in no event shall the deposit to the 2010 Reserve Fund with respect to any Series of Bonds to be secured by the 2010 Reserve Fund be an amount greater than ten percent (10%) of the initial offering price to the public of each Series of Bond to be secured by the 2010 Reserve Fund as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee.

**“Redemption Fund”** means the fund by that name established with the Trustee pursuant to the Indenture.

**“Redemption Price”** means, with respect to any Bond (or portion thereof) the Bond Obligation of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

**“Reserve Fund Requirement”** means, as of any date of determination and excluding any Parity Debt for which no reserve fund is to be maintained or for which a separate reserve fund is to be maintained, the lesser of (a) the Maximum Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund, or (b) one hundred twenty-five percent (125%) of the Average Annual Debt Service on all Bonds and Parity Debt to be secured by the Parity Reserve Fund; provided that in no event shall the deposit to the Parity Reserve Fund with respect to any Series of Bonds or Parity Debt to be secured by the Parity Reserve Fund be an amount greater than ten percent (10%) of the initial offering price to the public of each Series of Bonds and any Parity Debt to be secured by the Parity Reserve Fund as determined under the Code, all as computed and determined by the City and specified in writing to the Trustee.

**“Second Supplemental Indenture”** means the Second Supplemental Indenture, dated as of October 1, 2006, by and between the City and the Trustee.

**“Securities Depository”** shall have the meaning assigned to such term in the Fourth Supplemental Indenture.

**“Series 2010 Bonds”** means the City of Richmond, California Wastewater Revenue Bonds, Series 2010A and Series 2010B, as described in the Fourth Supplemental Indenture.

**“Series 2010 Capitalized Interest Account”** means the account by that name established pursuant to the Fourth Supplemental Indenture.

**“Series 2010 Costs of Issuance Fund”** means the fund by that name established pursuant to the Fourth Supplemental Indenture.

**“Series 2010 Credit Facility”** means the insurance policy issued by the Series 2010 Credit Provider guaranteeing the scheduled principal of an interest on the Series 2010 Bonds when due.

**“Series 2010 Credit Provider”** means Assured Guaranty Municipal Corp.

**“Series 2010 Project Fund”** means the account by that name established pursuant to the Fourth Supplemental Indenture.

**“Series 2010 Reserve Fund”** means the account by that name established pursuant to the Fourth Supplemental Indenture.

**“Series 2010 Surety Policy”** means the Municipal Bond Debt Service Reserve Insurance Policy issued by the Series 2010 Credit Provider guaranteeing the scheduled principal of an interest on the Series 2010 Bonds when due.

**“Serial Bonds”** means Bonds, maturing in specified years, for which no mandatory sinking fund payments are provided.

**“Series,”** whenever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

**“Short-Term Indebtedness”** means Bonds or Parity Debt having an original maturity of less than or equal to one year and which are not renewable at the option of the City for a term greater than one year beyond the date of original incurrence.

**“Standard & Poor’s”** means Standard & Poor’s, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, then the term “Standard & Poor’s” will be deemed to refer to any other nationally recognized securities rating agency selected by the City.

**“State”** means the State of California.

**“Subsidy Receipts”** means payments from the Secretary of the U.S. Treasury pursuant to Sections 54AA(g)(1) and 6431 of the Code to the Issuer or its designee, which payments are expected to be in an amount equal to 35% of the interest payable on the Series 2010B Bonds on each Interest Payment Date.

**“Supplemental Indenture”** means any indenture thereafter duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“**Tax Certificate**” means the Tax Certificate delivered by the City at the time of the issuance and delivery of any Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

“**Term Bonds**” means Bonds payable at or before their specified maturity date or dates from mandatory sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“**Term Rate**” means a non-variable interest rate on any Bonds established in accordance with the Indenture.

“**Term Rate Period**” means each period during which a Term Rate is in effect.

“**Third Supplemental Indenture**” means the Third Supplemental Indenture, dated as of October 1, 2008, by and between the City and the Trustee.

“**Treasury Rate**” means, with respect to any redemption date for a particular Series 2010 Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Series 2010 Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

“**Trustee**” means The Bank of New York Mellon Trust Company, N.A., acting as trustee under the Indenture, or its successor, as Trustee, as provided in the Indenture.

“**Variable Interest Rate**” means any variable interest rate or rates to be paid under any Bonds or Parity Debt, the method of computing which variable interest rate will be as specified in the Supplemental Indenture providing for the issuance of the applicable Bonds or the instrument providing for the issuance of the Parity Debt, which Supplemental Indenture or other instrument will also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate will remain in effect, and (ii) the time or times based upon which any change in such variable interest rate will become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

“**Variable Interest Rate Indebtedness**” means, for any period of time, any Bonds or Parity Debt that bear a Variable Interest Rate during such period, except that no Bonds or Parity Debt will be treated as a Variable Interest Rate Indebtedness if the net economic effect of a Public Finance Contract with respect to any particular Bonds or Parity Debt is to produce obligations that bear interest at a fixed interest rate, and any Bonds or Parity Debt with respect to which a Public Finance Contract is in force will be treated as a Variable Interest Rate Indebtedness if the net economic effect of the Public Finance Contract is to produce obligations that bear interest at a Variable Interest Rate.

“**Wastewater Fund**” means the existing fund by that name established and held by the City with respect to the Enterprise.

## Issuance of Bonds and Parity Debt

*Issuance of Bonds.* The City may by Supplemental Indenture establish one or more Series of Bonds payable from Net Revenues and secured by the pledge made under the Indenture equally and ratably with Bonds previously issued, and the City may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as will be determined by the City, but only, with respect to each Series of Bonds, upon compliance by the City with the provisions of the Indenture.

*Proceedings for Issuance of Additional Series of Bonds.* Whenever the City determines to issue a Series of Bonds pursuant to the Indenture, the City will authorize the execution of a Supplemental Indenture specifying the principal amount, and prescribing the form or forms of Bonds of such additional Series and providing the terms, conditions, distinctive designation, denominations, date, maturity date or dates, interest rate or rates (or the manner of determining the same), redemption provisions and place or places of payment of principal, Accreted Value or Redemption Price, if any, of and interest on such Bonds, and any other provisions respecting the Bonds of such Series not inconsistent with the terms of the Indenture.

*Issuance of Refunding Bonds.* Notwithstanding any provisions in the Indenture, there will be no limitation on the ability of the City to issue any Bonds at any time to refund any outstanding Bonds or Parity Debt; provided, however, that the Maximum Annual Debt Service with respect to any such refunding Bonds will not exceed 1.10 times the Maximum Annual Debt Service with respect to the Bonds or Parity Debt being refunded.

*Limitations on the Issuance of Obligations.* The City will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Net Revenues, except the following:

- (a) Bonds of any Series authorized pursuant to the Indenture as described under the captions "Issuance of Bonds" and "Proceedings for Issuance of Additional Series of Bonds" above;
- (b) refunding Bonds authorized pursuant to the Indenture as described under "Issuance of Refunding Bonds" above.
- (c) Parity Debt payable on a parity with the Bonds and which will have, when issued, an equal lien and charge upon the Net Revenues, provided that the following conditions to the issuance of such Parity Debt are satisfied:
  - (1) such Parity Debt has been duly and legally authorized for any lawful purpose;
  - (2) no Event of Default shall have occurred and then be continuing, as evidenced in a Certificate of the City filed with the Trustee;
  - (3) unless such Parity Debt is for the refunding purposes, the City will have obtained and placed on file with the Trustee a Certificate of the City that (on the basis of calculations as of the date of delivery of such Parity Debt) the requirements of the Indenture with respect to additional Bonds have been met with respect to such Parity Debt;

(4) the City will have filed with the Trustee an Opinion of Bond Counsel to the effect that such Parity Debt has been duly authorized in accordance with law and constitutes a valid and binding obligation of the City payable from Net Revenues on a parity with the Bonds; and

(5) the Trustee will be designated as paying agent or trustee for such Parity Debt and the City will deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Debt (but the Trustee will not be responsible for the validity or sufficiency of such proceedings or such Parity Debt); or

(d) Obligations which are junior and subordinate to the payment of the principal, Accreted Value, premium, interest and reserve fund requirements for the Bonds and all Parity Debt and which subordinated obligations are payable as to principal, Accreted Value, premium, interest and reserve fund requirements, if any, only out of Net Revenues, after the prior payment of all amounts then required to be paid under the Indenture from Net Revenues, for principal, Accreted Value, premium, interest and reserve fund requirements for the Bonds and all Parity Debt, as the same become due and payable and at the times and in the manner as required in the Indenture.

### **Trustee Funds and Accounts**

*Application of Interest Fund.* All amounts in the Interest Fund will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture). In addition if so directed by the City, the Trustee may deposit into the Interest Fund, Public Finance Contract Receipts of the City and may pay from the Interest Fund, Public Finance Contract Payments on behalf of the City.

*Application of Principal Fund.* All amounts in the Principal Fund will be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts will be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture.

The Trustee will establish and maintain within the Principal Fund a separate sinking account for the Term Bonds of each Series and maturity. On or before the Business Day prior to any date upon which a mandatory sinking fund payment is due, the Trustee will transfer the amount of such mandatory sinking fund payment (being the principal thereof, in the case of Current Interest Bonds and the Accreted Value, in the case of Capital Appreciation Bonds from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each mandatory sinking fund payment date established for such Sinking Account, the Trustee will apply the mandatory sinking fund payment required on that date to the redemption of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee will, upon receipt of a Request of the City, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the City, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) will not exceed the principal amount or Accreted Value thereof. If the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or purchased or redeemed Term Bonds of such Series and maturity at any time from the Redemption Fund and allocable to said mandatory sinking fund payment, or if the City has purchased or otherwise acquired Term Bonds and

deposited such Term Bonds with the Trustee, such Term Bonds so purchased or deposited or redeemed by the Trustee or the City will be applied, to the extent of the full principal amount thereof, to reduce said mandatory sinking fund payment. All Term Bonds so purchased or deposited as described in the Indenture will be cancelled and destroyed by the Trustee. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding will be withdrawn by the Trustee and transferred to the City to be deposited in the Wastewater Fund. All Term Bonds so purchased will be allocated first to the next succeeding mandatory sinking fund payment for such Series and maturity of Term Bonds, then as a credit against such future mandatory sinking fund payment for such Series and maturity of Term Bonds as may be specified in a Request of the City. All Term Bonds redeemed from the Redemption Fund will be credited to such future mandatory sinking fund payment for such Series and maturity of Term Bonds as may be specified in a Request of the City.

*Application of Redemption Fund.* The Trustee will establish, maintain and hold in trust a special fund designated as the "Redemption Fund" when required. All moneys deposited by the City with the Trustee for the purpose of redeeming Bonds of any Series pursuant to optional redemption or special mandatory redemption provisions applicable to such Series of Bonds will, unless otherwise directed by the City, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving notice of such redemption, the Trustee will, upon receipt of a Request of the City, apply such amounts to the purchase of Bonds of such Series at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Account) as is directed by the City, except that the purchase price (exclusive of such accrued interest) may not exceed the Redemption Price then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund will be allocated to mandatory sinking fund payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the City.

*Parity Reserve Fund.* The Trustee will establish and maintain and hold in trust so long as Bonds or Parity Debt to be secured thereby remain outstanding, a special fund designated as the "Parity Reserve Fund." Amounts on deposit in the Parity Reserve Fund are pledged to the payment of the Bonds and any Parity Debt to be secured by the Parity Reserve Fund and will be applied only for such purposes as permitted in the Indenture. The Trustee will deposit in the Parity Reserve Fund, upon the direction of the City, the Reserve Fund Requirement and such other amounts transferred to the Trustee by the City pursuant to the Indenture. No deposit need be made in the Parity Reserve Fund so long as there will be on deposit therein a sum equal to at least the amount to be on deposit therein as described in this paragraph. Whenever the amount on deposit in the Parity Reserve Fund is less than the Reserve Fund Requirement, notice thereof will be provided by the City to the insurer of the Bonds, if any, and such amount will be increased by the City to the Reserve Fund Requirement as described in this paragraph not later than twelve months thereafter. Moneys on deposit in the Parity Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies, as provided below, on deposit in the Parity Reserve Fund) will be transferred by the Trustee to the Principal Fund and Interest Fund to pay principal of and interest on the Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes. The Trustee will also, from such amounts on deposit in the Parity Reserve Fund, transfer or cause to be transferred to any applicable debt service fund for any Parity Debt to be secured by the Parity Reserve Fund, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without discrimination or preference, that sum or sums, if any, equal to the amount required to be deposited therein pursuant to the documents under which any such Parity Debt to be secured by the Parity Reserve Fund is issued or incurred. Amounts on deposit in the Parity Reserve Fund

in excess of the Reserve Fund Requirement will, at the written Request of the City, be withdrawn from the Parity Reserve Fund and transferred to the City.

The City may provide for all or any part of the Reserve Fund Requirement by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of Moody's and Standard & Poor's, securing an amount, together with moneys, Investment Securities or surety bonds or insurance policies (as described in the succeeding paragraph under this caption "Pledge of Net Revenues; Wastewater Fund; Trustee Funds and Accounts-Parity Reserve Fund" on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such letter of credit will have an original term of no less than three (3) years or, if less, the final maturity of the Bonds and such letter of credit will provide by its terms that it may be drawn upon as provided in the Indenture. At least one year prior to the stated expiration of such letter of credit, the City will either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Bonds or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements described in the succeeding paragraph under this caption "Pledge of Net Revenues; Wastewater Fund; Trustee Funds and Accounts-Parity Reserve Fund". Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee will deliver the then effective letter of credit to or upon the order of the City. If the City fails to deposit a replacement letter of credit, extended letter of credit, surety bond or insurance policy with the Trustee, the City will immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Fund Requirement will be on deposit in the Parity Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Reserve Fund Requirement, calculated as of the date following the expiration of the letter of credit, is not on deposit in the Parity Reserve Fund one week prior to the stated expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee will draw on the letter of credit to fund the amount of any such deficiency in the Parity Reserve Fund.

The City may also provide for all or any part of the Parity Reserve Fund by delivering to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, Investment Securities or letters of credit on deposit in the Parity Reserve Fund, equal to the Reserve Fund Requirement. Such surety bond or insurance policy will be issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company's insurance policies) are rated in one of the two highest Rating Categories of Moody's and Standard & Poor's. Such surety bond or insurance policy will have a term of no less than the final maturity of the Bonds. In the event that such surety bond or insurance policy for any reason lapses or expires, the City will immediately implement the actions described in clause (i) or (iii) of the immediately preceding paragraph under this caption "Pledge of Net Revenues; Wastewater Fund; Trustee Funds and Accounts-Parity Reserve Fund" above or make the required deposits to the Parity Reserve Fund. Repayment of any draw under any such surety bond or insurance policy, and any expenses and accrued interest related to such draw (collectively the "Policy Costs") will commence in the first month following each such draw, and will be paid at the time specified in the first paragraph under this caption "Pledge of Net Revenues; Wastewater Fund; Trustee Funds and Accounts-Parity Reserve Fund" above in an amount not less than one-twelfth (1/12th) of the aggregate of the Policy Costs related to such draw. If and to the extent that cash has also been deposited in the Parity Reserve Fund, all such cash will be used (including investments purchased with such cash, which will be liquidated and the proceeds thereof applied as required under the Indenture) prior to any drawing under surety bond or insurance policy, and repayment of any Policy Costs will be made prior to any replenishment of any such cash amounts. If the City fails to repay any Policy Costs in accordance with the Indenture, the insurance company issuing such surety bond or insurance policy will be entitled to exercise any and all remedies available at law or under the Indenture other than (i) an acceleration of the interest on or principal of the Bonds as provided in the Indenture or (ii) any other remedy that would adversely affect Bondholders. The Trustee will ascertain the necessity for a claim upon any surety bond

or insurance policy provided pursuant to the provisions of the Indenture described under this caption “Pledge of Net Revenues; Wastewater Fund; Trustee Funds and Accounts–Parity Reserve Fund” and provide notice to the insurance company issuing such bond or policy in accordance with the terms and conditions of such bond or insurance policy not less than two (2) Business Days prior to any interest payment date upon which such a claim should be paid.

In the event of any deficiency in the Principal Fund or Interest Fund for the payment of principal and interest payments for the Bonds pursuant to clause (A) above, the Trustee will, after first applying all cash and Investment Securities held in the Parity Reserve Fund to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due, on a pro rata basis with respect to the portion of the Parity Reserve Fund held in the form of letters of credit and amounts held in the form of surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters of credit and surety bonds and insurance policies), draw under each letter of credit or surety bond or insurance policy issued with respect to the Parity Reserve Fund, in a timely manner and pursuant to the terms of such letter of credit or surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Bonds when due. In the event that the Trustee has written notice from the City or any Bondholder that any payment of principal of, or interest on, a Bond has been recovered from a Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit or surety bond or insurance policy, if any, credited to the Parity Reserve Fund so provide, will so notify the issuer thereof and draw on such letter of credit or surety bond or insurance policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or insurance policy in order to pay to such Bondholder the principal of and interest so recovered. All amounts in the Parity Reserve Fund (other than amounts that may be obtained from letters of credit and surety bonds and insurance policies on deposit in the Parity Reserve Fund) may be used and withdrawn by the Trustee, if so directed by the City, for the payment or redemption of all Bonds then Outstanding, or for the payment of the final principal and interest payments of the Bonds.

#### **Establishment of the Series 2010 Reserve Fund**

(A) Pursuant to the Equality of Security section of the Master Indenture, the Trustee shall establish and maintain and hold in trust so long as Bonds or Parity Debt to be secured thereby remain outstanding, a special fund designated as the “2010 Reserve Fund.” Amounts on deposit in the 2010 Reserve Fund are pledged to the payment of the Series 2010 Bonds shall be applied only for such purposes as permitted under the Fourth Supplemental Indenture. The Trustee shall deposit in the 2010 Reserve Fund, upon the direction of the City, the 2010 Reserve Fund Requirement and such other amounts transferred to the Trustee by the City pursuant to the Indenture regarding the Parity Reserve Fund thereof. No deposit need be made in the 2010 Reserve Fund so long as there shall be on deposit therein a sum equal to at least the amount required by this clause (A) to be on deposit therein. Moneys on deposit in the 2010 Reserve Fund (including all amounts that may be obtained from letters of credit and surety bonds and insurance policies, as provided below, on deposit in the 2010 Reserve Fund) shall be transferred by the Trustee to the Principal Fund and Interest Fund to pay principal of and interest on the Series 2010 Bonds on any interest payment date in the event amounts on deposit therein are insufficient for such purposes. Upon the occurrence of any deficiency in the 2010 Reserve Fund, the City shall immediately transfer to the Trustee and the Trustee shall set aside in the 2010 Reserve Fund an amount equal to the aggregate amount of each unreplenished prior withdrawal from the 2010 Reserve Fund until there is on deposit in the 2010 Reserve Fund an amount equal to the 2010 Reserve Fund Requirement. Pursuant to the provisions of the Master Indenture regarding Pledge of Net Revenues; Wastewater Fund; Rate Stabilization Fund, the Trustee shall transfer amounts to the 2010 Reserve Fund on a parity basis

with deposits into the Parity Reserve Fund, and such transfers shall occur prior to the deposits required by the Master Indenture regarding Pledge of Net Revenues; Wastewater Fund; Rate Stabilization Fund. Amounts on deposit in the 2010 Reserve Fund in excess of the 2010 Reserve Fund Requirement shall, at the written Request of the City, be withdrawn from the 2010 Reserve Fund and transferred to the City.

(B) The City may provide for all or any part of the 2010 Reserve Fund Requirement by delivering to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest Rating Categories of Moody's and Standard & Poor's, securing an amount, together with moneys, Investment Securities or surety bonds or insurance policies (as described in clause (C) below) on deposit in the 2010 Reserve Fund, equal to the 2010 Reserve Fund Requirement. Such letter of credit shall have an original term of no less than three (3) years or, if less, the final maturity of the Series 2010 Bonds and such letter of credit shall provide by its terms that it may be drawn upon as provided in the Fourth Supplemental Indenture. At least one year prior to the stated expiration of such letter of credit, the City shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the maturity of the Series 2010 Bonds or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements of clause (C) below. Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee shall deliver the then effective letter of credit to or upon the order of the City. If the City shall fail to deposit a replacement letter of credit, extended letter of credit, surety bond or insurance policy with the Trustee, the City shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the 2010 Reserve Fund Requirement will be on deposit in the 2010 Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the 2010 Reserve Fund Requirement, calculated as of the date following the expiration of the letter of credit, is not on deposit in the 2010 Reserve Fund one week prior to the stated expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee shall draw on the letter of credit to fund the amount of any such deficiency in the 2010 Reserve Fund.

(C) The City may also provide for all or any part of the 2010 Reserve Fund by delivering to the Trustee a surety bond or an insurance policy securing an amount, together with moneys, Investment Securities or letters of credit on deposit in the 2010 Reserve Fund, equal to the 2010 Reserve Fund Requirement. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or obligations secured by such insurance company's insurance policies) are rated in one of the two highest Rating Categories of Moody's and Standard & Poor's. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Series 2010 Bonds. In the event that such surety bond or insurance policy for any reason lapses or expires, the City shall immediately implement (i) or (iii) of clause (B) above or make the required deposits to the 2010 Reserve Fund. Repayment of any draw under any such surety bond or insurance policy, and any expenses and accrued interest related to such draw (collectively the "Policy Costs") shall commence in the first month following each such draw, and shall be paid at the time specified in clause (A) above in an amount not less than one-twelfth (1/12<sup>th</sup>) of the aggregate of the Policy Costs related to such draw. If and to the extent that cash has also been deposited in the 2010 Reserve Fund, all such cash shall be used (including investments purchased with such cash, which shall be liquidated and the proceeds thereof applied as required under the Fourth Supplemental Indenture) prior to any drawing under surety bond or insurance policy, and repayment of any Policy Costs shall be made prior to any replenishment of any such cash amounts. If the City shall fail to repay any Policy Costs in accordance herewith, the insurance company issuing such surety bond or insurance policy shall be entitled to exercise any and all remedies available at law or under the Fourth Supplemental Indenture other than (i) an acceleration of the interest on or principal of the Series 2010 Bonds as provided in the Fourth Supplemental Indenture or (ii) any other remedy that would adversely affect Bondholders. The Trustee shall ascertain the necessity for a claim upon any surety bond or insurance policy provided under the Fourth Supplemental Indenture and provide notice to the insurance company issuing such bond or policy in accordance with the terms and conditions

of such bond or insurance policy not less than two (2) Business Days prior to any interest payment date upon which such a claim should be paid.

(D) In the event of any deficiency in the Principal Fund or Interest Fund for the payment of principal and interest payments for the Series 2010 Bonds pursuant to clause (A) above, the Trustee shall, after first applying all cash and Investment Securities held in the 2010 Reserve Fund to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Series 2010 Bonds when due, on a pro rata basis with respect to the portion of the 2010 Reserve Fund held in the form of letters of credit and amounts held in the form of surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters of credit and surety bonds and insurance policies), draw under each letter of credit or surety bond or insurance policy issued with respect to the 2010 Reserve Fund, in a timely manner and pursuant to the terms of such letter of credit or surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, any mandatory sinking fund payments with respect to, and interest on, the Series 2010 Bonds when due. In the event that the Trustee has written notice from the City or any Bondholder that any payment of principal of, or interest on, a Bond has been recovered from a Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit or surety bond or insurance policy, if any, credited to the 2010 Reserve Fund so provide, shall so notify the issuer thereof and draw on such letter of credit or surety bond or insurance policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or insurance policy in order to pay to such Bondholder the principal of and interest so recovered. All amounts in the 2010 Reserve Fund (other than amounts that may be obtained from letters of credit and surety bonds and insurance policies on deposit in the 2010 Reserve Fund) may be used and withdrawn by the Trustee, if so directed by the City, for the payment or redemption of all Series 2010 Bonds then Outstanding, or for the payment of the final principal and interest payments of the Series 2010 Bonds.

### **Investment of Moneys in Funds and Accounts**

All moneys in any of the funds and accounts held by the Trustee and established pursuant to the Indenture will be invested, as directed by the City, solely in Investment Securities; provided, however, that Investment Securities (other than those described in clauses (B)(8) or (B)(9) of the definition thereof) purchased with moneys held by the Trustee in the Parity Reserve Fund will have an average weighted term to maturity not greater than five years. All Investment Securities will, as directed by the City in writing or by telephone, promptly confirmed in writing, be acquired subject to the limitations as to maturities set forth in the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by Request of the City. The Trustee may conclusively rely upon any investment direction from the City as a certification to the Trustee that such investment constitutes an Investment Security. If and to the extent the Trustee does not receive investment instructions from the City with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys will be invested in Investment Securities described in clause (B)(5) of the definition thereof and the Trustee will thereupon request investment instructions from the City for such moneys.

Unless otherwise provided in the Indenture or in a Supplemental Indenture, all interest, profits and other income received from the investment of moneys in any fund or account, other than the Rebate Fund, will be transferred by the Trustee to the City for deposit in the Wastewater Fund when received. All interest, profits and other income received from the investment of moneys in the Rebate Fund will be deposited in the Rebate Fund, except as otherwise provided in the Indenture. Notwithstanding anything to the contrary contained in the Indenture, an amount of interest received with respect to any Investment

Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security will be credited to the fund or account from which such accrued interest was paid.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture will be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the City, may impose its customary charge therefor. The Trustee may sell or present for redemption, any Investment Securities so purchased whenever it will be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and the Trustee will not be liable or responsible for any loss resulting from such investment.

The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

## **Covenants**

Pursuant to the Indenture, the City has covenanted as follows:

*Punctual Payment.* The City will punctually pay or cause to be paid the principal, Accreted Value or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and will punctually pay or cause to be paid all mandatory sinking fund payments, but in each case only out of Net Revenues, as provided in the Indenture.

*Operation of Enterprise in Efficient and Economical Manner.* The City covenants and agrees to operate the Enterprise in an efficient and economical manner and to operate, maintain and preserve the Enterprise in good repair and working order.

*Waiver of Laws.* The City will not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time thereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the City to the extent permitted by law.

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

*Discharge of Claims.* The City covenants that in order to fully preserve and protect the priority and security of the Bonds, the City will pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with Enterprise which, if unpaid, may become a lien or charge upon the Gross Revenues or the Net Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City will also pay from the Gross Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Enterprise or upon any part thereof or upon any of the Gross Revenues or the Net Revenues therefrom.

*Against Sale, Eminent Domain.* Except as provided in the Indenture or in any documents relating to Parity Debt, the City covenants that the property, facilities and improvements of the Enterprise will not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless: (a) the City will cause to be filed with the Trustee written evidence from each Rating Agency that such sale or other disposition will not cause a reduction or withdrawal of the rating then assigned to the Bonds by each such Rating Agency; (b) such sale or other disposition will be so arranged as to provide for a continuance of payments into the Wastewater Fund sufficient in amount to permit payment therefrom of the principal, Accreted Value and interest on and premiums, if any, due upon the call and redemption thereof, of the Outstanding Bonds, and also to provide for such payments into the funds as are required under the terms of the Indenture and any Supplemental Indenture; and (c) the City will have filed with the Trustee an opinion of nationally-recognized bond counsel to the effect that such sale or other disposition will not adversely affect the exemption from federal income taxation of interest on the Bonds. The City further covenants that the Net Revenues or any other funds pledged or otherwise made available to secure payment of the principal, Accreted Value and interest on the Outstanding Bonds will not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used except as authorized by the terms of the Indenture. The City further covenants that it will not enter into any agreement which impairs the operation of the Enterprise or any part of it necessary to secure adequate Net Revenues to pay the principal, Accreted Value and interest of the Bonds or which otherwise would impair the rights of the Bond Owners with respect to the Net Revenues. If any substantial part of the Enterprise is sold the payment therefor will either be used for the acquisition and/or construction of improvements and extensions of the Enterprise or will be deposited with the Trustee and will be used to redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

The City covenants that any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the City, will either (a) be used for the acquisition and or construction of improvements and extension of the Enterprise, or (b) be deposited with the Trustee (in an amount required to redeem the maximum amount of Outstanding Bonds and Parity Debt) to be used to pay or redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

*Insurance.* The City covenants that it will at all times maintain with responsible insurers all such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Enterprise is damaged or destroyed, such part will be restored to use. The money collected from insurance against accident to or destruction of the physical Enterprise will either (a) be used for repairing or rebuilding the damaged or destroyed Enterprise, and to the extent not so applied will be deposited with the Trustee (in an amount required to redeem the maximum amount of Outstanding Bonds and Parity Debt) to be used to pay or redeem the Outstanding Bonds and Parity Debt in respective amounts and on the respective dates identified by the City in writing.

Any such insurance will be in the form of policies or contracts for insurance with insurers of good standing and will be payable to the City, or may in the form of self-insurance by the City. The City will establish such fund or funds or reserves as are necessary to provide for its share of any such self-insurance. The City will file or cause to be filed with the Trustee, annually within one hundred twenty (120) days after the close of each Bond Year, a Certificate of the City (a) stating that the City is then in compliance with the requirements of the Indenture described under this caption "Covenants-Insurance", and (b) stating whether during the preceding Bond Year any loss has been incurred with respect to the Enterprise and, if so, the amount of insurance proceeds, including the proceeds of any self-insurance fund

covering such loss and specifying the reasonable and necessary costs of repair, reconstruction or replacement thereof.

*Records and Accounts.* The City covenants that it will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries will be made of all transactions relating to the Enterprise. Said books will, upon reasonable request, be subject to the inspection of the Owners of not less than ten percent (10%) of the Outstanding Bonds or their representatives authorized in writing.

The City covenants that it will cause the books and accounts of the Enterprise to be audited annually by an Independent Accountant and will make available for inspection by the Bond Owners at the Trust Office of the Trustee, upon reasonable request, a copy of the report of such Independent Accountant.

*No Priority for Additional Obligations.* The City covenants that no additional bonds, notes or other indebtedness will be issued or incurred having any priority in payment of principal, Accreted Value or interest out of the Net Revenues over the Bonds. Nothing in the Indenture will prohibit or impair the authority of the City to issue bonds or other obligations which are unsecured or which are secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amount as the City may determine.

*Tax Covenants.* In the Indenture, the City covenants with the Owners of the Bonds that, notwithstanding any other provisions of the Indenture, it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code. The City will not, directly or indirectly, use or permit the use of proceeds of the Bonds or any of the property financed or refinanced with proceeds of the Bonds, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Bonds.

## **Events of Default and Remedies**

*Events of Default.* The following events will be Events of Default under the Indenture:

(a) default in the due and punctual payment of the principal, Accreted Value or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) failure by the City to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in (a) or (b) under this caption "Events of Default", for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, has been given to the City by the Trustee; except that, if such failure can be remedied but not within such thirty (30) day period and if the City has taken all action reasonably possible to remedy such failure within such thirty (30) day period, such failure shall not become an Event of Default for so long as the City shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee or any insurer of the Bonds;

(d) default by the City under any agreement governing any Parity Debt and the continuance of such default beyond the therein stated grace period, if any, with respect to such default;

(e) the filing by the City of a petition in voluntary bankruptcy for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or an assignment by the City for the benefit of creditors, or the admission by the City in writing to its insolvency or inability to pay debts as they mature, or the consent by the City in writing to the appointment of a trustee or receiver for itself;

(f) the entering by a court of competent jurisdiction of an order, judgment or decree declaring the City insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the City, or approving a petition filed against the City seeking reorganization of the City under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or

(g) the assumption, under the provisions of any other law for the relief or aid of debtors, by any court of competent jurisdiction of custody or control of the City or of the Net Revenues and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

*Application of Net Revenues and Other Funds After Default; Acceleration.* If an Event of Default shall occur and be continuing, the City shall immediately transfer to the Trustee all Net Revenues held by it and received thereafter and the Trustee shall apply all Net Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (except as otherwise provided in the Indenture) as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and Parity Debt, including the costs and expenses of the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) To the payment of the whole amount of Bond Obligation then due on the Bonds and Parity Debt (upon presentation of the Bonds and Parity Debt to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation at the rate or rates of interest borne by the respective Bonds and Parity Debt, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Debt which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Debt at the rate borne by the respective Bonds and Parity Debt, and, if the amount available shall not be sufficient to pay in full all the Bonds and Parity Debt due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or interest or Accreted Value (plus accrued interest) due on such date to the persons entitled thereto, without any discrimination or preference.

(3) To the payment of the payment of fees and other amounts owed to any Credit Providers relating to Credit Facilities and any providers of any Public Finance Contract Insurance Policies.

In each and every such case during the continuance of such Event of Default (and subject to any rights granted to any insurer of the Bonds with respect to the enforcement of remedies upon an Event of Default pursuant to a Supplemental Indenture), the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the City, to declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, the City shall pay to or shall deposit with the Trustee a sum sufficient to pay all principal on such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate amount of Bond Obligation of the Bonds at the time Outstanding, by written notice to the City and to the Trustee, may, on behalf of the Owners of all the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

*Trustee to Represent Bondholders.* The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Indenture or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Net Revenues, and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

*Bondholders' Direction of Proceedings.* Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with

such direction, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Debt not parties to such direction.

*Limitation on Bondholders' Right to Sue.* No Owner of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any other applicable law with respect to such Bond, unless (1) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (3) such Owner or said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (5) the Trustee shall not have received contrary directions from the Owners of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Indenture or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

*Absolute Obligation of the City.* Nothing in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal, Accreted Value or Redemption Price of and interest on the Bonds to the respective Owners of the Bonds at their respective due dates therefor or upon call for redemption, as provided in the Indenture, but only out of the Net Revenues and other assets pledged in the Indenture therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

*Termination of Proceedings.* In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the City, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the City, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

*Remedies Not Exclusive.* No remedy conferred in the Indenture upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or thereafter existing at law or in equity or otherwise.

*No Waiver of Default.* No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or

power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

## **The Trustee**

*Appointment; Duties, Immunities and Liabilities of Trustee.* The Bank of New York Trust Company, N.A., is appointed as Trustee under the Indenture and accepts the trust imposed upon it as Trustee under the Indenture and to perform all the functions and duties of the Trustee under the Indenture, subject to the terms and conditions set forth in the Indenture. The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture and no implied covenants shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

*Merger or Consolidation.* Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it is a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company will be eligible under the Indenture, will be the successor to such Trustee without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding.

Notwithstanding anything to the contrary contained therein, any corporation or association into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation or association to which all or substantially all of the corporate trust business of the Trustee may be sold or otherwise transferred, shall be the successor trustee thereunder without any further act.

*Liability of Trustee.* The recitals of facts in the Indenture and in the Bonds contained will be taken as statements of the City, and the Trustee assumes no responsibility for the correctness of the same (other than the certificate of authentication of the Trustee on each Bond), and makes no representations as to the validity or sufficiency of the Indenture or of the Bonds or of any Investment Security, as to the sufficiency of the Net Revenues, or the priority of the lien of the Indenture thereon, or as to the financial or technical feasibility of the Enterprise and will not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly in the Indenture or in the Bonds assigned to or imposed upon it. The Trustee will, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence, willful misconduct or breach of the express terms and conditions of the Indenture. The Trustee and its directors, officers, employees or agents may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner of a Bond may be entitled to take, with like effect as if the Trustee was not the Trustee under the Indenture. The Trustee may in good faith hold any other form of indebtedness of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City and make disbursements for the City and enter into any commercial or business arrangement therewith, without limitation.

The Trustee will not be liable for any error of judgment made in good faith by a responsible officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts. The Trustee

may execute any of the trusts or powers of the Indenture and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and will be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture, but the Trustee will be answerable for the negligence or misconduct of any such attorney, agent, or receiver selected by it; provided, however, that the Trustee will not be answerable for the negligence or misconduct of any attorney or certified public accountant selected by it with due care.

The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under the Indenture.

The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of the Indenture, including, without limitation, the provisions of the Indenture, unless such Bondholders has offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby.

No provision of the Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the Indenture.

The Trustee is not to be deemed to have knowledge of and is not to be required to take any action with respect to, any Event of Default (other than an Event of Default described under (a) or (b) under the paragraph "Events of Default" above) or event which would, with the giving of notice, the passage of time or both, constitute an Event of Default, unless the Trustee has actual knowledge of such event or has been notified in writing of such event by the City, the Owners of twenty-five percent (25%) in aggregate amount of Bond Obligation of the Bonds at the time Outstanding or the Applicable Credit Provider. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in the Indenture (including, without limitation, the covenants of the City set forth in the Indenture), other than the covenants of the City to make payments with respect to the Bonds when due as set forth in the Indenture and to file with the Trustee when due, such reports and certifications as the City is required to file with the Trustee under the Indenture.

No permissive power, right or remedy conferred upon the Trustee under the Indenture will be construed to impose a duty to exercise such power, right or remedy.

The Trustee will not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee will determine to make such further inquiry or investigation, it will be entitled to examine the books, records and premises of the City, personally or by agent or attorney.

The Trustee will not be responsible for:

- (1) the application or handling by the City of any Net Revenues or other moneys transferred to or pursuant to any Requisition or Request of the City in accordance with the terms and conditions of the Indenture;

(2) the application and handling by the City of any other fund or account designated to be held by the City under the Indenture;

(3) any error or omission by the City in making any computation or giving any instruction pursuant to the Indenture and may rely conclusively on any computations or instructions furnished to it by the City in connection with the requirements of the Indenture and the Tax Certificate; or

(4) the construction, operation or maintenance of the Enterprise by the City.

Whether or not therein expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee will be subject to the provisions of the Indenture described under this caption “The Trustee”.

The Trustee will have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

### **Amendments**

*Amendments Permitted with Consent.* The Indenture and the rights and obligations of the City, the Owners of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the City and the Trustee may enter into with the written consent of the Owners of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding has been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding described under this caption “Amendments”.

For any Series of Bonds for which there is a letter of credit or policy of bond insurance in place securing such Series of Bonds, the written consents of each provider of a letter of credit or a policy of bond insurance, as well as the consent of any provider of a liquidity facility then in effect if the rights and security of such provider shall be materially adversely affected, for such Series of Bonds filed with the Trustee shall be accepted in lieu of consent of the Owners of such Series of Bonds and shall be deemed to be the consent of all of the Owners of such Series of Bonds for purposes of satisfying the requirements described in the preceding paragraph, provided that at the time such consent is given, the payment of all the principal, Accreted Value and interest on all Outstanding Bonds of such Series will be insured by a policy or policies of municipal bond insurance or payable under a letter of credit the provider of which will be a financial institution or association having unsecured debt obligations rated, or insuring or securing other debt obligations rated on the basis of such insurance or letters of credit, in one of the two highest Rating Categories of Moody’s or Standard & Poor’s.

No such modification or amendment will (a) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any mandatory sinking fund payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof exclusively, without the consent of the Owner of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Net Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the

Owners of the Bonds of the lien created by the Indenture on such Net Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent will approve the substance thereof. Promptly after the execution and delivery by the Trustee and the City of any Supplemental Indenture under the provisions of the Indenture described under this caption "Amendments Permitted With Consent", the Trustee will mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Owners of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, will not, however, in any way impair or affect the validity of any such Supplemental Indenture.

A copy of each Supplemental Indenture entered into by the City and the Trustee pursuant to the provisions described under this caption "Amendments-Permitted with Consent" will be sent by the City to Moody's and Standard & Poor's.

*Amendments Not Requiring Consent.* The Indenture and the rights and obligations of the City, of the Trustee and of the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the City may adopt without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the City in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Indenture to or conferred upon the City;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the City may deem necessary or desirable, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said Act or similar federal statute, and which will not materially and adversely affect the interests of the Owners of the Bonds;

(4) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance of Variable Rate Indebtedness, Capital Appreciation Indebtedness or Parity Debt with such interest rate, payment, maturity and other terms as the City may deem desirable; subject to the provisions of the Indenture;

(5) to provide for the issuance of Bonds in book-entry form or bearer form, provided that no such provision will materially and adversely affect the interests of the Owners of the Bonds;

(6) if the City agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(7) to provide for the issuance of an additional Series of Bonds pursuant to provisions of the Indenture; and

(8) for any other purpose that does not materially and adversely affect the interests of the Owners of the Bonds.

## **Defeasance**

*Discharge of Indenture.* Bonds of any Series or a portion thereof may be paid by the City in any of the following ways:

(a) by paying or causing to be paid the Bond Obligation of and interest on such Outstanding Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount and subject to the conditions as described under “Deposit of Moneys or Securities with Trustee” to pay or redeem such Outstanding Bonds; or

(c) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the City pays all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable under the Indenture by the City, as well as any amounts due and owing under any Credit Agreement then in effect, then and in that case (but subject to any additional requirements in connection therewith as may be imposed by any insurer of the Bonds and set forth in a Supplemental Indenture), at the election of the City (evidenced by a Certificate of the City filed with the Trustee signifying the intention of the City to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds have not been surrendered for payment, the Indenture and the pledge of Net Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the City under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the City, the Trustee will cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and will execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the City all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

*Discharge of Liability on Bonds.* Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount and subject to the conditions as described under “Deposit of Moneys or Securities with Trustee” to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee have been made for the giving of such notice, then (but subject to any additional requirements with respect thereto as may be imposed by any insurer of the Bonds and set forth in a Supplemental Indenture) all liability of the City in respect of such Bond will cease, terminate and be completely discharged, provided that the Owner thereof will thereafter be entitled to the payment of the principal, Accreted Value and premium, if any, and interest on the Bonds, and the City will remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture and the continuing duties of the Trustee under the Indenture.

The City may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the City may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, will be deemed to be paid and retired.

*Deposit of Money or Securities With Trustee.* Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee has been made for the giving of such notice, the amount to be deposited or held will be the principal amount, Accreted Value or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) Defeasance Securities, the principal of and interest on which when due will, in the opinion of an independent certified public accountant delivered to the Trustee (upon which opinion the Trustee may conclusively rely), provide money sufficient to pay the principal, Accreted Value or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal, Accreted Value or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption has been given as in the Indenture provided or provision satisfactory to the Trustee has been made for the giving of such notice;

provided, in each case, that the Trustee has been irrevocably instructed (by the terms of the Indenture or by Request of the City) to apply such money to the payment of such principal, Accreted Value or Redemption Price and interest with respect to such Bonds.

### **Liability of City Limited to Net Revenues**

Notwithstanding anything in the Indenture or in the Bonds contained, the City will not be required to advance any moneys derived from any source other than the Net Revenues and other assets pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal, Accreted Value or Redemption Price of or interest on the Bonds or for any other purpose of the Indenture.

The Bonds are special, limited obligations of the City. The Bonds will not be deemed to constitute a debt or liability of the City, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory provision, or a pledge of the faith and credit of the City, the State of California or of any political subdivision thereof, but will be payable, except to the extent of certain amounts held under the Indenture pledged therefor, solely from Net Revenues. Neither the faith and credit nor the taxing power of the City, the State of California or of any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds. The issuance of the Bonds will not directly or indirectly or contingently obligate the City, the State of California or any political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

### **Establishment and Application of Series 2010 Costs of Issuance Fund**

The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Series 2010 Costs of Issuance Fund," until April, 2011. The Trustee shall deposit to the Series 2010 Costs of Issuance Fund the amounts specified in the provisions of the Indenture regarding the Application of Proceeds of the 2010 Bonds. All money in the Series 2010 Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance of the Series 2010 Bonds upon receipt of Requisitions of the City filed with the Trustee, each of which shall be sequentially numbered and shall state the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On April 20, 2011 or upon the earlier Request of the City, any remaining balance in the Series 2010 Costs of Issuance Fund shall be transferred to the City.

### **Establishment and Application of the Series 2010 Project Fund**

The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Series 2010 Project Fund." All money in the Series 2010 Project Fund shall be disbursed, upon the Request of the City, for the payment of the costs of the design, acquisition and construction of capital improvements to the Enterprise as determined by the City and the incidental costs and expenses related thereto (including reimbursement to the City for any such costs or expenses paid by it). Each such Request of the City shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

When the design, acquisition and construction of all capital improvements determined by the City to be funded from the Series 2010 Project Fund have been completed (as evidenced by a Certificate of the City filed with the Trustee), the Trustee shall transfer any balance remaining in the Series 2010 Project Fund for deposit in the Wastewater Fund, unless the City provides an opinion of counsel to the effect that another use of such moneys will not cause the interest represented by the Series 2010 Bonds to be included in the gross income of the Owners thereof for federal income tax purposes, in which case such money may be expended by the City as provided in such opinion.

### **Establishment of the Series 2010 Capitalized Interest Account**

The Trustee shall establish, maintain and hold in trust a sub-account in the Interest Fund designated as the "Series 2010 Capitalized Interest Account." All money in the Series 2010 Capitalized Interest Account shall be disbursed to pay interest due on the Series 2010 Bonds in accordance with the schedule contained in the Fourth Supplemental Indenture.

### **Continuing Disclosure**

Under the Fourth Supplemental Indenture, the City covenants and agrees to comply with the Series 2010 Continuing Disclosure Agreement as it may from time to time thereafter be amended or supplemented. Notwithstanding any other provision of the Indenture, failure of the City to comply with the requirements of the Series 2010 Continuing Disclosure Agreement, as it may from time to time thereafter be amended or supplemented, shall not be considered an Event of Default and the Trustee shall have no right to accelerate amounts due under the Indenture as a result thereof; provided, however, that the Trustee and the Owners of not less than 25% in principal amount of the Outstanding Series 2010 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 in this section with respect to the Series 2010 Continuing Disclosure Agreement.

## **Terms of Series 2010 Bonds Subject to the Indenture**

Except as in the Fourth Supplemental Indenture expressly provided, every term and condition contained in the Indenture shall apply to the Fourth Supplemental Indenture and to the Series 2010 Bonds with the same force and effect as if the same were therein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to the Fourth Supplemental Indenture.

The Fourth Supplemental Indenture and all the terms and provisions therein contained shall form part of the Indenture as fully and with the same effect as if all such terms and provisions had been set forth in the Indenture. The Indenture is thereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended thereby.

## **Provisions Relating to the Series 2010 Credit Provider**

*Payment Under the Series 2010 Credit Facility.* Notwithstanding anything to the contrary contained in the Indenture, so long as the Series 2010 Bonds are Outstanding, the following payment provisions shall apply to the Series 2010 Bonds.

(A) If, on the third Business Day prior to the related scheduled Interest Payment Date, principal payment date or Mandatory Sinking Account Payment date (each, a “Payment Date”) there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the Series 2010 Bonds due on such Payment Date, the Trustee shall give notice to the Series 2010 Credit Provider and to its designated agent, if any (the “Credit Provider’s Fiscal Agent”), by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Series 2010 Bonds due on such Payment Date, the Trustee shall make a claim under the Series 2010 Credit Facility and give notice to the Series 2010 Credit Provider and the Credit Provider’s Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Series 2010 Bonds and the amount required to pay principal of the Series 2010 Bonds, confirmed in writing to the Series 2010 Credit Provider and the Credit Provider’s Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Series 2010 Credit Facility.

(B) The Trustee shall designate any portion of payment of principal on Series 2010 Bonds paid by the Series 2010 Credit Provider, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Series 2010 Bonds registered to the then current Holder of such Series 2010 Bonds, whether DTC or its nominee or otherwise, and shall issue a replacement Series 2010 Bond to the Series 2010 Credit Provider, registered in the name of Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance, Inc.), in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee’s failure to so designate any payment or issue any replacement Series 2010 Bonds shall have no effect on the amount of principal or interest payable by the Authority on any Series 2010 Bond or the subrogation rights of the Series 2010 Credit Provider.

(C) The Series 2010 Credit Provider shall be entitled to pay principal or interest on the Series 2010 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Series 2010 Credit Facility) and any amounts due on the Series 2010 Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether

or not the Series 2010 Credit Provider has received a Notice of Nonpayment (as such term is defined in the Series 2010 Credit Facility) or a claim upon the Series 2010 Credit Facility.

(D) Upon payment of a claim under the Series 2010 Credit Facility, the Trustee shall establish a separate special purpose trust account for the benefit of the Holders of the Series 2010 Bonds, referred to in the Fourth Supplemental Indenture as the “Policy Payments Account” and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Series 2010 Credit Facility in trust on behalf of the Holders of the Series 2010 Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to the Holders of the Series 2010 Bonds in the same manner as principal and interest payments are to be made with respect to the Series 2010 Bonds under the sections thereof regarding payment of Series 2010 Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything in the Indenture to the contrary, the Authority agrees to pay to the Series 2010 Credit Provider (i) a sum equal to the total of all amounts paid by the Series 2010 Credit Provider under the Series 2010 Credit Facility (the “Credit Provider Advances”); and (ii) interest on such Credit Provider Advances from the date paid by the Series 2010 Credit Provider until payment thereof in full, payable to the Series 2010 Credit Provider at the Late Payment Rate per annum (collectively the “Credit Provider Reimbursement Amounts”). “Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Series 2010 Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The Authority covenants and agrees that the Credit Provider Reimbursement Amounts are secured by a lien on and pledge of the Revenues and payable from such Revenues on a parity with debt service due on the Series 2010 Bonds.

(E) Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Series 2010 Bond payment date shall promptly be remitted to the Series 2010 Credit Provider.

(F) The Trustee shall keep a complete and accurate record of all funds deposited by the Series 2010 Credit Provider into the Policy Payments Account and the allocation of such funds to payment of interest on and principal of any Series 2010 Bond. The Series 2010 Credit Provider shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

*Other Series 2010 Credit Provider Provisions.* The following provisions of this section shall be deemed to be accepted by the Holders of the Series 2010 Bonds pursuant to the provisions of the Indenture regarding Modification or Amendment of the Indenture:

(A) So long as the Series 2010 Credit Facility with respect to the Series 2010 Bonds remains in effect and the Series 2010 Credit Provider is not in default with respect thereto, the provisions summarized under this heading shall apply notwithstanding any conflicts with the Indenture.

(B) Any amendment, supplement, modification to, or waiver of, the Indenture that requires the consent of the Holders of the Series 2010 Bonds or materially adversely affects the rights and interests

of the Series 2010 Credit Provider shall be subject to the prior written consent of the Series 2010 Credit Provider.

(C) The prior written consent of the Series 2010 Credit Provider shall be a condition precedent to the deposit of any Credit Facility provided in lieu of a cash deposit into the Series 2010 Reserve Fund. Notwithstanding anything to the contrary set forth in the Indenture, amounts on deposit in the Series 2010 Reserve Fund shall be applied to the payment of debt service due on the Series 2010 Bonds.

(D) To the extent that the Indenture confers upon or gives or grants to the Series 2010 Credit Provider any right, remedy or claim under or by reason of the Indenture, the Series 2010 Credit Provider is explicitly recognized as being a third-party beneficiary thereunder and may enforce any such right, remedy or claim conferred, given or granted thereunder.

(E) The Series 2010 Credit Provider shall be deemed to be the sole holder of the Series 2010 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Holders of the Series 2010 Bonds are entitled to take pursuant to the provisions of the Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Fiduciaries.

(F) The rights granted to the Series 2010 Credit Provider under the Indenture to request, consent to or direct any action are rights granted to the Series 2010 Credit Provider in consideration of its issuance of the Series 2010 Credit Facility. Any exercise by the Series 2010 Credit Provider of such rights is merely an exercise of the Series 2010 Credit Provider's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Holders of the Series 2010 Bonds, and such action does not evidence any position of the Series 2010 Credit Provider, affirmative or negative, as to whether the consent of such Holders or any other person is required in addition to the consent of the Series 2010 Credit Provider.

(G) Anything in the Indenture to the contrary notwithstanding, the maturity of Series 2010 Bonds shall not be accelerated without the consent of the Series 2010 Credit Provider, and, in the event the maturity of the Series 2010 Bonds is accelerated, the Series 2010 Credit Provider may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the Authority), and the Trustee shall be required to accept such amounts. Upon such payment of such accelerated principal and interest accrued to the acceleration date, the Series 2010 Credit Provider's obligations under the Series 2010 Credit Facility with respect to such Series 2010 Bonds shall be fully discharged.

(H) Notwithstanding any other provision of the Indenture, in determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Indenture would adversely affect the security for the Series 2010 Bonds or the rights of the Holders of the Series 2010 Bonds, the Trustee or the Trustee, as applicable, shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Series 2010 Credit Facility with respect to such Series 2010 Bonds.

(I) Notwithstanding anything in the Indenture to the contrary, amounts paid by the Series 2010 Credit Provider under the Series 2010 Credit Facility shall not be deemed paid for purposes of the Indenture, and the Series 2010 Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Authority in accordance with the Indenture. The Series 2010 Credit Provider shall, to the extent it makes any payment of principal or interest on the Series 2010 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the

Series 2010 Credit Facility. The Indenture shall not be discharged unless all amounts due or to become due to the Series 2010 Credit Provider have been paid in full or duly provided for.

(J) The City shall pay or reimburse the Series 2010 Credit Provider any and all charges, fees, costs and expenses that the Series 2010 Credit Provider may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture; (ii) the pursuit of any remedies under the Indenture or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture, whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Indenture or the transactions contemplated thereby, other than costs resulting from the failure of the Series 2010 Credit Provider to honor its obligations under the Series 2010 Credit Facility. The Series 2010 Credit Provider reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture.

(K) Notwithstanding anything in the Indenture to the contrary, only (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Series 2010 Credit Provider, pre-refunded municipal obligations rated “AAA” and “Aaa” by Standard & Poor’s Ratings Service, Moody’s Investors Service, respectively, or (5) subject to the prior written consent of the Series 2010 Credit Provider, securities eligible for “AAA” defeasance under then existing criteria of Standard & Poor’s Corporation, or any combination thereof, shall be used to effect defeasance of the Series 2010 Bonds unless the Series 2010 Credit Provider otherwise approves.

To accomplish defeasance, the City shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer (“Accountant”) verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date (“Verification”), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Series 2010 Bonds are no longer “Outstanding” under the Indenture and (iv) a certificate of discharge of the Trustee with respect to the Series 2010 Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Issuer, Trustee and Series 2010 Credit Provider. The Series 2010 Credit Provider shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

Series 2010 Bonds shall be deemed “Outstanding” under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

(L) The notice address of the Series 2010 Credit Provider is: Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.), 31 West 52nd Street, New York, New York 10019, Attention: Managing Director – Surveillance, Re: Policy No. 212213-N, Telephone: (212) 826-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel and shall be marked to indicate “Urgent Material Enclosed.”

(M) The Series 2010 Credit Provider shall be provided with the following information by the Authority, Trustee or Trustee, as the case may be:

(i) Annual audited financial statements within 270 days of the end of the Authority's Fiscal Year (together with a certification of the Authority that it is not aware of any default or Event of Default under the Indenture), and the Authority's annual budget within 30 days after the approval thereof together with such other information, data or reports as the Series 2010 Credit Provider shall reasonably request from time to time;

(ii) Notice of any draw upon the Series 2010 Bond Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawal of amounts in excess of the Series 2010 Bond Reserve Fund Requirement and (ii) withdrawals in connection with a refunding of Series 2010 Bonds;

(iii) Notice of any default known to the Trustee or City within five Business Days after knowledge thereof;

(iv) Prior notice of the advance refunding or redemption of any of the Series 2010 Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(v) Notice of the resignation or removal of the Trustee and the appointment of and acceptance of duties by any successor thereto;

(vi) Notice of the commencement of any proceeding by or against the Authority commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(vii) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Series 2010 Bonds;

(viii) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Indenture; and

(ix) All reports, notices and correspondence to be delivered to Series 2010 Bond Holders under the terms of the Indenture.

(N) The Series 2010 Credit Provider shall have the right to receive such additional information as it may reasonably request in writing of the City or the Trustee.

(O) The Trustee shall notify the Series 2010 Credit Provider of any failure of the City to provide notices, certificates and other information required to be provided to the Trustee or the Trustee under the Indenture.

(P) Except as otherwise expressly permitted under the Indenture or the Subordinate Indenture, no contract shall be entered into or any action taken by which the rights of the Series 2010 Credit Provider or the security for or sources of payment of the Series 2010 Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Series 2010 Credit Provider.

(Q) Any interest rate exchange agreement relating to the Series 2010 Bonds ("Swap Agreement") entered into by the Authority shall meet the following conditions: (i) the Swap Agreement must be entered into to manage interest costs related to, or a hedge against (a) assets then held, or (b) debt then outstanding, or (c) debt reasonably expected to be issued within the next twelve (12) months, and (ii)

the Swap Agreement shall not contain any leverage element or multiplier component greater than 1.0x unless there is a matching hedge arrangement which effectively off-sets the exposure from any such element or component. Unless otherwise consented to in writing by the Series 2010 Credit Provider, any uninsured net settlement, breakage or other termination amount then in effect shall be subordinate to debt service on the Series 2010 Bonds and on any debt on parity with the Series 2010 Bonds. The City shall not terminate a Swap Agreement unless it demonstrates to the satisfaction of the Series 2010 Credit Provider prior to the payment of any such termination amount that such payment will not cause the Authority to be in default under the Related Documents, including but not limited to any monetary obligations thereunder. All counterparties or guarantors to any Swap Agreement must have a rating of at least "A-" and "A3" by Standard & Poor's and Moody's Investors Service. If the counterparty or guarantor's rating falls below "A-" or "A3" by either Standard & Poor's Corporation or Moody's Investors Service, the counterparty or guarantor shall execute a credit support annex to the Swap Agreement, which credit support annex shall be acceptable to the Series 2010 Credit Provider. If the counterparty's or the guarantor's long term unsecured rating falls below "Baa1" or "BBB+" by either Moody's Investors Service or Standard & Poor's Ratings Service, a replacement counterparty or guarantor, acceptable to the Series 2010 Credit Provider shall be required, unless otherwise consented to in writing by the Series 2010 Credit Provider.

(R) Upon the occurrence of an extraordinary optional, special or extraordinary mandatory redemption in part, the selection of Series 2010 Bonds to be redeemed shall be subject to the approval of the Series 2010 Credit Provider. The exercise of any provision of the indenture which permits the purchase of Bonds in lieu of redemption shall require the prior written approval of the Series 2010 Credit Provider if any Series 2010 Bond so purchased is not cancelled upon purchase.

(S) Unless the Series 2010 Credit Provider otherwise directs, upon the occurrence and continuance of an Event of Default or an event which with notice or lapse of time would constitute an Event of Default, if applicable, amounts on deposit in the Series 2010 Project Fund shall not be disbursed, but shall instead be applied to the payment of debt service or redemption price of the Series 2010 Bonds, provided that a favorable opinion of a nationally recognized bond counsel to the effect that the use of such amounts shall not have an adverse effect on the exemption of the interest on the Series 2010A bonds from federal income taxation and shall not have an adverse effect on Subsidy Receipts with respect to the Series 2010B Bonds.

(T) Each of the City and the Trustee covenant and agree to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to preserve the priority of the pledge of the Trust Estate under applicable law.

(U) The Series 2010 Credit Provider shall, to the extent it makes any payment of principal of or interest on the Series 2010 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2010 Credit Facility. Each obligation of the city to the Series 2010 Credit provider under the Related Documents shall survive discharge or termination of such Related Documents.

(V) The City shall pay or reimburse the Series 2010 Credit Provider any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under the Indenture or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture or any other Related Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Indenture or any other Related Document or the transactions contemplated thereby, other than costs resulting from the failure of the Series 2010 Credit Provider to honor its obligations under

the Series 2010 Credit Facility. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any other Related Document.

(W) Notwithstanding anything to the contrary in the Indenture, after payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to the payment of expenses of the City or rebate only after the payment of past due and current debt service on the Bonds and amounts required to restore the Series 2010 Reserve Fund to the Series 2010 Reserve Requirement.

(X) The Series 2010 Credit Provider shall be entitled to pay principal or interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the City (as such terms are defined in the Series 2010 Credit Facility) and any amounts due on the Series 2010 Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the Series 2010 Credit Provider has received a Notice of Nonpayment (as such terms are defined in the Series 2010 Credit Facility) or a claim upon the Series 2010 Credit Facility.

(Y) The City shall repay any draws under the Series 2010 Surety Policy and pay all related reasonable expenses incurred by the Series 2010 Credit Provider. Interest shall accrue and be payable on such draws and expenses from the date of payment by the Series 2010 Credit Provider at the Late Payment Rate. "Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event JPMorgan Chase Bank ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Series 2010 Credit Provider shall specify.

(Z) Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, "Policy Costs") shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

(AA) Amounts in respect of Policy Costs paid to the Series 2010 Credit Provider shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Series 2010 Credit Provider on account of principal due, the coverage under the Series 2010 Surety Policy will be increased by a like amount, subject to the terms of the Reserve Policy.

(BB) All cash and investments in the Series 2010 Reserve Fund shall be transferred to the debt service fund for payment of debt service on Bonds before any drawing may be made on the Series 2010 Surety Policy or any other credit facility credited to the Series 2010 Reserve Fund in lieu of cash ("Credit Facility"). Payment of any Policy Costs shall be made prior to replenishment of any such cash amounts. Draws on all Credit Facilities (including the Series 2010 Surety Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Series 2010 Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other Credit Facilities shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Series 2010 Reserve Fund. For the avoidance of doubt, "available coverage" means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or

willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

(CC) If the City shall fail to pay any Policy Costs in accordance with the requirements of paragraph (Y) above, the Series 2010 Credit Provider shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Indenture other than (i) acceleration of the maturity of the Bonds or (ii) remedies which would adversely affect owners of the Bonds.

(DD) The Indenture shall not be discharged until all Policy Costs owing to the Series 2010 Credit Provider shall have been paid in full. The City's obligation to pay such amounts shall expressly survive payment in full of the Bonds.

(EE) The Indenture shall require the Trustee to ascertain the necessity for a claim upon the Series 2010 Surety Policy in accordance with the provisions of paragraph (Y) above and to provide notice to the Series 2010 Credit Provider in accordance with the terms of the Series 2010 Surety Policy at least five business days prior to each date upon which interest or principal is due on the Bonds. Where deposits are required to be made by the City with the Trustee to the debt service fund for the Bonds more often than semi-annually, the Trustee shall be instructed to give notice to the Series 2010 Credit Provider of any failure of the City to make timely payment in full of such deposits within two business days of the date due.

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**APPENDIX D**

**PROPOSED FORM OF BOND COUNSEL OPINION**

[Closing Date]

City of Richmond  
Richmond, California

Assured Guaranty Municipal Corp.  
New York, New York

City of Richmond, California  
Wastewater Revenue Bonds, Series 2010A

and

City of Richmond, California  
Wastewater Revenue Bonds Taxable Build America Bonds, Series 2010B  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Richmond, California (the “Issuer”) in connection with the issuance of \$3,110,000 aggregate principal amount of City of Richmond, California Wastewater Revenue Bonds, Series 2010A (the “2010A Bonds”) and \$41,125,000 aggregate principal amount of City of Richmond, California Wastewater Revenue Bonds Taxable Build America Bonds, Series 2010B (the “2010B Bonds” and together with the 2010A Bonds, the “Bonds”), issued pursuant to Charter of the City of Richmond and Chapter 13.56 of Article 13 of the Richmond Municipal Code (the “Bond Law”) and pursuant to the Master Indenture dated as of October 1, 2006, as previously supplemented and amended (the “Master Indenture”), and as supplemented by a Fourth Supplemental Indenture dated as of October 1, 2010 (the “Fourth Supplemental Indenture” and collectively with the Master Indenture, the “Indenture”) between the Issuer and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate for the 2010A Bonds, dated the date hereof (the “Tax Certificate”), certificates of the Issuer, the Trustee, and others, opinion of counsel to the Issuer, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person, whether any such actions

are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2010A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against a municipal corporation and chartered city in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on any such property assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special, limited obligations of the Issuer.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligations of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Net Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. Interest on the 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate

alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the 2010B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by the City of Richmond (the “City”), The Bank of New York Mellon Trust Company, N.A., as successor trustee (the “Trustee”) and Willdan Financial Services, as dissemination agent (the “Dissemination Agent”) in connection with the issuance by the City of \$3,110,000 principal amount of City of Richmond Wastewater Revenue Bonds, Series 2010A and \$41,125,000 principal amount of City of Richmond Wastewater Revenue Bonds, Taxable Build America Bonds, Series 2010B (together, the “Series 2010 Bonds”). The Series 2010 Bonds are being issued pursuant to the terms of an Indenture, dated as of October 1, 2006 (the “Master Indenture”), as previously supplemented and as further supplemented by a Fourth Supplemental Indenture, dated as of October 1, 2010, each by and between the City and the Trustee. The Master Indenture as so supplemented, including by the Fourth Supplemental Indenture is referred to as the “Indenture.” The City, the Trustee and the Dissemination Agent hereby covenant and agree as follows:

SECTION 1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City, the Trustee and Dissemination Agent for the benefit of the Owners and Beneficial Owners of the Series 2010 Bonds and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below).

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

“*Annual Report*” means any Annual Report of the City provided pursuant to, and as described in, Section 3 and Section 4 of this Disclosure Agreement.

“*Beneficial Owner*” means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2010 Bonds (including persons holding Series 2010 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2010 Bonds for federal income tax purposes.

“*Bond Insurer*” means Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.)

“*Commission*” means the Securities and Exchange Commission.

“*Disclosure Representative*” means the Director of Finance of the City or any designee, or such other officer or employee as the City may designate in writing to the Trustee and the Dissemination Agent from time to time.

“*Dissemination Agent*” means initially Willdan Financial Services, or any successor Dissemination Agent designated in writing by the City and which has filed a written acceptance of such designation with the City and the Trustee.

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

“*Official Statement*” means the Official Statement dated October 7, 2010 relating to the Series 2010 Bonds.

“*Participating Underwriters*” means RBC Capital Markets Corporation and Southwest Securities, Inc, as the original underwriters of the Series 2010 Bonds required to comply with the Rule in connection with the offering of the Series 2010 Bonds.

“*Repository*” means the Electronic Municipal Market Access site maintained by Municipal Securities Rulemaking Board at <http://emma.msrb.org> or any other entity designated or authorized by the Commission to receive reports pursuant to the Rule.

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

“*State*” means the State of California.

### SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than two hundred seventy (270) days after the end of the City’s Fiscal Year (currently June 30), commencing with the report for the City’s Fiscal Year ended June 30, 2010, provide to the Repository and the Bond Insurer copies of an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report shall be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of such Annual Report and later than the date required above for the filing of such Annual Report if they are not available by that date. If the Fiscal Year of the City changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to the date specified in Section 3(a) for providing each Annual Report to the Repository, the City shall provide such Annual Report to the Dissemination Agent, the Bond Insurer and the Trustee (if the Trustee is not the Dissemination Agent); provided, however, that the City may distribute the Annual Report to the Repository itself after providing written notice to the Trustee and the Dissemination Agent. If by said date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City of such failure to receive the Annual Report.

(c) If the City is unable to provide to the Dissemination Agent an Annual Report by the date required in Section 3(a), the Dissemination Agent is irrevocably instructed to file a notice, in electronic format, to the Repository and the Bond Insurer in substantially the form attached hereto as Exhibit A.

(d) The Dissemination Agent shall file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided.

### SECTION 4. Content of Annual Reports. The Annual Report of the City shall contain or incorporate by reference the following:

(a) The audited financial statements of the City, for the Fiscal Year most recently ended, 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 Reports are required to be filed pursuant to Section 3(a) of this Disclosure Agreement, the Annual Reports shall contain unaudited financial statements in a format similar to the financial statements contained in the final official statement relating to the Series 2010 Bonds, and the audited financial statements shall be filed in the same manner as the Annual Reports when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3(a), financial information and operating data with respect to the City and the Wastewater Enterprise for preceding Fiscal Year, substantially similar to that provided in the tables and charts in the Official Statement, as follows:

(i) A maturity schedule for the outstanding Series 2010 Bonds, and a listing of Series 2010 Bonds redeemed prior to maturity during the prior Fiscal Year.

(ii) Information for the preceding Fiscal Year to update the following tables presented in the Official Statement:

- (A) Table 2—Customers Served and Total Revenues;
- (B) Table 3—Principal Wastewater Customers;
- (C) Table 4—Average Monthly Dry Weather Flow;
- (D) Table 5—Average Monthly Wet Weather Flow; and
- (E) Table 8—Summary of Revenues and Expenditures;

Any or all of the items listed above may be included by specific reference to other documents, including official statements or other disclosure documents of debt issues of the City or related public entities, which have been filed with the Repository or the Commission. If the document included by reference is a final official statement, it must be available from the Repository. The City shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the City to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the City or to reflect changes in the business, structure, operations, legal form of the City or any mergers, consolidations, acquisitions or dispositions made by or affecting the City; provided that any such modifications shall comply with the requirements of the Rule.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2010 Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;

- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax status of the Series 2010 Bonds;
- (vii) modifications to the rights of Owners of the Series 2010 Bonds;
- (viii) bond calls other than mandatory sinking fund redemptions;
- (ix) defeasances;
- (x) release, substitution, or sale of property, if any, securing repayment of the Series 2010 Bonds; and
- (xi) rating changes.

(b) The Trustee shall, promptly upon obtaining actual knowledge at its principal corporate trust office as specified in Section 12 hereof of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to Section (5); *provided*, that failure by the Trustee to so notify the Disclosure Representative and make such request shall not relieve the City of its duty to report Listed Events as required in this Section 5. For the purpose of this Disclosure Agreement “actual knowledge” means actual knowledge at the corporate trust office of the Trustee by an officer of the Trustee with responsibility for matters related to the administration of the Indenture.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether due to a notice from the Trustee or pursuant to Section 5(b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file, or cause to be filed, a notice of such event with the Repository and the Bond Insurer. Notwithstanding the foregoing, notice of Listed Events described in Sections 5(a)(viii) and (ix) need not be given under this subsection any earlier than when the notice, if any, of the underlying event is given to Owners of affected Series 2010 Bonds pursuant to the Indenture.

(e) If in response to a request under Section 5(b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Trustee in writing and instruct the Dissemination Agent not to report the occurrence.

(f) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository and the Bond Insurer. Notwithstanding the foregoing, notice of Listed Events

described in Section 5(a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Series 2010 Bonds pursuant to the Trust Agreement.

(g) The Dissemination Agent may conclusively rely on an opinion of counsel that the City's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the City under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2010 Bonds. If such termination occurs prior to the final maturity of the Series 2010 Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. 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 Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing sixty (60) days written notice to the City. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent. The initial Dissemination Agent shall be the Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall consent to any amendment so requested by the City provided such amendment does not impose any greater duties, or risk of liability on the Trustee, as the case may be) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3(a), Section 4, or Section 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 Series 2010 Bonds, or the type of business conducted;

(b) The undertakings, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2010 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Series 2010 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners of the Series 2010 Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Series 2010 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in its next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change

shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, including the information then contained in the City's official statements or other disclosure documents relating to debt issuances, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. 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 Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Agreement, the Trustee may (and upon written request of at least 25% aggregate principal amount of Outstanding Series 2010 Bonds, with indemnification satisfactory to the Trustee, shall) or any Owner or Beneficial Owner of the Series 2010 Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City, the Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture with respect to the Series 2010 Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the City, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Disclosure Agreement.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent and the Trustee, 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 obligations of the City under this Section 11 shall survive resignation or removal of the Dissemination Agent and payment of the Series 2010 Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City:

City of Richmond  
Richmond City Hall  
450 Civic Center Plaza  
Richmond, California 94804  
Attention: Finance Director  
Phone: 510-620-6740  
Fax: 510-620-6522

If to the Trustee: The Bank of New York Mellon Trust Company, N.A.  
550 Kearney Street, 6th Floor  
San Francisco, California 94108  
Attention: Corporate Trust Services  
Phone: 415-263-2000  
Fax: 415-263-2064

If to the Dissemination Agent: Willdan Financial Services  
27368 Via Industria, Suite 110  
Temecula, California 92590  
Attention: Manager  
Phone: 951-587-3500  
Fax: 951-587-3510

If to the Bond Insurer: Assured Guaranty Municipal Corp.  
(formerly known as Financial Security Assurance Inc.)  
31 West 52nd Street  
New York, New York 10014  
Attention: Managing Director-Surveillance  
Re: Policy No.: \_\_\_\_\_  
Phone: 212-826-0100  
Fax: 212-339-3556

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters, the Owners and Beneficial Owners from time to time of the Series 2010 Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated as of October 20, 2010

CITY OF RICHMOND

By: \_\_\_\_\_  
James C. Goins  
Finance Director

THE BANK OF NEW YORK MELLON  
TRUST COMPANY, N.A., as Trustee

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

WILLDAN FINANCIAL SERVICES,  
as Dissemination Agent

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

EXHIBIT A

FORM OF NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Obligated Person: City of Richmond, California

Name of Bond Issue: City of Richmond, California (Contra Costa County) Wastewater Revenue Bonds, Series 2010A

*and*

City of Richmond, California (Contra Costa County) Wastewater Revenue Bonds, Taxable Build America Bonds, Series 2010B

Issuance Date: October 20, 2010

NOTICE IS HEREBY GIVEN that the CITY OF RICHMOND (the “City”) has not provided an Annual Report with respect to the above-named Series 2010 Bonds as required by an Indenture, dated as of October 1, 2006 (the “Master Indenture”), as previously supplemented and as further supplemented by a Fourth Supplemental Indenture, dated as of October 1, 2010 (the “Fourth Supplemental Indenture” and together with the Master Indenture, the “Indenture”), each by and between the City and the Trustee. [The City anticipates the Annual Report will be filed by \_\_\_\_\_]

Dated: \_\_\_\_\_

CITY OF RICHMOND

By: \_\_\_\_\_  
Title: \_\_\_\_\_

cc: Trustee  
Dissemination Agent  
Bond Insurer

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## APPENDIX F

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2010 Bonds, payment of principal, redemption premium, if any, and interest with respect to the Series 2010 Bonds to DTC, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2010 Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the City of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The City, the Trustee and the Underwriters understand that the current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and that the current "Procedures" of DTC to be followed in dealing with Participants are on file with DTC.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2010 Bonds. The Series 2010 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each Series of the Series 2010 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the Series 2010 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations

providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2010 Bonds, except in the event that use of the book-entry system for the Series 2010 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2010 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2010 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2010 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of the Series 2010 Bonds may wish to ascertain that the nominee holding the Series 2010 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC, if less than all of the Series 2010 Bonds within a maturity are being redeemed. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2010 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2010 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Series 2010 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the Series 2010 Bonds to Cede (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2010 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the City, the Underwriters or the Trustee take any responsibility for the accuracy thereof.

**NONE OF THE CITY, THE UNDERWRITERS OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.**

None of the City, the Underwriters or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Series 2010 Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply.

The City, the Underwriters and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Series 2010 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the City, the Underwriters or the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2010 Bonds or an error or delay relating thereto.

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**APPENDIX G**

**SPECIMEN DEBT SERVICE RESERVE INSURANCE POLICY**

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# MUNICIPAL BOND DEBT SERVICE RESERVE INSURANCE POLICY

ISSUER:

Policy No.:

BONDS:

Effective Date:

Premium: \$

Termination Date:

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") as set forth in the documentation (the "Bond Document") providing for the issuance of and securing the Bonds, for the benefit of the Owners, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

AGM will make payment as provided in this Policy to the Trustee or Paying Agent on the later of the Business Day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, in a form reasonably satisfactory to it. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Issuer, as appropriate, who may submit an amended Notice of Nonpayment. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy. Upon such payment, AGM shall become entitled to reimbursement of the amount so paid (together with interest and expenses) pursuant to the Insurance Agreement.

The amount available under this Policy for payment shall not exceed the Policy Limit. The amount available at any particular time to be paid to the Trustee or Paying Agent under the terms of this Policy shall automatically be reduced by any payment under this Policy. However, after such payment, the amount available under this Policy shall be reinstated in full or in part, but only up to the Policy Limit, to the extent of the reimbursement of such payment (exclusive of interest and expenses) to AGM by or on behalf of the Issuer. Within three Business Days of such reimbursement, AGM shall provide the Trustee, the Paying Agent and the Issuer with notice of the reimbursement and reinstatement.

Payment under this Policy shall not be available with respect to (a) any Nonpayment that occurs prior to the Effective Date or after the Termination Date of this Policy or (b) Bonds that are not outstanding under the Bond Document. If the amount payable under this Policy is also payable under another insurance policy or surety bond insuring the Bonds, payment first shall be made under this Policy to the extent of the amount available under this Policy up to the Policy Limit. In no event shall AGM incur duplicate liability for the same amounts owing with respect to the Bonds that are covered under this Policy and any other insurance policy or surety bond that AGM has issued.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York are, or the Insurer's Fiscal Agent is, authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the

stated date for payment of interest. "Insurance Agreement" means the Insurance Agreement dated as of the effective date hereof in respect of this Policy, as the same may be amended or supplemented from time to time. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer that has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Issuer, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment of principal or interest thereunder, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds. "Policy Limit" shall be the dollar amount of the debt service reserve fund required to be maintained for the Bonds by the Bond Document from time to time (the "Debt Service Reserve Requirement"), but in no event shall the Policy Limit exceed \$ . The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Debt Service Reserve Requirement, as provided in the Bond Document.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be cancelled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.  
(FORMERLY KNOWN AS FINANCIAL  
SECURITY ASSURANCE INC.)

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

A subsidiary of Asured Guaranty Municipal Holdings Inc.  
31 West 52<sup>ND</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 501 NY (6/90)

**APPENDIX H**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.  
(FORMERLY KNOWN AS FINANCIAL  
SECURITY ASSURANCE INC.)

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

(212) 826-0100



