

IN THE OPINION OF PRESTON GATES & ELLIS LLP, BOND COUNSEL, INTEREST ON THE BONDS IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. Bond Counsel is further of the opinion that under existing law, interest on the Bonds is exempt from State of California personal income taxes. See "TAX MATTERS" herein.

NEW ISSUE—FULL BOOK-ENTRY ONLY

Ratings: See "RATINGS" herein

TAXABLE (FEDERAL)

TAX EXEMPT (CALIFORNIA)



\$436,289,659.15

CITY OF OAKLAND, CALIFORNIA
TAXABLE PENSION OBLIGATION BONDS

SERIES 1997

\$393,790,000 Current Interest Bonds
\$26,704,659.15 Capital Appreciation Bonds
Taxable Pension Obligation Bonds
Series 1997, Sub-series A

\$15,795,000 Current Interest Bonds
Taxable Pension Obligation Bonds
Series 1997, Sub-series B

Current Interest Bonds Dated: February 1, 1997

Capital Appreciation Bonds Dated: Date of Delivery

Due: December 15, as shown on inside cover

The City of Oakland, California, Taxable Pension Obligation Bonds, Series 1997 (the "Bonds") will be issued and delivered in the principal amounts and will mature in the years set forth on the inside cover. Interest on the Current Interest Bonds is payable semi-annually on June 15 and December 15 of each year, commencing June 15, 1997. The Capital Appreciation Bonds will accrete in principal value from their date of delivery at the rate set forth on the inside cover. The Accreted Value of each Capital Appreciation Bond shall compound semi-annually at such rate on June 15 and December 15 of each year to the maturity date. No payments shall be made on the Capital Appreciation Bonds prior to the maturity thereof. The Bonds are not subject to redemption prior to maturity.

Pursuant to the Charter of the City, as amended, the City of Oakland, California (the "City") is obligated to appropriate and make payments to The Oakland Police and Fire Retirement System (the "Retirement System") for certain obligations arising as a result of retirement benefits accruing to members of the Retirement System. The Bonds will be issued to (i) fund a portion of the current balance of the City's unfunded actuarial accrued liability for retirement benefits to members of the Retirement System, (ii) fund a portion of the City's current normal contribution to the Retirement System for the fiscal year ending June 30, 1997, and (iii) pay costs of issuance of the Bonds. The Bonds are obligations imposed upon the City by law, are enforceable against the City pursuant to the Retirement Law and are payable from any legally available source of funds of the City. The Bonds are being issued pursuant to a Master Trust Agreement (the "Master Trust Agreement"), by and between the City and Texas Commerce Bank National Association, as Trustee (the "Trustee"), dated as of February 1, 1997, and a First Supplemental Trust Agreement (the "First Supplemental Trust Agreement") by and between the City and the Trustee dated as of February 1, 1997 (the Master Trust Agreement and the First Supplemental Trust Agreement are sometimes referred to collectively as the "Trust Agreement"). The Bonds do not constitute a debt of the City or the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction.

The Bonds will initially be delivered in book-entry form, registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"). The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof for Current Interest Bonds or in denominations which will have an Accreted Value at maturity of \$5,000 or any integral multiple thereof for Capital Appreciation Bonds. See APPENDIX H—"DTC BOOK ENTRY SYSTEM."

The payment of the principal of, and interest on the Bonds will be insured by a municipal bond insurance policy to be issued by MBIA Insurance Corporation (the "Insurer") simultaneously with the delivery of the Bonds. See "BOND INSURANCE" herein.

MBIA

The Bonds will be offered when, as and if issued, and received by the Underwriters, subject to approval of legality by Preston Gates & Ellis LLP, Los Angeles, California, Bond Counsel. Certain other legal matters will be passed upon for the Underwriters by Greenberg Traurig Hoffman Lipoff Rosen & Quentel, New York, New York, Underwriters' Counsel, and for the City by Jayne W. Williams, Esq., Oakland City Attorney. The Bonds, in book-entry form, will be available for delivery in New York, New York on or about February 25, 1997.

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

PaineWebber Incorporated

Bear, Stearns & Co., Inc.

Coast Partners Securities, Inc.

Grigsby & Associates

Henderson Capital Partners, Inc.

Lehman Brothers

Merrill Lynch & Co.

Samuel A. Ramirez & Co., Inc.

February 13, 1997

MATURITY SCHEDULES

\$420,494,659.15

**City of Oakland, California
Taxable Pension Obligation Bonds
Series 1997, Sub-series A**

\$393,790,000 Current Interest Bonds

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>
1999	\$13,215,000	6.200%	100%	2005	\$38,535,000	6.810%	100%
2000	16,745,000	6.380	100	2006	44,405,000	6.880	100
2001	20,250,000	6.480	100	2007	50,885,000	6.910	100
2002	24,140,000	6.520	100	2008	58,030,000	6.950	100
2003	28,450,000	6.650	100	2009	65,900,000	6.980	100
2004	33,235,000	6.730	100				

(Accrued interest to be added)

\$26,704,659.15 Capital Appreciation Bonds

<u>Year</u>	<u>Initial Principal Amount</u>	<u>Yield to Maturity</u>	<u>Initial Amount Per \$5,000 Accreted Value at Maturity</u>
2010	\$26,704,659.15	7.310%	\$1,855.65

\$15,795,000

**City of Oakland, California
Taxable Pension Obligation Bonds
Series 1997, Sub-series B**

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>
1997	\$ 3,300,000	5.630%	100%
1998	10,140,000	5.970	100
1999	2,355,000	6.200	100

(Accrued interest to be added)

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

This Official Statement is not to be construed as a contract with the purchasers of the 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 set forth in this Official Statement has been obtained from official sources and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

IN MAKING ANY INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE UNDERWRITERS MAY OFFER AND SELL TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE THEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

This Official Statement and the information contained herein is in a form deemed final by the City for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

CITY OF OAKLAND, CALIFORNIA

MAYOR AND CITY COUNCIL

Elihu M. Harris, Mayor

Nancy Nadel	Nathan Miley
Ignacio De La Fuente	Henry Chang, Jr.
Jane Brunner	John Russo
Richard Spees	Larry Reid

CITY OFFICIALS

P. Lamont Ewell, Acting City Manager
Ceda Floyd, City Clerk
Dolores E. Blanchard, Director of Budget and Finance
Janice S. Mazyck, Treasury Manager
Jayne W. Williams, City Attorney

BOND COUNSEL

Preston Gates & Ellis LLP
Los Angeles, California

CO-FINANCIAL ADVISORS

Public Financial Management, Inc.
San Francisco, California

P. G. Corbin & Company, Inc.
San Francisco, California

TRUSTEE

Texas Commerce Bank National Association
Houston, Texas

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SUMMARY OF SELECTED INFORMATION

THIS SUMMARY OF SELECTED INFORMATION IS SUBJECT IN ALL RESPECTS TO THE MORE COMPLETE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT, AND THE OFFERING OF THE CITY OF OAKLAND, CALIFORNIA TAXABLE PENSION OBLIGATION BONDS, SERIES 1997 REFERRED TO HEREIN TO POTENTIAL PURCHASERS IS MADE ONLY BY MEANS OF THE ENTIRE OFFICIAL STATEMENT.

City of Oakland, California

The City of Oakland, California (the "City") is the County seat of Alameda County. The City is the third largest city in the San Francisco Bay Area (measured by population) and the eighth largest city in California. The City's General Fund Budget for fiscal year 1996-97 is \$300,860,000.

Purpose of the Issue

The Bonds are being issued to (i) fund a portion of the current balance of the City's unfunded actuarial accrued liability for retirement benefits to members of the Retirement System, (ii) fund a portion of the City's current normal contribution to the Retirement System for the fiscal year ending June 30, 1997, and (iii) pay costs of issuance of the Bonds. To evidence the portion of the balance of the unfunded actuarial accrued liability being financed with a portion of the proceeds of the sale of the Bonds, the City will issue a debenture to the Retirement System to be paid with such proceeds.

Security and Source of Payment for the Bonds

The obligation of the City to pay the principal of, interest on and the redemption price, if any, on the Bonds is an obligation of the City imposed upon the City by law and enforceable against the City pursuant to Article XXVI of the City Charter, as amended from time to time, and the PFRS Pension Obligation Bond Law, Chapter 20 of the Oakland Municipal Code (collectively, the "Retirement Law"). To secure the payment of the Bonds and the performance and observance by the City of all the covenants and agreements contained in the Bonds, the City has agreed in the Trust Agreement to pay from any legally available source of revenues of the City, including in the case of the Sub-series A Bonds, the Tax Override Revenues (as herein defined), all amounts due and owing with respect to bonds issued under the Trust Agreement and all supplemental trust agreements executed pursuant thereto, including principal and interest thereon and the redemption price thereof. The City has pledged and assigned to the Trustee and granted to the Trustee a lien on and security interest in the Pledged Revenues (as herein defined) for the payment of the Sub-series A Bonds, and certain other moneys and securities held from time to time by the Trustee under the Trust Agreement, as described therein for the payment of the Bonds. Neither the Bonds nor the obligation of the City to make payments with respect to the Bonds constitute an indebtedness of the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. See APPENDIX A - "CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND".

The Bonds

The Bonds will be issued and delivered in the principal amounts indicated on the inside cover of this Official Statement. Subject to the provisions of the Trust Agreement authorizing the delivery of the Bonds in book-entry form, the Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, for Current Interest Bonds, or in denominations which will have an Accreted Value of \$5,000 at maturity or any integral multiple thereof, for Capital Appreciation Bonds.

Form of the Bonds

The Bonds will be in fully registered form. The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of DTC.

Redemption

The Bonds are not subject to redemption prior to maturity.

Parity Bonds

The City is permitted to issue additional series of bonds under the Trust Agreement at any time secured on a parity with the Bonds. The City may also issue general obligation bonds or other evidences of indebtedness or liabilities payable from the general revenues, or any other special source of revenues of the City on a parity with the Bonds.

Validation

Prior to the issuance of the Bonds, the City brought a validation action in the Superior Court of Alameda County pursuant to Section 860 *et seq.* of the California Code of Civil Procedure. The validation action sought judicial validation of the issuance of bonds and debentures evidencing the City's obligations under the Retirement Law and related matters. A judgment was entered in favor of the City validating the issuance of the Bonds and any subsequent series of bonds for similar purposes.

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OFFICIAL STATEMENT

\$436,289,659.15

**CITY OF OAKLAND, CALIFORNIA
TAXABLE PENSION OBLIGATION BONDS
SERIES 1997**

**\$393,790,000 Current Interest Bonds
\$ 26,704,659.15 Capital Appreciation Bonds
Taxable Pension Obligation Bonds
Series 1997, Sub-series A**

**\$15,795,000 Current Interest Bonds
Taxable Pension Obligation Bonds
Series 1997, Sub-series B**

INTRODUCTORY STATEMENT

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement, including the cover page and the appendices hereto (the "Official Statement"). The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. The purpose of this Official Statement is to provide certain information concerning the issuance, sale and delivery of the City of Oakland, California Taxable Pension Obligation Bonds, Series 1997, Sub-series A (the "Sub-series A Bonds") in the aggregate principal amount of \$420,494,659.15 and the City of Oakland, California Taxable Pension Obligation Bonds, Series 1997, Sub-series B (the "Sub-series B Bonds") in the aggregate principal amount of \$15,795,000. The Sub-series A Bonds and Sub-series B Bonds are herein referred to collectively as the "Bonds". All capitalized terms used in this Official Statement and not otherwise defined have the meanings set forth in the Master Trust Agreement (the "Master Trust Agreement"), by and between the City of Oakland, California (the "City") and Texas Commerce Bank National Association, Houston, Texas, as Trustee (the "Trustee"), dated as of February 1, 1997, and a First Supplemental Trust Agreement (the "First Supplemental Trust Agreement") by and between the City and the Trustee dated as of February 1, 1997 (the Master Trust Agreement and the First Supplemental Trust Agreement are sometimes referred to collectively as the "Trust Agreement"). For definitions of certain words and terms used but not otherwise defined in this Official Statement, see APPENDIX C — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Pursuant to Article XXVI of the City Charter of the City of Oakland, as amended, the City is obligated to appropriate and make payments to The Oakland Police and Fire Retirement System (the "Retirement System") arising as a result of retirement benefits accruing to members of the Retirement System. The charter obligation of the City to make a portion of such payments will be evidenced by a debenture (the "Debenture") to be executed by the City in favor of the Retirement System in the principal amount of \$432,867,300. The Bonds are to be issued, sold and delivered pursuant to resolutions of the Oakland City Council (the "City Council") adopted on February 6, 1996 and February 4, 1997, Chapter 20 of the Oakland Municipal Code entitled the PFRS Pension Obligation Bond Law, and the Trust Agreement. A portion of the proceeds from the sale of the Bonds equal to the principal amount of the Debenture will be used to pay the Debenture. The balance of the proceeds from the sale of the Bonds will be used to pay costs of issuance of the Bonds. The Bonds are obligations imposed upon the City by law. The Bonds are not limited as to payment to any special source of funds of the City and are payable from any legally available source of revenues of the City.

THE BONDS DO NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION.

PLAN OF FINANCING

The Bonds are being issued to (i) fund a portion of the current balance of the City's unfunded actuarial accrued liability ("UAAL") for retirement benefits for the members of the Police and Fire Departments, (ii) fund a portion of the City's current normal contribution to the Retirement System for the fiscal year ending June 30, 1997, and (iii) pay costs of issuance of the Bonds. The Debenture will be issued to the Retirement System in the amount of \$432,867,300, which equals the present value of the payments the City would otherwise be required to

make to amortize the current balance of the City's UAAL through June 30, 2011 and a portion of the City's normal contribution for the fiscal year ending June 30, 1997. Upon issuance of the Bonds, a portion of the proceeds of the Bonds will be deposited with the Trustee. The Trustee will transfer to the Retirement System the portion of the proceeds of the sale of the Bonds equal to the principal amount of the Debenture (the "Payment") to pay the Debenture and the obligation represented thereby. Pursuant to a Funding Agreement dated as of June 1, 1996, between the City and the Retirement System, the City will not be required to make any further UAAL payments through June 30, 2011 in return for making the Payment to the Retirement System.

However, various factors could result in an additional UAAL obligation in the future as of any particular valuation date, including, without limitation, inflationary factors, changes in statutory provisions of the Retirement Law, changes in benefit levels, mortality experience, payroll, and investment results.

CITY OF OAKLAND POLICE AND FIRE RETIREMENT SYSTEM

The information in this section concerning the Retirement System has been included to provide information concerning the Retirement System, its intended use of the portion of the proceeds of the sale of the Bonds to be received by it, and its investment policies. See, also, APPENDIX A — "CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND - Retirement Program" and Note (2) in "Notes to Audited Financial Statements" included in APPENDIX B - "CITY OF OAKLAND AUDITED FINANCIAL STATEMENTS, JUNE 30, 1996." **Neither the Retirement System nor its assets are obligated for the payment of debt service on the Bonds.**

The Retirement System is a defined benefit pension system for the members of the City's Police and Fire Departments hired prior to July 1, 1976 pursuant to the Retirement Law. The Retirement System provides for the payment of retirement allowances and disability and death benefits to its members and their beneficiaries. The Retirement System is governed by a seven (7) member Police and Fire Retirement Board (the "Retirement Board"), which includes the Mayor of the City; one active member of the Police Department, or a retired member elected by the active and retired members of the Police Department if no active member of the Police Department is elected to serve on the Retirement Board; one active member of the Fire Department, or a retired member of the Fire Department elected by the active and retired members of the Fire Department if no active member of the Fire Department is elected to serve on the Retirement Board; a life insurance executive of a local office; a senior officer of a local bank; a community representative; and a Police-Fire retired member who shall be elected from the retired members of the Fire Department for a first three (3) year term commencing the first day of the month next following his or her election, and from the retired members of the Police Department for the next successive three (3) year term, and, thereafter, alternately from the retirement rolls of each of said departments for successive three (3) year terms.

The operation, investment and disbursement of the Retirement System's funds are under the control of the Retirement Board. The proceeds from the Payment will be invested by the Retirement Board in investments of various types as directed by the Retirement Board and limited by the City Charter. The Retirement System is subject to federal and California law and has discretion to invest plan assets under the prudent person standard of the City Charter Article XXVI, the California Constitution and other applicable law. The Retirement System has a stated investment objective to maintain the purchasing power of the principal of the Retirement System investments over the long term. As of June 30, 1996, the Retirement System has net assets of \$359,175,322.

THE BONDS

General

The Bonds will be issued in the principal amounts, will mature, will be dated and will bear interest from said dates, all as set forth on the cover and inside cover page of this Official Statement. The Bonds will be executed and delivered in fully registered form initially registered in the name of Cede & Co., as nominee for the Depository Trust Company, New York, New York ("DTC"). Individual purchases of Bonds will be made in book-entry only form. Purchasers of the Bonds will not receive physical delivery of the Bonds. Payments of principal and interest on the Bonds will be made by Texas Commerce Bank National Association, as Trustee and Paying Agent, to Cede & Co., as nominee for DTC, as registered owner of the Bonds, to be subsequently disbursed to DTC participants and thereafter to the beneficial owners of the Bonds, all as further described in "APPENDIX H - DTC Book-Entry System".

Current Interest Bonds

The Current Interest Bonds will be dated February 1, 1997, and will bear interest from such date, semi-annually on June 15 and December 15, commencing June 15, 1997. The Current Interest Bonds will be in denominations of \$5,000 or any integral multiple thereof. The Current Interest Bonds will mature on the dates and in the principal amounts and will bear interest at the respective interest rates as set forth on the inside cover page of this Official Statement.

Capital Appreciation Bonds

The Capital Appreciation Bonds will be dated their date of delivery and issued in denominations such that the Accreted Value of each such Capital Appreciation Bond on the stated payment date thereof will be \$5,000 or an integral multiple thereof. The initial principal amount of each Capital Appreciation Bond per \$5,000 Accreted Value at stated maturity and the yield to maturity on such Bonds is set forth on the inside cover of this Official Statement. No payments will be made with respect to the Capital Appreciation Bonds prior to the maturity thereof. The Accreted Value of the Capital Appreciation Bonds shall be compounded semi-annually at the yield set forth on the inside cover of this Official Statement, on June 15 and December 15 of each year until maturity, commencing June 15, 1997, such compounding to be calculated on the basis of a year of 360 days comprised of twelve 30-day months, and shall be payable only at maturity. A Table of Accreted Values (as of June 15 and December 15) of the Capital Appreciation Bonds of each maturity per \$5,000 Accreted Value at stated maturity is attached hereto as Appendix I. The Accreted Value on any date other than June 15 and December 15 of any year shall be calculated by straight line interpolation. Such table is presented for illustrative purposes only. Any Accreted Value determined by computing interest in accordance with the terms of the Trust Agreement shall control over any different Accreted Value determined by reference to such table.

Redemption

The Bonds are not subject to redemption prior to maturity.

Parity Bonds

The City is permitted to issue additional series of bonds under the Trust Agreement secured on a parity with the Bonds. The City may also issue general obligation bonds or other evidences of indebtedness or liabilities payable from the general revenues, or any other special source of revenues of the City on a parity with the Bonds.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

The obligation of the City to make payments with respect to the Bonds is an obligation of the City imposed upon the City by law and enforceable against the City pursuant to the Retirement Law. Payment of the principal of, interest on and redemption price, if any, on the Bonds is not limited to any special source of funds. The assets of the Retirement System are not available for payment of the Bonds and the Bonds do not constitute an obligation of the Retirement System.

Pursuant to the Trust Agreement the City has covenanted that so long as any Bonds are outstanding, the City will levy and collect a tax (up to the maximum tax permitted by law), in each Fiscal Year, whether or not the UAAL is amortized prior to the final maturity of any Bond, sufficient, when aggregated with the other amounts available to and budgeted by the City in such Fiscal Year, to pay principal of, interest on and the redemption price, if any, of the Bonds. The tax revenues available to make payments with respect to the Sub-series A Bonds include the "Tax Override Revenues". The "Tax Override Revenues" are defined in the Trust Agreement as the revenues generated and collected by the City as proceeds of its annual tax levy authorized by Measure R and Measure O, enacted by the voters of the City on June 8, 1976 and June 7, 1988, respectively, amending certain provisions of the City Charter, to be used to amortize the UAAL by the year 2026, net of collection costs and administrative charges. Pursuant to the Trust Agreement the City has pledged for the payment of the Sub-series A Bonds in each fiscal year the Tax Override Revenues (the "Pledged Revenues") until all Sub-series A Bonds have been retired or remaining payments duly provided for. The determination in any year as to the amount of the tax levy rate for the Tax Override Revenues is subject to a variety of factors, including the strength of other City revenues, the prevailing levels of property taxation within the City, the assessed valuation of property in the City, political considerations or policies of the City Council at the time of the levy and constitutional and statutory limitations on taxes and appropriations, which may arise from time to time and limit tax levy rates or otherwise have an adverse effect on the taxing or spending powers of the City. See "CONSTITUTIONAL AND STATUTORY

LIMITATIONS ON TAXES AND APPROPRIATIONS" herein. Proposition 218 (as defined herein), approved by the voters of the State of California on November 5, 1996, enacted constitutional provisions restricting imposition of special taxes by cities and other local governmental agencies. Proposition 218 may limit the ability of the City to increase the tax levy rate for the Tax Override Revenues above its current level or otherwise adversely affect the imposition of the levy of the Tax Override Revenues. The Tax Override Revenues are neither available to make payments for nor pledged to make payments on the Sub-series B Bonds.

Currently, the City levies the Tax Override Revenues at a rate of 0.1575% of property assessed value and anticipates the collection of Tax Override Revenues for the fiscal year 1996-97 in the amount of \$27,285,000. The City collected Tax Override Revenues in the last five fiscal years at this 0.1575% rate, resulting in the following amounts: \$21,953,455 in fiscal year 1991-92; \$23,333,426 in fiscal year 1992-93; \$24,811,768 in fiscal year 1993-94; \$26,400,207 in fiscal year 1994-95; and \$26,833,106 in fiscal year 1995-96. The City makes no representation as to its ability or intentions to raise the levy rate for the Tax Override Revenues and has no obligation to levy Tax Override Revenues to the extent other sources of revenues are expected to be legally available for the payment of the Sub-series A Bonds. In any year in which the Tax Override Revenues are not levied, the Sub-series A Bonds would be payable, as will the Sub-series B Bonds, from any legally available source of revenue of the City.

Under the Trust Agreement, the City is required to deposit with the Trustee on or before August 1 of each year, commencing on August 1, 1997, an aggregate amount from its legally available revenues and the Tax Override Revenues held in the Tax Override Revenues Account of the City, sufficient to pay all principal and interest due on the Sub-series A and Sub-series B Bonds on the next succeeding December 15 and June 15; provided, however, that Tax Override Revenues shall only be applied to pay principal and interest on the Sub-series A Bonds.

THE BONDS DO NOT CONSTITUTE A DEBT OF THE CITY OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION.

GENERAL CITY INFORMATION

Located in the County of Alameda on the east side of the San Francisco Bay, the City is approximately seven miles from San Francisco via the San Francisco-Oakland Bay Bridge. The City is composed of industrialized lands bordering the Bay in the west and suburban foothills in the east. Historically the industrial heart of the Bay Area, Oakland has developed into a financial, commercial and governmental center. The City is the hub of an extensive transportation network that includes a freeway system and the western terminals of major railroads and trucking firms, as well as one of the largest container ship ports in the United States. The City supports an expanding international airport and rapid-transit lines that connect it with most of the Bay Area. The City is the seat of government for Alameda County and is the eighth most populous city in the State.

The City is a municipal corporation and charter city organized and existing under the Constitution and laws of the State. It was incorporated as a town in 1852 and as a city in 1854. The City became a charter city in 1889. The City's current charter was adopted on November 5, 1968, was ratified by the Secretary of State of the State of California (the "State") and went into effect on January 28, 1969. The Charter provides for the election, organization, powers and duties of the legislative branch, known as the City Council; the powers and duties of the executive and administrative branches; fiscal and budgetary matters, personnel administration, franchise, licenses, permits, leases and sales; employees' pension funds; and the creation and organization of the Port of Oakland.

For additional information concerning the City, its government, its financial affairs and its investment policy, see "APPENDIX A - DESCRIPTION OF THE CITY OF OAKLAND", "APPENDIX B - CITY OF OAKLAND AUDITED FINANCIAL STATEMENTS, JUNE 30, 1996" AND "APPENDIX D - CITY OF OAKLAND INVESTMENT POLICY, FISCAL YEAR 1996-1997".

BOND INSURANCE

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to Appendix F for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that 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 guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of December 31, 1995 the Insurer had admitted assets of \$3.8 billion (audited), total liabilities of \$2.5 billion (audited), and total capital and surplus of \$1.3 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 1996, the Insurer had admitted assets of \$4.3 billion (unaudited), total liabilities of \$2.9 billion (unaudited), and total capital and surplus of \$1.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available without charge from the Insurer. A copy of the Annual Report on Form 10-K of MBIA Inc. is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

Moody's Investors Service rates the claims paying ability of the Insurer "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., rates the claims paying ability of the Insurer "AAA."

Fitch Investors Service, L.P., rates the claims paying ability of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.3 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Bonds, exclusive of accrued interest, are estimated to be applied as set forth in the following table:

Sources of Funds

Principal Amount of Bonds	\$ 436,289,659.15
Total Sources of Funds	<u>\$ 436,289,659.15</u>

Uses of Funds

Payment of Debenture (1)	\$ 432,867,300.00
Costs of Issuance (2)	1,459,055.58
Underwriters' Discount	<u>1,963,303.57</u>
Total Uses of Funds	<u>\$ 436,289,659.15</u>

(1) See "PLAN OF FINANCING" herein.

(2) Includes legal fees and expenses, printing costs, bond insurance premium and certain other costs of issuance.

DEBT SERVICE ON PENSION OBLIGATION BONDS

The following table sets forth the City's debt service obligations on the Bonds.

<u>Period Ending June 30</u>	<u>Sub-series A Bonds</u>		<u>Sub-series B Bonds</u>		<u>Total Debt Service on the Bonds</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
1997	\$ 0.00	\$9,949,792.38	\$ 0.00	\$348,831.03	\$10,298,623.41
1998	0.00	26,730,785.50	3,300,000.00	844,263.00	30,875,048.50
1999	0.00	26,730,785.50	10,140,000.00	448,689.00	37,319,474.50
2000	13,215,000.00	26,321,120.50	2,355,000.00	73,005.00	41,964,125.50
2001	16,745,000.00	25,377,290.00	0.00	0.00	42,122,290.00
2002	20,250,000.00	24,187,024.50	0.00	0.00	44,437,024.50
2003	24,140,000.00	22,743,960.50	0.00	0.00	46,883,960.50
2004	28,450,000.00	21,011,034.00	0.00	0.00	49,461,034.00
2005	33,235,000.00	18,946,713.75	0.00	0.00	52,181,713.75
2006	38,535,000.00	16,516,239.25	0.00	0.00	55,051,239.25
2007	44,405,000.00	13,676,590.50	0.00	0.00	58,081,590.50
2008	50,885,000.00	10,390,981.75	0.00	0.00	61,275,981.75
2009	58,030,000.00	6,616,362.50	0.00	0.00	64,646,362.50
2010	65,900,000.00	2,299,910.00	0.00	0.00	68,199,910.00
2011	26,704,659.15	45,250,340.85	0.00	0.00	71,955,000.00
TOTALS	<u>\$420,494,659.15</u>	<u>\$296,748,931.48</u>	<u>\$15,795,000.00</u>	<u>\$1,714,788.03</u>	<u>\$734,753,378.66</u>

RISK FACTORS

The following information should be considered by prospective investors in evaluating the Bonds. It does not purport to be a complete listing of risks and other considerations which may be relevant to an investment in the Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.

Limitations on Remedies

The rights of the Bondowners are subject to the limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the Bondowners, and the obligations incurred by the City, may become subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Bondowners to judicial discretion and interpretation of their rights in bankruptcy proceedings or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

In addition to the legal limitations described above, the Trust Agreement does not provide for any acceleration of the indebtedness represented by the Bonds in the event of default by the City in payments on the Bonds. Bondowners would be limited to enforcement of each defaulted principal and interest payment as such payments come due. Any such suit for money damages would be subject to the limitations on legal remedies against public entities described above.

Limitations on Sources of Revenue

There are limitations on the ability of the City to increase revenues payable to the General Fund of the City. The ability of the City to increase *ad valorem* property taxes (a major source of revenues for cities in California) is limited pursuant to Article XIII A of the State Constitution, which was enacted in 1978. In addition, California voters in 1986, approved an initiative statute which attempts to limit the imposition of new or higher taxes by local agencies, including the City. These same legal limitations generally restrict the ability of cities to increase fees in excess of the amount needed to provide the service or facilities with respect to which such fees are charged. An initiative approved by the voters on November 5, 1996, Proposition 218, further limits the ability of local governments to raise revenues. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

At the same time as limitations have been imposed on the ability of the City to raise revenues, State and federally mandated expenditures for justice, health and welfare have increased. The annual increase in mandated expenditures has exceeded the annual increase in City revenues. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other municipal services before paying debt service on the Bonds and in some cases may be obligated to fund such other services prior to paying debt service.

Other Factors Affecting the City's Ability to Pay the Bonds

The City's General Fund is highly dependent on revenues from the State and the federal governments. In the City's fiscal year ended June 30, 1996, approximately 19.79 percent of the City's General Fund revenues were derived from the State and approximately 0.02 percent from the federal government, together accounting for more than 19.81 percent of the City's General Fund revenues. Future changes in the amounts of State and federal payments received by the City could adversely affect the City's ability to pay the Bonds.

The Trust Agreement imposes no limitation on the ability of the City to incur additional indebtedness or liabilities, including additional bonds thereunder, payable from the general revenues of the city on a parity with the Bonds.

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 moneys available to pay the Bonds. Similarly, the California electorate could adopt initiatives or the State Legislature could adopt legislation with the approval of the electorate amending the State Constitution in a manner which could have the effect of reducing moneys available to pay the Bonds.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

In 1978, California voters approved Proposition 13, adding Article XIII A to the California Constitution. Article XIII A was subsequently amended in 1986, as discussed below. Article XIII A limits the amount of any *ad valorem* tax on real property to one percent of the full cash value, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under "full cash" or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." The full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

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

Legislation Implementing Article XIII A

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

Increases of assessed valuation resulting from reappraisals of property due to new construction or change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

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

Article XIII B of the California Constitution

On November 6, 1979, California voters approved Proposition 4, known as the Gann Initiative, which added Article XIII B to the California Constitution. Propositions 98 and 111, approved by the California voters in 1988 and 1990, respectively, substantially modified Article XIII B. The principal effect of Article XIII B is to limit the annual appropriations of the State and any city, county, school district, authority, or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living and population. The initial version of Article XIII B provided that the "base year" for establishing an appropriations limit was the 1978-79 fiscal year, which was then adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by the public agencies. Proposition 111 revised the method for making annual adjustments to the appropriations limit by redefining changes in the cost of living and in population. It also required that beginning in fiscal year 1990-91, each appropriations limit must be recalculated using the actual 1986-87 appropriations limit making the applicable annual adjustments as if the provisions of Proposition 111 had been in effect.

Appropriations subject to limitation of a local government under Article XIII B include generally any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity and the proceeds of certain State subventions to that entity, exclusive of refunds of taxes. Proceeds of taxes include all tax revenues plus the proceeds to any entity of government from (1) regulatory licenses, user charges and user fees (but only to the

extent such proceeds exceed the cost of providing the service or regulation), (2) the investment of tax revenues, and (3) certain subventions received from the State. Article XIII B permits any government entity to change the appropriations limited by a vote of the electors in conformity with statutory and constitutional voting effective for a maximum of four years.

As amended by Proposition 111, Article XIII B provides for testing of appropriations limits over consecutive two-year periods. If an entity's revenues in any two-year period exceed the amounts permitted to be spent over such period, the excess has to be returned by revising tax rates or fee schedules over the subsequent two years. As amended by Proposition 98, Article XIII B provides for the payment of a portion of any excess revenues to a fund established to assist in financing certain school needs.

For the 1995-96 fiscal year, the City's Article XIII B limit was \$223,801,925 and the City's budget appropriations subject to limitation were \$206,229,000. The City fell below its Article XIII B limit by \$22,910,000 in fiscal year 1995-96. The City's Article XIII B limits for the 1996-97 fiscal year budget are \$236,244,629 and \$213,334,000, respectively.

Proposition 62

A statutory initiative ("Proposition 62") was adopted by the voters 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, upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or district to impose a special tax, and, by implication, upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. The Santa Clara decision did not address the question of whether or not it should be applied retroactively.

The Santa Clara decision also did not decide the question of the applicability of Proposition 62 to charter cities. In the opinion of the City Attorney, the City should be exempt from the provisions of Proposition 62 because, as a charter city under the California Constitution, it should not be affected by a statutory initiative such as Proposition 62.

Since November 5, 1986 (the effective date of Proposition 62), the City has adopted, extended or increased a number of taxes without voter approval, including business license, transient occupancy, utility consumption, property transfer, parking and municipal services taxes. The City continues to collect such new, extended or increased taxes. The City estimates that it collected approximately \$95.3 million from such taxes in fiscal year 1995-96. If a court were to determine that a jurisdiction imposed a tax in violation of Proposition 62, Proposition 62 would require that a portion of the 1% *ad valorem* property tax levy allocated to that jurisdiction be reduced by \$1 for every \$1 in revenue attributable to the tax for each year that the tax is collected.

Proposition 218

On November 5, 1996, California voters approved an initiative to amend the California Constitution known as the Right to Vote on Taxes Act ("Proposition 218"). Proposition 218 requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include charter cities. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995, and prior to November 6, 1996, will continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. The City has adopted

only one general tax increase during this window period, the creation of an Electric Business category of the Business License Tax beginning in the 1996-97 fiscal year. The rate increase for this category is expected to generate \$1.2 million per year. This increase must receive majority voter approval within two years or be repealed; the City can continue to collect this tax until the election. The City anticipates that this measure will be approved by the voters; if the measure is defeated, the City would lose \$1.2 million in revenue annually beginning in the second year of the 1997-99 budget cycle. However, this revenue represents less than 0.5 percent of the City's projected General Fund budget. There is no provision in Proposition 218 requiring a refund of taxes collected prior to the election. Proposition 218 also extends the initiative power to reducing or repealing local property-related taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power is not limited by the terms of Proposition 218 to impositions after November 6, 1996, and absent other legal authority, could result in retroactive reduction in any existing taxes, assessments, fees and charges.

In addition, Proposition 218 limits the application of assessments, fees and charges and requires certain existing, new and increased assessments, fees and charges to be submitted to property owners for approval or rejection, after notice and public hearing. The City's largest assessment district, the Landscape and Lighting Assessment District, generates over \$15 million annually for City landscaping and lighting operations and maintenance costs. This assessment has been determined by the City Attorney to be exempt from the requirements of Proposition 218 because it has prior voter approval: Measure S, a ballot initiative which would have repealed the assessment, was defeated by the City's voters in 1994.

The Fire Prevention and Suppression District currently generates \$1.8 million annually for fire prevention and suppression services within the district. The City is currently evaluating the impact of Proposition 218 on this assessment and alternatives for complying with the new requirements. Any impact on the Fire Prevention and Suppression District would have no impact on the City's General Fund.

The City also levies a supplemental assessment to fund a portion of the City's emergency medical services (the "Emergency Medical Assessment"); this assessment is part of a county-wide assessment for paramedic services. The City's assessment generates \$1.5 million per year. The City is currently evaluating the impact of Proposition 218 on this assessment and alternatives for complying with the new requirements. Current City budget projections assume that the costs funded by this assessment will be absorbed by the General Fund.

Several of the City's smaller assessment districts fund debt service on bonds and are therefore exempt from the new requirements of Proposition 218. The City also has several small assessment districts for Lakeshore Lighting (two districts), Ocean View Drive Ornamental Lighting and Lower Hubert Road Utility Undergrounding. The City is currently evaluating the impact of Proposition 218 on these districts; however, these districts would have no impact on the City's General Fund.

Under Proposition 218, public agencies cannot be exempted from assessments. The City owns property within several districts created by other agencies, primarily Alameda County and East Bay Regional Parks District. The City is working with those agencies to ascertain how those agencies will implement this provision of Proposition 218. No estimate of the fiscal impact of these assessments is available at this time, but the City does not anticipate a major budgetary impact from potential assessments.

The City Attorney has concluded that no fees or charges currently imposed by the City fall within the Proposition 218 definition of "property-related" fees and charges used in Proposition 218, and therefore expects no impact on any of its fees or charges.

Proposition 218 could substantially restrict the City's ability to raise future revenues, subject existing sources of revenue to reduction or repeal, and increase the City's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. However, based on its preliminary analysis, the City believes that the only material General Fund impacts of Proposition 218 are the potential losses of the Emergency Medical Assessment and the Electric Business License tax discussed above, totalling approximately \$2.7 million annually, or about one percent of the City's General Fund budget. Should either of these revenue losses occur, the City will take appropriate action to maintain a balanced budget.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State District of Equalization ("Unitary Property"), commencing with the 1988-89 Fiscal Year, will be allocated as follows: (1) each jurisdiction will receive up to 102 percent of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, which valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State District of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

Further Initiatives

Articles XIII A and XIII B and Propositions 62, 111 and 218 were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting the City's revenues.

TAX MATTERS

In the opinion of Preston Gates & Ellis, LLP, Los Angeles, California, Bond Counsel, interest on the Bonds is not excludable from gross income for federal income tax purposes. Bond Counsel is further of the opinion that under existing law, interest on the Bonds is exempt from State of California personal income taxes.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of certain United States federal income tax consequences of the ownership of the Bonds as of the date hereof. This summary is based on the Internal Revenue Code of 1986 (the "Code") as well as final, temporary and proposed Treasury regulations and administrative and judicial decisions. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could affect the accuracy of the statements set forth herein. **This summary does not purport to address all federal income tax matters that may be relevant to particular purchasers of the Bonds.** For example, it generally is addressed only to original purchasers of the Bonds, deals only with Bonds held as capital assets within the meaning of Section 1221 of the Code, and does not address tax consequences of holding Bonds that may be relevant to investors in special tax situations, such as banks, insurance companies, tax-exempt organizations, dealers in securities or currencies, Bonds held as a hedge or as part of a hedging, straddle or conversion transaction, or Bondowners whose "functional currency" (as defined in Code section 985) is not the United States dollar. **Persons considering the purchase of Bonds should consult their own tax advisors concerning the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to their particular situations.**

Payment of Interest

Except as set forth below, interest on a Bond will be taxable to a Bondowner as ordinary interest income at the time it accrues, in accordance with the Bondowner's method of accounting for tax purposes. Special rules governing the treatment of the Bonds are described under "Original Issue Discount" below. **Purchasers of Discount Bonds (as such term is defined below) will be required to include original issue discount in gross income for federal income tax purposes as it accrues, in advance of receipt of the cash attributable to such income.**

Taxation of Accreted Value

Bondowners may realize taxable gain on the Accreted Value of Capital Appreciation Bonds and may be required to pay federal and state income taxes to the extent of such gain, notwithstanding that the maturity amount of Capital Appreciation Bonds is not payable until the maturity thereof.

Original Issue Discount

The Bonds maturing on December 15, 2010 (the "Discount Bonds") pay no interest prior to maturity. Each Discount Bond will have an "issue price" of less than its "stated redemption price at maturity" and, therefore, will be issued at an original issue discount for federal income tax purposes. The issue price of a Bond generally is the first price at which a substantial amount of all of the Bonds of the same maturity are sold to the public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers). The "stated redemption price at maturity" is the total amount of all payments provided by the Bond other than "qualified stated interest" payments; qualified stated interest generally is stated interest that is unconditionally payable at least annually. The Discount Bonds make no "qualified stated interest" payments; all interest on the Discount Bonds accrues on an original issue discount method.

Owners of Discount Bonds will be required to include such original issue discount in gross income for federal income tax purposes as it accrues, in advance of receipt of the cash attributable to such income. Original issue discount accrues based on a compounded, constant yield to maturity; accordingly, Owners of Discount Bonds generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods. The annual amount of original issue discount includable in income by the initial Owner of Discount Bonds will equal the sum of the daily portions of the original issue discount with respect to the Discount Bond for each day on which such Bondowner held the Discount Bond during the taxable year. Generally, the daily portions of the original issue discount are delineated by allocating to each day in an accrual period the ratable portion of the original issue discount allocable to such accrual period. The term "accrual period" means any interval of time with respect to which the accrual of original issue discount is measured, and which may vary in length over the term of the Discount Bond provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs at the beginning or end of an accrual period. The amount of original issue discount allocable to an accrual period will be the product of the "adjusted issue price" of the Discount Bond at the commencement of such accrual period and its "yield to maturity." The "adjusted issue price" of the Discount Bond at the beginning of the first accrual period is its issue price, and, on any day thereafter, it is the sum of the issue price and the amount of the original issue discount previously includable in the gross income of any Bondowner. The "yield to maturity" of the Discount Bond is the discount rate that, when used in computing the present value of all amounts payable on the maturity date of the Discount Bond, produces an amount equal to the issue price of the Discount Bond. The yield must be constant over the term of the Discount Bond and, when expressed as a percentage, must be calculated to at least two decimal places. If all accrual periods are of equal length except for an initial or an initial and final shorter accrual period(s), the amount of original issue discount allocable to the initial period may be computed using any reasonable method; the original issue discount allocable to the final accrual period is the difference between the amount payable at maturity and the adjusted issue price at the beginning of the final accrual period.

APPROVAL OF LEGALITY

Validation Proceedings

Prior to the issuance of the Bonds, the City brought a validation action in the Superior Court of Alameda County pursuant to Section 860 *et seq.* of the California Code of Civil Procedure. The validation action sought judicial validation of the issuance of bonds and debentures evidencing the City's obligations under the Retirement Law and related matters. A judgment was entered in favor of the City validating the issuance of the Bonds and any subsequent series of bonds for similar purposes.

Opinions of Counsel

Legal matters incident to the delivery of the Bonds are subject to the approving opinion of Preston Gates & Ellis, LLP, Bond Counsel. Certain other matters will be passed upon for the Underwriters by Greenberg Traurig Hoffman Lipoff Rosen & Quentel, Underwriters' Counsel, and for the City by the Oakland City Attorney, Jayne W. Williams, Esq.

LITIGATION

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the issuance of the Debenture or of the Bonds, or the execution and delivery of the Trust Agreement, or in any way contesting or affecting the validity of any of the foregoing or any proceedings of the City taken with respect to any of the foregoing.

The City is a party to a number of lawsuits and claims involving personnel matters, property damage and personal injury, among others. The City maintains excess insurance coverage above certain self-insurance retentions. In the opinion of the Oakland City Attorney, Jayne W. Williams, Esq., although it is not possible to predict accurately the City's liability under pending lawsuits and claims, their final disposition should not materially affect the financial position of the City.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Investors Service, L.P. ("Fitch") have given the Bonds ratings of "Aaa," "AAA," and "AAA," respectively, with the understanding that a municipal bond insurance policy will be issued by MBIA Insurance Corporation with respect to the Bonds. Moody's, S&P and Fitch have given the Bonds ratings of "A2," "A+," and "A," respectively, without giving consideration to the municipal bond insurance policy to be issued by MBIA. Certain information was supplied by the City to the rating agencies to be considered in evaluating the Bonds. Credit ratings reflect the views of the respective rating agencies and any explanation of the significance of ratings should be obtained directly from the agencies. There is no assurance that any ratings assigned to the Bonds by any rating agency will be maintained for any given period of time or that they will not be lowered or withdrawn entirely by such rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of the ratings may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE."

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Certificate, the City will covenant for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 210 days after the end of the City's fiscal year (currently June 30) (the "Annual Report"), commencing with the report for the Fiscal Year 1996-97, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Trustee with each Nationally Recognized Municipal Securities Information Repository and with the State Repository, if any. The notices of material events will be filed by the Trustee with the Municipal Security Rulemaking Board and the State Repository, if any. The specific nature of the information to be contained in the Annual Report and the notices of material events and the text of the Continuing Disclosure Certificate is set forth under the caption APPENDIX G - "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission. The City has never failed to comply in all material respects with any previous undertakings with regard to such Rule to provide annual reports or notices of material events.

UNDERWRITING

The Underwriters (listed on the cover page) have agreed, subject to certain conditions, to purchase from the City the Bonds described on the cover page of this Official Statement at an aggregate underwriters' discount from the initial public offering prices or yields set forth on the inside cover page hereof equal to \$1,963,303.57 and to reoffer such Bonds at the public offering prices or yields set forth on the inside cover page hereof. The Bonds may be offered and sold to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than such public offering prices and such prices may be changed, from time to time, by the Underwriters. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all the Bonds if any Bonds are purchased.

CO-FINANCIAL ADVISORS

Public Financial Management, Inc., San Francisco, California, and P.G. Corbin & Company, Inc., San Francisco, California, have served as Co-Financial Advisors to the City with respect to the sale of the Bonds. The Co-Financial Advisors have assisted in various matters relating to the planning, structuring and issuance of the Bonds. The Co-Financial Advisors have not independently verified any of the data contained in this Official Statement or conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement. Because of their limited participation, the Co-Financial Advisors assume no responsibility for the accuracy or completeness of any of the information contained in this Official Statement.

MISCELLANEOUS

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations, summaries and explanations of the Bonds, the Trust Agreement, and the statutes and documents contained in this Official Statement do not purport to be complete. Reference is made to such documents and statutes for full and complete statements of their provisions.

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement have been approved by the City. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Bonds.

CITY OF OAKLAND, CALIFORNIA

By: /s/ P. Lamont Ewell
Acting City Manager

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APPENDIX A

CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND

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APPENDIX A

CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND

General

The City of Oakland (the "City") is located in the County of Alameda (the "County") on the east side of San Francisco Bay, approximately seven miles from San Francisco via the San Francisco-Oakland Bay Bridge. The City is comprised of industrialized lands bordering the Bay in the west and suburban foothills in the east. Historically the industrial heart of the Bay Area, the City has developed into a financial, commercial and governmental center. Oakland is also the hub of an extensive transportation network which includes a freeway system and the western terminals of major railroads and trucking firms, as well as one of the largest container-ship ports in the United States. The City supports an expanding international airport and rapid-transit lines which connect it with most of the Bay Area. The City is the seat of government for Alameda County and is the eighth most populous city in the State of California (the "State").

City Government

The City was incorporated as a town in 1852, as a city in 1854 and became a charter city in 1889. Oakland is governed by a nine-member City Council, seven of whom are elected by district and two of whom, including the Mayor, are elected on a city-wide basis. The Mayor and Council members serve four-year terms. The Council appoints a City Manager who is responsible for daily administration of City affairs and preparation and submission of the annual budget under the direction of the Mayor and City Council for the Mayor's submission to the City Council.

Subject to civil service regulations, the City Manager appoints City employees except the City Attorney, City Clerk and City Auditor. The City Council appoints the City Attorney, and the City Clerk is appointed by the City Manager subject to City Council approval. The Director of Budget and Finance serves as the City's Treasurer and supervises the City's financial affairs. The City Auditor is elected at the same time as the Mayor.

The City provides a full range of services contemplated by statute or charter, including those functions delegated to cities under State law. These services include public safety (police and fire), sanitation and environmental health enforcement, recreational and cultural activities, public improvements, planning, zoning and general administrative services.

Budget Process

The City's budget is developed on a cash basis. The budget process begins in the fall of each year with staff developing broad guidelines for the subsequent year's budget preparation. These are presented to and discussed with the City Council, and finalized.

Internal budget hearings are held between the City Manager and heads of each department to discuss resource allocation and funding for the following year; concurrently, City Council members meet with department heads and review their requests. Formal public hearings are held for each departmental budget during May and June.

At least 30 days prior to the beginning of the fiscal year, the Mayor submits the proposed budget to the City Council and the time is then set by the City Council for public hearings. Upon conclusion of the public hearings, the City Council may make necessary revisions.

The operating budget is adopted by the City Council on or before June 30 of each year. It contains appropriations for all funds and all first year appropriations for capital improvements. The budget for fiscal year 1996-1997 includes appropriations of \$570,190,000 for all funds, including \$300,860,000 for the general fund.

The City Manager employs an independent certified public accountant who examines books, records, inventories and reports of all officers and employees who receive, control, handle or disburse public funds, and those of any other officers, employees or departments as the City Manager directs. These duties are performed both annually and upon request. The City's independent auditor for fiscal year 1995-1996 was Deloitte & Touche, LLP.

Within a reasonable period following the fiscal year-end, the accountant submits the final audit to the City Council. The City then publishes the financial statements as of the close of the fiscal year.

Investment Policy

Pursuant to City Council Resolution No. 56127, the City Council delegated to the Director of Finance the authority to invest the City's operating fund within the guidelines of Section 53600 of the State Government Code. This section for the State Government Code also directs the City to present an annual investment policy for confirmation to the City Council. This Investment Policy was most recently amended on July 23, 1996, and serves as the City's Investment Policy for the current Fiscal Year 1996-1997. The Investment Policy is subject to revision by the City at any time. See Appendix D - "CITY OF OAKLAND INVESTMENT POLICY, FISCAL YEAR 1996-1997."

The objectives of the Investment Policy are to preserve capital, provide adequate liquidity to meet cash disbursements of the City and reduce overall portfolio risks while maintaining market average rates of return.

CURRENT INVESTMENT PORTFOLIO

As of December 31, 1996, the City maintained approximately \$174.22 million in operating funds, excluding capital funds, debt service funds, special revenue funds and pension trust funds. The Fund is classified by different types of investment securities and is invested in accordance with the Investment Policy. The composition of these operating funds, including the average term and days to maturity, is provided below as of December 31, 1996. The days to maturity is an average for each category of investment security. The City currently maintains 77.99% of the Operating Fund in investments that mature in six months or less.

CITY OF OAKLAND OPERATING FUND

December 31, 1996

Investments	Book Value	Percent of Portfolio	Average Term	Average Days to Maturity	Yield to Maturity	
					360-Day Equivalent	365-Day Equivalent
Federal Agency Issues - Coupon	\$ 54,967,503.10	31.55%	1,304	890	6.021%	6.104%
Federal Agency Issues - Discount	8,885,323.06	5.10	86	28	5.390	5.465
Medium Term Notes	4,936,490.00	2.83	1,330	203	6.033	6.117
Money Market	14,313,385.26	8.22	1	1	5.209	5.281
Local Agency Investment Funds	16,984,000.00	9.75	1	1	5.521	5.598
Certificates of Deposit	725,000.00	0.42	182	165	5.319	5.393
Negotiable CD's	4,999,262.32	2.87	349	176	6.032	6.116
Bankers Acceptances	11,467,999.28	6.58	47	31	5.531	5.608
Commercial Paper	11,939,685.00	6.85	33	16	5.495	5.571
Investment Agreement	<u>45,000,000.00</u>	<u>25.83</u>	<u>363</u>	<u>180</u>	<u>5.987</u>	<u>6.070</u>
TOTAL INVESTMENTS AND AVERAGES	<u>\$174,218,648.02</u>	<u>100.00%</u>	<u>563</u>	<u>343</u>	<u>5.794%</u>	<u>5.874%</u>

Source: City of Oakland, Office of Budget and Finance.

In addition, Fitch Investors Service, L.P. ("Fitch") has assigned a managed fund credit rating of "AAA" and a market risk rating of "V-1+" to the City Portfolio. Fitch's managed fund credit ratings are an assessment of the overall credit quality of a fund's portfolio. Ratings are based on an evaluation of several factors, including credit quality and diversification of assets in the portfolio, management strength, and operational capabilities. Fitch managed fund market risk ratings are an assessment of relative market risks and total return stability in the portfolio. Market risk ratings are based on, but not limited, analysis of interest rate, derivative, liquidity, spread, and leverage risk. Fitch's managed fund credit and market risk ratings are based on information provided to Fitch by the City. Fitch does not verify the underlying accuracy of this information. These ratings do not constitute recommendations to purchase, sell or hold any security.

Financial Obligations

The City has never defaulted on the payment of principal or interest on any of its indebtedness or lease obligations.

Short-Term. The City of Oakland implemented a short-term financing program in 1981 to finance general fund temporary cash flow deficits during the fiscal year (July 1 through June 30). The City has issued short-term notes for each of the last ten fiscal years, including the issuance of \$55,000,000 Tax and Revenue Anticipation Notes for the fiscal year ended June 30, 1997. The City has never defaulted on the payment of any of these notes.

Lease Obligations. Since 1982, the City has entered into sale-leaseback transactions to finance the acquisition and construction of capital improvements to City properties. Most recently, in April 1996, the City participated in the issuance of \$103,945,000 in Lease Revenue Bonds to finance a portion of the design, construction, rehabilitation and equipping of two City administration buildings and a civic plaza. The bonds are secured by lease payments payable by the City from the City's General Fund to the Oakland Joint Powers Financing Authority. In November 1992, the California Statewide Community Development Authority (CSCDA) issued \$149,825,000 of lease revenue bonds to repurchase the Kaiser Convention Center (Kaiser) and the George P. Scotlan Memorial Convention Center (Scotlan). The City concurrently leased Kaiser and Scotlan from the CSCDA. In May 1992, the Oakland Redevelopment Agency (the "Agency") issued \$39,408,000 in Refunding Certificates of Participation to defease the Oakland Museum Certificates of Participation 1987 Series A. The Agency leased

the Museum's facilities and site to the City under a lease agreement. In December 1985, the City entered into various simultaneous agreements to finance certain capital improvements on City property, such as traffic control devices, street resurfacing, parking lots, garages and the rehabilitation of various City buildings. In each case, the bonds or the certificates are secured by lease payments payable by the City to governmental agencies or nonprofit corporations, and the securities are recorded as direct obligations to the City.

In the fiscal years 1996-97 through 2000-01 the City is required to make combined lease payments (not including lease payments related to the Bonds) from its General Fund as shown below:

CITY OF OAKLAND GENERAL FUND LEASE OBLIGATIONS

FISCAL YEAR	OAKLAND COLISEUM¹	OAKLAND CONVENTION CENTERS	CIVIC IMPROVEMENTS CORPORATION	OAKLAND MUSEUM	OAKLAND ADMINISTRATION BUILDINGS³	OAKLAND ARENA	TOTAL
1996/97	\$11,000,000	\$10,327,009	\$ 3,480,000	\$ 3,191,490	\$ 0	\$ 0	\$27,998,499
1997/98	11,000,000	10,804,586	3,525,000	3,700,650	0	0	29,030,236
1998/99	11,000,000	10,799,639	3,565,000	3,701,690	2,916,753	9,500,000	41,483,082
1999/00	11,000,000	10,801,774	3,600,000	3,703,930	5,833,506	9,500,000	44,439,210
2000/01	11,000,000	12,518,704	3,700,000	3,702,380	7,548,141	9,500,000	47,969,225
PRINCIPAL BALANCE²	\$197,200,000	\$146,645,000	\$46,500,000	\$36,323,025	\$103,945,000	\$140,000,000	\$670,613,025

¹Annual amount shown represents one-half of the maximum annual lease obligation (i.e., \$22 million) payable by the City and the County, for which the City and the County are jointly and severally liable. The City anticipates that football related revenues will pay a portion of the debt service relating to this lease obligation.

²Principal amount outstanding as of January 1, 1997.

³Interest on the Oakland Administration Buildings bonds is capitalized through November 1, 1998.

⁴Interest on Oakland Coliseum Arena is capitalized through May 1, 1998.

Source: City of Oakland, Office of Budget and Finance.

Financing for Sports Facilities.

Improvement of Oakland-Alameda County Stadium. In connection with the relocation to Oakland (the "City") of the Oakland Raiders, a California limited partnership (the "Raiders"), a National Football League professional football team, the City and Alameda County (the "County") entered into a series of agreements (the "Raiders Agreements") with the Raiders for the improvement and expansion of the Oakland-Alameda County Stadium (the "Stadium" and, together with the improvements, the "Stadium Project"). The City and the County also formed the Oakland-Alameda County Coliseum Authority, a joint powers agency (the "Authority").

In September 1995, the Authority issued tax-exempt and taxable lease revenue bonds in the aggregate principal amount of \$197,700,000 to finance the Stadium Project. The bonds are limited obligations of the Authority payable from revenues of the Authority, consisting primarily of rental payments payable by the City and the County to the Authority, pursuant to a Master Lease, dated as of August 1, 1995 (the "Master Lease") by and between the Authority, as lessor, and the City and County, as lessees. The rental payments to be made by the City and the County are payable from their respective general funds for the right to use and occupy the stadium. The final maturity date of the tax-exempt series of bonds is February 2004. The taxable series of the bonds matures in February 2025.

The rental payments to be made under the Master Lease are joint and several obligations divided equally between the City and the County and are calculated to be sufficient to pay principal of and interest on the bonds when due, subject to a maximum annual amount of \$22,000,000. The City and the County have agreed in the Master Lease to make all rental

payments, subject to the abatement of such payments in the event of material damage to or destruction of or taking of the Stadium in whole or in part.

The City and the County have each agreed in the Master Lease to take the required action to include one-half (1/2) of the rental payments due under the Master Lease in their respective annual budgets, and to make necessary annual appropriations therefor. Accordingly, the City has appropriated \$11,000,000 for this 1996-97 fiscal year for this purpose. The City and the County have also covenanted for the benefit of the bondholders that if either entity fails in any fiscal year to budget or pay its one-half (1/2) share of such rental payment and other amounts owing under the Master Lease payable during such fiscal year, the other entity is required, by supplemental budget in such fiscal year, to appropriate and pay such additional amounts as are necessary to cure any resulting deficiency caused by the failure to appropriate.

Certain football-related revenues are credited towards rental payments under the Master Lease. Amounts that are appropriated by the City but not expended in any given year may be applied to the following year's appropriation. The primary source of football-related revenue that is credited towards rental payments is that generated through the sale of personal seat licenses ("PSLs"), which give the holder the right to purchase tickets for games over a 10-year period. Sales of PSLs to date have not met the pace originally projected. If PSLs continue to be sold at a rate slower than that originally projected, it will have a budgetary impact on the City. The City is currently projecting a budgetary impact of approximately \$4 million in fiscal year 1997-98, but there can be no assurance that the actual impact will not be higher.

The Raiders Agreements also provide that the City, the County and the Authority are responsible to pay all construction costs and certain other costs relating to the Stadium Project. With the completion of the Stadium Project, it is currently estimated that the final construction cost of the Stadium Project will be approximately \$29 million greater than the amount estimated in the original budget, but the City cannot predict whether any other items might increase this estimate. The City is currently identifying options to fund its share of the additional cost. If other costs for which the City is responsible, including certain operating and maintenance costs, are greater than originally estimated, it could have a budgetary impact on the City.

Failure of the City, the County or one or more of the other public entities to perform its respective obligations under the Raiders Agreements could provide a basis for the Raiders to terminate their obligation to play football at the Stadium, potentially resulting in a diminution or elimination of football-related revenues which would otherwise be available to the public entities for, among other purposes, payment of the bonds and related obligations. The obligation of the City and the County to make rental payments under the Master Lease is not contingent upon the completion of the Stadium Project or the performance by the Raiders or any other party of their respective obligations under the Raiders Agreements.

Construction of New Oakland-Alameda County Coliseum Arena. On July 15, 1996 the City entered into various agreements (the "Agreements") with the County, the Authority and the Golden State Warriors, an NBA professional basketball team (the "Warriors"), providing for the construction of a new sports arena (the "Arena") at the Coliseum complex, with the Warriors as anchor tenant at the Arena. The Arena is being built within the existing structure of the current arena and will have a capacity of 19,200 seats for basketball, including up to 72 luxury suites, making it the largest basketball and indoor concert facility in the Bay Area. Construction is anticipated to be completed by November 1997. On August 2, 1996, the Authority issued \$140,000,000 in Lease Revenue Bonds (the "Arena Bonds") to finance the Arena. Pursuant to a Master Lease dated as of June 1, 1996 (the "Arena Master Lease"), the City and the County have agreed to lease the Arena from the Authority. The base rental payments under the Arena Master Lease are security for the Arena Bonds.

The rental payments to be made under the Arena Master Lease are joint and several obligations divided equally between the City and the County and are calculated to be sufficient to pay principal of and interest on the bonds when due, subject to a maximum annual amount of \$19,000,000. The City and the County have agreed in the Arena Master Lease to make all rental payments, subject to the abatement of such payments in the event of material damage to or destruction of or taking of the Arena in whole or in part.

The City and the County have each agreed in the Arena Master Lease to take the required action to include one-half (1/2) of the rental payments due under the Arena Master Lease in their respective annual budgets, and to make necessary

annual appropriations therefor. The City and the County have also covenanted for the benefit of the bondholders that if either entity fails in any fiscal year to budget or pay its one-half (1/2) share of such rental payment and other amounts owing under the Arena Master Lease payable during such fiscal year, the other entity is required, by supplemental budget in such fiscal year, to appropriate and pay such additional amounts as are necessary to cure any resulting deficiency caused by the failure to appropriate.

Long-Term Borrowings. In 1988, the City issued revenue refunding bonds in the amount of \$209,835,000 which have serial and term maturities to 2021. Such bonds are payable solely from the proceeds of life insurance annuity contracts held in trust with the Police and Fire Retirement System in the Pension Annuity Expendable Trust fund. Because of the nature of the financing structure, such bonds are recorded as direct obligations of the City.

In addition, the Agency has issued several series of its tax allocation bonds for two redevelopment project districts. In each case, the tax allocation bonds are limited obligations of the Agency and are payable solely from and secured by a pledge of an incremental portion of tax revenues assessed on property within each respective project district. For the fiscal year ending June 30, 1996, the redevelopment tax increment revenues within the City were approximately \$24,782,347.

General Obligation. As of January 1, 1997, the City had \$72,465,000 of general obligation bonds outstanding. The Series 1992 General Obligation Bonds of \$50,000,000 were issued at the maximum authorized amount approved by the voters in June 1992 to provide funds to enhance emergency response capabilities and seismic reinforcement of public facilities and infrastructure. The Series 1991A General Obligation Bonds of \$12,000,000 were issued as part of the maximum authorized amount of \$60,000,000 approved by the voters in November 1990 to provide funds for the acquisition of land and to expand, develop and rehabilitate park and recreational facilities. In March 1995, the Series 1995B General Obligation Bonds of \$15,000,000 were issued under the 1990 authorization, leaving \$33,000,000 in authorized but unissued general obligation debt.

Special Assessment Debt. In April 1994, the City issued \$2,020,000 of 1994 Refunding Improvement Bonds Medical Hill Parking Assessment, Series 3 Bonds to defease the Medical Hill Parking Assessment District Refunding Bonds dated March 1989. In December 1994, the City issued \$7,370,000 of Limited Obligation Improvement Bonds for its Fire Area Utility Underground Assessment District No. 1994-1, an area consisting of approximately 2500 assessed parcels in the Oakland hills. The proceeds of the bonds were to be used to finance a portion of the costs of the construction and installation of underground electric, telephone and cable T.V. public utility lines, including the installation of underground electric transformers, primary electric vaults, and numerous telephone, cable T.V. and street light boxes, street lights and primary electric and telephone conduits, and certain street improvements. In December 1994, the City issued \$876,315 of Limited Obligation Improvement Bonds, Series 1994 for its Assessment District No. 1994-2 (Rockridge Area Water Improvements), and area consisting of approximately 776 assessed parcels in the Oakland hills. The proceeds of the bond issue were used to finance a portion of the costs of the acquisition and installation of certain water system improvements, utility pipelines, fire hydrants and certain related street repairs.

With respect to special assessment debt, the bonds are payable from additional special property tax assessments levied against property owners in the assessment district. In the event of continuing delinquencies in the payment of the property owners' installments, the City, in the absence of other bidders, is obligated to purchase defaulted properties at delinquent assessment sale and pay delinquent and future installments of assessments and interest thereon until the defaulted properties are resold or redeemed.

Certain Contemplated Financings. For the remainder of Fiscal Year 1996-97 the City anticipates the issuance of (i) \$22.25 million of general obligation bonds in April 1997 for the acquisition and improvements of parks, recreation and open space, and (ii) \$45.42 million of general obligation bonds in June 1997 for library, museum and cultural and recreational facilities.

No Defaults. The City has never defaulted on any of its debt.

Estimated Direct And Overlapping Debt

Contained within the City are numerous overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue and special assessment bonds. The direct and overlapping debt of the City as of January 1, 1997, is shown below. Self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations are excluded from the debt statement.

**CITY OF OAKLAND
STATEMENT OF DIRECT AND OVERLAPPING DEBT**

**1996-97 Assessed Valuation: \$15,567,058,154
(After Deducting \$1,646,102,609 Redevelopment Incremental Valuation)**

<u>Direct and Overlapping Bonded Debt</u>	<u>% Applicable</u>	<u>Debt 1/1/97</u>
San Francisco Bay Area Rapid Transit District	8.146%	\$ 10,341,347
East Bay Municipal Utility District	21.163	2,109,951
East Bay Municipal Utility District, Special District #1	53.518	25,434,430
East Bay Regional Park District	11.723	18,235,713
Peralta Community College District	55.482	9,567,871
Oakland Unified School District	99.996	37,849,126
City of Oakland	100.	72,190,000
City of Oakland Assessment District #94-1	100.	7,080,000
City of Oakland Assessment District #94-2	100.	865,000
City of Oakland Medical Hill Assessment District	100.	1,695,000
City of Emeryville 1915 Act Bonds	10.417-18.790	<u>1,834,731</u>
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$187,203,169
Less: East Bay Municipal Utility District (100% self-supporting)		2,109,951
East Bay Municipal Utility District Special District #1 (100% self-supporting)		<u>25,434,430</u>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$159,658,788
 <u>Direct and Overlapping Lease Obligation Debt</u>		
Alameda-Contra Costa Transit District Certificates of Participation	22.545%	\$5,839,155
Alameda County and Coliseum Authority and Certificates of Participation	20.356	100,201,189
Alameda County Pension Obligations	20.356	57,449,721
Alameda County Board of Education Public Facilities Corporation	20.356	1,430,009
Chabot-Las Positas Community College District Certificates of Participation	2.657	223,188
Oakland Unified School District Certificates of Participation	99.996	25,728,971
San Leandro Unified School District Certificates of Participation	18.048	288,769
City of Oakland and Coliseum Building Authorities	100.	684,173,025 ⁽¹⁾
Castro Valley United School District Certificates of Participation	0.016	<u>574</u>
TOTAL DIRECT AND OVERLAPPING LEASE OBLIGATION DEBT		\$875,334,601
GROSS COMBINED TOTAL DEBT		\$1,062,537,770⁽²⁾
NET COMBINED TOTAL DEBT		\$1,034,993,389

⁽¹⁾ Excludes The City of Oakland Taxable Pension Obligation Bonds, Series 1997.

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

Source: California Municipal Statistics, Inc.

PROPERTY TAXATION

Ad Valorem Property Taxes

City property taxes are assessed and collected by the County at the same time and on the same rolls as are County, school and special district property taxes. The County is permitted under state law to pass on costs for certain services provided to local government agencies including the collection of property taxes. The County imposed a fee on the City of approximately 1.1% of taxes collected for tax collection services provided in fiscal year 1995-96.

Assessed Valuations

All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from ad valorem property taxation for certain classes of property such as churches, colleges, nonprofit hospitals and charitable institutions.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

The passage of Assembly Bill 454 in 1987 changed the manner in which unitary and operating nonunitary property is assessed by the State Board of Equalization. The legislation deleted the formula for the allocation of assessed value attributed to such property and imposed a State-mandated local program requiring the assignment of the assessment value of all unitary and operating non-unitary property in each county of each State assessee other than a regulated railway company. The legislation established formulas for the computation of applicable county-wide tax rates for such property and for the allocation of property tax revenues attributable to such property among taxing jurisdictions in the county beginning in fiscal year 1988-89. This legislation requires each county to issue each State assessee, other than a regulated railway company, a single tax bill for all unitary and operating nonunitary property.

The following table represents a five-year history of assessed valuations in the City:

CITY OF OAKLAND ASSESSED VALUATIONS⁽¹⁾

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
1992/93	\$13,452,965,391	\$38,475,148	\$1,761,748,299	\$15,253,188,838
1993/94	14,022,252,181	58,911,147	1,925,986,794	16,007,150,122
1994/95	14,480,336,584	57,362,522	1,856,049,317	16,393,748,423
1995/96	14,813,287,479	55,165,426	2,077,110,268	16,945,563,173
1996/97	14,964,943,614	64,955,112	2,194,203,501	17,224,102,227

⁽¹⁾ Before redevelopment tax allocation increment deduction.

Source: Alameda County Auditor-Controller.

Tax Levies, Collections and Delinquencies

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding March 1. A supplemental roll is developed when property changes hands that produces additional revenue.

A ten percent penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County Tax Collector.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1st of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on specified property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

Each county levies (except for levies to support prior voter-approved indebtedness) and collects all property taxes for property falling within that county's taxing boundaries. The secured and unsecured tax levy and year-end uncollected amounts for the City for the five most recent fiscal years are shown in the table below:

**CITY OF OAKLAND
SECURED AND UNSECURED TAX LEVY
AND AMOUNTS UNCOLLECTED
(in thousands)**

<u>Year</u>	<u>Secured Tax Levy⁽¹⁾</u>	<u>Amount Uncollected as of June 30</u>	<u>Percent Uncollected as of June 30</u>
1991/92	\$72,187	\$4,379	6.06%
1992/93	69,850 ⁽²⁾	3,880	5.55
1993/94	70,813	3,831	5.41
1994/95	69,112	3,339	4.83
1995/96	74,866	2,819	3.77

⁽¹⁾City's portion of the taxes collected by the County, excluding tax increments paid to the Redevelopment Agency of the City of Oakland.

⁽²⁾The decrease in property tax levy and subsequent collection is primarily due to the reallocation of \$4,656,744 from the City to the State.

Source: Alameda County Auditor-Controller.

Tax Rates

The City is divided into 33 Tax Rate Areas. The largest Tax Rate Area within the City is Tax Rate Area 17-001 which has a total assessed valuation of \$12,124,262,106, or 71.5% of the City's total assessed valuation. A five-year history of the tax components within this Tax Rate Area is shown below:

**CITY OF OAKLAND
TAX RATE AREA 17-001
SUMMARY OF TAX RATES
(Percent of Property Assessed Value)**

<u>Tax Agency</u>	<u>1991/92</u>	<u>1992/93</u>	<u>1993/94</u>	<u>1994/95</u>	<u>1995/96</u>
Countywide Tax ⁽¹⁾	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%
Oakland Unified School District	0.0166	0.0181	0.0157	0.0134	0.0192
Peralta Community College District	0.0109	0.0076	0.0038	0.0010	0.0057
Oakland Unified School District ⁽²⁾	0.0109	0.0111	0.0103	0.0094	0.0103
Bay Area Rapid Transit District	0.0251	0.0258	0.0240	0.0235	0.0230
East Bay Regional Park District	0.0028	0.0074	0.0069	0.0066	0.0094
East Bay Municipal Utility District	- 0 -	- 0 -	- 0 -	- 0 -	0.0108
City of Oakland ⁽³⁾	<u>0.1713</u>	<u>0.1738</u>	<u>0.1862</u>	<u>0.1870</u>	<u>0.1850</u>
Combined Tax Rates	<u>1.2376%</u>	<u>1.2438%</u>	<u>1.2469%</u>	<u>1.2409%</u>	<u>1.2634%</u>

⁽¹⁾Maximum rate for purposes other than paying debt service in accordance with Article XIII A of the State Constitution.

⁽²⁾Represents tax levied under Education Code Section 16090.

⁽³⁾0.1575% represents tax levied to correct underfunded obligations in the Police and Fire Retirement System. Additional amount represents levies for general obligation debt. See "Retirement Program" herein.

Source: Alameda County Auditor-Controller.

The following table lists the major taxpayers in the City in terms of their 1996-97 assessed valuation:

**CITY OF OAKLAND
TOP TEN SECURED AND UNSECURED PROPERTY TAXPAYERS**

<u>Property Owner</u>	<u>Type of Business</u>	<u>1996-97 Assessed Valuation</u>
1. Southwest Airlines	Transportation	\$248,033,714
2. Kaiser Foundation Health Plan, Inc.	Health Services	239,999,831
3. Federal Express Corporation	Delivery Services	219,723,795
4. United Airlines, Inc.	Transportation	144,848,289
5. Kaiser Center Inc.	Property Management	91,432,198
6. Alaska Airlines Inc.	Transportation	90,759,311
7. Lake Merritt Plaza	Property Management	86,868,577
8. United Parcel Service Company Air	Delivery Services	79,925,811
9. 1111 Broadway Inc.	Commercial Property	77,000,000
10. The Clorox Company	Household Products	<u>75,825,436</u>
Total - Top Ten		<u>\$1,354,416,962</u>

Percent of Secured and Unsecured City-wide 1996-97 Assessment (net of all exemptions) (\$16,856,334,283): 8.04%

Source: Alameda County Assessor.

FINANCIAL AND ACCOUNTING INFORMATION

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into eight generic fund types and three broad fund categories as follows:

Government Funds:

General Fund. The general fund is the general operating fund of the City. It accounts for normal recurring activities traditionally associated with governments which are not required to be accounted for in another fund. These activities are funded principally by property taxes, sales and use taxes, business and utility taxes, interest and rental income, charges for services and federal and State grants.

Special Revenue Funds. Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds. Debt service funds are used to account for the accumulation of resources to be used for, and the payment of the principal of and interest on general obligation long-term debt and related costs.

Capital Projects Funds. Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds and trust funds).

Special Assessment Funds. Special assessment funds are used to account for the financing of public improvements or services deemed to benefit the properties against which special assessments are levied.

Proprietary Funds:

Enterprise Funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds:

Trust and Agency Funds. Trust and agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. These include the pension trust, expendable trust and agency funds. Operation of the pension trust funds are accounted for and reported in the same manner as the proprietary fund types. Operations of expendable trust funds are accounted for in essentially the same manner as governmental fund types. Agency funds are custodial in nature and do not involve measurement of results of operations.

All government funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed income, gross receipts and other taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as

revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which is recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are incurred.

Comparative Financial Statements

The following table reflects the City's general fund audited financial statements for the fiscal years 1991-92 through 1995-96 listing actual revenues, expenditures and fund balances and the adopted budget for 1996-97:

CITY OF OAKLAND
GENERAL PURPOSE FUND REVENUES, EXPENDITURES
AND OPERATING SURPLUSES 1991-92 THROUGH 1995-96 ACTUAL
AND 1996-97 ADOPTED BUDGETS
(in thousands)

Total Revenue and Expenditures	Actual 1991/92	Actual 1992/93	Actual 1993/94	Actual 1994/95	Actual 1995/96	Adopted Budget 1996/97
REVENUES						
Taxes	\$182,637	\$188,803	\$196,136	\$200,554	\$212,160	\$215,150
Permits and Licenses	5,300	5,456	4,756	5,860	6,868	9,260
Traffic Fines and Various Penalties	6,158	6,565	7,480	9,154	8,189	9,450
Interest and Rental Income	8,205	8,269	11,188	9,901	6,987	7,090
Revenue from Current Services	22,162	23,733	22,792	24,805	24,329	30,107
Grant Revenue	7,177	6,589	16,071	8,576	6,751	6,290
Other Revenue	1,238	959	3,510	5,804	6,738	23,570
Total	<u>\$232,877</u>	<u>\$240,374</u>	<u>\$261,933</u>	<u>\$264,654</u>	<u>\$272,022</u>	<u>\$300,917</u>
EXPENDITURES						
General Government	\$ 32,442	\$ 31,844	\$30,573	\$ 28,011	\$ 28,986	\$31,000
Public Safety	139,408	156,421	158,127	133,626	136,621	148,000
Office of Public Works	25,269	33,518	39,281	38,141	30,937	30,790
Office of General Services	1,649	4,075	3,936	3,645	176	0
Parks, Recreation and Cultural Economic, Community and Social Programs	23,174	25,179	26,531	23,440	24,772	24,680
Other ⁽¹⁾	6,295	3,526	454	699	11,782	13,390
Transfers	10,034	5,797	5,404	37,592 ⁽²⁾	37,372 ⁽³⁾	59,930
	(2,359)	(93)	(5,966)	3,553	11,041	(6,940)
Total	<u>\$235,912</u>	<u>\$260,267</u>	<u>\$258,340</u>	<u>\$268,707</u>	<u>\$281,687</u>	<u>\$300,850</u>
Excess (deficiency) of Revenues Over Expenditures	<u>\$(3,035)</u>	<u>\$(19,893)</u>	<u>\$3,593</u>	<u>\$(4,053)</u>	<u>\$(9,665)</u>	<u>\$67</u>

⁽¹⁾ Does not include rent payable on lease obligations.

⁽²⁾ Previously classified in public safety expenditures, the amount of \$27,674 for the payment of unfunded pension liability has been reclassified in Other category.

⁽³⁾ Previously classified in public safety expenditures, the amount of \$28,400 for the payment of unfunded pension liability has been reclassified in Other category.

Source: City of Oakland 1996-97 Adopted Budget; City of Oakland Financial Statements.

Labor Relations

City employees are represented by six labor unions and associations, described in the table below, the largest one being the Service Employees United Public Employees (Local 790), which represents approximately 47% of all City employees. Approximately 80% of all City employees are covered by negotiated agreements, as shown below. For the local 790/part-time employee bargaining unit, the City's previous contract terms have been extended pursuant to a Letter of Understanding, and negotiations for a successor contract are currently underway. The newly-accredited Local 21 is currently in negotiations with the City to develop a contract. The City has never experienced an employee work stoppage. Pursuant to the Meyers-Milas-Brown Act (California Government Code Section 3500 et seq.), the City continues to meet and confer with the exclusive bargaining representatives of the City employees.

CITY OF OAKLAND LABOR RELATIONS

<u>Employee Organization/Bargaining Unit</u>	<u>Number of Employees</u>	<u>Contract Termination</u>
International Association of Firefighters (Local 557)	490	6/30/98
International Brotherhood of Electrical Workers (Local 1245)	26	6/30/99
International Federation of Professional and Technical Engineers (Local 21)/Units A and W	300	6/30/99
Oakland Police Officers Association	680	6/30/98
United Public Employees (Local 790)/full-time	1,424	6/30/99
United Public Employees (Local 790)/part-time	800	6/30/99
Western Council	91	6/30/99

Source: City of Oakland, Office of Personnel Resources Management.

Retirement Program

The Police and Fire Retirement System (PFRS) is a defined benefit plan administered by a Board of Trustees and covers uniformed employees hired prior to July 1, 1976. As of June 30, 1996, PFRS covered 298 current employees and 1,486 retired employees. Effective July 1, 1976, the City began providing for and funding an amount equal to the annual normal service cost of all PFRS participants and the amortization of unfunded benefits accumulated as of that date over a forty year period. On June 7, 1988, voters approved a City measure to extend the amortization period of the unfunded benefits to fifty years, ending in 2026. In accordance with these voter-approved measures, the City annually levies an *ad valorem* tax on all property within the City subject to taxation by the City to help fund the accumulated unfunded benefits. For fiscal year 1996, the City levied a tax of 0.1575% for this purpose. The present value of vested benefits (benefits to which participants are entitled regardless of future service) was an amount that exceeded related plan assets at January 1, 1997, by approximately \$724,300,000.

The City's annual contribution to PFRS is determined by calculating the total pension liability for public safety employees under both PFRS and the Public Employees Retirement System (PERS). The amount to be contributed to both plans is allocated between years such that a level percentage of payroll (58.63% in Fiscal Year 1995-96) will amortize the unfunded liabilities by 2026 and 2011 of PFRS and PERS, respectively. Contributions to PERS are deducted and the difference is contributed to PFRS.

For the fiscal year ended June 30, 1996, contributions to PFRS totaling \$36.4 million (\$34.5 million employer and \$1.9 million employee) were made in accordance with actuarially determined contribution requirements. The City's actuaries do not make an allocation of the contribution amount between normal cost and the unfunded actuarial liability because the plan is closed. An actuarial valuation on the PFRS benefit plan is conducted every two years with the most recent valuation conducted for the period ending June 30, 1996.

Oakland Municipal Employees' Retirement System (OMERS) is administered by the City and covers two nonuniformed employees hired prior to September 1, 1970 who have not elected to transfer to the PERS as well as 234 retired employees. For the year ended June 30, 1996, the City, in accordance with actuarially determined contribution requirements, did not make contributions to OMERS as the plan is fully funded.

PERS is a defined benefit plan administered by the State of California and covers all nonuniformed employees except those who have not elected to transfer from OMERS and all uniformed employees hired after June 30, 1976. As of June 30, 1995, the pension benefit obligation for the City miscellaneous employees was unfunded by \$7.5 million; the pension benefit obligation for City safety employees was overfunded by \$6.2 million.

For accounting purposes, employees covered under PERS are classified as either miscellaneous employees or safety employees. City miscellaneous employees and City safety employees are required to contribute 7% and 9%, respectively, of their annual salary to PERS. The City contribution rates for the fiscal year ending June 30, 1996 are 9.3% and 12.2% for each group, respectively. The City pays the entire amount of its employees' contribution rate for miscellaneous and safety employees, including the annual contribution of 7% and 9% to PERS.

PERS uses an actuarial method which takes into account those benefits that are expected to be earned in the future as well as those already accrued. PERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. The amortization period of the unfunded actuarial liability ends June 30, 2011.

CITY DEMOGRAPHIC AND ECONOMIC INFORMATION

Founded in 1852, the City occupies 53.8 square miles, with 19 miles of coastline on the San Francisco Bay in northern California. The City's convenient access to mass transit, freeways, rail lines and airports; its favorable climate, environmental quality and multiple cultures; its proximity to superior universities and research institutions; and its diverse employee base contribute to the cosmopolitan character of the City and have made it the center of commerce for the Bay Area.

The City's population exceeds 383,000, making it the eighth largest city in California and the third largest in the Bay Area. At least 81 different languages and dialects are spoken within the City; it is the only major city to have no census tract composed of a single race. The City's workforce is both sizable and multi-skilled. The City ranks fourth in the nation for cities with the highest percentage of workforce in skilled occupations; white collar and blue collar workers comprise 63.8% and 36.2%, respectively, of the workforce.

According to the Association of Bay Area Governments (ABAG), Alameda County (in which the City is located) is one of three Bay Area counties which will lead the San Francisco Bay Area in both population and household growth between 1995 and 2015, accounting for nearly 64% of the region's population growth. Between 1995 and 2010, the City population is expected to grow from 386,800 to 406,000, or a 4.4% increase during the period.

The City's economic base has historically been predominantly industrial. Over the past 25 years, there have been significant gains in diversifying the City's economic base. While manufacturing jobs have decreased, commercial and service-oriented sectors have come to play a larger role in the economy. According to the Oakland Chamber of Commerce, employment by industry figures reveal a broad mix of employment. As of 1995, retail trade dominates employment, with 15% of the total, followed by other services (11.4%), health services (9.8%) and education services (9.2%). The Oakland Chamber of Commerce projects that total jobs will increase between 1995 and 2010 by 32,610 or 18%, with the largest increase (26%) in the retail.

The City's largest employers include both public and private entities. Many of the City's largest public employers are headquartered in the City, including the City itself, the Bay Area Rapid Transit District (BART), East Bay Municipal Utility District (EBMUD) and the Alameda County Transit District (AC Transit). The City's largest private employer is Kaiser Permanente, followed by Summit Medical Center, United Parcel Service, Children Hospital and United Airlines.

The City has attracted numerous relocating businesses in recent years. According to Cushman & Wakefield's Office Market Report (Year-End 1996), total inventory in the Oakland Metropolitan Area exceeds 21 million square feet, split nearly

evenly between the Central Business District (CBD) and the non-CBD. Overall vacancy rate for all classes of space (CBD and non-CBD) was reported at 13.9%, a 2.8% decrease from the fourth quarter 1995; CBD overall vacancy rate was reported at 13.9%. Cushman & Wakefield attribute the improved vacancy rate to a decrease in available space in both the CBD and non-CBD, as well as a concurrent increase in leasing activity in both of these markets. In particular, the Oakland City Center submarket has seen solid leasing activity. The report states that the City is working hard to attract and retain tenants by streamlining the business process, offering relocation packages and opening an information center for small businesses.

Development of the City's downtown has long been a primary thrust of city planning. Over the past two decades, the central business district has undergone a dramatic physical renaissance. New office and retail building, refurbished public facilities, luxury hotels, park enhancements and outdoor art have created a cosmopolitan environment enhancing the City's status as the hub of the Bay Area. Projects currently under development include the downtown University of California Office of the President, the Elihu Harris State Building, the City Administration Buildings, the Martin Luther King, Jr. Plaza project, the Warriors Headquarters and Practice Facility, the Coliseum Shoreline Retail Project, the Fruitvale Station community shopping center and the Jack London Square retail project.

Much of the City's economic strength is attributable to its extensive transportation network. The City is today recognized as the center of commerce for the Bay Area. Nine major U.S. and California highways converge in the City, providing convenient travel throughout the Bay Area and direct access to other regions of the country. High speed light rail transit throughout the Bay Area is provided by BART and local bus service is offered by AC Transit, 98% of which lines connect with BART. Other transportation services include the Alameda/Oakland Ferry Service, Amtrak and Greyhound Bus Lines.

In addition to ground transportation, the City is home to an international airport and to one of the main sea terminals for cargo moving between the western United States and the Pacific Rim, Latin America and Europe. The Port of Oakland loads and discharges more than 97% of containerized goods bound to and through the Bay Area, making it the third largest container port on the Pacific Coast, the fourth largest in the United States and among the top twenty in the world. About 79% of the City's foreign trade is with Asia. The Port is currently undertaking a project to dredge the bay, which will allow it to compete with other West Coast ports for Pacific Rim trade. Oakland International Airport (the "Airport"), operated by the Port of Oakland, is a major regional center of air passenger and cargo jet operations and the second largest airport in the Bay Area. The Airport currently provides more than 70% of the Bay Area's cargo flights. In 1995, the Airport served over 9.8 million passengers and 1.2 billion pounds of air cargo.

Services and other important resources are extensive and locally provided. Five major hospitals are located in the City. Over 170 public and private schools provide elementary, middle, special and secondary education. The Oakland Unified School Districts operates 89 schools, which includes elementary, middle and junior, high, and special education. In addition, there are a wide range of private and nonprofit elementary and secondary schools in the City. Seven colleges are located in the City, reporting enrollment of over 20,000 students. Utility services are provided by Pacific Bell, EBMUD and Pacific Gas & Electric. The City has its own regional newspaper, radio stations and a Fox Network television station.

The City has many well-established medium density residential neighborhoods, consisting primarily of single family homes. The City is also an affordable community containing neighborhoods in price levels from low income (22% of housing units are valued below \$100,000) to high income (32.5% of housing units are valued above \$250,000). Of total housing units, over 38% are owner-occupied and over 55% are rented. Shopping districts such as Montclair, College Avenue, Piedmont Avenue, Grand/Lakeshore Avenues and Park Boulevard form a spine for the surrounding residential areas. The City credits the activity in the commercial/shopping district with mitigating declines in City sales tax revenues after the 1989 Loma Prieta earthquake, despite temporary closure of several major downtown retail stores.

The quality of life in the City is enhanced by abundant opportunities for recreation, entertainment and culture at more than 140 parks, playgrounds, community centers and other recreational facilities operated by the City. The City has a moderate climate and has 64 parks within its borders, including Lake Merritt, which is located downtown. The Oakland-Alameda County Coliseum hosts concerts and other special events, and is the home to the Oakland A's baseball, Oakland Raiders football and Golden State Warriors basketball teams. In addition, a wide and diverse variety of music, dance and theater groups, both amateur and professional, perform regularly in the City. The City's recently renovated Alice Arts

Center is a multi-cultural and multi-disciplinary performing arts complex that presents local, regional and national theatre, dance and music productions.

Population

The City is the eighth largest in the State. Between 1990 and 1995, the City's population increased by a total of 3.9% or 14,537. The City has experienced steady population growth since 1970, and it is estimated that population has grown by 47,442 or 14.0% since 1980. The City is the third most populous in the Bay Area. The following chart illustrates the population of the City and the County from 1970 through 1995.

CITY OF OAKLAND AND ALAMEDA COUNTY POPULATION

<u>Year</u>	<u>City of Oakland</u>	<u>Alameda County</u>
1970	361,561	1,071,446
1980	339,337	1,105,379
1990	372,242	1,265,929
1991	376,200	1,290,800
1992	380,200	1,317,900
1993	382,000	1,334,000
1994	384,000	1,347,900
1995	386,779	1,362,893
1996	383,900	1,356,100

*Source: United States Department of Commerce, Bureau of the Census for 1970, 1980 and 1990.
State of California Department of Finance for all other years.*

Employment

Over the past several years, employment growth patterns for the City and the County suffered as the State's economy contracted, although recent trends are positive as the State's economy and employment have rebounded.

The following table represents the labor patterns in the City from 1989 to 1995:

**CITY OF OAKLAND COUNTY OF ALAMEDA, AND STATE OF CALIFORNIA
CIVILIAN LABOR FORCE, EMPLOYMENT, and UNEMPLOYMENT
1990 through 1995**

<u>Year and Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
1990				
City	176,590	165,065	11,525	6.5%
County	673,700	645,900	27,800	4.1
State	15,149,00	14,299,000	850,000	5.6
1991				
City	176,104	161,161	14,943	8.5
County	666,600	630,600	36,000	5.4
State	15,131,00	13,989,000	1,142,000	7.5
1992				
City	178,218	159,991	18,227	10.2
County	670,100	626,100	44,000	6.6
State	15,306,000	13,913,000	1,393,000	9.1
1993				
City	178,763	160,202	18,561	10.4
County	671,700	626,900	44,800	6.7
State	15,260,000	13,853,000	1,407,000	9.2
1994				
City	182,148	164,471	17,677	9.7
County	686,200	643,600	42,600	6.2
State	15,471,000	14,141,000	1,330,000	8.6
1995				
City	180,900	164,130	16,770	9.3
County	682,700	642,300	40,400	8.9
State	15,442,000	14,230,300	1,211,700	7.8

*Note: Figures may not calculate due to independent rounding.

Source: California State Employment Development Department

Largest Employers

The following tables represent the largest public and private employers in the City:

CITY OF OAKLAND LARGEST PUBLIC EMPLOYERS As of November 1996

<u>Public Entity</u>	<u>Product/Service</u>	<u>Number of Employees</u>
County of Alameda ¹	Governmental Operations	11,000
U.S. Federal Government ²	Governmental Operations	7,000
Oakland International Airport	Public Transportation	6,900
Oakland Unified School District	Education	6,700
City of Oakland	Governmental Operations	4,800
State of California	Governmental Operations	3,000
Bay Area Rapid Transit	Public Transportation	2,700
Alameda-Contra Costa Transit	Public Transportation	1,925
East Bay Municipal Utility District	Utility/Water	1,850
Peralta Community College	Education	1,480

Source: City of Oakland, Community and Economic Development Agency

CITY OF OAKLAND LARGEST PRIVATE EMPLOYERS³ As of November 1996

<u>Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Kaiser Foundation/ Permanente/Hospital	Health Services	5,680
Summit Medical Center	Hospital Services	2,100
United Parcel Service	Delivery Services	2,000
Children Hospital	Hospital Services	1,900
United Airlines	Transportation	1,880
Federal Express	Delivery Services	1,700
Southwest Airlines	Transportation	1,380
The Clorox Company	Household Products	1,320
Pacific Bell	Public Utility	1,200
Gladman Hospital	Hospital Services	1,170

Source: City of Oakland, Community and Economic Development Agency

¹ Includes Highland General Hospital employees.

² Includes U.S. Post Office Employees.

³ Pacific Gas & Electric, with 691 employees in Oakland, was previously recorded in error.

Commercial Activity

A five-year history of total taxable transactions for the City is shown in the following table:

CITY OF OAKLAND TAXABLE TRANSACTIONS 1991-1995

<u>Year</u>	<u>Total Sales</u>
1991	\$2,406,366,000
1992	2,384,237,000
1993	2,264,740,000
1994	2,322,874,000
1995	2,495,567,000

Source: *State Board of Equalization, Department of Research and Statistics.*

Construction Activity

A five-year history of building permits and valuation appears in the following table:

CITY OF OAKLAND BUILDING PERMITS AND VALUATIONS 1992-1996

<u>Year</u>	<u>Residential Permits</u>	<u>Residential Valuation (In Thousands)</u>	<u>Nonresidential Valuation (In Thousands)</u>
1992	205	\$101,598	\$118,853
1993	165	71,659	178,728
1994	N/A	51,710	96,004
1995	290	47,129	132,865
1996	180	79,278	99,844

Source: *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 1996*

Median Household Income

Effective Buying Income ("EBI") is defined as personal income less personal income tax and non-tax payments, such as fines, fees or penalties. Median household EBI for the City is shown in the table below.

CITY OF OAKLAND AND ALAMEDA COUNTY MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME 1991-1995⁽¹⁾ Median EBI

<u>Year</u>	<u>City of Oakland</u>	<u>Alameda County</u>	<u>California</u>	<u>United States</u>
1991	\$29,084	\$39,329	\$36,943	\$32,073
1992	29,767	40,289	37,686	33,178
1993	31,203	42,284	39,330	35,056
1994	32,842	44,381	40,969	37,070
1995 ⁽²⁾	28,033	38,436	34,533	32,238

⁽¹⁾ Latest information available.

⁽²⁾ The definition of "EBI" changed beginning in 1995; accordingly, the 1995 data is not comparable with the previous years.

Source: *"Survey of Buying Power," Sales and Marketing Management Magazine.*

Military Base Closures

Substantially all major military facilities in the City and the County are scheduled to be closed or downsized. These facilities represent approximately 16,000 military and 6,000 civilian jobs. Several efforts are underway to mitigate the impact of base closures in the City and the County, including the gradual conversion of the bases to civilian uses. Among these are the activities of the Alameda County Economic Development Advisory Board ("EDAB"), a consortium of public and private entities in the County organized to assist regional conversion efforts, which is working with such organizations as the Bay Area Defense Conversion Action Team, the Bay Area Economic Forum, the Bay Area Regional Technology Alliance and Joint Venture Silicon Valley. The City and the County have formed a local reuse authority under a joint powers agreement for development of a comprehensive local reuse plan with respect to the Oak Knoll Naval Hospital Complex in the City. The Port has begun to receive approximately 100 acres of waterfront property from the Naval Supply Center and is developing plans for the use of this property. A portion of the property received has been leased by the Port to other employers. Additionally, the East Bay Conversion and Reinvestment Commission is the recipient of grants from the Federal Office of Economic Adjustment to work on a pilot study on defense conversion and to provide community planning assistance. The City is unable to predict what the financial impact of military base closures will be on the City.

APPENDIX B

CITY OF OAKLAND AUDITED FINANCIAL STATEMENTS, JUNE 30, 1996

“The City of Oakland has provided herein excerpts of the Comprehensive Annual Financial Report (“CAFR”) for Fiscal Year ended June 30, 1996. The sections provided herein include the Independent Auditor’s Report by Deloitte & Touche, LLP, and the General Purpose Financial Statements, which includes all Notes to Financial Statements. The City of Oakland will provide, upon request and at the expense of the requestor, unabridged copies of the CAFR for Fiscal Year ended June 30, 1996.”

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 1996

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**INDEPENDENT AUDITORS' REPORT**

Honorable Mayor and Members of the City Council
of the City of Oakland, California:

We have audited the accompanying general purpose financial statements of the City of Oakland, California (the "City") as of June 30, 1996, and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of management of the City. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Oakland Convention and Visitors Authority ("OCVA"), the Oakland Municipal Employees' Retirement System ("OMERS"), the Oakland Redevelopment Agency and the Police and Fire Retirement System ("PFRS"), whose statements reflect total assets and total revenues constituting 4% and 0% of the combined totals of the Special Revenue Funds; 40% and 35% of the combined totals of the Debt Service Funds; 43% and 56% of the combined totals of the Capital Projects Funds; 1% and 4% of the combined totals of the Enterprise Funds; 57% and 69% of the combined totals of the Fiduciary Fund Types; and 28% of the combined total liabilities of the General Long-Term Obligations Account Group. We also did not audit the financial statements of the Port of Oakland, a discretely presented component unit. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities in the Special Revenue, Debt Service, Capital Projects and Enterprise Funds, Fiduciary Fund Types, General Long-Term Obligations Account Group, and discretely presented component unit, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, such general purpose financial statements present fairly, in all material respects, the financial position of the City at June 30, 1995, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 27, 1996 on our consideration of the City's internal control structure and a report dated November 27, 1996 on its compliance with laws and regulations.

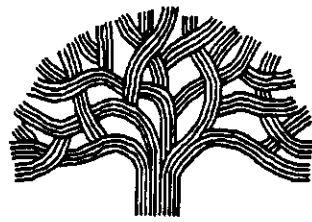
As discussed in Note 13 to the general purpose financial statements, during the year ended June 30, 1996, OMERS and PFRS chose early implementation of Statement No. 25 of the Governmental Accounting Standards Board ("GASB"), and OCVA replaced the former Oakland Convention Center Management, Inc. as a blended component unit of the City in accordance with GASB Statement No. 14. Accordingly, the City restated its July 1, 1995 enterprise and pension trust funds balances.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the foregoing table of contents, which are also the responsibility of the management of the City, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements (other than the financial statements of the Oakland Convention and Visitors Authority, the Oakland Municipal Employees' Retirement System, the Oakland Redevelopment Agency, the Police and Fire Retirement System, and the Port of Oakland, which were audited by other auditors whose reports expressed unqualified opinions) and, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

The statistical section listed in the foregoing table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the City. Such additional information has not been subjected to the auditing procedures applied in our audit of the general purpose financial statements, and, accordingly, we do not express an opinion thereon.

Deloitte & Touche LLP

November 27, 1996



CITY OF OAKLAND



ALL FUND TYPES, ACCOUNT GROUPS AND
DISCRETELY PRESENTED COMPONENT UNIT
COMBINED BALANCE SHEET

June 30, 1996

(In Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
ASSETS AND OTHER DEBITS						
Assets						
Cash and investments	\$ 6,835	\$12,478	\$ 3,624	\$ 113,609	\$ 7,176	\$17,944
Receivables (net of allowance for uncollectibles):						
Accrued interest	1,108	1,488	228	6,662	—	—
Property taxes	2,182	706	506	14	—	—
Accounts receivable	22,137	7,189	10	4,310	2,434	56
Grants receivable	—	3,738	—	—	—	—
Special assessments	—	—	2,020	—	—	—
Receivable from Port of Oakland	8,664	—	—	—	—	—
Due from other funds	52,448	11,168	452	2,388	167	2,448
Notes and loans receivable (net of allowance for uncollectibles)	12,784	54,632	36,323	35,415	—	—
Restricted cash and investments	58,341	3,577	96,309	293,969	1	—
Inventories	—	—	—	—	—	942
Fixed assets (net, where applicable of accumulated depreciation)	—	—	—	—	118,619	10,814
Land held for resale	—	—	—	54,138	—	—
Other	192	97	—	2,598	35	—
Other Debits						
Amount available in debt service funds	—	—	—	—	—	—
Amount to be provided for long-term obligations	—	—	—	—	—	—
TOTAL ASSETS AND OTHER DEBITS	<u>\$164,691</u>	<u>\$95,073</u>	<u>\$ 139,472</u>	<u>\$ 513,103</u>	<u>\$128,432</u>	<u>\$32,204</u>

GENERAL PURPOSE FINANCIAL STATEMENTS

Fiduciary Fund Types	Account Groups		Total (Memorandum Only)	Component Unit	Total (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	Primary Government	Port of Oakland	Reporting Entity
\$ 362,984	\$ —	\$ —	\$ 524,650	\$ 78,884	\$ 603,534
4,473	—	—	13,959	2,076	16,035
—	—	—	3,408	—	3,408
14	—	—	36,150	23,423	59,573
—	—	—	3,738	—	3,738
—	—	—	2,020	—	2,020
—	—	—	8,664	—	8,664
1,320	—	—	70,391	—	70,391
—	—	—	139,154	—	139,154
289,742	—	—	741,939	95,487	837,426
—	—	—	942	—	942
—	585,395	—	714,828	748,436	1,463,264
—	—	—	54,138	—	54,138
—	—	—	2,922	17,757	20,679
—	—	79,151	79,151	—	79,151
—	—	<u>783,443</u>	<u>783,443</u>	—	<u>783,443</u>
<u>\$ 658,533</u>	<u>\$585,395</u>	<u>\$ 862,594</u>	<u>\$3,179,497</u>	<u>\$966,063</u>	<u>\$4,145,560</u>

(continued)



ALL FUND TYPES, ACCOUNT GROUPS AND
DISCRETELY PRESENTED COMPONENT UNIT
COMBINED BALANCE SHEET, continued

June 30, 1996

(In Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
LIABILITIES, EQUITY AND OTHER CREDITS						
Liabilities						
Accounts payable and accrued liabilities	\$ 29,604	\$ 6,616	\$ —	\$ 4,530	\$ 959	\$ 1,277
Due to other funds	9,725	14,875	3,212	33,961	558	5,570
Payable to primary government	—	—	—	—	—	—
Deferred revenue	35,532	58,973	38,343	25,620	—	—
Tax and revenue anticipation notes payable	58,217	—	—	—	—	—
Matured bonds and interest payable	2,393	—	18,678	—	—	—
Long-term obligations	—	—	—	—	7,090	—
Obligations under reverse repurchase agreements	—	—	—	15,486	—	—
Obligations under deferred compensation plans	—	—	—	—	—	—
Due to bond holders	—	—	—	—	—	—
Future Obligations to finance the Oakland-Alameda County Coliseum Authority deficit	—	—	—	—	29,762	—
Other	759	29	88	1,566	79	—
Total liabilities	<u>136,230</u>	<u>80,493</u>	<u>60,321</u>	<u>81,163</u>	<u>38,448</u>	<u>6,847</u>
Equity and Other Credits						
Investment in general fixed assets	—	—	—	—	—	—
Contributed capital	—	—	—	—	20,900	17,382
Retained earnings	—	—	—	—	69,084	7,975
Fund balances:						
Reserved	3,000	13,175	79,151	431,940	—	—
Unreserved:						
Designated	14,598	5,481	—	—	—	—
Undesignated	10,863	(4,076)	—	—	—	—
Total equity and other credits	<u>28,461</u>	<u>14,580</u>	<u>79,151</u>	<u>431,940</u>	<u>89,984</u>	<u>25,357</u>
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	<u>\$ 164,691</u>	<u>\$95,073</u>	<u>\$139,472</u>	<u>\$ 513,103</u>	<u>\$128,432</u>	<u>\$32,204</u>

The notes to the financial statements are an integral part of this statement.

GENERAL PURPOSE FINANCIAL STATEMENTS

<u>Fiduciary Fund Types</u> Trust and Agency	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>	<u>Component Unit</u>	<u>Total (Memorandum Only)</u>
	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	<u>Primary Government</u>	<u>Port of Oakland</u>	<u>Reporting Entity</u>
\$ 8,391	\$ —	\$ —	\$ 51,377	\$ 34,143	\$ 85,520
2,490	—	—	70,391	—	70,391
—	—	—	—	8,664	8,664
—	—	—	158,468	4,154	162,622
—	—	—	58,217	—	58,217
—	—	—	21,071	16,753	37,824
1,700	—	862,594	871,384	491,826	1,363,210
—	—	—	15,486	—	15,486
82,218	—	—	82,218	20,430	102,648
14,409	—	—	14,409	—	14,409
—	—	—	29,762	—	29,762
<u>8</u>	<u>—</u>	<u>—</u>	<u>2,529</u>	<u>24,232</u>	<u>26,761</u>
<u>109,216</u>	<u>—</u>	<u>862,594</u>	<u>1,375,312</u>	<u>600,202</u>	<u>1,975,514</u>
—	585,395	—	585,395	—	585,395
—	—	—	38,282	135,413	173,695
—	—	—	77,059	230,448	307,507
546,228	—	—	1,073,494	—	1,073,494
—	—	—	20,079	—	20,079
<u>3,089</u>	<u>—</u>	<u>—</u>	<u>9,876</u>	<u>—</u>	<u>9,876</u>
<u>549,317</u>	<u>585,395</u>	<u>—</u>	<u>1,804,185</u>	<u>365,861</u>	<u>2,170,046</u>
<u>\$ 658,533</u>	<u>\$585,395</u>	<u>\$ 862,594</u>	<u>\$3,179,497</u>	<u>\$966,063</u>	<u>\$4,145,560</u>

(concluded)



**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES**

Year ended June 30, 1996

(In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
REVENUES				
Taxes:				
Property	\$ 71,199	\$ 20,446	\$ 6,433	\$24,219
State:				
Sales and Use	32,992	5,782	—	—
Motor Vehicle In-lieu	14,158	—	—	—
Gas		6,935	—	—
Local:				
Business License	28,705	—	—	—
Utility Consumption	32,818	—	—	—
Real Estate Transfer	13,660	—	—	—
Transient Occupancy	6,241	—	—	—
Parking	4,511	—	—	—
Franchise	7,876	—	—	—
Licenses and permits	6,868	12	—	—
Fines and penalties	8,189	667	19	—
Interest	6,987	2,141	8,875	23,407
Charges for services	24,329	3,637	—	407
Federal and state grants and subventions	6,751	74,768	—	595
Pension annuity distribution	—	—	—	—
Other	6,738	6,250	206	2,676
TOTAL REVENUES	<u>\$272,022</u>	<u>\$120,638</u>	<u>\$15,533</u>	<u>\$51,304</u>

GENERAL PURPOSE FINANCIAL STATEMENTS

<u>Fiduciary Fund Type Expendable Trust</u>	<u>Total (Memorandum Only)</u>
\$ —	\$122,297
—	38,774
—	14,158
—	6,935
—	28,705
—	32,818
—	13,660
—	6,241
—	4,511
—	7,876
—	6,880
—	8,875
668	42,078
1	28,374
285	82,399
19,826	19,826
<u>1,204</u>	<u>17,074</u>
<u>\$21,984</u>	<u>\$481,481</u>

(continued)



**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES, continued
Year ended June 30, 1996
(In Thousands)**

EXPENDITURES	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Current:				
General government:				
Mayor	\$ 893	\$ 23	\$ —	\$ 38
Council	1,388	—	—	—
City Manager	2,090	1,499	—	58
City Attorney	4,186	151	—	131
City Auditor	610	5	—	—
City Clerk	1,355	—	—	—
Support services:				
Personnel Resource Management	3,844	226	—	—
Marketing and Public Information	9	—	—	—
Budget and Finance	7,411	520	17	292
Retirement and Risk Administration	764	—	—	—
Communication and Information Services	6,436	22	—	160
General Services	176	—	—	—
Public safety:				
Police	87,379	2,095	—	50
Fire	49,242	2,017	—	44
Cultural and community services:				
Parks and Recreation	9,921	14,208	—	396
Library	7,876	3,770	—	130
Museum	4,377	—	—	—
Aging	1,878	5,037	—	43
Health and Human Services	720	10,326	—	—
Community development:				
Planning and Building	11,063	186	—	36
Public Works	30,937	13,904	—	2,321
Housing and Neighborhood Development	506	16,764	—	559
Economic Development and Employment	213	5,340	—	2
Redevelopment Agency	—	1,526	—	24,326
Payment to unfunded pension	27,034	—	—	—
Other	1,846	9,922	22,365	7,391
Capital outlay	6,099	17,440	—	35,045
Debt service:				
Principal repayment	—	—	20,080	—
Interest charges	<u>2,393</u>	<u>—</u>	<u>45,777</u>	<u>—</u>
TOTAL EXPENDITURES	<u>270,646</u>	<u>104,981</u>	<u>88,239</u>	<u>71,022</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 1,376</u>	<u>\$15,657</u>	<u>\$(72,706)</u>	<u>\$(19,718)</u>

GENERAL PURPOSE FINANCIAL STATEMENTS

Fiduciary Fund Type Expendable Trust	Total (Memorandum Only)
\$ 98	\$ 1,052
583	1,971
55	3,702
814	5,282
77	692
35	1,390
—	4,070
—	9
279	8,519
—	764
—	6,618
—	176
563	90,087
—	51,303
133	24,658
409	12,185
142	4,519
—	6,958
—	11,046
128	11,413
2,448	49,610
1,836	19,665
1,958	7,513
—	25,852
—	27,034
16,351	57,875
5,172	63,756
—	20,080
—	<u>48,170</u>
<u>31,081</u>	<u>565,969</u>
<u>\$(9,097)</u>	<u>\$(84,488)</u>

(continued)



**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES, continued**

Year Ended June 30, 1996

(In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BROUGHT FORWARD	\$ 1,376	\$ 15,657	\$ (72,706)	\$ (19,718)
OTHER FINANCING SOURCES (USES)				
Bond proceeds	—	—	21,130	92,815
Property sale proceeds	85	1	—	—
Operating transfers in	3,262	3,260	54,371	14,937
Operating transfers out	(14,388)	(4,326)	(1,810)	(48,163)
Increase in investment in Coliseum, Inc.	4,000	—	—	—
Decrease in investment in Oakland- Alameda County Coliseum Authority	(4,000)	—	—	—
Writeoff of investment in Coliseum, Inc.	31,041	—	—	—
Decrease in investment in Coliseum, Inc.	<u>(31,041)</u>	<u>—</u>	<u>—</u>	<u>—</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(11,041)</u>	<u>(1,065)</u>	<u>73,691</u>	<u>59,589</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(9,665)	14,592	985	39,871
Fund balances (deficit) at beginning of year	<u>38,126</u>	<u>(12)</u>	<u>78,166</u>	<u>392,069</u>
FUND BALANCES AT END OF YEAR	<u>\$ 28,461</u>	<u>\$ 14,580</u>	<u>\$ 79,151</u>	<u>\$ 431,940</u>

The notes to the financial statements are an integral part of this statement.

GENERAL PURPOSE FINANCIAL STATEMENTS

<u>Fiduciary Fund Type Expendable Trust</u>	<u>Total (Memorandum Only)</u>
\$ (9,097)	\$ (84,488)
—	113,945
—	86
13,528	89,358
(22,487)	(91,174)
—	4,000
—	(4,000)
—	31,041
<u>—</u>	<u>(31,041)</u>
<u>(8,959)</u>	<u>112,215</u>
(18,056)	27,727
<u>200,832</u>	<u>709,181</u>
<u>\$182,776</u>	<u>\$736,908</u>

(concluded)



**GENERAL FUND AND ANNUALLY BUDGETED SPECIAL REVENUE
AND DEBT SERVICE FUNDS
COMBINED SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL ON A BUDGETARY BASIS
Year ended June 30, 1996
(In Thousands)**

	General Fund		
	Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)
REVENUES			
Taxes:			
Property	\$ 70,350	\$ 71,199	\$ 849
State:			
Sales and Use	28,168	32,992	4,824
Motor Vehicle In-lieu	13,179	14,158	979
Gas	—	—	—
Local:			
Business License	28,336	28,705	369
Utility Consumption	35,279	32,818	(2,461)
Real Estate Transfer	13,750	13,660	(90)
Transient Occupancy	5,796	6,241	445
Parking	4,060	4,511	451
Franchise	7,572	7,876	304
Licenses and permits	5,502	6,868	1,366
Fines and penalties	9,243	8,189	(1,054)
Interest	2,881	6,987	4,106
Charges for services	33,384	24,329	(9,055)
Federal and state grants and subventions	6,085	6,751	666
Other	<u>10,020</u>	<u>11,938</u>	<u>1,918</u>
TOTAL REVENUES	<u>\$273,605</u>	<u>\$277,222</u>	<u>\$3,617</u>

GENERAL PURPOSE FINANCIAL STATEMENTS

Annually Budgeted Special Revenue Funds			Annually Budgeted Debt Service Funds		
Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)	Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)
\$ 15,469	\$ 16,360	\$ 891	\$ 6,281	\$ 5,870	\$ (411)
5,244	5,782	538	—	—	—
—	—	—	—	—	—
6,908	6,935	27	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
19	12	(7)	—	—	—
420	296	(124)	—	19	19
—	406	406	3,805	2,546	(1,259)
38	172	134	—	—	—
950	757	(193)	—	—	—
197	35	(162)	21,833	206	(21,627)
<u>\$ 29,245</u>	<u>\$ 30,755</u>	<u>\$ 1,510</u>	<u>\$ 31,919</u>	<u>\$ 8,641</u>	<u>\$ (23,278)</u>

(continued)



**GENERAL FUND AND ANNUALLY BUDGETED SPECIAL REVENUE
AND DEBT SERVICE FUNDS
COMBINED SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES -
BUDGET AND ACTUAL ON A BUDGETARY BASIS, continued
Year ended June 30, 1996
(In Thousands)**

	General Fund		
	Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)
EXPENDITURES AND ENCUMBRANCES			
Current:			
General government:			
Mayor	\$ 794	\$ 895	\$ (101)
Council	1,427	1,397	30
City Manager	1,790	2,120	(330)
City Attorney	4,105	4,186	(81)
City Auditor	615	610	5
City Clerk	1,580	1,442	138
Support services:			
Personnel Resource Management	3,858	3,821	37
Marketing and Public Information	11	8	3
Budget and Finance	7,722	7,388	334
Retirement and Risk Administration	811	789	22
Communication and Information Services	6,013	6,447	(434)
General Services	—	358	(358)
Public safety:			
Police	89,900	87,268	2,632
Fire	51,458	49,178	2,280
Cultural and community services:			
Parks and Recreation	7,777	9,922	(2,145)
Library	8,293	7,871	422
Museum	4,243	4,378	(135)
Aging	2,104	1,892	212
Health and Human Services	735	729	6
Community development:			
Planning and Building	10,946	11,251	(305)
Public Works	32,361	30,849	1,512
Housing and Neighborhood Development	1,054	471	583
Economic Development and Employment	330	220	110
Redevelopment Agency	—	—	—
Payment to unfunded pension	27,034	27,034	—
Other	28,080	1,841	26,239
Capital outlay	10,825	6,118	4,707
Debt service:			
Principal repayment	—	—	—
Interest charges	—	2,393	(2,393)
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>303,866</u>	<u>270,876</u>	<u>32,990</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND ENCUMBRANCES	<u>\$ (30,261)</u>	<u>\$ 6,346</u>	<u>\$36,607</u>

The notes to the financial statements are an integral part of this statement.

GENERAL PURPOSE FINANCIAL STATEMENTS

Annually Budgeted Special Revenue Funds			Annually Budgeted Debt Service Funds		
Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)	Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
96	87	9	—	—	—
269	252	17	71	17	54
—	—	—	—	—	—
23	21	2	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
11,842	12,777	(935)	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
11,094	10,339	755	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
1,250	2	1,248	—	417	(417)
17,587	3,794	13,793	—	—	—
—	—	—	—	—	—
—	—	—	8,252	10,335	(2,083)
—	—	—	19,547	21,661	(2,114)
<u>42,161</u>	<u>27,272</u>	<u>14,889</u>	<u>27,870</u>	<u>32,430</u>	<u>(4,560)</u>
<u>\$ (12,916)</u>	<u>\$ 3,483</u>	<u>\$ 16,399</u>	<u>\$ 4,049</u>	<u>\$ (23,789)</u>	<u>\$ (27,838)</u>

(concluded)



**ALL PROPRIETARY FUND TYPES, PENSION TRUST FUNDS, AND
DISCRETELY PRESENTED COMPONENT UNIT
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS/FUND BALANCES**

Year Ended June 30, 1996

(In Thousands)

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Pension Trust</u>
OPERATING REVENUES			
Rental	\$ 666	\$ —	\$ —
Interest	—	—	42,264
Charges for services	15,588	26,876	—
Contributions	—	—	36,397
Other	<u>3</u>	<u>480</u>	<u>285</u>
TOTAL OPERATING REVENUES	<u>16,257</u>	<u>27,356</u>	<u>78,946</u>
OPERATING EXPENSES			
Personnel	8,082	8,847	—
Supplies	393	5,051	—
Depreciation and amortization	3,417	3,564	—
Contractual services and supplies	732	618	—
Repairs and maintenance	122	977	—
General and administrative	2,123	3,833	—
Rental	687	867	—
Benefit payments	—	—	51,010
Interest	300	—	649
Other	<u>1,277</u>	<u>2,451</u>	<u>1,053</u>
TOTAL OPERATING EXPENSES	<u>17,133</u>	<u>26,208</u>	<u>52,712</u>
OPERATING INCOME	<u>(876)</u>	<u>1,148</u>	<u>26,234</u>
NON-OPERATING REVENUES (EXPENSES)			
Support	191	—	—
Federal and state grants	14	—	—
Interest, net	(266)	(1)	—
Other, net	(6)	170	—
Gain on joint venture operations	<u>10,118</u>	<u>—</u>	<u>—</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>10,051</u>	<u>169</u>	<u>—</u>
INCOME BEFORE OPERATING TRANSFERS	<u>9,175</u>	<u>1,317</u>	<u>26,234</u>
Operating transfers in	2,756	—	—
Operating transfers out	<u>(940)</u>	<u>—</u>	<u>—</u>
TOTAL OPERATING TRANSFERS	<u>1,816</u>	<u>—</u>	<u>—</u>
NET INCOME	10,991	1,317	26,234
Depreciation of fixed assets acquired with contributed capital	—	—	—
Retained earnings/fund balances at beginning of year, as restated (Note 13)	<u>58,093</u>	<u>6,658</u>	<u>340,307</u>
RETAINED EARNINGS/FUND BALANCES AT END OF YEAR	<u>\$ 69,084</u>	<u>\$ 7,975</u>	<u>\$ 366,541</u>

The notes to the financial statements are an integral part of this statement.

GENERAL PURPOSE FINANCIAL STATEMENTS

Total (Memorandum Only)	Component Unit	Total (Memorandum Only)
Primary Government	Port of Oakland	Reporting Entity
\$ 666	\$ 143,860	\$ 144,526
42,264	—	42,264
42,464	—	42,464
36,397	—	36,397
<u>768</u>	<u>—</u>	<u>768</u>
<u>122,559</u>	<u>143,860</u>	<u>266,419</u>
16,929	34,011	50,940
5,444	1,613	7,057
6,981	31,046	38,027
1,350	18,429	19,779
1,099	8,337	9,436
5,956	13,677	19,633
1,554	409	1,963
51,010	—	51,010
949	—	949
<u>4,781</u>	<u>—</u>	<u>4,781</u>
<u>96,053</u>	<u>107,522</u>	<u>203,575</u>
<u>26,506</u>	<u>36,338</u>	<u>62,844</u>
191	—	191
14	—	14
(267)	(25,094)	(25,361)
164	(2,770)	(2,606)
<u>10,118</u>	<u>—</u>	<u>10,118</u>
<u>10,220</u>	<u>(27,864)</u>	<u>(17,644)</u>
<u>36,726</u>	<u>8,474</u>	<u>45,200</u>
2,756	—	2,756
<u>(940)</u>	<u>—</u>	<u>(940)</u>
<u>1,816</u>	<u>—</u>	<u>1,816</u>
38,542	8,474	47,016
—	3,217	3,217
<u>405,058</u>	<u>218,757</u>	<u>623,815</u>
<u>\$ 443,600</u>	<u>\$ 230,448</u>	<u>\$ 674,048</u>



**ALL PROPRIETARY FUND TYPES AND
DISCRETELY PRESENTED COMPONENT UNIT
COMBINED STATEMENT OF CASH FLOWS**

Year ended June 30, 1996

(In Thousands)

	<u>Proprietary Fund Types</u>		<u>Total (Memorandum Only)</u>	<u>Component Unit</u>	<u>Total (Memorandum Only)</u>
	Enterprise	Internal Service	Primary Government	Port of Oakland	Reporting Entity
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating income (loss)	\$ (876)	\$ 1,148	\$ 272	\$36,338	\$36,610
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation and amortization	3,417	3,564	6,981	31,046	38,027
Loss on retirement of fixed assets	1	—	1	—	1
Changes in assets and liabilities:					
Accounts receivable	428	4	432	(1,396)	(964)
Inventories	—	(248)	(248)	—	(248)
Other assets	(4)	—	(4)	323	319
Accounts payable and accrued liabilities	177	226	403	(3,993)	(3,590)
Deferred revenue	45	—	45	2,736	2,781
Obligations under deferred compensation plans	—	—	—	6,897	6,897
Other liabilities	—	—	—	(1,942)	(1,942)
Other	—	169	169	(7,489)	(7,320)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,188</u>	<u>4,863</u>	<u>8,051</u>	<u>62,520</u>	<u>70,571</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Inter-fund repayments	(72)	(618)	(690)	—	(690)
Inter-fund borrowings	101	3,165	3,266	—	3,266
Operating transfers to other funds	(940)	—	(940)	—	(940)
Operating transfers from other funds	<u>2,756</u>	<u>—</u>	<u>2,756</u>	<u>—</u>	<u>2,756</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>\$1,845</u>	<u>\$ 2,547</u>	<u>\$ 4,392</u>	<u>\$ —</u>	<u>\$ 4,392</u>

(continued)

GENERAL PURPOSE FINANCIAL STATEMENTS

**ALL PROPRIETARY FUND TYPES AND
DISCRETELY PRESENTED COMPONENT UNIT
COMBINED STATEMENT OF CASH FLOWS, continued**

Year ended June 30, 1996

(In Thousands)

	Proprietary Fund Types		Total (Memorandum Only)	Component Unit	Total (Memorandum Only)
	Enterprise	Internal Service	Primary Government	Port of Oakland	Reporting Entity
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Repayment of capital lease obligations	\$ (5)	\$ —	\$ (5)	\$ —	\$ (5)
Long-term debt:					
New borrowings	—	—	—	506	506
Repayment of principal	(357)	—	(357)	(9,009)	(9,366)
Payment of interest	(277)	—	(277)	(28,587)	(28,864)
Proceeds from sale of fixed assets	—	—	—	19	19
Acquisition and construction of capital assets	(10,920)	(2,486)	(13,406)	(71,509)	(84,915)
Grants from governmental agencies	14	—	14	6,504	6,518
Support from City funds, membership dues, and others	233	—	233	—	233
Passenger facility charges	—	—	—	14,633	14,633
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(11,312)</u>	<u>(2,486)</u>	<u>(13,798)</u>	<u>(87,443)</u>	<u>(101,241)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	—	—	—	(6,469)	(6,469)
Proceeds from sales of investments	—	—	—	24,410	24,410
Interest on investments	—	—	—	5,485	5,485
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>—</u>	<u>—</u>	<u>—</u>	<u>23,426</u>	<u>23,426</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(6,279)	4,924	(1,355)	(1,497)	(2,852)
CASH AND EQUIVALENTS AT BEGINNING OF YEAR (including \$322 in restricted cash in Enterprise Funds)	<u>13,455</u>	<u>13,020</u>	<u>26,475</u>	<u>80,381</u>	<u>106,856</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 7,176</u>	<u>\$17,944</u>	<u>\$25,120</u>	<u>\$78,884</u>	<u>\$104,004</u>

The notes to the financial statements are an integral part of this statement.

(concluded)



NOTES TO FINANCIAL STATEMENTS

June 30, 1996

(1) ORGANIZATION AND DEFINITION OF REPORTING ENTITY

The City of Oakland, California, (the City) was incorporated on May 25, 1854, by the State of California and is organized and exists under and pursuant to the provisions of State law. The Charter established a Council-Manager form of government consisting of nine elected Councilmembers, including the Mayor, and a Council-appointed City Manager.

The City has defined its reporting entity in accordance with generally accepted accounting principles (GAAP) which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. The General Purpose Financial Statements present information on the activities of the reporting entity, including all of the fund types and account groups of the City (the primary government) and its component units.

Generally accepted accounting principles requires that the component units be separated into blended or discretely presented units for reporting purposes. Although legally separate entities, blended component units are, in substance, part of the City's operations. Therefore, they are reported as part of the primary government. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the City.

Blended Component Units

The Redevelopment Agency of the City of Oakland (Agency) was activated on October 11, 1956, for the purpose of redeveloping certain areas of the City designated as project areas. Its principal activities are acquiring real property for the purpose of removing or preventing blight, constructing improvements thereon, and rehabilitating and restoring existing properties. The Oakland City Council serves as the Board of the Agency. The Agency's funds are reported as special revenue, capital projects, enterprise and expendable trust funds.

Effective July 1, 1995, the Oakland Convention and Visitors Authority (OCVA) was created as a consolidation of the former Oakland Convention and Visitors Bureau and the former Oakland Convention Center Management, Inc. OCVA is responsible for marketing the City as a convention and tourist destination, as well as operating the Oakland Convention Center. OCVA is primarily funded by the City and the Agency. OCVA is reported as an enterprise fund. See Note 13.

The Civic Improvement Corporation (Corporation) was created to provide a lease financing arrangement for the City. It is reported as a debt service fund.

The Oakland Joint Powers Financing Authority (JPFA) was formed to assist in the financing of public capital improvements. JPFA is a joint exercise agency organized under the laws of the State of California and is composed of the City and the Agency. JPFA transactions are recorded in the capital projects and debt service funds, and the general long-term obligations account group.

Discretely Presented Component Unit

The Port of Oakland (Port) is a public entity established in 1927 by the City. Operations include the Oakland International Airport; the Port of Oakland Marine Terminal Facilities; and commercial real estate which includes Oakland Portside Associates (OPA), a California limited partnership, and the Port of Oakland Public Benefit Corporation (Port-PBC), a nonprofit benefit corporation. The Port is governed by a seven-member Board of Port Commissioners (the Board) which are appointed by the City Council, upon nomination by the Mayor. The Board appoints an Executive Director to administer operations. The Port prepares and controls its own budget, administers and controls its fiscal activities, and is responsible for all Port construction and operations. The Port is required by City charter to deposit its operating revenues in the City treasury. The City is responsible for investing and managing such funds.

Complete financial statements of the individual component units can be obtained from:

Budget and Finance Agency
City of Oakland
505 - 14th Street, 9th Floor
Oakland, CA 94612

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The various funds and account groups are summarized by type in the General Purpose Financial Statements. Fund types and account groups used by the City are described below.

Governmental Fund Types

The **General Fund** is the primary operating fund of the City. It accounts for normal recurring activities traditionally associated with governments which are not required to be accounted for in another fund. These activities are funded principally by property taxes, sales and use taxes,



business and utility taxes, interest and rental income, charges for services, and federal and state grants.

Special Revenue Funds account for certain revenue sources that are legally restricted to be spent for specified purposes. Other restricted resources are accounted for in trust, debt service, and capital projects funds.

Debt Service Funds account for the accumulation of resources to be used for the payment of general long-term debt principal and interest as well as related costs.

Capital Projects Funds account for financial resources to be used for the acquisition, construction or improvement of major capital facilities (other than those financed through the proprietary fund types).

Proprietary Fund Types

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the City Council is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Internal Service Funds account for operations that provide goods and services to other City departments and agencies, or to other governments, on a cost-reimbursement basis.

Fiduciary Fund Types

Trust and Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include the pension trust, expendable trust, and agency funds. Operations of the pension trust funds are accounted for and reported in the same manner as the proprietary fund types. Operations of expendable trust funds are accounted for in essentially the same manner as governmental fund types. Agency funds are custodial in nature and do not involve measurement of results of operations.

Account Groups

The **General Fixed Assets Account Group** accounts for recorded fixed assets of the City, other than those accounted for in the proprietary fund types.

The **General Long-Term Obligations Account Group** accounts for all long-term obligations, including claim liabilities and vested compensation and sick leave of the City, except for those obligations accounted for in the proprietary fund types.

Basis of Accounting

Measurement Focus

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Operating statements for these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary fund types and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Reported fund equity (net total assets) is segregated into contributed capital and retained earnings components.

Modified Accrual Basis of Accounting

The modified accrual basis of accounting is followed in the governmental fund types and expendable trust and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, that is, when both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on general long-term obligations, are recorded when the fund liability is incurred and is expected to be liquidated with expendable available resources. The exception to the general modified accrual expenditure recognition criteria is that principal and interest on general long-term obligations are recorded when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year.

Intergovernmental revenues which are primarily grants and subventions received as reimbursement for specific purposes or projects are recognized based upon the expenditures recorded. Intergovernmental revenues which are virtually unrestricted as to purpose of expenditure and revocable only for failure to meet prescribed compliance requirements are reflected as revenues at the time of receipt or earlier if they meet the availability criterion.

Property taxes receivable within the governmental fund types which have been collected within sixty days following fiscal year-end are considered measurable and available and are recognized as revenues in the funds.

The County of Alameda is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law, and for remitting such amounts to the City. Property taxes are assessed and levied as of March 1 on all taxable property located in the City, and



result in a lien on real property. Property taxes are then due in two equal installments, the first on November 1 and the second on March 1 of the following calendar year, and are delinquent after December 10 and April 10, respectively. Since the passage of California's Proposition 13, beginning with fiscal year 1978-79, general property taxes are limited to a flat 1% rate applied to the 1975-76 full value of the property, or 1% of the sales price of the property or of the construction value added after the 1975-76 valuation. Assessed values on properties (exclusive of increases related to sales and construction) can rise a maximum of 2% per year. Taxes were levied at the maximum 1% rate during the fiscal year ended June 30, 1996.

Special assessments are recorded as revenues and receivables to the extent installments are considered current. The estimated installments receivable not considered current are recorded as receivables and offset by deferred revenue.

Other major revenues are susceptible to accrual and are also recognized as revenue when they are collected within 60 days of fiscal year-end. These include interest, utility consumption taxes, franchise fees, transient occupancy taxes, and certain rentals. Real estate transfer taxes on assessed properties transferred prior to the fiscal year-end and held by Alameda County, and sales and use taxes and motor vehicle in lieu taxes held by the State at year-end on behalf of the City are also recognized as revenue.

Major revenues that are determined not to be susceptible to accrual because they are either not available soon enough to pay liabilities of the current period or are not objectively measurable include delinquent property taxes, licenses (other than business licenses), permits, fines and forfeitures.

Accrual Basis of Accounting

The accrual basis of accounting is utilized in all proprietary fund types and pension trust funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Deferred Revenue

Deferred revenue is that for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. The City typically records deferred revenue related to: uncollected property taxes; estimated special assessments not yet payable; intergovernmental revenues (primarily grants and subventions) received but not earned (qualifying expenditures not yet incurred); long-term contracts; and notes or loans receivable arising from loan subsidy programs which are charged to operations upon funding.

Budgetary Data

Original Budget

In accordance with the provisions of the City Charter, the City prepares and adopts a budget on or before June 30 for each fiscal year. The City Charter prohibits expending funds for which there is no legal appropriation. Therefore, the City is required to adopt budgets for all City funds.

Prior to July 1, the original adopted budget is finalized through the passage of a resolution by the City Council. The level of legal budgetary control by the City Council is established at the fund level. For management purposes, the budget is controlled at the departmental level of expenditure within funds.

Revised Budget

The revised budgetary data presented in the accompanying "General Fund and Annually Budgeted Special Revenue and Debt Service Funds — Combined Schedule of Revenues, Expenditures and Encumbrances — Budget and Actual on a Budgetary Basis," reflect the following changes to the original budget:

Certain projects or programs are appropriated on a multi-year rather than annual basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations are carried forward to the following year with the approval of the City Manager. Annually appropriated funds (not related to multi-year projects or programs) lapse at the end of the fiscal year, unless such funds were encumbered or otherwise approved for carryforward by the City Manager. Appropriations carried forward from the prior year are included in the revised budgetary data. Historically, appropriations carried forward have ultimately resulted in expenditures.

Transfers of appropriations between funds must be approved by the City Council. Required supplemental appropriations financed by unanticipated revenues or beginning available fund balances must also be approved by the City Council. The General Fund budget was augmented by approximately \$4,684,000.

Transfers of appropriations between departments and projects within the same fund must be approved by the City Manager. Revised budget amounts reported in the accompanying General Purpose Financial Statements reflect both the appropriation changes approved by the City Council and the transfers approved by the City Manager.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the governmental fund types.



Encumbrances outstanding at fiscal year end are reported as reservations of fund balances and the related appropriation is automatically carried forward into the next fiscal year. Encumbrances do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year. Encumbrances are combined with expenditures for budgetary comparison purposes.

Budgetary Basis of Accounting

The City adopts budgets each fiscal year on a basis of accounting which is different from generally accepted accounting principles (GAAP). The major areas of difference are discussed in Note 17.

Certain funds of the City contain capital projects, grant projects, loan programs or other programs that are budgeted on a multi-year basis. The amounts of the projects and programs budgeted on a multi-year basis are significant compared to the items budgeted on an annual basis; therefore, a comparison of budget to actual for the fund would not be meaningful. As a result, such funds that are excluded from budgetary reporting are:

Special Revenue Funds

- Federal and State Grants
- Other Assessment Districts
- Other Special Revenues
- Oakland Redevelopment Agency

Debt Service Funds

- Tax Allocation Bonds

Capital Projects Funds

- Parks and Recreation Fund
- Municipal Improvement
- Emergency Services Fund
- Oakland Redevelopment Agency

In addition, the Lease Financings Debt Service Fund is not budgeted by the City because the fund is reported for financial statement purposes only, and includes the results of certain lease financings between the City and the Agency and between the City and the California Statewide Communities Development Authority. Any financial activity related to these financings is budgeted on a basis consistent with the form of the transactions, whereas for reporting purposes the financial activity is recorded in a manner consistent with the substance of the transaction.

NOTES TO FINANCIAL STATEMENTS

While the City adopts budgets for all funds, the budget to actual comparisons for the following funds have not been shown due to some projects and programs being adopted on a multi-year basis and the complexity of the presentation.

Enterprise Funds

- Park and Recreation Fund
- Sewer Service Fund
- Oakland Convention and Visitors Authority

Internal Service

- Equipment Fund
- Radio Fund
- Facilities Fund
- Reproduction Fund
- Central Stores Fund

Pension Trust Funds

- OMERS
- PFRS

Expendable Trust Funds

- Oakland Redevelopment Agency Project Fund
- Parks, Recreation and Cultural Trust Fund
- Pension Annuity Fund
- Other Expendable Trust Funds

Agency Funds

- Deferred Employee Compensation Fund
- Housing Finance Revenue Bond Fund

Cash and Investments

The City follows the practice of pooling cash of all funds for investment, except for the Oakland Redevelopment Agency funds, agency fund types, and restricted funds held by outside custodians. Investments are stated at cost or amortized cost, except for assets of deferred compensation plans which are reported at market value and primarily consist of investments with maturities greater than one year.

Income earned or losses arising from the investment of pooled cash are allocated on a monthly basis to the participating funds and component units except for Internal Service and certain Special Revenue Funds, based on their proportionate share of the average daily cash balance.

For purposes of the Statements of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Restricted cash and investments generally have original maturities of greater than three months and are therefore not considered cash equivalents with the exception of the Agency Enterprise Fund.



The proprietary fund types' investments in the City cash and investment pool are, in substance, demand deposits and are therefore considered to be cash equivalents.

Due From/Due To Other Funds

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds."

Restricted Cash and Investments

Proceeds from debt and other cash and investments held by fiscal agents by agreement are classified as restricted assets.

Other Assets

Other assets primarily include bond discounts and issuance costs for proprietary fund type debt which are deferred and amortized over the term of the bonds under the interest method. Bond discounts and issuance costs for governmental fund type debt are expensed when incurred.

Inventories

Inventories, consisting of materials and supplies held for consumption, are stated at cost. Cost is generally calculated using the first-in, first-out method. Inventory items are considered expenses when used.

General Fixed Assets

General fixed assets are those acquired for general governmental purposes. Such assets currently purchased or constructed are recorded as expenditures in the governmental fund types and are capitalized at cost in the General Fixed Assets Account Group, with the exception of certain assets acquired prior to July 1, 1984, which have been recorded at estimated historical cost. Donated fixed assets are recorded at estimated fair market value at the time of receipt.

Public domain infrastructure (general fixed assets consisting of certain improvements other than buildings) is not capitalized and is not included in the General Fixed Assets Account Group. These assets include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems, and similar assets. Such assets normally are immovable and of value only to the City; therefore, stewardship for capital expenditures is satisfied without recording such assets.

No depreciation is provided on general fixed assets.

Fixed Assets - Proprietary Fund Types and Discretely Presented Component Unit

Fixed assets in the proprietary fund types and discretely presented component unit are generally stated at cost, with the exception of certain assets acquired prior to July 1, 1984, which have been recorded at estimated historical cost. Depreciation is provided using the straight-line method based on the estimated useful life of the asset as follows:

Facilities, sewers and improvements	5-50 years
Container cranes	25 years
Furniture, machinery and other equipment	5-10 years

Tenant improvements which revert to the Port at the end of the lease term are recorded in an appropriate asset account, with an offsetting credit to deferred revenue. The asset is depreciated over its useful life, not less than the term of the lease, and the deferred revenue is amortized over the term of the lease, including renewal options.

Land Held for Resale

The Agency charges capital outlay expenditures for the full cost of developing and administering its projects. Land held for resale is recorded as an asset at the lower of cost or estimated net realizable value, with an equal amount recorded as a reservation of fund balance.

Vacation and Sick Leave Pay

Vacation pay may be accumulated and is payable upon retirement or termination of an employee. Sick leave vests to an employee upon being employed for at least ten years with the City. Upon termination, a vested employee is entitled to one-third of the sick leave accumulated to the date of termination.

Vested vacation, sick leave and compensatory time are accrued, as appropriate, for all funds. With respect to obligations of the governmental fund types, amounts expected to be paid monetarily or by way of compensatory time off are accrued in the appropriate fund if current resources are expected to be used. The remainder is recorded in the General Long-Term Obligations Account Group.

Retirement Plans

The City has three defined benefit retirement plans: Oakland Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS), and Public Employees' Retirement System (PERS). Refer to Note 16 for additional information.



Claims and Judgments

The costs of claims and judgments estimated to be paid with current expendable resources are accrued as current liabilities of the General Fund when the liability is incurred and the amount can be reasonably estimated. The remaining estimated costs are recorded in the General Long-Term Obligations Account Group.

Interfund Transfers

Interfund transfers are generally recorded as operating transfers except for the following types of transactions:

Charges for services are recorded as revenues in the performing fund and expenditures/expenses in the requesting fund.

Transactions that constitute reimbursement to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund that is reimbursed.

Residual equity transfers, which represent nonrecurring or nonroutine transfers of equity between funds, are reported as decreases or increases in fund balance for governmental fund types.

Contributed Capital

Primary Government

Contributed capital in the proprietary fund types represents the accumulation of contributions in the form of cash or other assets which generally do not have to be returned to the contributor. Such contributions are recorded directly to contributed capital and, accordingly, are not recognized as revenue. The following transactions are recorded to contributed capital in the proprietary fund types and discretely presented component unit:

Cash and other asset transfers of equity from the primary government or other funds.

Fixed assets contributed from the primary government or other funds or from the General Fixed Assets Account Group.

Discretely Presented Component Unit

Contributed capital in the Port includes grants from government agencies which are restricted for the acquisition or construction of capital assets, and passenger facility charges which are restricted in use for projects eligible under federal legislation and approved by the Federal

Aviation Administration. Depreciation expense on assets acquired with contributed capital is charged to contributed capital.

Fund Equity

Reservations of fund balances indicate those portions of fund equity which are not available for appropriation or expenditure or which have been legally restricted to a specific use.

Portions of unreserved fund balances have been designated to indicate those portions of fund balances that which the City has tentative plans to utilize in a future period. These amounts may not result in actual expenditures.

Total Columns on Combined Financial Statements

Total columns on the accompanying General Purpose Financial Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not purport to present financial position, results of operations, or cash flows of the City in conformity with GAAP. Such data is not comparable to a consolidation.

(3) CASH AND INVESTMENTS AND RESTRICTED CASH AND INVESTMENTS

Primary Government

The City maintains a cash and investment pool consisting of City funds and cash held for OMERS, PFRS and the Port. The City's funds are invested by the Director of Budget and Finance according to the investment policy adopted by the City Council. The objectives of the policy are legality, safety, liquidity, diversity, and yield. The policy addresses soundness of financial institutions in which the City can deposit funds, types of investment instruments permitted by the California Government Code, duration of the investments, and the percentage of the portfolio which may be invested in certain instruments. Pooled investments permitted by the policy include:

- United States Treasury bills and notes;
- federal agency issues;
- bankers' acceptances;
- commercial paper;
- corporate stocks and bonds with ratings of A1 or P1 by either Standard and Poor's Corporation or Moody's Investor Service Inc.;
- negotiable certificates of deposit;
- Local Agency Investment Fund;
- repurchase agreements; and
- reverse repurchase agreements.



The City's investment policy stipulates that the collateral to back up repurchase agreements be priced at market value and be held in safekeeping by the City's primary custodian. Additionally, the City Council has adopted certain requirements prohibiting investments in nuclear weapons makers, and restricting investments in U.S. Treasury bills and notes due to their use in funding nuclear weapons research and production. As of June 30, 1996, the City was in compliance with the above stated investment requirements.

Other deposits and investments are invested pursuant to the governing bond covenants, deferred compensation plans, or retirement systems' investment policies. Under the investment policies, the investment counsel is given the full authority to accomplish the objectives of the bond covenants or retirement systems subject to the discretionary limits set forth in the policies.

The retirement systems' investment policies allow the following:

Obligations of the United States Government, any agency of the United States Government, common stocks, mutual funds, preferred stocks and securities convertible into common stocks, Federal Housing Administration mortgages, certificates and shares of state or federal chartered savings and loan associations, equity or mortgage debt investments in existing real property or in property to be constructed, except that no mortgage investments may be funded until the improvements on the property are substantially complete.

Total City deposits and investments (in thousands):

Deposits	\$ 108,764
Investments	<u>1,157,825</u>
TOTAL	<u>\$1,266,589</u>

These are classified on the Combined Balance Sheet as (in thousands):

Cash and investments	\$ 524,650
Restricted cash and investments	<u>741,939</u>
TOTAL	<u>\$1,266,589</u>

Deposits

At June 30, 1996, the carrying amount of the City's deposits was \$108,764,000 and the bank balance was \$108,669,000. The difference between the carrying amount and the bank balance was primarily due to deposits in transit and outstanding checks. Deposits include checking accounts, interest earning savings accounts, money market funds, and nonnegotiable certificates of deposit. Of the bank balance, \$527,000 was FDIC insured and \$108,142,000 was collateralized with securities held by the pledging financial institution in the City's name, in accordance with Section 53652 of the California Government Code.

The California Government Code requires governmental securities as collateral for demand deposits and certificates of deposit at 110 percent of all deposits not covered by federal deposit insurance. The collateral must be held at the pledging bank in the City's name.

Investments

The City's investments are categorized to give an indication of the level of custodial credit risk assumed by the City at year-end. Category 1 includes investments that are insured or registered, or securities held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments, with the securities held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments, with the securities held by the counterparty or by its trust department or agent but not in the City's name. The City had no Category 2 or 3 investments as of June 30, 1996.

At June 30, 1996, investments included the following (in thousands):

Type of Investments	Carrying Amount	Market Value
U.S. Treasury securities	\$ 92,388	\$ 93,339
Federal agency issues	239,005	238,275
Municipal bonds	465	465
Commercial paper	76,096	76,337
Banker's acceptance	40,010	40,243
Corporate stocks and bonds	353,396	351,688
Negotiable certificates of deposit	17,600	17,600
Medium term corporate notes	29,586	29,666
Long-term repurchase and investment agreements	32,539	32,475
Real estate deeds	568	568
Real estate mortgage loans/investments	6,677	6,677
Mutual funds	94,569	94,897
Life insurance annuity contracts	155,000	155,000
Local Agency Investment Fund	<u>19,926</u>	<u>19,926</u>
TOTAL INVESTMENTS	<u>\$1,157,825</u>	<u>\$1,157,156</u>

Reverse Repurchase Agreement

State statutes authorize participation in reverse repurchase agreements. This transaction is authorized within the City's Municipal Improvement Capital Fund.

The market value of the securities underlying the reverse repurchase agreement normally exceeds the cash received. The difference between the market value of the underlying securities plus accrued interest on the underlying securities and the obligation of \$15,555,000 (including accrued interest of \$69,000) is the credit risk. The credit risk exposure for the City is \$173,000 as of June 30, 1996.

Derivatives

The City has invested in certain derivatives as permitted by its investment policy. Derivatives included in the investment pool at June 30, 1996, amount to \$1,711,000.



Discretely Presented Component Unit

The Port's cash and investments are reported as follows at June 30, 1996 (in thousands):

Cash and investments:	
Cash and investments with the City	\$ 74,279
Cash on hand	106
Cash in bank accounts	<u>4,499</u>
TOTAL CASH AND INVESTMENTS	<u>78,884</u>
Restricted cash and investments:	
Sinking fund and reserve deposits with fiscal agents	35,927
Unexpended bond proceeds restricted for construction	23,430
Deferred compensation plan assets	20,430
Cash and investments with City:	
Passenger facility charges	15,336
Other	<u>364</u>
TOTAL RESTRICTED CASH AND INVESTMENTS	<u>95,487</u>
Deposits with fiscal agents for current debt service	<u>265</u>
TOTAL	<u>\$174,636</u>

The carrying amount of Port cash and investments is as follows at June 30, 1996 (cost approximates market) (in thousands):

Deposits	\$ 13,684
Government securities money market mutual funds	732
U.S. Treasury obligations	9,396
Guaranteed investment contracts	48,517
Cash and investments with the City of Oakland	89,979
Deferred compensation plan mutual funds	<u>12,328</u>
	<u>\$174,636</u>

Cash and Investments With the City of Oakland

Pursuant to the City Charter, Port operating revenues are deposited in the City treasury. These funds are commingled in the City cash and investment pool. The Port receives a monthly interest allocation from investment earnings of the City based on the average daily balance on deposit and the earnings of the investments. All investments deposited in the City treasury are insured or registered, or held by the City or its agent in the City's name.

Restricted Cash and Investments

Port bond resolutions authorize the investment of restricted cash, including deposits, with fiscal agents for debt service. Authorized investment securities are specified in the various bond indentures. All indentures permit investments in U.S. Treasury obligations and bank certificates of deposit. Certain indentures also permit investments in federal agency obligations, certain state and secured municipal obligations, long-term and medium-term guaranteed corporate debt securities in the two highest rating categories, commercial paper rated prime, repurchase agreements, certain money market mutual funds, and certain guaranteed investment contracts.

Deposits

The carrying amount of Port deposits with banks and fiscal agents was \$13,684,000 at June 30, 1996. The bank balances are insured or collateralized with securities held by the pledging financial institution in the Port's name, in accordance with Section 53652 of the California Government Code. The Port deposits meet the criteria for classifications as Category 1 of the level of custodial credit risk. Refer to the Investments section of this note for additional information.



(4) DUE TO/DUE FROM OTHER FUNDS

The following were the current interfund balances at June 30, 1996 (in thousands):

	Due from	Due to
General Fund	<u>\$52,448</u>	<u>\$ 9,725</u>
Special Revenue Funds		
Federal and State Grants	2,204	11,072
Traffic Safety and Control	17	80
State Gas Tax	741	775
Landscape and Lighting Assessment District	1,180	1,623
Other Assessment Districts	203	53
Other Special Revenue	<u>6,823</u>	<u>1,272</u>
	<u>11,168</u>	<u>14,875</u>
Debt Service Funds		
Other Assessment Bonds	452	373
Lease Financings	—	940
Special Revenue Bonds	<u>—</u>	<u>1,899</u>
	<u>452</u>	<u>3,212</u>
Capital Projects Funds		
Parks and Recreation	—	19
Municipal Improvement Capital	53	1,423
Emergency Services	—	2,288
Oakland Redevelopment Agency	<u>2,335</u>	<u>30,231</u>
	<u>2,388</u>	<u>33,961</u>
Enterprise Funds		
Parks and Recreation	7	158
Sewer Service	77	280
Oakland Convention and Visitors Authority	<u>83</u>	<u>120</u>
	<u>167</u>	<u>558</u>
Internal Service Funds		
Equipment	1,564	2,006
Radio	2	4
Facilities	59	2,181
Reproduction	33	52
Central Stores	<u>790</u>	<u>1,327</u>
	<u>2,448</u>	<u>5,570</u>
Trust and Agency Funds		
Pension Trust Funds - PFRS	266	—
Expendable Trust Funds:		
Oakland Redevelopment Agency Projects	968	2,490
Parks, Recreation and Cultural Trust	<u>86</u>	<u>—</u>
	<u>1,320</u>	<u>2,490</u>
TOTAL	<u>\$70,391</u>	<u>\$70,391</u>

(5) MEMORANDUMS OF UNDERSTANDING

The City and the Port have Memorandums of Understanding (MOUs) relating to: (a) general obligation bonds issued by the City for the benefit of the Port; (b) various administrative, personnel, data processing, and financial services (Special Services); and (c) police, fire, public street cleaning and maintenance, and similar services (General Services) provided by the City to the Port.

Pursuant to the Sixth Supplemental Agreement to the MOUs, the City and the Port agreed that the total remaining obligation of the Port to the City arising out of or related to any and all general obligation bonds issued by the City for the benefit of the Port was \$31,749,000, of which \$5,749,000 is remaining at June 30, 1996. This amount is a fixed sum on which no interest shall accrue. \$5,200,000 was paid in fiscal year 1995-96 and \$5,749,000 is to be paid in fiscal year 1996-97 from the fiscal year 1995-96 surplus declared by the Board of Port Commissioners. As of June 30, 1996, \$5,749,000 has been recorded as receivable from Port of Oakland in the City's General Fund and payable to primary government in the Port's financial statements.

Payments for Special Services are treated as a cost of Port operations and have priority over certain other expenditures of Port revenues. At June 30, 1996, \$1,380,000 in Special Services expenditures was accrued as a current liability by the Port and as a receivable by the City.

The Port's legal counsel advised the Port that payments for General Services to the City are payable only to the extent the Port determines annually that surplus monies are available. Subject to final approvals by the Port and the City, and subject to availability of surplus monies, the Port will reimburse the City annually for General Services and Lake Merritt tideland trust properties. At June 30, 1996, \$1,535,000 was accrued as a current liability by the Port and as a receivable by the City.



(6) NOTES AND LOANS RECEIVABLE

Notes and loans receivable at June 30, 1996, consisted of the following (in thousands):

Grant-in-aid loans at various interest rates and due dates (0% to 6% at June 30, 1996)	\$ 23,400
Pacific Renaissance Associates II, bearing interest at 10%, principal and interest due July 30, 2015	7,000
Oakland Hotel Associates, Ltd., bearing interest at 7.67%, principal and interest due July 1, 2013, or earlier under certain provisions of the note	6,759
Mar Associates, bearing interest at 9%, principal and interest due March 9, 2002	2,776
Preservation Venture, bearing interest at 3%, principal and interest due August 31, 1998	6,448
Oakland Hotel Associates, Ltd., bearing interest at Bank of America reference rate (6% at June 30, 1996), no principal and interest payable until December 30, 2026	3,379
Oakland Business Development Corporation-Dufwun Towers, bearing interest at 6%, principal and interest due September 8, 1999	2,448
Foothill Plaza Partnership, bearing interest at 3%, principal and interest payable in equal monthly installments through July 20, 2018	1,476
Oakland Renaissance Ltd., bearing interest at 7.72%, principal and interest due June 12, 2031	1,770
American Brass Foundry, Inc., bearing interest at 7%, principal and interest due December 2007	1,910
Oakland Business Development Corporation NEDF revolving loan program, non-interest bearing, various borrowers	1,491
Mortgage Assistance Program - ORA, bearing interest at 10%, various borrowers	5,973
Hillary Development, bearing interest at 3%, principal and interest due September 11, 1996	1,725
Harrison Hotel Associates, bearing interest at 6%, principal and interest due December 15, 2046	1,884
Woodrow Hotel, bearing interest at 6.50%, principal and interest due December 3, 2023	1,262
Other pass-thru loans at various interest rates and maturities (0% to 10% at June 30, 1996)	14,978
Other notes and loans receivable at various interest rates and maturities	<u>54,475</u>
TOTAL	<u>\$139,154</u>

(7) FIXED ASSETS

A summary of changes in general fixed assets for the year ended June 30, 1996, follows (in thousands):

	Balance July 1, 1995	Additions	Deletions	Balance June 30, 1996
Land	\$ 67,061	\$ 2,112	\$ 542	\$ 68,631
Facilities and improvements	421,039	11,522	—	432,561
Furniture, machinery and equipment	28,906	1,883	979	29,810
Investment in joint venture (Note 15)	27,041	4,000	31,041	—
Construction in progress	<u>44,795</u>	<u>10,181</u>	<u>583</u>	<u>54,393</u>
TOTAL	<u><u>\$588,842</u></u>	<u><u>\$29,698</u></u>	<u><u>\$33,145</u></u>	<u><u>\$585,395</u></u>

A summary of property and equipment at June 30, 1996, for proprietary fund types and discretely presented component unit follows (in thousands):

	Enterprise Funds	Internal Service Funds	Component Unit - Port
Land	\$ 217	\$ 310	\$ 83,894
Facilities and improvements	60,780	210	769,460
Container cranes	—	—	85,752
Furniture, machinery and equipment	69,042	40,666	24,737
Construction in progress	<u>—</u>	<u>—</u>	<u>54,264</u>
	130,039	41,186	1,018,107
Less accumulated depreciation and amortization	<u>(11,420)</u>	<u>(30,372)</u>	<u>(269,671)</u>
TOTAL	<u><u>\$118,619</u></u>	<u><u>\$10,814</u></u>	<u><u>\$748,436</u></u>

(8) TAX AND REVENUE ANTICIPATION NOTES PAYABLE

During the fiscal year ended June 30, 1996, the City issued tax and revenue anticipation notes payable of \$58,000,000. The notes were issued to satisfy General Fund obligations and carried an effective interest rate of approximately 4.5%. Principal and interest were due and repaid on July 31, 1996. As of June 30, 1996, cash was segregated in a restricted account for the repayment of the notes.



(9) LONG-TERM OBLIGATIONS

General Long-Term Obligations

The following is a summary of changes in general long-term obligations for the year ended June 30, 1996 (in thousands):

	Balance at July 1, 1995	Additional Obligations and Net Increases	Maturities and Retirements	Balance at June 30, 1996
General obligation bonds	\$ 74,025	\$ —	\$ 1,560	\$ 72,465
Tax allocation bonds	201,849	10,000	6,220	205,629
Lease financings	235,963	103,945	3,525	336,383
Special assessment debt with governmental commitment	10,266	—	305	9,961
Special revenue bonds	191,870	—	8,470	183,400
Accrued vacation and sick leave	16,176	2,264	—	18,440
Self-insurance liability for workers' compensation	25,700	10,000	—	35,700
Estimated claims payable	<u>8,305</u>	<u>—</u>	<u>7,689</u>	<u>616</u>
TOTAL	<u>\$764,154</u>	<u>\$126,209</u>	<u>\$27,769</u>	<u>\$862,594</u>

Premiums and discounts on new issues in the amount of \$208,000 are included in interest income.

General long-term obligations at June 30, 1996, consisted of the following (in thousands):

	Maturity	Interest Rates	Balance at June 30, 1996
General Obligation Bonds			
General Obligation Bonds Series 1991A (a)	1997-2015	5.50%-8.50%	\$ 11,279
General Obligation Bonds Series 1992 (b)			
Serial bonds	1997-2012	4.25%-11.00%	21,339
Term bonds	2017	6.00%	10,435
Term bonds	2022	6.00%	14,460
General Obligation Bonds Series 1995B (a)	1997-2019	5.30%-8.25%	<u>14,952</u>
			<u>72,465</u>
Tax Allocation Bonds			
Acorn Refunding Series 1988 (c)			
Serial bonds	1997-2000	6.50%-7.00%	800
Term bonds	2007	7.40%	2,075
Central District Tax Allocation Series 1989A (d)			
Serial bonds	1997-2000	6.1%-6.55%	15,450
Capital appreciation bonds	2001-2009	6.60%-6.65%	11,899
Central District Senior Tax Allocation Refunding Series 1992 (e)			
Serial bonds	1994-2008	4.2%-6.00%	51,780
Term bonds	2009-2014	5.50%-6.15%	35,910

NOTES TO FINANCIAL STATEMENTS

Central District Subordinated Tax			
Allocation Refunding Series 1992A (f)	1995-2019	5.95%	53,200
Central District Subordinated Tax Allocation			
Series 1993A (g)			
Serial bonds	1995-2004	3.30%-4.90%	5,335
Term bonds	2005-2009	5.30%	4,075
Term bonds	2010-2013	5.00%	4,080
Term bonds	2014-2021	5.00%	11,025
Central District Subordinated Tax			
Allocation Bonds, Series 1995A (h)			
Serial bonds	1997	5.00%	170
Serial bonds	1999	5.25%	195
Serial bonds	2001	5.50%	225
Term bonds	2008	7.20%	1,010
Term bonds	2015	7.50%	1,340
Term bonds	2021	7.60%	<u>7,060</u>
			<u>205,629</u>
Lease Financings			
Oakland JPFA Lease Revenue			
Bonds, Series 1996(i)			
Serial bonds	2001-2012	4.60%-5.50%	28,125
Term bonds	2013-2017	5.90%	18,396
Term bonds	2018-2022	5.75%	24,610
Term bonds	2023-2027	5.75%	32,816
California Statewide Communities			
Development Authority Bonds (j)			
Serial bonds	1997-2008	4.15%-6.20%	63,983
Term bonds	2009-2011	6.00%	31,900
Term bonds	2012-2015	5.50%	52,630
Oakland Museum 1992 Series A (k)			
Serial bonds	1997-2003	4.40%-6.00%	13,200
Term bonds	2004-2005	6.25%	5,020
Term bonds	2012	6.00%	15,900
Capital appreciation bonds	2006-2007	6.45%-6.55%	2,203
Civic Improvement Corporation (l)	1997-2016	Variable	<u>47,600</u>
			<u>336,383</u>
Special Assessment Debt with Governmental Commitment			
Medical Hill Parking District Refunding			
Improvement Bonds 1994 (m)	1997-2004	4.20%-6.00%	1,862
Rockridge Area Water Improvement Series 1994 (n)	1997-2024	6.25-7.5%	876
Fire Area Utility Underground Assessment District (o)			
Series 1994A	2015-2024	7.5%	3,949
Series 1994B (Taxable)	1997-2014	9.63-10.1%	<u>3,274</u>
			<u>9,961</u>
Special Revenue Bonds			
Special Revenue Refunding Bonds (p)			
Serial bonds	1997-2003	6.50%-7.40%	59,260
Term bonds	2004-2022	7.60%	<u>124,140</u>
			<u>183,400</u>
Other Long-Term Liabilities			
Accrued vacation and sick leave			18,440
Self-insurance liability for workers' compensation			
(Note 11)			35,700
Estimated claims payable (Note 11)			<u>616</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS			<u><u>\$862,594</u></u>



General Obligation Bonds

(a) General Obligation Bonds Series 1991A and Series 1995B

The City received authorization to issue \$60 million of General Obligation Bonds by a two-thirds vote of the electorate on the November 6, 1990, general election. The bonds were authorized for the purpose of financing the acquisition of land and to expand and develop park and recreation facilities. On February 19, 1991, the City issued \$12 million of General Obligation Bonds Series 1991A. On March 1, 1995, the City issued a second series, \$15 million General Obligation Bonds Series 1995B, leaving the authorized but unissued amount of \$33 million. The City is obligated to levy ad valorem taxes upon all property subject to taxation within the City, without limitation of rate or amount, for the payment of the principal and interest on the bonds.

(b) General Obligation Bonds Series 1992

On July 15, 1992, the City issued \$50 million of General Obligation Bonds Series 1992. The City received authorization to issue these bonds by two-thirds vote of the electorate on the June 2, 1992, primary election. Bond proceeds are to be used for enhancement of the City's emergency response capabilities and for seismic reinforcement of essential public facilities and infrastructure. The City is obligated to levy ad valorem taxes upon all property subject to taxation within the City, without limitation of rate or amount, for the payment of the principal and interest on the bonds.

Tax Allocation Bonds

(c) Acorn Tax Allocation Refunding Bonds Series 1988

On November 1, 1988, the Acorn Tax Allocation Refunding Bonds Series 1988 in the amount of \$3,375,000 were issued by the Agency to advance refund \$2,895,000 of Acorn Tax Allocation Refunding Bonds. The bonds are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law. Bonds maturing in 2007 are subject to mandatory sinking fund requirements commencing May 1, 2001, and are subject to prior redemption.

(d) Central District Tax Allocation Refunding Bonds Series 1989A

On August 1, 1989, \$92,399,000 Central District Tax Allocation Refunding Bonds Series 1989A were issued by the Agency. Proceeds of the bonds are being used by the Agency to finance projects and improvements in the Central District Redevelopment Project Area. The bonds are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law.

As discussed under Central District Subordinated Tax Allocation Refunding Series 1992A, the Agency refunded all of the \$51,600,000 term portion and \$2,000,000 of the serial portion of the Series 1989 bonds.

(e) Central District Senior Tax Allocation Refunding Bonds Series 1992

On November 15, 1992, the Agency issued \$97,655,000 of Central District Senior Tax Allocation Refunding Bonds Series 1992 at an effective interest cost of 6.25%. The bonds were issued to defease in substance all of the Agency's Central District Tax Allocation Refunding Bonds Series 1986 in the amount of \$84,325,000. The bonds are secured by senior tax revenue of the Agency. The Series 1992 Senior Tax Allocation Refunding Bonds are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law.

(f) Central District Subordinated Tax Allocation Refunding Bonds Series 1992A

On July 9, 1992, the Agency issued \$53,600,000 of Central District Subordinated Tax Allocation Refunding Bonds Series 1992A, at an interest rate of 5.95% to provide a bond equivalent yield of 6.02%. These bonds were used to refund the \$51,600,000 term bond portion and \$2,000,000 of the serial bond portion of the Agency's Central District Tax Allocation Refunding Bonds Series 1989A. These bonds are on parity with the Central District Subordinated Tax Allocation Bonds Series 1993A and Central District Tax Allocation Refunding Bonds Series 1989A. These bonds are a limited obligation of the Agency and are payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law.

(g) Central District Subordinated Tax Allocation Bonds Series 1993A

On March 1, 1993, the Agency issued \$25,000,000 of Central District Subordinated Tax Allocation Bonds Series 1993A. A portion of the proceeds of the bonds is intended to be used to finance the renovation and reconstruction of the Oakland City Hall and other redevelopment projects in the Central District Redevelopment Project Area. The remaining proceeds were used to establish a capitalized interest account to pay interest charges through March 1, 1995, and to establish a reserve account. The bonds are on parity with the Central District Tax Allocation Refunding Bonds Series 1989A and Central District Subordinated Tax Allocation Refunding Series 1992A bonds, and are a limited obligation of the Agency payable from and secured by a pledge of a portion of tax revenues assessed on property within the Central District Redevelopment Project Area, allocable to the Agency pursuant to Redevelopment Law.



(h) Central District Subordinated Tax Allocation Refunding Series 1995A

On August 1, 1995, the Agency issued \$10,000,000 of Central District Redevelopment Project Subordinated Tax Allocation Bonds Series 1995A, at an interest cost of 7.80%. The bonds mature on September 1, 2021.

Proceeds of the bonds provide the Agency's portion of the construction costs of the City Administration facilities. Remaining proceeds may be used for other capital expenditures within the Central District Project.

These bonds are issued on parity with the Redevelopment Agency's Central District Redevelopment Project Subordinated Tax Allocation Bonds Series 1993A, the Agency's Subordinated Tax Allocation Refunding Bonds, Series 1992A and the Agency's Central District Subordinated Tax Allocation Refunding Bonds Series 1989A.

Lease Financings

(i) Oakland JPFA Lease Revenue Bonds Series 1996

On March 15, 1996, the Oakland Joint Power Financing Authority (JPFA) issued Lease Revenue Bonds Series 1996 in the amount of \$103,945,000. Bond proceeds are to be used for the design, construction, rehabilitation and equipping of two buildings which will be part of the administrative center of the City of Oakland. The bonds are payable from revenue consisting primarily of lease payments to be made by the City to the JPFA for certain real property and improvements thereon under a lease agreement.

(j) California Statewide Communities Development Authority Bonds

On November 1, 1992, the California Statewide Communities Development Authority (CSCDA) issued \$149,825,000 of 1992 Lease Revenue Bonds to purchase the Kaiser Convention Center (Kaiser) and the George P. Scotlan Memorial Convention Center (Scotlan). The City concurrently leased Kaiser and Scotlan from CSCDA.

Due to the substance of the financing transaction, the effect of the issuance of the Bonds has been recorded directly as an issuance of debt by the City to finance the reacquisition of the Kaiser and Scotlan Convention Centers. Accordingly, the Bonds are recorded in the General Long-Term Obligations Account Group. The City's capital lease obligation is not reflected in the City's General Purpose Financial Statements.

The serial bonds maturing on or after October 1, 2002, the term bonds maturing on October 1, 2010; and the term bonds maturing on October 1, 2014, are subject to optional redemption, in such order of maturity as the City shall direct, commencing October 1, 2002. The bonds maturing on October 1, 2010, and October 1, 2014, will be subject to mandatory redemption, or in part by lot, on October 1 in each year, commencing on October 1, 2008, and October 1, 2001, respectively.

(k) Oakland Museum 1992 Series A

On May 15, 1992, the Agency issued \$39,408,000 in Refunding Certificates of Participation (Certificates) with an effective interest cost of 6.442% to legally defease the Oakland Museum Certificates of Participation 1987 Series A.

The Agency has leased the Museum's facilities and site to the City under a lease agreement. The Agency is not obligated to make any payments in respect to the Certificates except from the payments by or on behalf of the City pursuant to the lease agreement.

Due to the substance of the financing transaction, the effect of the issuance of the Certificates has been recorded directly as an issuance of debt to finance the reacquisition of the Museum. Accordingly, the Certificates are recorded in the General Long-Term Obligations Account Group. The Agency's direct financing lease receivable and City's capital lease obligation are not reflected in the City's General Purpose Financial Statements.

(l) Civic Improvement Corporation

On December 1, 1985, the City entered into various simultaneous agreements to finance the acquisition and construction of capital improvements on City property, such as traffic control devices, street resurfacing, parking lots, garages and the rehabilitation of various City buildings. The following is a summary of the agreements that have been entered into.

Certificates of Participation—The Civic Improvement Corporation (Corporation), a not-for-profit corporation, issued \$52,300,000 variable rate demand certificates of participation evidencing the proportionate interests of the owners thereof in lease payments to be made by the City for certain property pursuant to a master lease agreement with the Corporation.

Master Lease Agreement—The City entered into a lease agreement with the Corporation whereby the Corporation agreed to provide financing for certain proposed capital improvements. Under the terms of the agreement, the City agreed to supervise and provide for the construction and improvement of certain City properties. The improvements were paid by the Corporation from the proceeds of the certificates that were held by the Trustee. Once the improvements are completed, the Corporation has agreed to lease the projects to the City. The lease payments to be received by the Corporation are equal to the related principal and interest payments on the certificates.

Letter of Credit—The letter of credit (LC) is an irrevocable direct-pay obligation of National Westminster Bank PLC (Bank). The LC was due to expire on September 24, 1995, but has been automatically extended until the Bank gives two years' notice



that it will not continue to extend the LC. In aggregate, the City has available under the LC \$48,602,000 as of June 30, 1996, of which \$47,600,000 may be drawn for the payment of the unpaid principal amount of the certificates, and \$1,100,000 may be drawn for payment of interest accrued on the certificates. In order to obtain the LC, the City became obligated to pay commission fees of three-eighths of one percent per annum on the available amount outstanding on the LC. For the year ended June 30, 1996, the City paid a total letter of credit fee of approximately \$185,571.

Special Assessment Debt with Governmental Commitment

(m) Medical Hill Parking District Refunding Improvement Bonds 1994

In April 1994, the City issued \$2,020,000 of 1994 Refunding Improvement Bonds Medical Hill Parking Assessment District, Series 3 (Refunding Bonds) at an interest rate of 6.237%. The Refunding Bonds are payable from assessments levied against property owners in the Medical Hill District. In the event of continuing delinquencies in the payment of the property owners' installments, the City, in the absence of any other bidder, is obligated to purchase the delinquent property owner's property at a delinquent assessment sale and pay delinquent and future installments of assessments and interest thereon until the land is resold or redeemed.

(n) Rockridge Area Water Improvement Bonds Series 1994

In December 1994, the City issued \$876,000 Rockridge Water Area Improvement Bonds Series 1994 for the purpose of certain acquisitions and improvements within Assessment District No. 1994-2 (Rockridge Area Water Improvements). The Bonds were issued pursuant to Resolution No. 71071 and the Improvement Bond Act of 1915. An amount equal to \$76,700 and \$86,000 was designated for the Reserve and the Cost of Issuance accounts, respectively. The Bonds are a limited obligation of the City and are secured by the unpaid portion of special assessments levied upon the lands benefited by the improvements to be acquired and constructed with the proceeds.

(o) Fire Area Utility Underground Bonds Series 1994A and Series 1994B (Taxable)

In December 1994, the City issued \$3,950,000 Fire Area Utility Underground Assessment District Bonds Series 1994A and \$3,420,000 Fire Area Utility Assessment District Bonds Series 1994B (Taxable). The Bonds were issued pursuant to Resolution No. 69877 and the Improvement Bond Act of 1915 for the purpose of raising funds for the installation of certain underground utilities within the Fire Area Utility Assessment District 1994-1. An amount equal to \$395,000 and \$295,000 was transferred to the Reserve Accounts for Series A and B, respectively, from the proceeds of \$7,183,000 (net of original issue and underwriter discounts). An additional amount of \$156,000 was transferred from the proceeds to the Cost of Issuance Account. The bonds are a limited obligation of the City and are secured by the unpaid portion of special assessments levied upon the land parcels benefited by the improvements to be acquired and constructed with the proceeds.

Special Revenue Bonds

(p) Special Revenue Refunding Bonds

The Special Revenue Refunding Bonds are payable solely from the proceeds of life insurance annuity contracts held in trust with PFRS in the Pension Annuity Expendable Trust Fund. The bonds, maturing in 2021, are subject to mandatory redemption prior to their stated maturities in direct order of their maturities from sinking fund payments commencing on August 1, 2004.

Proprietary and Fiduciary Fund Types Long-Term Debt

Proprietary and fiduciary fund types long-term debt at June 30, 1996, was as follows (in thousands):

	Maturity	Interest Rates	Balance at June 30, 1996
Sewer Service Enterprise Fund			
Construction Loans	1992-2011	3.50%	\$ 7,090
Pension Trust Fund			
Oakland Municipal Employees' Retirement System Revenue Bonds 1976	2002	6.50%	\$ 1,700

In March 1990, the City and East Bay Municipal Utility District (EBMUD) entered into an agreement to secure financing for the rehabilitation of the City's sewer system through the California State Revolving Fund Loan Program.

During the fiscal year ended June 30, 1992, construction was completed on the sewer projects. Upon completion of these projects, the City became liable for the City's share of the completed project costs. The liability will be repaid to EBMUD in equal annual installments through 2011. The main source of repayment comes from monthly sewer service charges collected from EBMUD homeowners.



Discretely Presented Component Unit - Port of Oakland

The Port of Oakland debt at June 30, 1996, was as follows (in thousands):

	Maturity	Interest Rates	Balance at June 30, 1996
Parity Bonds (a)			
1989 Revenue Bonds Series A	2019	7.00%-7.70%	\$ 70,975
1989 Revenue Bonds Series B	2019	6.75%-7.45%	81,990
1990 Revenue Bonds Series D	2003	6.125%-8.00%	29,160
1992 Revenue Bonds Series E	2022	5.00%-6.50%	150,975
1993 Revenue Bonds Series F	2009	2.75%-5.75%	62,007
Department of Boating and Waterways Loans (b)			
Small Craft Harbor Revenue Bonds Series A-D	2009	4.50%	2,319
Small Craft Harbor Revenue Bonds Series 1981	2010	4.50%	1,422
Small Craft Harbor Revenue Bonds Series 1982	2019	4.50%	1,039
Small Craft Harbor Revenue Bonds Series 1983	2020	4.50%	390
Mitsubishi Note	2000	9.00%	1,108
Construction Loan - Oakland Portside Associates (c)	1998	Variable	38,368
Special Facilities Revenue Bonds 1992 Series A (d)	2019	5.00%-6.80%	52,000
1991 Marina Planning Loan	2002	4.70%	<u>73</u>
TOTAL PORT OF OAKLAND LONG-TERM DEBT			<u>\$ 491,826</u>

(a) Parity Bonds

Pursuant to the 1989 Indenture, the Port issued 1989 Series A and B Bonds, the 1990 Series D Bonds, the 1992 Series E Bonds and the 1993 Series F Bonds (collectively the Parity Bonds). These bonds are secured by a pledge of "Pledged Revenue" which include all revenues and other cash receipts of the Port, including amounts held in the Port Revenue Fund, but excluding amounts received from passenger facility charges. In addition, payment of bond principal and interest on the Parity Bonds when due is guaranteed by municipal bond insurance policies.

The Port has covenanted to achieve Pledged Revenues sufficient to pay the sum of principal and interest on the outstanding Parity Bonds; all other payments necessary to meet ongoing legal obligations of the Port payable from Pledged Revenues; and all current Operation and Maintenance Expenses (as defined).

The Port has covenanted in the 1989 Indenture to achieve in each fiscal year Net Revenues (as defined) of at least 125% of the actual debt service (as defined) becoming due on the outstanding Parity Bonds less debt service paid in such year from the proceeds of other borrowings. For the year ended June 30, 1996, Net Revenues exceeded this requirement.

The Port has also covenanted in the 1989 Indenture not to issue any additional obligations payable from or secured by Pledged Revenues, which would rank superior to the 1989 Bonds and any Additional Bonds (as defined) under the 1989 Indenture. The 1990 Bonds,

NOTES TO FINANCIAL STATEMENTS

1992 Bonds and 1993 Bonds have been issued at parity with the 1989 Bonds. Additional bonds may be issued on a parity with the 1989 Bonds subject to certain debt service coverage ratios and other requirements.

(b) Department of Boating and Waterways Loans

Department of Boating and Waterway Loans were issued pursuant to various resolutions of the Board of Port Commissioners and are subordinate to the Parity Bonds.

(c) Construction Loan - Oakland Portside Associates

In connection with the development of the Jack London Waterfront properties, Oakland Portside Associates (OPA), a wholly owned subsidiary of the Port of Oakland, secured a \$40,000,000 construction loan with Bankers Trust Company to cover the estimated construction costs of five buildings in the project. Principal is due and payable on June 30, 1998. The loan bears interest at Bankers Trust Eurodollars plus 1.75%. The interest rate on the loan increased to Bankers Trust Eurodollars plus 2.25% on July 1, 1995. The interest rate on the loan was 7.81% at June 30, 1996. The loan balance outstanding at June 30, 1996, was \$38,368,000.

The loan is secured by a first deed of trust and assignment of rent and fixtures with respect to the OPA's ground leases with the Port and other guarantees from the Port.

Principal draws to fund tenant improvement costs are subject to a dollar limitation per rentable square foot as specified in an amendment to the loan agreement. The loan agreement contains certain restrictive provisions as to OPA and requires that OPA maintain certain financial ratios.

(d) Special Facilities Revenue Bonds 1992 Series A

The Port issued the Special Facilities Bonds 1992 Series A pursuant to a trust indenture dated June 1, 1992. The Special Facilities Bonds were issued to finance the design and construction of certain facilities and improvements on premises situated in the Seventh Street Marine Terminal area.

The Special Facilities Bonds are limited obligations of the Port payable from and secured by the Bond Payment Obligation (as defined) derived by the Port under the Non-exclusive Preferential Assignment Agreement (the Agreement) between the Port and Mitsui O.S.K. Lines, Ltd. (MOL). MOL's rights and obligations under the Agreement have been assigned to and assumed by Trans Pacific Container Service Corp. (TraPac), an affiliate of MOL. TraPac's obligations under the Agreement, including its obligation to make payments sufficient to pay the principal and interest on the Special Facilities Bonds, have also been guaranteed by MOL.

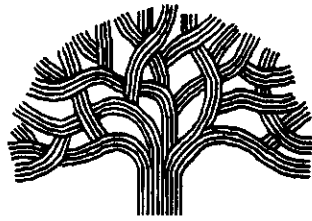


The loan is secured by a first deed of trust and assignment of rent and fixtures with respect to the Partnership's ground leases with the Port and other guarantees from the Port. Principal draws to fund tenant improvement costs are subject to a dollar limitation per rentable square foot as specified in an amendment to the loan agreement. The loan agreement contains certain restrictive provisions for OPA and requires that OPA maintain certain financial ratios.

Defeased Bonds

The following is a schedule of outstanding bonds that are defeased. Cash and investments in U.S. government securities were placed in irrevocable trusts to provide for all future debt service on the old bonds. Accordingly, the assets and the corresponding liabilities are not reflected in the accompanying General Purpose Financial Statements.

Name of Issue	Outstanding at June 30, 1996 (in thousands)
Primary Government	
Central District Redevelopment Tax Allocation Bonds, Series A and B	\$ 3,815
Certificates of Participation, Oakland Museum, 1987 Series A	33,000
Medical Hill Parking District Refunding Bonds 1989	<u>3,185</u>
TOTAL	<u><u>\$ 40,000</u></u>
Discretely Presented Component Unit	
Port of Oakland 1989 Revenue Bonds Series C	<u><u>\$ 34,364</u></u>



CITY OF OAKLAND



Repayment Schedule

The annual requirements to amortize all long-term debt as of June 30, 1996, are as follows (in thousands):

Years Ending June 30,	General Long-Term Debt			Special Assessment Debt with Governmental Commitment
	General Obligation Bonds	Tax Allocation Bonds	Lease Financings	
1997	\$ 6,208	\$ 17,743	\$ 25,374	\$ 1,024
1998	6,149	17,697	27,036	1,022
1999	6,084	17,728	26,981	1,026
2000	6,017	17,689	26,919	1,017
2001	5,948	19,675	30,276	1,026
Thereafter	<u>108,022</u>	<u>285,209</u>	<u>518,953</u>	<u>17,903</u>
	138,428	375,741	655,539	23,018
Less amounts representing interest and discounts	<u>(65,963)</u>	<u>(170,112)</u>	<u>(319,156)</u>	<u>(13,057)</u>
Principal debt at June 30, 1996	<u>\$72,465</u>	<u>\$205,629</u>	<u>\$336,383</u>	<u>\$ 9,961</u>

Interest rates related to the Civic Improvement Corporation Certificates of Participation included in the Lease Financings are adjustable. Estimates of future debt service payments included in the schedule above were determined by utilizing the maximum rate allowed under the terms of the Certificates of twelve percent.

NOTES TO FINANCIAL STATEMENTS

Special Revenue Bonds	Enterprise Fund Debt	Pension Trust Fund Debt	Total Primary Government	Component Unit Port of Oakland
\$ 6,745	\$ 616	\$ 154	\$ 57,956	\$ 38,920
21,782	616	151	74,549	77,767
21,149	616	548	74,236	39,351
20,500	616	219	73,094	39,276
19,833	616	560	77,042	38,881
<u>260,459</u>	<u>6,152</u>	<u>548</u>	<u>1,200,168</u>	<u>761,682</u>
350,468	9,232	2,180	1,557,045	995,877
<u>(167,068)</u>	<u>(2,142)</u>	<u>(480)</u>	<u>(740,417)</u>	<u>(504,051)</u>
<u>\$183,400</u>	<u>\$7,090</u>	<u>\$1,700</u>	<u>\$ 816,628</u>	<u>\$491,826</u>



Other Liabilities

The following long-term debt has been issued by the City on behalf of named agents of the City. The bonds and note do not constitute an indebtedness of the City. The bonds are payable solely from revenue sources defined in the individual bond and note documents, and from other monies held for the benefit of the bond and note holders pursuant to the bond and note indentures. In the opinion of City officials, these bonds and note are not payable from any revenues or assets of the City, and neither the full faith and credit nor the taxing authority of the City, State or any political subdivision thereof is obligated for the payment of the principal or interest on the bonds and note. Accordingly, no liability has been recorded in the General Long-Term Obligations Account Group. The debt issued and outstanding at June 30, 1996, follows (in thousands):

	Authorized and Issued	Maturity	Outstanding at June 30, 1996
Housing Mortgage Programs			
Housing Revenue Bonds Series D, 1991	\$ 112,890	2010-2024	\$ 20,540
City of Oakland Insured Refunding Revenue Bonds (Children's Hospital Medical Center of Northern California), 1994 Series A	19,490	5/1/09	19,490
City of Oakland Health Facility Revenue Note (The Blood Bank of the Alameda-Contra Costa Medical Association), Series 1979	2,500	11/1/99	500
City of Oakland Economic Development Revenue Bond (Cardio-Pulmonary Building), Series 1985	2,500	12/1/05	1,850
City of Oakland Industrial Development Revenue Bonds (Days Inn Hotel Project), Series 1982	5,200	12/1/02	3,200
County of Alameda/City of Oakland Variable Rate Demand Revenue Bonds (The Old Oakland Company Project), December 1984	9,900	12/7/99	9,900
City of Oakland Variable Rate Demand Revenue Bonds (The Delger Block/Ross House Company Project), December 1984	9,500	12/7/99	9,500
County of Alameda/City of Oakland Variable Rate Demand Revenue Bond (The Wilcox/Leimert Company Project), December 1984	9,500	12/7/99	9,500
City of Oakland Liquidity Facility Revenue Bonds (Association of Bay Area Governments), Series 1984	3,300	12/1/09	2,275
City of Oakland Health Facility Revenue Bonds (Children's Hospital Medical Center of Northern California), 1985	47,600	12/1/15	47,600
City of Oakland Insured Health Facility Revenue Bond (East Oakland Health Center Project), Series 1990	2,500	10/1/20	2,435
City of Oakland Refunding Revenue Bonds (Oakland YMCA Project), Series 1990	8,700	6/1/10	7,570
City of Oakland Variable Rate Demand Bonds Series 1994A (Learnington Project)	8,550	11/1/97	8,550
City of Oakland Skyline Sewer Assessment District Bonds	350	9/02/20	345
TOTAL			<u><u>\$ 143,255</u></u>

(10) CONTRIBUTED CAPITAL

A summary of changes in contributed capital for the year ended June 30, 1996, follows (in thousands):

	Primary Government		Component Unit
	Internal Service Funds	Enterprise Funds	Port of Oakland
BALANCE AT JUNE 30, 1995	\$17,382	\$ —	\$117,493
Grants from governmental agencies	—	—	6,504
Passenger facility charges	—	—	14,633
Depreciation of property and equipment acquired with contributed capital	—	—	(3,217)
Contribution of fixed assets from joint venture (Note 15)	—	20,900	—
BALANCE AT JUNE 30, 1996	\$17,382	\$20,900	\$135,413

(11) SELF INSURANCE

Changes in the balances of claims liabilities for for all self-insured claims for the years ended June 30, 1996 and 1995, are as follows (in thousands):

	1996	1995
Unpaid claims, beginning of fiscal year	\$47,218	\$45,810
Current year claims and changes in estimates	19,775	7,020
Claim payments	(16,107)	(5,612)
Unpaid claims, end of fiscal year	\$50,886	\$47,218

Primary Government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment coverage; and providing health benefits to employees, retirees and their dependents.

The City is self-insured for its general liability, workers' compensation, malpractice liability, general and auto liability.

Property Damage

Property damage risks are covered on an occurrence basis by commercial insurance purchased from independent third parties. All properties are insured at full replacement values after a \$25,000 deductible to be paid by the City. For the past 10 years, there have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded commercial insurance coverage.



General Liability

Numerous lawsuits are pending or threatened against the City. The City Attorney estimates that as of June 30, 1996, the amount of liability determined to be probable of occurrence is approximately \$10,186,000. Of this amount, claims and litigation approximating \$9,570,000 are estimated to be payable with current expendable resources and are included as accrued liabilities of the General Fund. The remainder is included in the General Long-Term Obligations Account Group. The recorded liability is the City's best estimate based on available information and may be revised as further information is obtained and as pending cases are litigated.

The Agency is involved in various claims and litigation arising in the ordinary course of its activities. In the opinion of the Agency's in-house counsel, the City Attorney's Office for the City of Oakland, none of these claims are expected to have a significant impact on the financial condition of the Agency or its operations.

The City is self-insured for general liability. The City has not accumulated or segregated assets or reserved fund balance for the payment of estimated claims and judgments.

Workers' Compensation

The City is self-insured for workers' compensation. Payment of claims is provided through annual appropriations which are based on claim payment experience and supplemental appropriations. As of June 30, 1996, the amount of workers' compensation liability determined to be probable is approximately \$40,700,000. Of this amount, workers' compensation approximating \$5,000,000 is estimated to be payable with current expendable resources and is included as accrued liabilities of the General Fund. The remaining amount of \$35,700,000 is included in the General Long-Term Obligations Account Group.

Discretely Presented Component Unit

The Port is exposed to risk of loss related to injuries to employees. The Port is self-insured and self-administered for workers' compensation up to a maximum of \$350 per accident. Effective February 7, 1996, the Port carries commercial insurance for claims in excess of \$350. The Port also carried this excess insurance with a \$350 per accident self-insured retention in the two policy years ending July 31, 1995 and 1994.

Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses are based on actuarial estimates and include an estimate of claims that have been incurred but not reported. Changes in the reported liability resulted from the following (in thousands):

	1996	1995
Workers' compensation liability at beginning of fiscal year	\$3,600	\$4,783
Current year claims and changes in estimates	323	565
Claim payments	<u>(923)</u>	<u>(618)</u>
Workers' compensation liability at end of fiscal year	<u>\$3,000</u>	<u>\$3,600</u>



(12) RESERVATIONS AND DESIGNATIONS OF FUND BALANCES

The components of the City's reserved and unreserved-designated fund balances at June 30, 1996, follow (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds
RESERVED			
Pension obligations	\$ —	\$ —	\$ —
Capital projects	—	—	—
Employees' retirement systems	—	—	—
Debt service	—	—	79,151
Encumbrances	<u>3,000</u>	<u>13,175</u>	<u>—</u>
TOTAL RESERVED FUND BALANCES	<u>\$ 3,000</u>	<u>\$13,175</u>	<u>\$79,151</u>
UNRESERVED-DESIGNATED			
Capital improvement projects	\$ 8,158	\$ 5,481	\$ —
Recycling program	4,975	—	—
Self insurance program	157	—	—
Multi-purpose reserve	870	—	—
Telecommunications reserve	<u>438</u>	<u>—</u>	<u>—</u>
TOTAL UNRESERVED- DESIGNATED FUND BALANCES	<u>\$14,598</u>	<u>\$ 5,481</u>	<u>\$ —</u>

NOTES TO FINANCIAL STATEMENTS

Capital Projects Funds	Trust Funds	Total
\$ — 431,940 — — — <hr style="width: 100%;"/>	\$179,687 — 366,541 — — <hr style="width: 100%;"/>	\$ 179,687 431,940 366,541 79,151 16,175 <hr style="width: 100%;"/>
<u>\$431,940</u>	<u>\$546,228</u>	<u>\$1,073,494</u>
\$ — — — — — <hr style="width: 100%;"/>	\$ — — — — — <hr style="width: 100%;"/>	\$ 13,639 4,975 157 870 438 <hr style="width: 100%;"/>
<u>\$ —</u>	<u>\$ —</u>	<u>\$ 20,079</u>

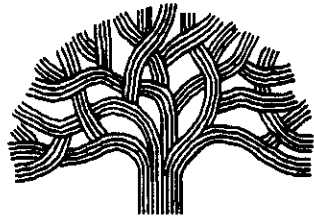


(13) RESTATEMENT OF FUND BALANCE

Fund balances as of July 1, 1995, have been restated as follows (in thousands):

	Pension Trust Funds	Enterprise Funds
Fund balance/retained earnings, June 30, 1995, as previously reported	\$297,934	\$ 58,992
Restatements:		
Unrealized appreciation on investments (a)	42,373	—
Reconstitution of OCCM (b)	<u> —</u>	<u>(899)</u>
Fund balance/retained earnings, June 30, 1995, as restated	<u>\$340,307</u>	<u>\$58,093</u>

- (a) Effective July 1, 1995, PFRS and OMERS (the "Plans") elected early implementation of Governmental Accounting Standard Board's (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Plans*, which is required for periods beginning after June 15, 1996. GASB Statement No. 25 establishes a financial reporting framework for defined benefit plans that distinguishes between two categories of information: (a) current financial information about plan assets and financial activities, and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due. GASB Statement No. 25 requires that the Plans carry investments at fair market value. Accordingly, the June 30, 1995 fund balance has been restated to include the unrealized appreciation on investments.
- (b) Effective July 1, 1995, the Oakland Convention and Visitors Authority (OCVA) was created as a consolidation of the former Oakland Convention and Visitors Bureau and the former Oakland Convention Center Management, Inc. (OCCM). As a result of the consolidation under GASB Statement No. 14, "The Financial Reporting Entity," OCVA replaces OCCM as a blended component unit reported as an enterprise fund in the City's financial statements. Accordingly, the beginning balance of the enterprise funds has been restated by \$899,000.



CITY OF OAKLAND



(14) SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City accounts for operations which provide facilities, harbor and airport services, housing programs, parks and recreation programs, sewage treatment, and convention management as enterprise funds. These operations are financed by user charges or interest income. Segment information as of and for the year ended June 30, 1996, follows (in thousands):

	Parks and Recreation	Sewer Service	Oakland Redevelopment Agency
For Year Ended June 30, 1996			
Operating revenues	\$ 893	\$14,748	\$ 6
Operating income (loss)	(238)	2,771	6
Depreciation and amortization	26	2,337	—
Grants from governmental agencies	—	14	—
Operating transfers in	—	—	—
Operating transfers out	—	—	(328)
Interest and other non-operating revenues, net	—	(247)	—
Net income (loss)	(238)	2,524	(322)
Property and equipment - additions	14	10,906	—
As of June 30, 1996			
Net working capital	\$(202)	\$ 8,519	\$ —
Total assets	508	67,818	—
Total equity	299	59,785	—
Long-term obligations and advances - Payable from operating revenues	—	7,088	—

NOTES TO FINANCIAL STATEMENTS

Oakland Convention and Visitors Authority	Oakland-Alameda County Coliseum Authority	Total Enterprise Funds
\$ 610	\$ —	\$16,257
(2,370)	(1,045)	(876)
9	1,045	3,417
—	—	14
2,756	—	2,756
(612)	—	(940)
180	10,118	10,051
(46)	9,073	10,991
—	60,780	71,700
(100)	—	8,217
371	59,735	128,432
(73)	29,973	89,984
2	—	7,090



Parks and Recreation

The City owns and operates three golf courses. The City's policy is to fund these operations through golf course fees and other golf revenues without reliance on the General Fund.

Sewer Service

The City maintains sewer service facilities between the private property hookups and the main collection system operated by the East Bay Municipal Utility District. The City's policy is to fund operations through user charges and/or operating transfers from the General Fund.

Oakland Redevelopment Agency

The operations of the Acorn Mortgage Revenue Bond Program within the Agency are accounted for as an enterprise fund. The program provides loans to qualified individuals to finance the purchase and rehabilitation of housing within the Acorn Redevelopment Project Area. The bonds are payable from principal and interest on loans or from specified assets and revenues of the Mortgage Program.

Oakland Convention and Visitors Authority

The operations of OCVA are accounted for as an enterprise fund. OCVA is responsible for marketing the City as a convention and tourist destination, as well as operating the Oakland Convention Center.

(15) JOINT VENTURE

Oakland-Alameda County Coliseum

The City is a participant with the County of Alameda (the County) in a joint exercise of powers agreement known as the Oakland-Alameda County Coliseum Authority (the Authority), which was formed on July 1, 1995, to assist the City and County in the financing of public capital improvements in the Coliseum Stadium and the Coliseum Arena pursuant to the Mark-Roos Local Bond Pooling Act of 1985. The Board of Directors of the Authority consists of the City Manager of the City and the County Administrator of the County.

On August 1, 1995, \$9,200,000 1995 Fixed Rate Refunding Lease Revenue Bonds (Fixed Rate Bonds) Series A were issued to provide a portion of the funds necessary to refund and defease to maturity all of the outstanding bonds of the Oakland-Alameda County Coliseum, Inc. (Coliseum Bonds). Upon defeasance of the Coliseum Bonds, Oakland-Alameda County Coliseum Inc. (Coliseum Inc.) reconveyed the title to the Coliseum Complex to the City and the County. The City then recorded its 50% share (\$4,000,000) as an increase to investment in joint venture in the General Fixed Assets Account Group. The City's joint venture relationship with the Coliseum Inc. terminated with the defeasance of the Coliseum Bonds. Upon the termination of the joint venture relationship, the City's (\$31,041,000) investment in joint

NOTES TO FINANCIAL STATEMENTS

venture recorded in the General Fixed Assets Account Group was reduced to zero. Upon the reconveyance of the title to the Coliseum Complex, the City recorded a 50% interest in the historical cost of the Coliseum Complex fixed assets in the enterprise fund in the amount of \$20,900,000 (Note 7). The interest rate on the refunding bonds ranges from 4.4% to 5.0%. Principal is due in annual installments ranging from \$500,000 to \$1,280,000 through February 1, 2004.

On August 1, 1995, \$94,300,000 and \$94,200,000 1995 Series B-1 and B-2 Variable Rate Lease Revenue Bonds (Variable Rate Bonds) were issued to satisfy certain obligations of the Authority, the City, the County, the Oakland-Alameda County Financing Corporation (the Corporation) and Coliseum Inc. to finance the costs of remodeling the Stadium as well as relocating the Raiders to the City. The improvements to the Coliseum Stadium are owned by the City and the County. The City's 50% interest of \$39,880,000 at June 30, 1996 is recorded in the Enterprise Fund. These obligations are evidenced in a series of agreements (the Raider Agreements) among the Raiders, the City, the County, Coliseum Inc., the Authority, and the Corporation. These Raider Agreements established the terms and conditions under which the Raiders returned to play football at the Stadium for at least 16 football seasons beginning with the 1995-96 football season. Principal on the bonds is due in annual installments ranging from \$1,500,000 to \$15,000,000 through February 1, 2025.

The Authority entered into an interest rate swap agreement, expiring February 1, 2006, for \$140,000,000 of the Series B-1 and B-2 Variable Rate Bonds. Based on the swap agreement, the Authority owes interest calculated at a fixed rate of 6.75% to the counterparty of the swap. In return, the counterparty owes the Authority interest based on a variable rate that matches the rate required by the Variable Rate Bonds. Only the net difference in interest payments is actually exchanged with the counterparty. The \$140,000,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The Authority continues to pay interest to the bond holders at the variable rate provided by the bonds. However, during the term of the swap agreement, the Authority effectively pays a fixed rate on the debt. As of June 30, 1996, the market value of the swap is \$642,000. The Authority will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the Authority's making or receiving a termination payment. The Authority is exposed to credit losses in the event of non-performance by the counterparty to this interest rate swap, but has no off-balance sheet credit risk of accounting loss. The Authority anticipates, however, that the counterparty will be able to fully satisfy its obligations under this agreement.

The Fixed Rate and Variable Rate Bonds are limited obligations of the Authority payable solely from revenues of the Authority received by the Authority on behalf of the City and the County. These revenues consist of certain football revenues from the sale of seat rights as well as annual seat maintenance fees, a portion of net parking and concession revenues and concessionaires' initial fees. In the event that such football revenues are insufficient to make base rental payments, the City and the County are obligated to make up the shortfall in the base rental payment from their respective general funds. The City and the County each have covenanted to appropriate \$11,000,000 annually to cover such shortfalls in revenue; however,



the City and the County are jointly and severally liable to cover such shortfall, which means that the City could have to pay up to \$22,000,000 annually in the event of default by the County.

The following is a financial summary of the Authority as of June 30, 1996. This financial data has not been audited (in thousands).

ASSETS	<u>\$140,158</u>
Liabilities	\$199,681
Equity	<u>(59,523)</u>
TOTAL LIABILITIES AND EQUITY	<u>\$140,158</u>
Revenues	\$ 69,349
Expenditures	<u>128,872</u>
DEFICIENCY OF REVENUES (UNDER) EXPENDITURES	<u>\$ (59,523)</u>

Statement of Cash Flows, Non-Cash Investing, Capital and Financing Transactions

During the year ended June 30, 1996, the Oakland-Alameda County Coliseum Authority Fund received a contribution of 9.5% interest in the Coliseum Complex from Coliseum Inc. in the amount of \$20,900,000. It also recorded its 50% share in improvements made to the Coliseum Stadium in the amount of 39,800,000 and recorded its 50% interest in the deficit of the Authority in the amount of \$29,762,000.

Complete financial statements of the Oakland-Alameda County Coliseum Complex can be obtained from:

County Auditor-Controller's Office
1221 Oak Street
Oakland, CA 94612

(16) PENSION PLANS AND DEFERRED COMPENSATION PLANS

The City has three defined benefit retirement plans: Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS) and California Public Employees' Retirement System (PERS). PFRS and OMERS are closed plans which cover employees hired prior to July 1976 and September 1970, respectively. These two plans are considered part of the City's reporting entity and are included in the City's General Purpose Financial Statements as pension trust funds. City employees hired subsequent to the plans' closure dates are covered by PERS, which is administered by the State of California.

As discussed in Note 13, effective July 1, 1995, OMERS and PFRS chose early implementation of GASB Statement No. 25, "Financial Reporting for Defined Benefit Plans," which establishes a financial reporting framework for defined pension plans, including the disclosure of the current financial information of the plan assets and financial

NOTES TO FINANCIAL STATEMENTS

activities and actuarially determined information about the funded status of the plans and the progress being made in accumulating sufficient assets to pay benefits when due.

GASB Statement No. 25 also requires carrying investments at fair market value and, accordingly, pension trust fund investments and fund balance as of June 30, 1995, were restated by \$42,373,000.

For periods prior to 1996, the Plan's investments were reported at cost. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are reported based on the remaining principal balances which approximates the value of future principal and interest payment discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on prices in a competitive market as determined by a specialist. The effect of recording investments at fair value instead of cost was to increase the 1996 excess of additions over deductions by \$19,039,000 and \$760,000 for PFRS and OMERS, respectively.

Investments representing 5% or more of the market value of the Plans' net assets for pension benefits as of June 30, 1996, are as follows:

	PFRS	OMERS
Federal Agency Bonds/Notes (5.75% to 11.88%)	\$100,546,350	\$ —
New England & Tel. Co. Bonds (4.50% to 4.625%)	—	389,509

Complete financial statements of the Plans can be obtained from:

Lance R. Bateman, Controller
 City of Oakland
 505 — 14th Street, Suite 910
 Oakland, CA 94612

The total June 30, 1996 payroll for the City was \$193,325,318. The information for the City's three plans is presented below:

	PFRS	OMERS	PERS
Type of plan	Single employer	Single employer	Agent multi-employer
Reporting entity	City	City	State
Last complete actuarial study	June 30, 1994	June 30, 1994	June 30, 1995



Actuarial Present Value of Credited Projected Benefits (in millions) as of June 30:

	PFRS 1994	OMERS 1994	PERS 1995
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 745.6	\$11.5	\$ 240.8
Current employees:			
Accumulated employee contributions including allocated investment earnings	39.3	.1	156.1
Employer-financed:			
Vested	162.5	.4	175.2
Nonvested	<u>—</u>	<u>—</u>	<u>8.3</u>
Total pension benefit obligation (a)	947.4	12.0	580.4
Net assets available for benefits, at market	<u>(304.3)</u>	<u>(16.2)</u>	<u>(665.9)</u>
UNFUNDED (OVERFUNDED) PENSION BENEFIT OBLIGATION	<u>\$ 643.1</u>	<u>\$(4.2)</u>	<u>\$(85.5)</u>

(a) A pension benefit obligation (PBO) is presented to provide a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is independent of the actuarial funding method used to determine contributions to each pension plan. It will help users assess the funding status of each plan on a going-concern basis, assess progress made in collecting enough assets to pay benefits when due, and make comparisons among employers.

Contributions (dollars in millions):

	PFRS	OMERS	PERS	Total
Total 1996 City payroll covered by the plan	\$21.0	\$.1	\$146.3	\$168.6
1996 contributions:				
City's share	34.5	—	15.0	49.0
Employees' share:				
Paid by Employees	1.9	—	1.2	3.5
Paid by City	—	—	9.9	9.9
Actuarially determined contribution rates:				
Employee	7-11%	—	7-9%	N/A
Employer	59.9%	—	9.3-12.2%	N/A

NOTES TO FINANCIAL STATEMENTS

Significant actuarial assumptions

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation.

	PFRS	OMERS	PERS	Total
General wage increase:				
Inflation	5.5%	3.0%	4.5%	N/A
Merit or seniority	—	6.6%	—	N/A
Investment return	8.0%	8.0%	8.5%	N/A

Employees covered as of June 30, 1996

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not currently receiving them	1,486	222	2,509	4,217
Current employees—vested	302	2	2,595	2,899

Trend Information (dollars in millions)

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. In accordance with GASB Statement No. 25, six-year historical trend information (including only years during which actuarial studies were completed) on revenues by source and expenses by type is available in the general purpose financial statements of PFRS and OMERS. In accordance with GASB Statement No. 5, ten-year historical trend information is available for PERS in its comprehensive annual financial report.

	PFRS	OMERS	PERS
Net assets available at market* - June 30:			
1995	N/A	N/A	\$665.8
1994	\$304.3	\$ 7.1	607.9
1993	N/A	N/A	494.4
1992	287.2	18.3	445.4
1991	N/A	N/A	396.2
1990	255.0	25.5	360.9
1989	N/A	N/A	321.0
1988	N/A	N/A	283.3

*For PERS only, prior to 1994, assets were recorded at book value. Beginning in 1994, the assets are shown at smoothed actuarial value.



	PFRS	OMERS	PERS
PBO - June 30:			
1995	N/A	N/A	\$580.4
1994	\$947.4	\$12.0	541.5
1993	N/A	N/A	498.6
1992	941.6	14.4	464.4
1991	N/A	N/A	399.2
1990	947.6	15.5	374.0
1989	N/A	N/A	331.2
1988	N/A	N/A	301.1
Percentage of net assets available/PBO - June 30:			
1995	N/A	N/A	115%
1994	32%	135%	112%
1993	N/A	N/A	99%
1992	31%	127%	96%
1991	N/A	N/A	99%
1990	27%	165%	96%
1989	N/A	N/A	97%
1988	N/A	N/A	94%
Unfunded (overfunded) PBO - June 30:			
1995	N/A	N/A	\$(85.5)
1994	\$643.1	\$ (4.2)	(66.4)
1993	N/A	N/A	4.2
1992	654.4	(3.9)	19.0
1991	N/A	N/A	3.0
1990	692.6	(10.0)	13.1
1989	N/A	N/A	10.2
1988	N/A	N/A	17.8
Annual covered payroll - June 30:			
1996	\$21.0	\$.100	\$146.3
1995	22.2	.122	146.3
1994	28.5	.199	143.8
1993	24.0	.122	146.3
1992	23.3	.102	156.6
1991	24.1	.097	147.5
1990	24.6	.076	129.4
1989	N/A	N/A	112.7
1988	N/A	N/A	100.5

NOTES TO FINANCIAL STATEMENTS

	PFRS	OMERS	PERS
Percentage of unfunded (overfunded)			
PBO/annual covered payroll:			
1995	N/A	N/A	(47)%
1994	2256%	(3529)%	(46)%
1993	N/A	N/A	3%
1992	2809%	(3824)%	12%
1991	N/A	N/A	2%
1990	2815%	(13,158)%	10%
1989	N/A	N/A	9%
1988	N/A	N/A	18%
City's actuarially determined			
contributions (employer portion)/			
annual covered payroll:			
1996	164%	—	10%
1995	153%	—	10%
1994	118%	—	11%
1993	129%	—	9%
1992	131%	—	19%
1991	105%	—	10%
1990	107%	—	9%
1989	N/A	—	10%
1988	N/A	—	14%

Police and Fire Retirement System

PFRS provides death, disability and service retirement benefits to uniformed employees and their beneficiaries. Members who complete at least 25 years of service, or 20 years of service and have reached the age of 55, or have reached the age of 65, are eligible for retirement benefits. The basic retirement allowance equals 50% of the compensation attached to the average rank held during the three years immediately preceding retirement, plus an additional allowance of 1-2/3% of such compensation for each year of service (up to ten) subsequent to: a) qualifying for retirement, and b) July 1, 1951. Early retirees will receive reduced benefits based on the number of years of service. Benefit provisions and all other requirements are established by the City Charter (Charter).

In accordance with the Charter, active members of PFRS contribute a percentage of earned salaries based upon entry age as determined by the City's consulting actuary. By statute, employee contributions are limited to 13% of earned salaries. Employee contributions are refundable with interest at 4% per annum if an employee elects to withdraw from the plan upon termination of employment with the City.



The City's annual contribution to PFRS is determined by calculating the total pension liability for public safety employees under both PFRS and PERS. The amount to be contributed to both plans is allocated between years such that a level percentage of payroll (58.69% in fiscal year 1995-96) will amortize the unfunded liabilities by 2026 and 2000 for PFRS and PERS, respectively. Contributions to PERS are deducted and the difference is contributed to PFRS.

For the year ended June 30, 1996, contributions to PFRS totaling \$36,391,000 (\$34,477,000 employer and \$1,914,000 employee) were made in accordance with actuarially determined contribution requirements. Employer and employee contributions equaled 164% and 9%, respectively, of current year covered payroll for plan participants.

The City's actuaries do not make an allocation of the contribution amount between normal cost and the unfunded actuarial liability because the plan is closed.

Oakland Municipal Employees' Retirement System

OMERS provides death, disability and service retirement benefits to participants of the plan. Members who complete at least 20 years of service and have reached the age of 52, or who complete at least 10 years of service and reach the age of 60, or have reached the age of 70, are eligible for retirement benefits. The retirement allowance is calculated on a basis which takes into account the final three-years' average compensation, age and the number of years of service. Benefit provisions and all other requirements are established by the Charter.

Employee contributions to OMERS totaling \$6,832 were made during 1996 in accordance with actuarially determined contribution requirements. Employee contributions are refundable with interest at 4.5% per annum if an employee elects to withdraw from the plan upon termination of employment with the City. For the year ended June 30, 1996, the City, in accordance with actuarially determined contribution requirements, was not required to make contributions to OMERS.

California Public Employees' Retirement System

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California.

All City employees who work on a half-time basis or more are eligible to participate in PERS. Benefits vest after five or ten years of service, depending on the plan. To be eligible for service retirement, the employee must be at least age 50 and have five years of PERS-credited service. City employees who retire receive monthly retirement allowances for life. The amount of the retirement allowance is dependent upon the number of years of PERS-credited service, the benefit factor (the percent of pay to which each employee is entitled for each year of service is determined by the employee's age at retirement) and final compensation (the employee's monthly pay rate for the highest 12 months). PERS also provides for a death benefit. These benefit provisions and all other requirements are established by State statute.

NOTES TO FINANCIAL STATEMENTS

City miscellaneous employees and City safety employees are required to contribute 7% and 9%, respectively, of their annual salary to PERS. The City's contribution rates for the fiscal year ended June 30, 1996, were 9.3% and 12.2% for miscellaneous employees and safety employees, respectively. The City pays the entire amount of its employees' contribution rate for miscellaneous and safety employees, including the annual contribution of 7% and 9% to PERS.

PERS uses the Entry Age Normal Actuarial Cost Method, which is a projected benefit cost method. That is, it takes into account those benefits that are expected to be earned in the future as well as those already accrued. PERS also uses the level percentage of payroll method to amortize any unfunded actuarial liabilities. The amortization period of the unfunded actuarial liability ends June 30, 2011.

The City's contributions for employees for the year ended June 30, 1996, consisted of the following amounts (dollars in millions):

	Miscellaneous	Percent of Current Covered Payroll	Safety	Percent of Current Covered Payroll	Total Combined Contribution
Components of contribution to PERS					
Normal cost	\$ 15.4	15.4%	\$ 9.7	21.2%	\$ 25.1
Amortization of unfunded actuarial accrued liability	<u>1.0</u>	<u>.9</u>	<u>—</u>	<u>—</u>	<u>1.0</u>
TOTAL	<u>\$ 16.4</u>	<u>16.3%</u>	<u>\$ 9.7</u>	<u>21.2%</u>	<u>\$ 26.1</u>
Employer and employee portions of contribution to PERS					
Employer	\$ 9.4	9.3%	\$ 5.6	12.2%	\$ 15.0
Employee					
Paid by City	7.0	7.0	2.9	6.4	9.9
Paid by employees	<u>—</u>	<u>—</u>	<u>1.2</u>	<u>2.6</u>	<u>1.2</u>
TOTAL	<u>\$ 16.4</u>	<u>16.3%</u>	<u>\$ 9.7</u>	<u>21.2%</u>	<u>\$ 26.1</u>

Deferred Compensation Plans

The City and the Port offer their employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. Separate plans are maintained for City and Port of Oakland employees. The plans, available to all employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City and the Port (without being restricted to the provisions of benefits under the plan), subject only to the claims of general creditors. Participants' rights under the plan are equal to those of



general creditors of the City and the Port in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the City's legal counsel that the City and the Port have no liability for losses under the plans but do have the duty of due care that would be required of an ordinary prudent investor. The City and Port believe that it is unlikely they will use the assets to satisfy the claims of general creditors in the future.

Deferred compensation plan assets of the City of \$82,218,000 as of June 30, 1996, are included at fair market value in the Deferred Employee Compensation Agency Fund. Deferred compensation plan assets of the Port are included at fair market value in the Port's financial statements and amounted to approximately \$20,430,000 as of June 30, 1996.

(17) RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS

The "All Governmental Fund Types and Expendable Trust Funds Combined Statement of Revenues, Expenditures and Changes in Fund Balances" has been prepared on the modified accrual basis of accounting in accordance with GAAP. The "General Fund and Annually Budgeted Special Revenue and Debt Service Funds Combined Schedule of Revenues, Expenditures and Encumbrances - Budget and Actual on a Budgetary Basis" has been prepared on the budgetary basis, which is different from GAAP.

The following schedule is a reconciliation of the budgetary and GAAP results of operations (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds
Excess (deficiency) of revenues over (under) expenditures and encumbrances - budgetary basis	\$ 6,346	\$ 3,483	\$(23,789)
Encumbrances, net	230	623	—
Reimbursements budgeted on an accrual basis	(5,200)	—	—
Unbudgeted funds	<u>—</u>	<u>11,551</u>	<u>(48,917)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES - GAAP BASIS	<u>\$ 1,376</u>	<u>\$15,657</u>	<u>\$(72,706)</u>

For budgetary purposes, outstanding commitments related to construction contracts and other purchases of goods and services are recorded as expenditures at the time contracts or purchase agreements are entered into. Under GAAP, these obligations are recognized when goods are received or services are rendered.

Certain reimbursements from the Port and other governmental agencies are budgeted on an accrual basis, whereas such items are recognized as revenues for GAAP purposes when received.

(18) POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The City has three programs in place to partially pay health insurance premiums for certain classes of retirees from City employment.

The City pays part of the health insurance premiums for all retirees from City employment receiving a pension annuity earned through City service and participating in a City-sponsored PERS health benefit plan. The City contribution constituted an average of approximately 5% of health insurance premium charges for retirees. Approximately \$714,739 was paid on behalf of 1,644 retirees under this program for the year ended June 30, 1996.

A City Council resolution, dated November 12, 1985, and a related City Administrative Instruction, dated May 1, 1991, established a quarterly payment of \$225 to qualifying retirees from City employment who were active, full-time or permanent part-time, unrepresented City employees at the time of retirement on or after July 1, 1985. Such payments commenced the last quarter of the year ended June 30, 1991, and constitute premium payment required for approximately 143 retirees. An expendable trust fund was set up to finance these benefits and the City has made contributions to this fund to finance future payments. For the year ended June 30, 1996, \$115,050 in benefit payments were made under this program. The trust fund balance was \$122,103 as of June 30, 1996.

A City Council resolution, dated October 13, 1987, approved a Letter of Understanding with United Public Employees Local 790 that established a trust to contribute toward the cost of health insurance premiums to retirees from City employment who were active, full-time City employees in represented units upon retirement on or after July 1, 1987. The Letter of Understanding required the City to contribute \$119,000 to the trust annually through July 1, 1993. Effective August 1, 1990, the City initiated payments of \$225 per quarter to eligible employees. This amount constitutes premium payment required for approximately 179 retirees. For the year ended June 30, 1996, \$138,787 in benefit payments were made under this program. The trust fund balance was \$457,223 as of June 30, 1996.

(19) EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 1996, the following funds reported excess expenditures over appropriations:

Debt Service Funds	
Other Assessment Bonds	\$ 598,000
Special Revenue Bonds	\$3,986,000

The Other Assessment Bonds expenditures include unbudgeted bond issuance costs and related fees for bonds issued in FY1995-96.

The Special Revenue Bonds Fund includes an unbudgeted accrual to adjust for the amount held by a trustee, as of June 30, 1996, for bond payments.



(20) COMMITMENTS AND CONTINGENT LIABILITIES

Grants and Subventions

Receipts from federal and state financial assistance programs are subject to audit by representatives of the federal and state governments to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations. The City believes that no significant liabilities will result from such audits.

Construction Commitments

Primary Government

The City has committed funding in the amount of \$431,945,000 to a number of capital improvement projects

Discretely Presented Component Unit

The Port is undertaking a number of capital improvement projects, the most significant of which include certain airport improvements, container terminal construction, new container cranes, and channel dredging to accommodate larger vessels. The Port has received approval to dredge the inner harbor to a depth of 42 feet. Dredging the inner harbor to a depth of 42 feet is estimated to cost approximately \$48,000,000 to be funded by internally generated operating funds, 1992 Series E Bonds and additional borrowings, if necessary. As of June 30, 1996, the Port had entered into commitments totaling approximately \$39,123,000 for the acquisition and construction of such assets.

The California Department of Boating and Waterways (DBW) and the Port entered into a loan and operation contract on February 21, 1994, amended on February 20, 1995, and September 11, 1995, whereby DBW agreed to make a construction loan to the Port in the amount of \$6,950,000. The purpose of the loan is to develop the boating facilities of the Jack London Square marinas. The loan will bear compound interest at the rate of 4.5% per annum and will be paid over thirty years. Repayment of the loan will begin on August 1, 1998. No distributions have been made on the loan as of June 30, 1996.

Individual Fund Deficits

As of June 30, 1996, the following funds reported deficit, fund balance or retained earnings:

Debt Service	
Special Revenue Bonds	\$1,884,000
Enterprise Fund	
Oakland Convention and Visitors Authority	\$ 73,000

NOTES TO FINANCIAL STATEMENTS

Internal Service	
Facilities	\$3,329,000
Central Stores	\$ 297,000
Expendable Trust	
Oakland Redevelopment Agency	\$1,850,000

The Debt Service Special Revenue Bonds deficit includes an accrual to adjust for amounts held by a trustee to be used for future debt service payments. The deficit is expected to be funded by transfers from the capital projects funds.

The City's Facilities and Central Stores deficits are expected to be funded through increased user charges for the costs incurred in each fund.

The City's Expendable Trust Oakland Redevelopment Agency deficit is expected to be funded by reimbursements from the Agency.

The Oakland Convention and Visitors Authority deficit is expected to be funded by transfers from the City general fund and agency capital projects fund.

Other Contingencies

Primary Government

As of June 30, 1996, the Agency has entered into contractual commitments of approximately \$1,495,000 for materials and services relating to various projects. These commitments and future costs will be funded by currently available funds, tax increment revenue and other sources.

At June 30, 1996, the Agency was committed to fund \$1,583,000 in loans and had issued \$1,648,000 in repayment guarantees and letters of credit in connection with several low and moderate income housing projects. These commitments were made to facilitate the construction of low and moderate income housing within the City.

Discretely Presented Component Unit

In July 1987, the California Department of Health Services (Department) issued an order determining that the Port and a former tenant of the Port are responsible for the costs of cleaning up hazardous substances on a site leased by several former tenants. The Port received a Remedial Action Plan from the Department which included an apportionment of liability for the costs of hazardous substance removal and remedial actions. The Port is in the process of reviewing the plan and determining its response. In October 1990, the Port and a former tenant agreed to share equally in the remediation costs. As of June 30, 1996, the Port had accrued a liability of \$976,000 representing its expected 50% share of the total estimated investigation, monitoring and remediation costs related to this site. The ultimate remediation costs have not been determined.



The Port has certain legal obligations to modify or remove various underground storage tanks. A Tank Management Strategy Report on Port-owned underground tanks was prepared for the Port by an outside environmental consulting company. As of June 30, 1996, the Port recorded liability of \$2,985,000 which represents the expected remaining costs to modify or remove designated Port-owned underground storage tanks. During the year ended June 30, 1996, the Port continued soil remediation and tank removal.

On August 9, 1994, the Board of Port Commissioners authorized a settlement for a lawsuit involving the alleged unlawful filling of wetlands by the Port. A Consent Decree was entered into on December 15, 1994, by the United States District Court for the Northern District of California to implement the settlement. The Consent Decree requires the Port to spend \$2,500,000 to create, enhance and restore seasonal and tidal wetlands over approximately 72 acres of Port land. In addition to the \$2,500,000, the Port estimates it will incur \$185,000 in internal Port staff costs. Title to the 72 acres of land will be turned over to the East Bay Regional Park District (EBRPD) at the end of the construction. Whatever funds are left of the \$2,500,000 at the end of construction will be turned over to the EBRPD to fund monitoring and maintenance of the wetlands. As of June 30, 1996, the Port has accrued \$2,685,000 for the creation, enhancement and restoration of the wetlands.

At June 30, 1996, the Port had accrued approximately \$6,665,000 for various environmental remediation programs in addition to those noted above. The Port's management believes that it has identified all significant hazardous waste sites and has included the estimated probable costs in this environmental accrual.

(21) SUBSEQUENT EVENTS

Coliseum

On August 2, 1996, the Oakland-Alameda County Coliseum Authority (the Authority) issued \$70,000,000 Series A-1 and \$70,000,000 Series A-2 Variable Rate Lease Revenue Bonds (Variable Rate Bonds), pursuant to the Marks-Roos Local Bond Pooling Act of 1985, to finance the costs of remodeling of the Coliseum Arena (Arena) and to satisfy certain obligations of the Authority, the City, the County and Coliseum Inc. in connection with the retention of the Warriors to play professional basketball at the Arena for at least 20 basketball seasons, beginning with the 1997-98 season. These obligations are evidenced in a series of agreements (the Warriors Agreements) among the Warriors, the City, the County, Coliseum Inc. and the Authority.

On August 22, 1996, the Authority entered into an interest rate swap agreement, effective November 1, 1997, and expiring September 1, 2001, for \$84,000,000 of the Series A-1 and Series A-2 Variable Rate Bonds. Based on the swap agreement, the Authority owes interest calculated at a fixed rate of 6.85% to the counterparty of the swap. In return, the counterparty owes the Authority interest based on a variable rate that matches the rate required by the Variable Rate Bonds. Only the net difference in interest payments is actually exchanged with

the counterparty. The \$84,000,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The Authority continues to pay interest to the bond holders at the variable rate provided by the bond agreement. However, during the term of the swap agreement, the Authority effectively pays a fixed rate on the debt. The Authority will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the Authority's making or receiving a termination payment. The Authority is exposed to credit losses in the event of non-performance by the counterparty to this interest rate swap, but has no off-balance sheet credit risk of accounting loss. The Authority anticipates, however, that the counterparty will be able to fully satisfy its obligations under this agreement.

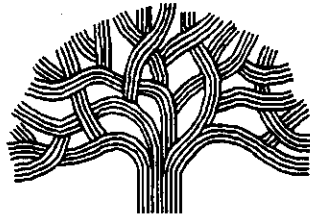
The Variable Rate Bonds are limited obligations of the Authority payable solely from revenues of the Authority received by the Authority on behalf of the City and the County. These revenues consist of payments from the Warriors of up to \$7,428,000 annually from premium seating revenues, the sale of personal seat licenses by the Authority, concessionaire payments and the Arena naming rights. If necessary to prevent a default, additional premium seating revenues up to \$2,500,000 may be pledged to service Arena debt. If the above revenues are not sufficient to cover the debt service requirements in any fiscal year, the City and County are obligated to make up the shortfall in the base rental payment from their respective General Funds. The City and the County each have covenanted to appropriate up to \$9,500,000 annually to cover such revenue shortfalls; however, the City and the County are jointly and severally liable to cover such shortfalls, which means that the City could have to pay up to \$19,000,000 annually in the event of default by the County.

Ice Rink

The Redevelopment Agency and U.S. Ice Ventures, LLC, a California Limited Liability Company entered into a permanent loan agreement on September 22, 1995, in the amount of \$11,000,000. The loan was secured by a deed of trust. On June 30, 1996, U.S. Ice Ventures failed to make an installment payment on the loan. As a result of the default, the loan was written off. The Agency issued notice of default which was recorded on October 15, 1996, in the official records of Alameda County and advises U.S. Ice Ventures that the amount due and owing to the Agency as of October 7, 1996, was \$337,211. On October 28, 1996, U.S. Ice Ventures filed for bankruptcy, and as a result of the bankruptcy, the Agency's lawsuit in Alameda County Superior Court has been stayed.

While the bankruptcy is pending, U.S. Ice Ventures will be allowed to continue to operate and manage the ice rink pursuant to a monthly operating budget approved by both the Agency and the U.S. Bankruptcy Court.

The Agency is aggressively pursuing an early resolution of the bankruptcy, and once the bankruptcy stay has been lifted, the Agency will continue to seek the appointment of a receiver to take over management and operation of the ice rink and to pursue its foreclosure against the property via the trustee sale.



CITY OF OAKLAND

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of provisions of the Trust Agreement and the First Supplemental Trust Agreement. Certain other provisions of the foregoing documents are summarized in the forepart of the Official Statement. This summary is not intended to be definitive and is qualified in its entirety by reference to the Trust Agreement and the First Supplemental Trust Agreement for the complete terms thereof. Copies of the Trust Agreement and the First Supplemental Trust Agreement are available upon request from the City. As used in this Appendix C, the "City of Oakland, Taxable Pension Obligation Bonds, Series 1997, Sub-series A and Sub-series B" are referred to collectively as the "Series 1997 Bonds."

COVENANT OF PAYMENT AND GRANTING CLAUSE; SECURITY FOR THE SERIES 1997 BONDS

To secure the payment of the Bonds and the performance and observance by the City of all the covenants, agreements and conditions expressed or contained in the Trust Agreement or in the Bonds, the City (i) agrees to pay from any legally available source of revenues of the City, including but not limited to the Tax Override Revenues (as defined in the Trust Agreement), as and to the extent provided in the Trust Agreement, all amounts due and owing with respect to Bonds issued under the Trust Agreement and all Supplemental Trust Agreements executed pursuant to the Trust Agreement according to the provisions of such agreements, including principal and interest thereon and the redemption price thereof (such payments being referred to in the Trust Agreement as the "Payments") and (ii) pledges and assigns to the Trustee and grants to the Trustee a lien on and security interest in all right, title and interest of the City in and to all of the following, and provides that such lien and security interest shall be prior in right to any other pledge, lien or security interest created by the City in the following: (a) the Tax Override Revenues and all amounts held from time to time to the credit of the Tax Override Revenues Account of the City's General Fund, as and to the extent provided in the Trust Agreement, (b) Pledged Revenues (as defined in the Trust Agreement) and all moneys and securities held from time to time by the Trustee under the Trust Agreement as follows: (1) moneys and securities held in any Reserve Fund relating to Bonds of any series and any Reserve Fund Surety Policy, as defined in the Trust Agreement, provided at any time in satisfaction of all or a portion of the Reserve Requirement, and (2) moneys and securities held in any Program Fund, as and to the extent provided in any Supplemental Trust Agreement, whether or not held by the Trustee, (c) earnings on amounts included in provisions (a) and (b) of the Granting Clause (except to the extent excluded from the definition of "Pledged Revenues" by any Supplemental Trust Agreement), and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind executed by or on behalf of the City, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security under the Trust Agreement, for the equal and proportionate benefit and security of all Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall, with respect to the security provided by the Covenant of Payment and Granting Clause, be of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds, except as to the timing of payment of the Bonds. Any security or Credit Facility provided for specific Bonds or a specific Series or Subseries of Bonds may, as provided by a Supplemental Trust Agreement, secure only such specific Bonds or Series or Subseries of Bonds and, therefore, shall not be included as security for all Bonds under the Trust Agreement and moneys and securities held in trust as provided in the Trust Agreement exclusively for Bonds which have become due and payable and moneys and securities which are held exclusively to pay Bonds which are deemed to have been paid under the provisions of the Trust Agreement shall be held solely for the payment of such specific Bonds. The agreement of the City set forth in subparagraph (i) above is referred to in the Trust Agreement as the "Covenant of Payment".

The Series 1997 Bonds are issued under and subject to the terms of the Trust Agreement and are secured by and payable from the Payments to be made by the City and other security provided in the Covenant of Payment and Granting Clause of the Trust Agreement and in accordance with the terms of the Trust Agreement. The City

agrees in the First Supplemental Trust Agreement to make the Payments to the Trustee at such times and in such amounts as are necessary to cause all amounts payable to the Bondholders under the Trust Agreement to be made by the Trustee as and when due in accordance with the provisions of the Trust Agreement. The Series 1997 Bonds shall be secured by and payable from the Payments as provided in the Trust Agreement and the other funds and accounts created thereunder.

The City agrees in the First Supplemental Trust Agreement to pay from any legally available source of revenues of the City, including but not limited to the Tax Override Revenues (as defined in the Trust Agreement), as and to the extent provided in the Trust Agreement, all amounts due and owing with respect to the Series 1997 Bonds issued under the Supplemental Trust Agreement according to the provisions of such agreement, including principal and interest hereon and the redemption price thereof. There shall inure to the benefit of the Sub-series A Bonds the City's pledge, assignment and grant to the Trustee set forth in the Covenant of Payment and Granting Clauses of the Trust Agreement of a lien on and security interest in all right, title and interest of the City in and to the Pledged Revenues (as defined in the Trust Agreement), as and to the extent therein provided. There shall inure to the benefit of the Series 1997 Bonds the City's pledge, assignment and grant to the Trustee set forth in the Covenant of Payment and Granting Clauses of the Trust Agreement of a lien on and security interest in all right, title and interest of the City in and to (i) all moneys and securities held from time to time by the Trustee under the First Supplemental Trust Agreement, and (ii) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind executed by or on behalf of the City, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security under the Trust Agreement, for the equal and proportionate benefit and security of all Bonds.

DEFINITIONS

The following are summaries of definitions of certain terms used in the Summary of Principal Legal Documents. All capitalized terms not defined in this Summary or elsewhere in the Official Statement have the meanings set forth in the First Supplemental Trust Agreement or the Trust Agreement unless the context clearly requires otherwise.

"Accreted Value" shall mean (i) with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in a Supplemental Trust Agreement as the amount representing the initial principal amount of such Bond plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (ii) with respect to Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of such Bonds plus the amount of the discounted principal which has accreted since the date of issue; in each case the Accreted Value shall be determined in accordance with the provisions of the Supplemental Trust Agreement authorizing the issuance of such Bonds. *"Accreted Value"* shall mean, with respect to the Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in the First Supplemental Trust Agreement as the amount representing the initial principal amount of such Bond per minimum Denominational Amount (\$1,855.65) plus the principal accumulated, compounded and unpaid thereon as of the most recent compounding date. The Accreted Value shall be determined in accordance with the provisions of the First Supplemental Trust Agreement.

"Actuarial Study" shall mean a study setting forth the current value of the assets and liabilities of the System.

"Authorized Amount" shall mean, when used with respect to Bonds, the initial principal amount of Capital Appreciation Bonds and otherwise, the maximum Principal Amount of Bonds which is then authorized to be Outstanding at any one time under the terms of a resolution or Supplemental Trust Agreement adopted by the City.

"Authorized City Representative" shall mean the Director of Budget and Finance, Treasury Manager, City Attorney of the City or such other officer or employee of the City or other person, which other officer, employee or

person has been designated by the City as an Authorized City Representative by written notice delivered by the City Manager, Director of Budget and Finance, or City Attorney to the Trustee. Any action required or authorized to be taken by the City in the Trust Agreement may be taken by the Authorized City Representative with such formal approvals by the City as are required by the policies and practices of the City and applicable laws; provided, however, that any action taken by the Authorized City Representative in accordance with the provisions of the Trust Agreement shall conclusively be deemed by the Trustee and the Owners to be the act of the City without further evidence of the authorization thereof by the City.

"Authorized Denominations" means \$5,000 principal amount and integral multiples thereof.

"Authorizing Resolutions" shall mean, collectively, Resolution No. 72446 and Resolution No. 72447, each adopted by the Council of the City on February 6, 1996, as amended and supplemented by Resolution No. 73256 adopted on February 4, 1997.

"Bonds", as defined in the Trust Agreement, means all bonds, notes or other obligations authorized to be issued from time to time pursuant to the PFRS Pension Obligation Bond Law which are issued pursuant to the Trust Agreement and any Supplemental Trust Agreement executed pursuant to the provisions of the Trust Agreement. As used in this Appendix C, the "City of Oakland, Taxable Pension Obligation Bonds, Series 1997, Sub-series A and Sub-series B" are referred to as the "Series 1997 Bonds."

"Bond Counsel" shall mean a firm or firms of attorneys which are nationally recognized as experts in the area of municipal finance and which are familiar with the transactions contemplated under the Trust Agreement and which are acceptable to the City.

"Bondholder," "holder," "owner" or "registered owner" shall mean the person in whose name any Bond or Bonds are registered on the books maintained by the Registrar and shall include any Credit Provider or Liquidity Provider to which a Repayment Obligation is then owed, to the extent that such Repayment Obligation is deemed to be a Bond under the provisions of the Trust Agreement.

"Bond Insurance Policy" means the municipal bond insurance policy issued by the Series 1997 Bond Insurer to the City and held by the Trustee to secure payment of principal of and interest on the Series 1997 Bonds.

"Business Day" shall mean a day on which banks located in New York, New York, in Oakland, California and in the city in which the principal corporate trust office of the Trustee is located are open, provided that such term may have a different meaning for any specified Series or Subseries of Bonds if so provided by Supplemental Trust Agreement.

"Capital Appreciation Bonds" shall mean Bonds all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Indenture and is payable only upon redemption or on the maturity date of such Bonds. Bonds which are issued as Capital Appreciation Bonds, but later convert to Bonds on which interest is paid periodically shall be Capital Appreciation Bonds until the conversion date and thereafter shall no longer be Capital Appreciation Bonds, but shall be treated as having a principal amount equal to their Accreted Value on the conversion date. *"Capital Appreciation Bonds"* includes the Series 1997, Sub-series A Bonds, issued in the aggregate Denominational Amount of \$26,704,659.15 which do not bear interest payable semiannually, but accrete value at the rate of 7.310% and have a Maturity Amount equal to \$71,955,000 payable on December 15, 2010.

"Cede & Co." shall mean Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Series 1997 Bonds.

"Charter" shall mean the Charter of the City of Oakland adopted on November 5, 1968, as amended from time to time.

"City" shall mean the City of Oakland, California.

"City Attorney" shall mean legal counsel to the City, whether employees of the City or outside counsel hired by the City to render an opinion or give advice as to any specific matter.

"City Council" shall mean the City Council of the City of Oakland, California, created under the provisions of the Charter, and any successor to its function.

"City Treasury" shall mean the official depository of the City referred to in Section 806 of the Charter which is under the control of the Treasurer.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations applicable with respect thereto.

"Consultant" shall mean any Independent consultant, consulting firm, accountant or accounting firm, a specialized employee of the City (who need not be Independent) or other expert recognized to be well-qualified for work of the character required and retained by the City to perform acts and carry out the duties provided for such consultant in the Trust Agreement.

"Continuing Disclosure Certificate" shall mean the Continuing Disclosure Certificate of the City dated the date of issuance and delivery of the Series 1997 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Costs" means all costs representing or relating to the obligations of the City to the System under Article XXVI of the Charter, and shall include, but not be limited to, the following: (1) the costs of services provided to implement the Program described in the PFRS Pension Obligation Bond Law, including costs of consultants, advisors, actuaries, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the City or an independent consultant; (2) costs of the City properly allocated to the Program and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (3) costs of amortizing any unfunded accrued actuarial liability of the System; (4) financing expenses, including costs related to issuance of and securing of Bonds, costs of credit facilities, liquidity facilities, municipal bond insurance or any other kind of credit enhancement relating to the Bonds, any amount to be deposited in any debt service reserve fund, the cost of any reserve fund surety policy, trustee's and paying agent's fees and expenses; (5) any interest rate swap termination payments due under a swap relating to any Series or Subseries of Bonds or the failure to issue Bonds, or any payments due upon initiation of any swap arrangement; (6) Costs of Issuance, and (7) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the City.

"Costs of Issuance" means the costs of issuing any Bonds under the Trust Agreement or any Supplemental Trust Agreement. The Costs of Issuance are Costs permitted by the definition of "Costs" in the Trust Agreement and in the PFRS Pension Obligation Bond Law. With respect to the Series 1997 Bonds, "Costs of Issuance" means all costs and expenses incurred by the City in connection with the issuance of the Series 1997 Bonds associated with the refunding of the 1997 Debenture, including, but not limited to, costs and expenses of preparation, printing and copying documents and agreements, the official statement, the Series 1997 Bonds, bond insurance premium, if any, underwriters' compensation, legal fees and costs related to any judicial validation action relating to the Series 1997 Bonds and the proceedings of the City relating thereto, the fees, costs and expenses of rating agencies, the Trustee, any paying agents, legal counsel, actuaries, accountants, financial advisors, feasibility consultants and other consultants.

"Covenant of Payment" means the Covenant of Payment included in the Covenant of Payment and the Granting Clause of the Trust Agreement.

"*Credit Facility*" shall mean a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement, Reserve Fund Surety Policy or other financial instrument which obligates a third party to make payment of or provide funds to the Trustee for the payment of the principal of and/or interest on Bonds, whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the City fails to do so.

"*Credit Provider*" shall mean the party obligated to make payment of principal of and interest on the Bonds under a Credit Facility.

"*Current Interest Bonds*" means the Series 1997, Sub-series A Bonds, issued in the principal amount of \$393,790,000, and the Series 1997, Sub-series B Bonds, issued in the principal amount of \$15,795,000, which bear interest payable semiannually at the rates, and which mature on the dates, set forth in the First Supplemental Trust Agreement.

"*Debenture*" means any one or more of the debentures issued by the City from time to time pursuant to the PFRS Pension Obligation Bond Law.

"*1997 Debenture*" means the Debenture refunded by the proceeds of the Initial Bonds.

"*Debt Service Fund*" or "*Debt Service Funds*" shall mean a Debt Service Fund or any of the Debt Service Funds required to be created by the Trust Agreement and further described therein.

"*Denominational Amount*" means the amount in which any Bond is denominated in accordance with the terms of the Supplemental Trust Agreement providing for the issuance of such Bond, if such Bond has a denominational amount which is different from the face principal amount of the Bonds of such Series. "*Denominational Amount*" also means the amount in which the Series 1997 Bonds which are Capital Appreciation Bonds are denominated in accordance with the terms of the First Supplemental Trust Agreement. The Denominational Amount of each Series 1997 Bonds which is a Capital Appreciation Bond is \$1,855.65 per \$5,000 Maturity Amount.

"*Designated Debt*" shall mean a specific indebtedness designated by the City with the intent that the risks associated with such debt be offset with a Swap, such specific indebtedness to include all or any part of a Series or Subseries of Bonds.

"*DTC*" shall mean The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns.

"*Event of Default*" shall mean any occurrence or event specified in the Trust Agreement.

"*First Supplemental Trust Agreement*" means the First Supplemental Trust Agreement dated as of February 1, 1997 between the City and the Trustee and which sets forth the terms of the Series 1997 Bonds.

"*Fiscal Year*" shall mean the period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other similar period as the City designates as its fiscal year.

"*Fitch*" means Fitch Investors Service, Inc.

"*Funding Agreement*" means the Funding Agreement dated as of June 1, 1996 between the System and the City.

"*Funding Agreement*" means any agreement executed by the City and the System from time to time setting forth those undertakings of the City pursuant to Article XXVI of the Charter which the City is financing by the issuance of Bonds pursuant to the PFRS Pension Obligation Bond Law.

"*Government Obligations*" shall mean (1) United States Obligations (including obligations issued or held in book-entry form) and (2) prerefunded municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (c) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (d) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (f) the municipal obligations are rated in the highest rating category by Moody's if Moody's then maintains a rating on such obligations and by S&P if S&P then maintains a rating on such obligations.

"*Holder*" or "*Bondholder*" shall mean the registered owner of any Bond including DTC or its nominee as the sole registered owner of Book-Entry Bonds.

"*Independent*" shall mean, when used with respect to any specified firm or individual, such a firm or individual who (i) does not have any direct financial interest or any material indirect financial interest in the operations of the City, other than the payment to be received under a contract for services to be performed, and (ii) is not connected with the City as an official, officer or employee.

"*Information Services*" means: (1) Financial Information, Inc.'s Financial Daily Called Bond Service; (2) Interactive Data Corporation's Bond Service; (3) Kenny S&P Information Service's Called Bond Service; (4) Moody's Municipal and Government Called Bond Service; or (5) Standard & Poor's Called Bond Record.

"*Interest Payment Date*" means each June 15 and December 15, commencing June 15, 1997, the dates upon which interest on the Series 1997 Bonds which are Current Interest Bonds becomes due and payable.

"*Interest Subaccounts*" means the Interest Subaccount of the Series 1997, Sub-series A Debt Service Fund and the Interest Subaccount of the Series 1997, Sub-series B Debt Service Fund to be used to pay interest due and payable on the Sub-series A Bonds and Sub-series B Bonds

"*Investment Agreement*" shall mean an investment agreement or guaranteed investment contract (i) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short-term rating category (if the term of the Investment Agreement is less than three years) or in either of the two highest long-term rating categories (if the term of the Investment Agreement is three years or longer) by S&P if S&P then maintains a rating on any of the Bonds and by Moody's if Moody's then maintains a rating on any of the Bonds or (ii) which investment agreement or guaranteed investment contract is fully secured by obligations described in item (1) or (2) of the definition of Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment, (B) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (C) subject to a perfected first lien in the Trustee, and (D) free and clear from all third-party liens.

"*1997 Debenture*" means the Pension Obligation Debenture dated the date of issuance and delivery of the Series 1997 Bonds, issued by the City pursuant to the Authorizing Resolutions.

"*Liquidity Facility*" shall mean a letter of credit, line of credit, standby purchase agreement or other financial instrument, including a Credit Facility, which is available to provide funds with which to purchase Bonds.

"*Liquidity Provider*" shall mean the entity, including the Credit Provider, which is obligated to provide funds to purchase Bonds under the terms of a Liquidity Facility.

"*Mail*" shall mean by first-class United States mail, postage prepaid.

"Maturity Amount" means the amount of principal payable with respect to the Series 1997 Bonds which are Capital Appreciation Bonds at the maturity thereof. Each Series 1997 Bonds which is a Capital Appreciation Bond has a Maturity Amount of \$5,000 per Denominational Amount of \$1,855.65.

"Moody's" shall mean Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall for any reason no longer perform the functions of a securities rating agency, *"Moody's"* shall be deemed to refer to any other nationally recognized rating agency designated by the City.

"Non-Qualified Swap" shall mean any Swap which is not a Qualified Swap.

"Notes" shall mean Bonds issued under the provisions of the Trust Agreement which have a maturity of five years or less from their date of original issuance and which are not issued as part of a commercial paper notes program.

"Original Issue Discount Bonds" shall mean Bonds which are sold at an initial public offering price of less than 95% of their face value and which are specifically designated as Original Issue Discount Bonds by the Supplemental Trust Agreement under which such Bonds are issued.

"Outstanding", when used with respect to Bonds, shall mean all Bonds which have been authenticated and delivered under the Trust Agreement, except:

- (a) Bonds canceled or purchased by the Trustee for cancellation or delivered to or acquired by the Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;
- (b) Bonds deemed to be paid in accordance with the Trust Agreement;
- (c) Bonds in lieu of which other Bonds have been authenticated under the Trust Agreement.
- (d) Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Trustee or a Paying Agent;
- (e) Bonds which, under the terms of the Supplemental Trust Agreement pursuant to which they were issued, are deemed to be no longer Outstanding;
- (f) any Repayment Obligation deemed to have the same status as Bonds under the Trust Agreement to the extent such Repayment Obligation arose under the terms of a Liquidity Facility and is secured by a pledge of Outstanding Bonds acquired by the Liquidity Provider; and
- (g) for purposes of any consent or other action to be taken by the holders of a specified percentage of Bonds under the Trust Agreement, Bonds held by or for the account of the City or by any person controlling, controlled by or under common control with the City, unless such Bonds are pledged to secure a debt to an unrelated party.

"Participants" means the participants of DTC which include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

"Paying Agent" or *"Paying Agents"* shall mean, with respect to the Bonds or any Series or Subseries of Bonds, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Trust Agreement or a resolution of the City as the Paying Agent acting as paying agent for such Bonds. *"Paying Agent,"* for purposes of the First Supplemental Trust Agreement, shall mean the Trustee.

"*Payment Date*" shall mean, with respect to any Bonds, each date on which interest is due and payable thereon and each date on which principal is due and payable thereon, whether at maturity or redemption thereof.

"*Payments*" means the payments made by the City pursuant to the Covenant of Payment, which payments the City has agreed to make from any moneys of the City legally available to pay principal of or interest, redemption price or other amounts owed with respect to the Bonds. No special source of moneys or revenues, other than the Pledged Revenues, is specifically pledged by the City to the payment of the Bonds pursuant to the terms of the Trust Agreement.

"*Permitted Investments*" shall mean, with respect to the Series 1997 Bonds, but only to the extent permitted to be invested by the City by applicable law, the Charter and investment policy of the City, any of the following:

- A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United State of America.
- B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself);
 - 1. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
 - 2. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
 - 3. Federal Financing Bank
 - 4. Federal Housing Administration Debentures (FHA)
 - 5. General Services Administration
Participation certificates
 - 6. Government National Mortgage Association (GNMA or "Ginnie Mae")
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
(not acceptable for certain cash-flow sensitive issues.)
 - 7. U.S. Maritime Administration
Guaranteed Title XI financing
 - 8. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed public housing notes and bonds
- C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
Senior debt obligations
 2. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mae")
Participation, Certificates
Senior debt obligations
 3. Federal National Mortgage Association (FNMA or "Fannie Mae")
Mortgage backed securities and senior debt obligations
 4. Student Loan Marketing Association (SLMA or "Sallie Mae")
Senior debt obligations
 5. Resolution Funding Corp. (REFCORP) obligations
 6. Farm Credit System
Consolidated systemwide bonds and notes
- D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAM-G, AAA-m and if rated by Moody's rated Aaa, Aa1 or Aa2.
- E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.
- F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.
- G. Investment Agreements, including GIC's, acceptable to MBIA (Investment Agreement criteria is available upon request).
- H. Commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P.
- I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.
- J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.
- K. Repurchase Agreements for 30 days or less must follow the following criteria. Repurchase Agreements which exceed 30 days must be acceptable to MBIA (criteria available upon request) Repurchase agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/Lender, and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.
1. Repos must be between the municipal entity and a dealer bank or securities firm

- a. Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor's Corporation and Moody's Investor Services, or
 - b. Banks rated "A" or above by Standard & Poor's Corporation and Moody's Investor Services.
2. The written repo contract must include the following:
- a. Securities which are acceptable for transfer are:
 - (1) Direct U.S. governments, or
 - (2) Federal agencies backed by the full faith and credit of the U.S. government and (FNMA & FHLMC)
 - b. The term of the repo may be up to 30 days
 - c. The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).
 - d. Valuation of Collateral
 - (1) The securities must be valued weekly, marked-to-market at current market price plus accrued interest
 - (a) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.
3. Legal opinion which must be delivered to the municipal entity:
- a. Repo meets guidelines under state law for legal investment of public funds.
- L. Any of the foregoing Permitted Investments for which the Trustee, or any affiliate thereof, receives compensation with respect to such Permitted Investments.

"PFRS Pension Obligation Bond Law" means Chapter 20 of the Oakland Municipal Code, enacted by Ordinance No. 11851 adopted by the City Council on January 23, 1996.

"Pledged Revenues" means the Tax Override Revenues and any other revenues which are specifically pledged to the payment of Bonds under the terms of any Supplemental Trust Agreement.

"Pledged Revenues Account of the Revenue Fund" means the fund of such designation created pursuant to the Trust Agreement.

function of Registrar under the Trust Agreement or any Supplemental Trust Agreement, and which bank, trust company or other entity has accepted the position in accordance with the provisions of the Trust Agreement.

"Regularly Scheduled Swap Payments" shall mean the regularly scheduled payments under the terms of a Swap which are due absent any termination, default or dispute in connection with such Swap.

"Repayment Obligations" shall mean an obligation arising under a written agreement of the City and a Credit Provider pursuant to which the City agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Bonds or an obligation arising under a written agreement of the City and a Liquidity Provider pursuant to which the City agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Bonds.

"Representation Letter" means the Letter of Representations from the City and the Trustee to DTC with respect to the Series 1997 Bonds.

"Reserve Fund" shall mean any trust account created pursuant to any Supplemental Trust Agreement and that is required to be funded for the purpose of providing additional security for any Bonds issued pursuant to the terms of the Trust Agreement and as specified in any Supplemental Trust Agreement.

"Reserve Requirement" shall mean such amount specified by the terms of any Supplemental Indenture as the minimum amount to be maintained in any Reserve Fund or any sub-account thereof with respect to any issue or Series or Subseries of Bonds.

"Reserve Fund Surety Policy" shall mean an insurance policy or surety bond, or a letter of credit, deposited in any Reserve Fund in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Reserve Fund Surety Policy shall be rated in one of the two highest Rating Categories by both Moody's if Moody's is then maintaining a rating on the Bonds and S&P if S&P is then maintaining a rating on the Bonds at the time such instrument is provided.

"Responsible Officer" shall mean an officer or assistant officer of the Trustee assigned by the Trustee to administer the Trust Agreement.

"Securities Depositories" means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Dex-(215) 496-5058; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses as such depositories may specify and/or such other securities depositories as the City may designate in a written request of the City delivered to the Trustee.

"Series 1997 Bonds" means the \$436,289,659.15 principal amount of Bonds issued under the Trust Agreement and the First Supplemental Trust Agreement and designated as "City of Oakland, Taxable Pension Obligation Bonds, Series 1997, Sub-series A and Sub-series B."

"Series 1997 Bond Insurer" means MBIA Insurance Corporation and any successor thereto.

"Series 1997 Costs of Issuance Fund" means the Costs of Issuance Fund designated by such name created in the First Supplemental Trust Agreement and into which money is to be deposited to pay Costs of Issuance with respect to the issuance of the Series 1997 Bonds and the refunding of the 1997 Debenture.

"Series 1997 Debt Service Fund" means the Debt Service Fund designated by such name created in the First Supplemental Trust Agreement and into which money is to be deposited to pay debt service on the Series 1997 Bonds.

"Principal Amount" or "principal amount" shall mean, as of any date of calculation, the principal amount of a Bond payable at maturity or the Accreted Value or Denominational Amount (as applicable to any Series or Subseries of Bonds) of a Bond and includes the Maturity Amount of the Series 1997 Bonds which are Capital Appreciation Bonds.

"Program" means the program referred to in the PFRS Pension Obligation Bond Law.

"Program Fund" means the fund designated by such name established pursuant to the Trust Agreement.

"Qualified Swap" shall mean any Swap (a) whose Designated Debt is all or part of a particular Series or Subseries of Bonds; (b) which has been approved in writing by any Credit Provider securing payment of principal of and interest on such Series or Subseries of Bonds (including any bond insurer); (c) whose Swap Provider is a Qualified Swap Provider or has been a Qualified Swap Provider within the 60 day period preceding the date on which the determination of such status is being made; (d) which has a term not greater than the term of the Designated Debt or to a specified mandatory tender or redemption of such Designated Debt; and (e) which has been designated in writing to the Trustee by the City as a Qualified Swap with respect to such Bonds.

"Qualified Swap Provider" shall mean a financial institution (a) whose senior long-term debt obligations, or whose obligations under any Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated at least "AA", in the case of Moody's and "Aa", in the case of Standard & Poor's, or the equivalent thereto in the case of any successor thereto, and (b) acceptable to the Credit Provider for the Designated Debt.

"Rating Agency" shall mean Moody's, S&P or Fitch.

"Rating Category" and "Rating Categories" shall mean (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" shall mean any fund designated by such name created by the City pursuant to a Supplemental Trust Agreement in connection with the issuance of any Series or Subseries of Bonds for the express purpose of complying with the requirements of the Code with respect to any Bonds the interest on which is excluded from gross income for federal income tax purposes, and providing for the collection and holding for, and payment of amounts to, the United States of America.

"Record Date" shall mean, with respect to any Series or Subseries of Bonds, the record date as specified in the Supplemental Trust Agreement which provides for the issuance of such Series. "Record Date" means, with respect to the Series 1997 Bonds, for a June 15 Interest Payment Date the preceding June 1 and for a December 15 Interest Payment Date the preceding December 1.

"Redemption Account" or "Redemption Accounts" shall mean a Redemption Account or any of the Redemption Accounts created pursuant to the provisions of the Trust Agreement and designated by such name and further described in a Supplemental Trust Agreement.

"Refunding Bonds" shall mean any Bonds issued pursuant to the provisions of the Trust Agreement to refund or defease all or a portion of any series of Outstanding Bonds or any Subordinated Obligation.

"Registrar," for purposes of the First Supplemental Trust Agreement, shall mean the Trustee.

"Registrar" shall mean, with respect to the Bonds or any Series or Subseries of Bonds, the bank, trust company or other entity designated in a Supplemental Trust Agreement or a resolution of the City to perform the

"Series" shall mean Bonds designated as a separate Series by a Supplemental Trust Agreement.

"Serial Bonds" shall mean Bonds for which no sinking fund installment payments are provided.

"State" shall mean the State of California.

"Subordinated Obligation" shall mean any bond, note or other debt instrument issued or otherwise entered into by the City which ranks junior and subordinate to the Bonds and which may be paid from moneys constituting Pledged Revenues only if all amounts of principal and interest which have become due and payable on the Bonds, whether by maturity, redemption or acceleration, have been paid in full and the City is current on all payments, if any, required to be made to replenish any Reserve Fund. "Subordinated Obligations" are not Bonds for purposes of the Trust Agreement; provided, however, that the City may henceforth by Supplemental Trust Agreement elect to have the provisions of the Trust Agreement applicable to the Bonds apply to the Subordinated Obligations issued thereunder, except that such Subordinated Obligations shall be secured on a junior and subordinate basis to the Bonds from the Pledged Revenues. No bond, note or other instrument of indebtedness shall be deemed to be a "Subordinated Obligation" for purposes of the Trust Agreement and payable on a subordinated basis from Pledged Revenues unless specifically designated by the City as a "Subordinated Obligation" in a Supplemental Trust Agreement or other written instrument. In connection with any Subordinated Obligation with respect to which a Swap is in effect or if the City proposes a Swap to be in effect, the term "Subordinated Obligation" includes, collectively, both such Subordinated Obligation and either such Swap or the obligations of the City under each such Swap, as the context requires. The term "Subordinated Obligations" also includes a Swap or the obligations of the City under such Swap which has been entered into in connection with a Subordinated Obligation, as the context requires, although none of the Subordinated Obligations with respect to which such Swap was entered into remain outstanding. In connection with any Bonds with respect to which a Qualified Swap is in effect or proposed to be in effect, the term "Subordinated Obligation" includes any Swap Termination Payment.

"Subseries" and "Sub-series" means any Bonds designated as a subseries within a Series of Bonds by a Supplemental Trust Agreement.

"Sub-series A Bonds" means the Bonds of such designation authorized for issuance pursuant to the provisions of the First Supplemental Trust Agreement.

"Sub-series B Bonds" means the Bonds of such designation authorized for issuance pursuant to the provisions of the First Supplemental Trust Agreement.

"Supplemental Trust Agreement" shall mean any document supplementing or amending the Trust Agreement or providing for the issuance of Bonds and entered into as provided in the Trust Agreement.

"Swap" shall mean any financial arrangement between the City (or the Trustee at the direction of the City) and a Swap Provider which provides that (a) each of the parties shall pay to the other an amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or a variable rate or measured against some other rate) on a Designated Debt, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement); (b) if such amount is to be paid *before* it is deemed to have accrued, the amount paid shall reflect the present value of such future amount (i.e., an upfront premium), while an amount to be paid *after* it is deemed to have accrued shall reflect the time value of such funds; (c) payment dates and calculated accrual rates need not be the same for each payor, but to the extent payment dates coincide, the arrangement may (but need not) provide that one shall pay to the other any net amount due under such arrangement.

"S&P" shall mean Standard & Poor's, a division of McGraw-Hill Companies, its successors and their assigns, and if such rating agency shall for any reason no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

"Swap Provider" shall mean a party to a Swap with the City.

"*Swap Termination Payment*" shall mean an amount payable by the City or a Qualified Swap Provider, in accordance with a Qualified Swap, to compensate the other party to the Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Qualified Swap.

"*Tax Override*" and "*Tax Override Revenues*" shall mean the annual tax levy and the revenues generated and collected thereby by the City in each Fiscal Year, as and when collected and net of collection costs and administrative charges, as proceeds of the annual tax levy authorized by Measure R enacted by the voters of the City on June 8, 1976, amending Section 2602, 2607, 2608, 2610, 2618 and 2619 of the Charter, and Measure O approved by the voters of the City on June 7, 1988, amending Section 2619(6) of the Charter. The "*Tax Override Revenues*" shall not include investment earnings on such revenues while held by the City in the Tax Override Revenues Account. The use and application of the Tax Override Revenues shall be in accordance with Section 5.07(a) hereof. The use and application of the Tax Override Revenues shall be in accordance with the Trust Agreement.

"*Term Bonds*" shall mean Bonds of a series which are payable on or before their specified maturity dates from sinking fund installment payments established for that purpose pursuant to the Supplemental Trust Agreement for such series and calculated to retire the Bonds on or before their specified maturity dates.

"*Treasurer*" shall mean the Treasurer of the City as set forth in the Charter.

"*Trust Agreement*" shall mean the Master Trust Agreement dated as of February 1, 1997 between the City and the Trustee, together with all Supplemental Trust Agreements.

"*Trustee*" shall mean the entity named as such in the heading of the Trust Agreement until a successor replaces it and, thereafter, shall mean such successor.

"*United States Obligations*" shall mean direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including, with respect only to direct and general obligations and not to guaranteed obligations, evidences of ownership of proportionate interests in future interest and/or principal payments of such obligations, provided that investments in such proportionate interests must be limited to circumstances wherein: (1) a bank or trust company acts as custodian and holds the underlying United States Obligations; (2) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (3) the underlying United States Obligations are held in a special account separate from the custodian's general assets and are not available to satisfy any claim of the custodian, any person claiming through the custodian or a y person to whom the custodian may be obligated. "*United States Obligations*" shall include any stripped interest or principal portion of United States Treasury securities and any stripped interest portion of Resolution Funding Corporation securities.

THE BONDS

Issuance of Bonds Bonds may be issued by the City under the terms of the Trust Agreement for any purpose for which the City, at the time of such issuance, may incur debt pursuant to the PFRS Pension Obligation Bond Law, which may include issuing Bonds and loaning the proceeds to other entities (if it is determined to be legally permissible for the City to do so at such time) or investing the proceeds of Bonds in any Permitted Investment, provided that, if the proceeds of the Bonds are loaned to other entities or invested, the loan repayments and interest or investment earnings thereon and the invested proceeds and interest or investment earnings thereon shall be included as Pledged Revenues. Bonds may be issued under the Trust Agreement only if the provisions of the Trust Agreement are satisfied. The Bonds may be in certificated or uncertificated form, and Bonds which are issued in certificated form may be freely transferable or may be immobilized and held by a custodian for the beneficial owners, all as shall be set forth or permitted in the Supplemental Trust Agreement providing for the issuance of such Bonds. The Bonds may have notations, legends or endorsements required by law or usage.

Terms, Medium and Place of Payment. The Bonds shall be issued in the principal amount, shall bear interest at a rate or rates, including a rate of 0% and including variable or adjustable rates or rates set by auction, or by such other methods as the City may from time to time determine, and such interest may be payable periodically, in whole or in part, or may be accreted or accumulated and paid at maturity (such as Capital Appreciation Bonds) or at such other time or times as the City shall determine, all as shall be set forth in a Supplemental Trust Agreement. Bonds shall mature and shall be subject to redemption prior to their respective maturities, as set forth in a Supplemental Trust Agreement. The Bonds of each Series shall state that they are issued under and are secured by the Trust Agreement and are payable from the Payments and the Pledged Revenues pledged under any Supplemental Trust Agreement relating to such issue of Bonds, and state that regardless of the form thereof, they are "Bonds" issued under the Trust Agreement and within the meaning of the Trust Agreement.

Payment of principal of the Series 1997 Bonds shall be made upon surrender of the Series 1997 Bonds to the Trustee or its agent; provided that with respect to Series 1997 Bonds which are Book-Entry Series 1997 Bonds, the Trustee may make other arrangements for payment of principal as provided in the Representation Letter. Payment of interest on Series 1997 Bonds which are not Book-Entry Bonds shall be paid by check or draft of the Trustee mailed by first-class mail to the person who is the registered Owner thereof on the Record Date, and such payment shall be mailed to such Owner at his address as it appears on the registration books of the Registrar. Such payment of interest shall be made by check mailed by the Trustee by first class mail to the owner at the address as it appears on the bond registration books maintained by the Trustee or, upon written request filed with the Trustee prior to the Record Date by an Owner of at least \$1,000,000 in aggregate principal amount of the Bonds, by wire transfer in immediately available funds to the account in the continental United States designated by said Owner in such written request. All such payments shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. The payment of interest on Book-Entry Bonds shall be made as provided in the Trust Agreement. With respect to all Series 1997 Bonds, interest due and payable on any Interest Payment Date shall be paid to the person who is the registered owner as of the Record Date. The Series 1997 Bonds shall be substantially in the form set forth in Exhibit A, which is part of the First Supplemental Trust Agreement.

If the principal of a Series 1997 Bond becomes due and payable, but shall not have been paid as a result of a default under the Trust Agreement, and no provision is made for its payment, then such Bond shall bear interest at the same rate after such default as on the day before the default occurred.

Payments with respect to the Bonds shall be made as provided in the Supplemental Trust Agreement providing for the issuance of such Bonds or as provided in the Bonds, which provisions shall include the designation of the currency in which such payments shall be made.

A Bond in certificated form will not be valid until the Trustee or its agent or an authenticating agent designated by the City manually signs the certificate of authentication on the Bond. Such signature will be conclusive evidence that the Bond has been authenticated under the Trust Agreement.

Bond Register. Bonds of each Series may be presented at the principal corporate trust office of the Trustee or such other Registrar, unless a different office has been designated for such purpose, for registration, transfer and exchange. The Trustee or a Registrar will keep a register of each Series or Subseries of Bonds and of their transfer and exchange.

Mutilated, Lost, Stolen or Destroyed Bonds.

In the event any Bond is mutilated or defaced but identifiable by number and description, the City shall execute and the Trustee shall authenticate and deliver a new Bond of like Series, date, maturity and denomination as such Bond, upon surrender thereof to the Trustee; provided that there shall first be furnished to the Trustee clear and unequivocal proof satisfactory to the Trustee that the Bond is mutilated or defaced to such an extent as to impair its value to the Bondholder. The Bondholder shall accompany the above with a deposit of money required by the Trustee for the cost of preparing the substitute Bond and all other expenses connected with the issuance of

such substitute. The Trustee shall then cause proper record to be made of the cancellation of the original, and thereafter the substitute shall have the validity of the original.

In the event any Bond is lost, stolen or destroyed, the City may execute and the Trustee may authenticate and deliver a new Bond of like Series, date, maturity and denomination as the Bond lost, stolen or destroyed, provided that there shall first be furnished to the Trustee evidence of such loss, theft or destruction satisfactory to the Trustee, together with indemnity satisfactory to it.

Except as limited by any Supplemental Trust Agreement, the Trustee may charge the holder of any such Bond all governmental charges and transfer taxes, if any, and its reasonable fees and expenses in the connection. All substitute Bonds issued and authenticated pursuant to The Trust Agreement shall be issued as a substitute and numbered, if numbering is provided for by the Supplemental Trust Agreement or the Trustee, as determined by the Trustee. In the event any such Bond has matured or been called for redemption, instead of issuing a substitute Bond, the Trustee may pay the same at its maturity or redemption without surrender thereof upon receipt of indemnity satisfactory to the Trustee.

Registration and Transfer or Exchange of Bonds; Persons Treated as Owners. Unless otherwise provided by a Supplemental Trust Agreement, all Bonds shall be issued in fully registered form.

Upon surrender for transfer of any Bond at the principal corporate trust office of the Registrar, the Registrar shall deliver in the name of the transferee or transferees a new fully authenticated and registered Bond or Bonds of Authorized Denominations of the same Series and same maturity for the same aggregate principal amount.

Bondholders may present Bonds at the principal corporate trust office of the Registrar for exchange for Bonds of different Authorized Denominations and, upon such presentation, the Registrar shall deliver to the Bondholder a new fully authenticated and registered Bond or Bonds of the same Series and same maturity for the same aggregate principal amount.

All Bonds presented for transfer or exchange shall be accompanied by a written instrument or instruments of transfer or authorization for exchange, in form and with guaranty of signature satisfactory to the Registrar, duly executed by the Bondholder or by his duly authorized attorney. Series 1997 Bonds which are delivered to the Registrar for exchange may be exchanged for an equal total principal amount of Series 1997 Bonds of the same interest rate and maturity date.

The Registrar will not, however, be required to transfer or exchange any such Bond during the period established by the Registrar for selection of Series 1997 Bonds for redemption or any Bond which has been selected for redemption.

Except as limited by any Supplemental Trust Agreement, the Registrar also may require payment from the Bondholder of a sum sufficient to cover any tax, or other governmental fee or charge that may be imposed in relation thereto. Such taxes, fees and charges shall be paid before any such new Bond shall be delivered.

Supplemental Trust Agreements may designate certain limited periods during which Bonds will not be exchanged or transferred.

Bonds delivered upon any exchange or transfer as provided in the Trust Agreement, or as provided in the Trust Agreement, shall be valid obligations of the City, evidencing the same debt as the Bond or Bonds surrendered, shall be secured by the Trust Agreement and shall be entitled to all of the security and benefits of the Trust Agreement to the same extent as the Bond or Bonds surrendered.

The City, the Trustee and the Paying Agent shall treat the Bondholder of a Bond, as shown on the registration books kept by the Registrar, as the person exclusively entitled to payment of principal, premium, if any, and interest on such Bond and as the party entitled to the exercise of all other rights and powers of the Bondholder, except that all interest payments will be made to the party who, as of the Record Date, is the Bondholder.

Destruction of Bonds. Whenever any Bonds shall be delivered to the Trustee for cancellation pursuant to the Trust Agreement, upon payment of the principal amount and interest represented thereby or for replacement pursuant to the Trust Agreement or exchange or transfer pursuant to the Trust Agreement, such Bond shall be canceled and destroyed by the Trustee or the Registrar and counterparts of a certificate of destruction evidencing such destruction shall be furnished by the Trustee to the City.

Temporary Bonds. Pending preparation of definitive Bonds of any Series, the City may execute and the Trustee shall authenticate and deliver, in lieu of definitive Bonds and subject to the same limitations and conditions, interim receipts, certificates or temporary bonds which shall be exchanged for the Bonds.

If temporary Bonds shall be issued, the City shall cause the definitive Bonds to be prepared and to be executed, authenticated and delivered to the Trustee, and the Trustee, upon presentation to it of any temporary bond, shall cancel the same and deliver in exchange therefor at the place designated by the Bondholder, without charge to the Bondholder thereof, definitive Bonds of an equal aggregate principal amount, of the same Series, date, maturity and bearing interest the same as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefit and security of the Trust Agreement as the definitive Bonds to be issued and authenticated under the Trust Agreement. The City and Trustee may modify any of the provisions of the Trust Agreement to allow for Capital Appreciation Bonds.

Issuance of Series or Subseries of Bonds; Supplemental Trust Agreement; Application of Bond Proceeds. Bonds may be issued, from time to time, subject to the conditions of the Trust Agreement.

Bonds shall be dated, shall mature, shall bear interest, shall be subject to redemption and shall be amortized, all as provided in the Supplemental Trust Agreement relating to such Series or Subseries of Bonds. In addition, each such Supplemental Trust Agreement may provide for the appointment of a Registrar or Registrars and a Paying Agent or Paying Agents and such other agents as the City shall determine to be necessary in addition to or in place of the Trustee.

Each issue or Series of the Bonds, upon execution by the City, shall be deposited with the Trustee or an agent for authentication and delivery, but prior to or simultaneously with the original delivery of such Series or Subseries of Bonds, there shall be filed with the Trustee the following:

- (a) an original executed counterpart or a copy, certified by the City Clerk, of the Trust Agreement, together with all prior Supplemental Trust Agreements, executed by the City;
- (b) an original executed counterpart or a copy, certified by the City Clerk, of the Supplemental Trust Agreement or Supplemental Trust Agreements providing for the issuance of such Series or Subseries of Bonds and setting forth the terms of such Series or Subseries of Bonds;
- (c) a certified copy of the Funding Agreement relating thereto, if any, or a certificate of an Authorized City Representative listing those undertakings of the City which the City expects to finance with proceeds of the sale of such Series or Subseries of Bonds and such certificate shall, with respect to each item on the list, include the estimated Cost of such undertaking;
- (d) the certificate of the Authorized City Representative or the Consultant or Consultants, as the case may be, required by the Trust Agreement.
- (e) a certificate of the Authorized City Representative stating that none of the Events of Default set forth in the Trust Agreement of the Trust Agreement have occurred and remain uncured;
- (f) an opinion of Bond Counsel to the effect that the issuance of such Bonds has been duly authorized, that all legal conditions precedent to the delivery of such Bonds have been fulfilled, and that the Bonds are valid and binding obligations of the City, enforceable in accordance with their terms; and

(g) written instructions from the City to authenticate the Bonds and, upon receipt of the purchase price, to deliver the Bonds to or upon the order of the purchasers named in such instructions.

When the documents mentioned in clauses (a) to (g), inclusive, of the immediately preceding paragraph shall have been filed with the Trustee and when such Bonds shall have been executed and authenticated, the Trustee or authenticating agent shall deliver such Bonds to or upon the order of the purchasers thereof, but only upon payment by the purchasers of the purchase price of such Bonds.

Refunding Bonds. Refunding Bonds may be issued under and secured by the Trust Agreement. Such Refunding Bonds shall be issued in accordance with the provisions of the Trust Agreement.

Issuance of Additional Bonds. The City may issue Additional Bonds secured on a parity with any Bonds are Outstanding under the Trust Agreement at any time so long as the resolution of the Council authorizing their issuance states that such Additional Bond shall be subject to the terms and conditions of the Trust Agreement. No restriction is imposed by the Trust Agreement on the maximum principal amount of Bonds to be issued under the Trust Agreement. No term or provision of the Trust Agreement shall prevent the City from issuing general obligation bonds or other indebtedness or liabilities payable from the general revenues, or any special source of revenues, of the City.

Repayment Obligations Afforded Status of Bonds. If a Credit Provider or Liquidity Provider makes payment of principal of a Bond or advances funds to purchase or provide for the purchase of Bonds and is entitled to reimbursement thereof, pursuant to a separate written agreement with the City, but is not reimbursed, the City's Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Bond issued under the Trust Agreement, and, if afforded such status, the Credit Provider or Liquidity Provider shall be the Bondholder and such Bond shall be deemed to have been issued at the time of the original Bond for which the Credit Facility or Liquidity Facility was provided and will not be subject to the provisions of the Trust Agreement therein described; provided, however, notwithstanding the stated terms of the Repayment Obligation, the payment terms of the Bond held by the Credit Provider or Liquidity Provider under the Trust Agreement shall be as follows: interest shall be due and payable semiannually and principal (which shall be limited to reimbursement for amounts paid by such Credit Provider or Liquidity Provider) shall be due and payable not less frequently than annually and in such annual amounts as to amortize the principal amount thereof in (i) 30 years or, if shorter, (ii)(a) a term extending to the maturity date of the Bonds secured by such Credit Facility or Liquidity Facility, or (b) if later, the final maturity of the Repayment Obligation under the written agreement, and providing substantially level Annual Debt Service payments, using the rate of interest set forth in the written repayment agreement which would apply to the Repayment Obligation as of the date such amortization schedule is fixed. The principal amortized as described in the prior sentence shall bear interest in accordance with the terms of the Repayment Obligation. Any amount which comes due on the Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Bond shall be a Subordinated Obligation of the City. The provision shall not defeat or alter the rights of subrogation which any Credit Provider may have under law or under the terms of any Supplemental Trust Agreement.

Obligations Under Qualified Swap; Nonqualified Swap.

The obligation of the City to make Regularly Scheduled Swap Payments under a Qualified Swap with respect to a Series or Subseries of Bonds may be on a parity with the obligation of the City to make payments with respect to such Series or Subseries of Bonds and other Bonds under the Trust Agreement, except as otherwise provided by Supplemental Trust Agreement and elsewhere in the Trust Agreement with respect to any Swap Termination Payments. The City may provide in any Supplemental Trust Agreement that interest swap payment obligations under a Qualified Swap may be payable from the Payments and secured by a pledge of or lien on the Pledged Revenues on a parity with the Bonds of such Series and all other Bonds, regardless of the principal amount, if any, of the Bonds of such Series remaining Outstanding. The interest rate swap obligation of the City payable from the Payments or secured by Pledged Revenues shall be limited to the net amount actually owed at any time by the City under such Qualified Swap, for purposes of determining the parity status of such obligation. The

Trustee shall take all action consistent with the other provisions of the Trust Agreement as shall be requested in writing by the Qualified Swap Provider necessary to preserve and protect any such pledge, lien and assignment and to enforce the obligations of the City with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence shall require the Trustee either to exercise the remedies granted in the Trust Agreement or to institute any action, suit or proceeding in its own name, the Qualified Swap Provider shall provide to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

In the event that a Swap Termination Payment or any other amounts other than as described in clause (a) above are due and payable by the City under a Qualified Swap, such Swap Termination Payment and any such other amounts shall constitute a Subordinated Obligation under the Trust Agreement.

Obligations of the City to make payments, including termination payments, under a Nonqualified Swap shall constitute Subordinate Obligations under the Trust Agreement.

REDEMPTION OF SERIES 1997 BONDS

The Series 1997 Bonds shall not be subject to redemption prior to their maturity.

PAYMENTS AND FUNDS

Bonds Payable Out of Payments and Secured by Lien on Pledged Revenues. The City shall cause the Payments to be made in such amounts and at such times as are necessary to cause all payments of principal, interest and redemption price of Bonds issued under the Trust Agreement and each Supplemental Trust Agreement executed pursuant to the Trust Agreement to be made to Bondholders when and as due. The Bonds authorized and issued under the provisions of the Trust Agreement shall be secured as provided in the Covenant of Payment and Granting Clause of the Trust Agreement. The City covenants that, except as expressly permitted by any Supplemental Trust Agreement, until all the Bonds authorized and issued under the provisions of the Trust Agreement and the interest thereon shall have been paid or are deemed to have been paid, it will not grant any prior or parity pledge of or any security interest in any Pledged Revenues pledged by any Supplemental Trust Agreement executed pursuant to the Trust Agreement or any of the other security, if any, which is expressly pledged pursuant to the Granting Clauses of the Trust Agreement, or create or permit to be created any charge or lien thereon or any security interest therein ranking prior to or on a parity with the charge or lien of the Bonds from time to time Outstanding under the Trust Agreement. The City may, as provided in the Trust Agreement, grant a lien on or security interest in any Pledged Revenues to secure Subordinated Obligations, but only on a subordinated basis. The Trust Agreement creates no pledge of or security interest in any Pledged Revenues or other security or property for the benefit of the Bondholders on the date of delivery of the Trust Agreement other than the Tax Override Revenues. The Trust Agreement and the Covenant of Payment and the pledge of security set forth in the Granting Clauses of the Trust Agreement shall not be construed to restrict in anyway the right of the City to create any charge or lien on the legally available moneys of the City or any source thereof.

Provisions of Trust Agreement Subject to Charter Provisions. The City covenants to cause the Payments required by the Trust Agreement to be made only in accordance with Section 806 of the Charter, relating to budgeting and appropriations.

Establishment of Funds and Accounts.

Earnings on the various funds and accounts created under any Supplemental Trust Agreement shall be deposited as provided in such Supplemental Trust Agreement, except that (i) during the continuation of an Event of Default earnings on such funds and accounts shall be deposited into the Debt Service Funds created under the respective Supplemental Trust Agreements, and (ii) pursuant to the Trust Agreement, earnings on any Reserve Funds may be retained in such funds under the conditions therein described.

In the Trust Agreement, the City establishes or authorizes the establishment of the following special trust funds and accounts:

- (1) Program Fund.
- (2) Debt Service Funds and Accounts.
- (3) Reserve Funds.
- (4) Residual Fund.
- (5) Cost of Issuance Fund.
- (6) Revenue Fund and Accounts.

Pursuant to the Trust Agreement, the City establishes within the General Fund of the City a special account, to be designated The City of Oakland, Tax Override Revenues Account, to be held in trust by the City and applied as provided in the Trust Agreement.

ESTABLISHMENT OF FUNDS RELATING TO THE SERIES 1997 BONDS AND APPLICATION THEREOF

Establishment of Funds and Accounts. The following funds are established with the City and the Trustee in the First Supplemental Trust Agreement:

(a) The City of Oakland, Taxable Pension Obligation Bonds, Series 1997 Debt Service Fund and therein a Series 1997, Sub-series A Debt Service Account (the "Series 1997, Sub-series A Debt Service Account") and within the Series 1997, Sub-series A Debt Service Account an Interest Subaccount and a Principal Subaccount; and

(b) Within The City of Oakland, Taxable Pension Obligation Bonds, Series 1997 Debt Service Fund created pursuant to subparagraph (a) above, a Series 1997, Sub-series B Debt Service Account (the "Series 1997, Sub-series B Debt Service Account") and within the Series 1997, Sub-series B Debt Service Account an Interest Subaccount and a Principal Subaccount ; and

(c) The City of Oakland, Taxable Pension Obligation Bonds, Revenue Fund, in which there shall be established a Pledged Revenues Account and a General Revenues Account; and

(d) The City of Oakland, Taxable Pension Obligation Bonds, Series 1997 Costs of Issuance Fund.

Application of Proceeds and Other Funds and Securities. The proceeds of the sale of the Series 1997 Bonds received by the Trustee shall be deposited or paid by the Trustee to pay accrued interest on the Bonds on June 15, 1997, to refund the 1997 Debenture, whereupon the Trustee shall cancel the 1997 Debenture upon receipt of the proceeds of the sale of the Series 1997 Bonds in exchange for such payment, and to pay costs of issuance of the Series 1997 Bonds. On the date of delivery of the Series 1997 Bonds to the purchasers thereof, an Authorized City Representative shall deliver to the Trustee the certificate required by the Trust Agreement evidencing the segregation of the Tax Override Revenues in the Tax Override Revenues Account of the General Fund of the City.

City Transfers of Annual Debt Service; Series 1997 Debt Service Fund. The City shall deposit with the Trustee on or before June 15, 1997 an aggregate amount from its legally available revenues and the Tax Override Revenues held in the Tax Override Revenues Account of the City, sufficient to pay all principal and interest due on

the Sub-series A Bonds and Sub-series B Bonds on June 15, 1997 in accordance with the attached Exhibit B; provided, however, that any Tax Override Revenues shall only be deposited by the Trustee in the Pledged Revenues Account of the Revenue Fund and applied to pay amounts due with respect to solely the Sub-series A Bonds on June 15, 1997. Not later than June 15, 1997, the Trustee shall transfer moneys from the Pledged Revenues Account and the General Revenue Account of the Revenue Fund for deposit into the Interest Subaccounts of the Series 1997 Debt Service Fund in amounts sufficient to pay interest coming due on the Sub-series A Bonds that are Current Interest Bonds and the Sub-series B Bonds on June 15, 1997. The City shall deposit with the Trustee on or before August 1 of each year, commencing on August 1, 1997, an aggregate amount from its legally available revenues and the Tax Override Revenues held in the Tax Override Revenues Account of the City, sufficient to pay all principal and interest due on the Sub-series A and Sub-series B Bonds on the next succeeding December 15 and June 15; provided, however, that Tax Override Revenues shall only be applied to pay principal and interest on the Sub-series A Bonds. The City shall designate to the Trustee in writing the amounts transferred from the Tax Override Revenues Account for deposit in the Pledged Revenues Account of the Revenue Fund pursuant to the Trust Agreement. The Trustee shall make deposits into the Series 1997 Debt Service Fund as follows:

Interest Subaccounts. The Trustee shall deposit into the Interest Subaccounts for the Sub-series A Bonds and the Sub-series B Bonds the amounts of accrued interest received from the sale of the Series 1997 Bonds and shall, thereafter, transfer into the Interest Subaccount of the Series 1997, Sub-series A Debt Service Account and the Interest Subaccount of the Series 1997, Sub-series B Debt Service Account amounts received from the City, as provided in the Trust Agreement, to be used to pay interest on the Series 1997, Sub-series A and Sub-series B Bonds. The Trustee shall also deposit into the Interest Subaccounts for the Sub-series A Bonds and the Sub-series B Bonds any other amounts deposited with the Trustee for deposit in the Interest Subaccounts or transferred from other funds and accounts for deposit therein. Earnings on the Interest Subaccounts shall be withdrawn and paid to the City on the Business Day following an Interest Payment Date unless an Event of Default exists under the Trust Agreement, in which event the earnings shall be retained in such account.

Principal Subaccounts. The Trustee shall deposit into the Principal Subaccount of the Series 1997, Sub-series A Debt Service Account and the Principal Subaccount of the Series 1997, Sub-series B Debt Service Account amounts received from the City to be used to pay principal of the Series 1997, Sub-series A and Sub-series B Bonds at maturity. The Trustee shall also deposit into the Principal Subaccounts any other amounts deposited with the Trustee for deposit into the Principal Subaccounts or transferred from other funds and accounts for deposit therein. Earnings on the Principal Subaccounts shall be withdrawn and paid to the City on the Business Day following an Interest Payment Date unless an Event of Default exists under the Trust Agreement, in which event the earnings shall be retained in such account.

The Series 1997 Debt Service Fund shall be invested and reinvested as directed by an Authorized City Representative in Permitted Investments.

Pledged Revenues Account of the Revenue Fund and Application of Pledged Revenues.

All Tax Override Revenues, as and when collected by the City, shall be deposited in the Tax Override Revenues Account of the City and shall be applied solely as provided in the Trust Agreement and this First Supplemental Trust Agreement. Amounts held in the Tax Override Revenues Account established pursuant to the Trust Agreement shall be transferred by the City to the Trustee for deposit to the credit of the Pledged Revenues Account of the Revenue Fund not later than August 1 of each Fiscal Year, beginning on August 1, 1997. Prior to each Payment Date with respect to the Sub-series A Bonds, the Trustee shall transfer to the Sub-series A Debt Service Account from amounts held in the Pledged Revenues Account and the General Revenues Account of the Revenue Fund, for application to the Interest Subaccount and the Principal Subaccount of the Series 1997, Sub-series A Debt Service Account, an amount sufficient, when aggregated with other amounts deposited by the City with the Trustee pursuant to the Trust Agreement, to pay principal and interest on the Sub-series A Bonds coming due on the next Payment Date. An Authorized City Representative shall direct that the amounts held in the Tax Override Revenues Account be transferred at such times and in such amounts as may be necessary to comply with the provisions of the Trust Agreement and the First Supplemental Trust Agreement. Such Tax Override Revenues held by the Trustee in the Pledged Revenues Account of the Revenue Fund are also referred to in the Trust Agreement as the "Pledged Revenues".

The amounts of Pledged Revenues credited to the Pledged Revenue Account shall first be applied as follows and in the order set forth:

FIRST: *Pro rata*, on each interest payment date, to the payment of amounts required to be deposited in the Interest Subaccount of the Series 1997, Sub-series A Debt Service Account, the Principal Subaccount of the Series 1997, Sub-series A Debt Service Account and to the Debt Service Funds applicable to the Bonds of any additional Series of Bonds for which such pledge was made;

SECOND: To the payment of amounts required to be deposited in the Reserve Fund, if any, applicable to any additional series of Bonds for which such pledge was made.

Prior to the application of Pledged Revenues as described in paragraph FIRST and SECOND above, there shall be credited against any such payment any amount (including investment earnings thereon) held in any Debt Service Fund or any Reserve Fund pursuant to the First Supplemental Trust Agreement or any other Supplemental Trust Agreement and available for payment of debt service on such Series or Sub-series of Bonds from time to time pursuant to the provisions of the First Supplemental Trust Agreement or such Supplemental Trust Agreement.

THIRD: To the payment of debt service on any indebtedness other than Outstanding Bonds, including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;

FOURTH: To the payment of any reserve requirement for debt service for any indebtedness other than Outstanding Bonds, including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness.

Notwithstanding the provisions of the Trust Agreement, nothing in the Trust Agreement shall preclude the City from making the payments described in paragraphs FIRST through FOURTH above from sources other than Pledged Revenues. Earnings on the Pledged Revenues Account of the Revenue Fund shall be withdrawn and paid to the City or applied as directed by the City in writing on or after June 16 of each Fiscal Year unless an Event of Default exists under the Trust Agreement, in which event the earnings shall be retained in such Fund. After application of the Pledged Revenues as set forth above in each Fiscal Year, any balance of Pledged Revenues remaining in the Pledged Revenues Account of the Revenue Fund on or after June 16 of each Fiscal Year shall be applied pursuant to the Trust Agreement.

General Revenue Account of the Revenue Fund. Amounts deposited by the City with the Trustee to pay principal and interest on the Bonds which are not Pledged Revenues shall be deposited by the Trustee in the General Revenues Account of the Revenue Fund. Prior to each Payment Date with respect to Bonds, the Trustee shall transfer to the Debt Service Funds and Accounts for the Bonds, from amounts held in the Pledged Revenues Account and the General Revenues Account of the Revenue Fund, an amount sufficient, when aggregated with other amounts deposited by the City with the Trustee pursuant to the Trust Agreement, to pay principal and interest on the Bonds coming due on the next Payment Date.

Receipt and Deposit of Tax Override Revenues in the Tax Override Revenues Account of the City General Fund.

On the date of issuance and delivery of the Series 1997 Bonds, an Authorized City Representative shall certify to the Trustee that all existing amounts of Tax Override Revenues levied and collected by the City in the 1996-97 fiscal year have been segregated in the Tax Override Revenues Account of the City's General Fund and are held therein in trust for the purposes specified in the Trust Agreement and shall certify as to the amount

thereof. Beginning on the date of issuance and delivery of the Series 1997 Bonds and during each year thereafter that Bonds are outstanding, the City shall deposit all Tax Override Revenues into the Tax Override Revenues Account and shall cause the Tax Override Revenues to be segregated and held in trust therein for application pursuant to the Trust Agreement. The City shall cause amounts of Tax Override Revenues to be transferred to the Trustee for deposit in the Pledged Revenues Account of the Revenue Fund at the times and in the amounts provided in any supplemental trust agreement relating to the issuance of Bonds secured by the Pledged Revenues, for application pursuant to the provisions of the Trust Agreement or any supplemental trust agreement.

Receipt and Deposit of Other Pledged Revenues in the Pledged Revenues Account. Subject to the provisions of the Trust Agreement: if any Supplemental Trust Agreement requires that the City pledge any specific revenues, fund or money, the revenues required to be so set aside into the specified accounts shall be set aside only out of such source of funds or fund or money and not out of any other funds or revenues of the City. The Authorized City Representative shall direct that such sums be set aside through transfers or payments made at such time and in such amounts as may be necessary to comply with the provisions of the Trust Agreement and any Supplemental Trust Agreement. Unless a differing procedure is set forth in a Supplemental Trust Agreement relating to the Bonds or any Series or Subseries thereof, the amounts of Pledged Revenues credited to the Pledged Revenues Account of the Revenue Fund shall be applied in the manner and in the order set forth in the Trust Agreement.

The City may provide in any Supplemental Trust Agreement that, as to any Series or Subseries of Bonds Outstanding, any amounts required to be transferred to and paid into a Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Debt Service Fund, and in that event any subsequently scheduled monthly transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Trust Agreement, the City may provide that moneys in the Redemption Account allocable to sinking fund installment payments of a Series may, at the discretion of the City, be applied to the purchase and cancellation of such Series (at a price not greater than par) prior to notice of redemption of such Series. Such Bonds so delivered or previously redeemed or purchased at the direction of the City shall be credited by the Treasurer at the principal amount thereof to the next scheduled sinking fund installment payments on Bonds of such Series and any excess over the sinking fund installment payment deposit required on that date shall be credited against future sinking fund installment deposits in such manner and order as the City may determine in its discretion, and the scheduled principal amount of the Bonds to be redeemed by operation of such sinking fund installment payments shall be accordingly modified in such manner as the City may determine.

Money set aside and placed in a Debt Service Fund for any Series or Subseries of Bonds shall remain therein until from time to time applied to the payment of debt service and shall not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Debt Service Fund may be temporarily invested as provided in the Trust Agreement, but such investment shall not affect the obligation of the City to cause the full amount required by the terms of the Trust Agreement to be available in a Debt Service Fund at the time required to meet payments of principal of and interest on Bonds of the Series for which it is accumulated. Earnings on such investments may be transferred into the Residual Fund, except that during the continuation of an Event of Default, such earnings shall remain in the Debt Service Funds created under the respective Supplemental Trust Agreements.

Each Debt Service Fund established to pay principal of and interest on any Series or Subseries of Bonds shall be held by the Trustee or any agent of the Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Trustee or its agent, shall be deposited therein and used for such purpose. Accounts and subaccounts shall be created by the Trustee or any agent of the Trustee in the various Debt Service Funds as requested in writing by the Authorized City Representative and shall be held by the Trustee or such agents as shall be provided by Supplemental Trust Agreement.

The moneys in each Debt Service Fund established for any issue or Series shall be held in trust and applied as provided in the Trust Agreement and in the Supplemental Trust Agreement, and pending the application of such amounts in accordance herewith and with the provisions of such Supplemental Trust Agreement shall be subject to a lien on and security interest in favor of the holders of the Outstanding Bonds of such Series.

If, on any Payment Date, the Trustee does not have sufficient amounts in the Debt Service Funds (without regard to any amounts which may be available in any Reserve Fund) to pay in full with respect to Bonds of all Series all amounts of principal and/or interest due on such date, the Trustee shall allocate the total amount which is available to make payment on such day (without regard to any amounts in any Reserve Fund) as follows: first to the payment of past due interest on Bonds of any Series, in the order in which such interest came due, then to the payment of past due principal on Bonds of any Series, in the order in which such principal came due, then to the payment of interest then due and payable on the Bonds of each Series due on such Payment Date and, if the amount available shall not be sufficient to pay in full all interest on the Bonds then due, then *pro rata* among the Series according to the amount of interest then due and second to the payment of principal then due on the Bonds and, if the amount available shall not be sufficient to pay in full all principal on the Bonds then due, then *pro rata* among the Series according to the Principal Amount then due on the Bonds.

Notwithstanding the foregoing, the City may, by Supplemental Trust Agreement, provide for different provisions and timing of deposits with the Trustee and different methods of paying principal of or interest on Bonds of any Series depending upon the terms of such Series or Subseries of Bonds and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Debt Service Fund created for the Series or Subseries of Bonds for which such Credit Facility is provided.

If the cash amount of any Pledged Revenues pledged by any Supplemental Trust Agreement deposited into the Debt Service Fund or accounts therein to pay any Series or Subseries of Bonds secured by said Pledged Revenues is at any time insufficient to make the deposits required to make payments on the Bonds, the City may, at its election, pay to the Trustee funds from any available sources with the direction that such funds be deposited into the Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

Moneys Held in Trust for Matured Bonds; Unclaimed Moneys. All moneys which shall have been withdrawn from a Debt Service Fund and set aside or deposited with a Paying Agent for the purpose of paying any of the Bonds, either at the maturity thereof or upon call for redemption, or which are set aside by the Trustee for such purposes and for which Bonds the maturity date or redemption date shall have occurred, shall be held in trust for the respective holders of such Bonds. But any moneys which shall be so set aside or deposited and which shall remain unclaimed by the holders of such Bonds for a period of one (1) year after the date on which such Bonds shall have become due and payable (or such longer period as shall be required by state law) shall be paid to the City, and thereafter the holders of such Bonds shall look only to the City for payment and the City shall be obligated to make such payment, but only to the extent of the amounts so received without any interest thereon, and neither the Trustee nor any Paying Agent shall have any responsibility with respect to any of such moneys.

Parity Pledge; Additional Security. The pledge of Pledged Revenues and the other security provided in the Granting Clauses of the Trust Agreement, secure all Bonds issued under the terms of the Trust Agreement on an equal and ratable basis, except as to the timing of payments on the Bonds. The City may, however, in its discretion, provide additional security or credit enhancement for specified Bonds or Series or Subseries of Bonds with no obligation to provide such additional security or credit enhancement to other Bonds.

COVENANTS OF THE CITY

Payment of Principal and Interest. The City covenants and agrees that it will duly and punctually pay or cause to be paid from the Payments and any Pledged Revenues, pledged pursuant to any Supplemental Trust Agreements, and to the extent thereof the principal of, premium, if any, and interest on every Bond at the place and on the dates and in the manner in the Trust Agreement, in the Supplemental Trust Agreements and in the Bonds specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements in the Trust Agreement and in the Bonds contained, provided that the City's obligation to make payment of the principal of, premium, if any, and interest on the Bonds shall be limited to payment from the Payments and any Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of the Trust Agreement and any other source which the City may specifically provide for such purpose, and, except to

enforce the City's obligations with respect to the Tax Override Revenues set forth in the Trust Agreement, no Bondholder shall have any right to enforce payment from any particular source of funds of the City.

Performance of Covenants by City; Authority; Due Execution. The City covenants that it will faithfully perform at all times any and all covenants and agreements contained in the Trust Agreement, in any and every Bond executed, authenticated and delivered under the Trust Agreement and in all of its proceedings pertaining to the Trust Agreement. The City covenants that it is duly authorized under the Constitution and laws of the State and the Charter to issue the Bonds and to apply the Tax Override Revenues and other legally available moneys of the City to pay principal of and interest on, and any redemption price of the Bonds.

Senior Lien Obligations Prohibited. The City agrees that so long as any Bonds are Outstanding under the Trust Agreement, it (i) will not adopt any official action determining that Payments or any Pledged Revenues be used to pay general obligation bonds or other indebtedness or liabilities payable from the general revenues of the City on a senior lien basis, and (ii) will not issue any additional bonds or other obligations with a lien on or security interest granted in Pledged Revenues which is senior to the Bonds.

No Inconsistent Contract Provisions. The City covenants that no contract or contracts will be entered into or any action taken by the City which shall be inconsistent with the provisions of the Trust Agreement. The City covenants that it will not take any action which, in the City's judgment at the time of such action, will substantially impair or materially adversely affect the rights of the holders of the Bonds. The City shall be unconditionally and irrevocably obligated, so long as any of the Bonds are Outstanding and unpaid, to take all lawful action necessary or required to pay the principal of and interest on the Bonds and to make the other payments provided for in the Trust Agreement.

Subordinated Obligations. The City may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is, in the Trust Agreement, referred to as Subordinated Obligations. Such indebtedness shall be incurred at such times and upon such terms as the City shall determine, provided that:

(1) Any Supplemental Trust Agreement authorizing the issuance of any Subordinate Obligations shall specifically state that such lien on or security interest granted in the Pledged Revenues is junior and subordinate to the lien on and security interest in such Pledged Revenues and other assets granted to secure the Bonds; and

(2) Payment of principal of and interest on such Subordinated Obligations shall be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds or to replenish any Reserve Fund are then current in accordance with the Trust Agreement.

Maintenance of Powers. The City covenants that it will at all times use its best efforts to maintain the powers, functions, duties and obligations now reposed in it pursuant to the Charter and all other laws and that it will not at any time voluntarily do, suffer or permit any act or thing the effect of which would be to delay either the payment of the indebtedness evidenced by any of the Bonds or the performance or observance of any of the covenants contained in the Trust Agreement. The City shall not permit any modification of the City Charter which would materially adversely affect the levy or collection of the Tax Override Revenues or the application thereof to the Bonds (except that any amendment extending the date as of which the accrued unfunded pension liability shall be amortized by the City shall be permitted.)

Tax Override Levy; Collection and Application of Tax Override Revenues. The City covenants that so long as any Bonds are outstanding under the Trust Agreement, the City shall levy the Tax Override (up to the maximum tax permitted by law) in each Fiscal Year, whether or not the accrued unfunded actuarial liability of the City to the System is amortized prior to the final maturity of any Bond issued pursuant to the Trust Agreement, in an amount that the City expects will be sufficient, when aggregated with the other amounts legally available to the City and on hand, and amounts budgeted by the City in such Fiscal Year and expected to be available, to pay principal of and interest on and the redemption price of the Bonds. The City pledges and assigns to the Trustee and grants to the Trustee a lien on and security interest in all right, title and interest of the City in and to the Tax

Override Revenues levied and collected in each Fiscal Year to secure the payment of principal of and interest on and the redemption price of Bonds due and payable in such year, and provides that such lien and security interest shall be prior in right to any other pledge, lien or security interest created by the City in the Tax Override Revenues as and to the extent provided in the Trust Agreement. The City covenants that the Tax Override Revenues levied and collected in each Fiscal Year shall be pledged and applied to pay principal and interest on and the redemption price of the Bonds in such Fiscal Year, and to the extent that, on June 30 of each Fiscal Year during the term of any Bonds Outstanding under the Trust Agreement, commencing on or after July 1, 1998, any surplus amount of Tax Override Revenues shall exist after payment of all principal and interest on and any redemption price of the Bonds during such Fiscal Year, such amounts may be applied on and after July 1 of the next succeeding Fiscal Year for any lawful purpose of the City, at the written direction of the City to the Trustee. The Tax Override Revenues are pledged and may be applied solely to pay principal and interest and the redemption price, if any, of Bonds issued to pay all or a portion of the accrued actuarial unfunded liability of the City to the System.

The City covenants that it will keep and provide accurate books and records of account showing all Tax Override Revenues received by the City and all expenditures of the City relating to such Tax Override Revenues and that it will keep or cause to be kept accurate books and records of account showing all accounts and funds provided for in the Trust Agreement which are or shall be in the control or custody of the City; and that all such books and records shall be open upon reasonable notice during business hours to the Trustee and to the Owners of not less than ten percent (10%) of the Principal Amount of Bonds then Outstanding, or their representatives duly authorized in writing. Within 180 days after the close of each Fiscal Year, so long as any of the Bonds remain Outstanding, the City will prepare and file with the Trustee audited financial statements including a statement of the income and expenses for such Fiscal Year and a balance sheet prepared as of the close of such Fiscal Year for the City all accompanied by a certificate or opinion in writing of an independent certified public accountant of recognized standing, selected by the City and acceptable to the Trustee, which opinion shall include a statement that said financial statements present fairly in all material respects the financial position of the City and are prepared in accordance with generally accepted accounting principles.

Budget and Appropriation. The City covenants to take such action as may be necessary to include all Payments (to the extent such Payments are known to the City at the time its annual budget is proposed) due under the Trust Agreement in its annual budget and to make the necessary annual appropriations therefor, and to maintain such items to the extent unpaid for that Fiscal Year in its budget throughout such Fiscal Year. Such budgeting and appropriation shall be done in accordance with the City Charter provisions relating thereto. The covenants on the part of the City contained in the Trust Agreement shall be deemed to be and shall be construed to be duties imposed by law and it shall be the ministerial duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Trust Agreement agreed to be carried out and performed by the City. The City will not assign or pledge the Tax Override Revenues or other amounts under the Trust Agreement except as provided under the terms of the Trust Agreement.

Continuing Disclosure. The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the First Supplemental Trust Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, any Owner or Beneficial Owner or any Participating Underwriter (as defined in the Continuing Disclosure Certificate) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under such covenant. For purposes of the requirements of the Continuing Disclosure Certificate, "Beneficial Owner" means any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 1997 Bonds (including persons holding Series 1997 Bonds through nominees, depositories or other intermediaries).

Covenants of City Binding on City and Successors. All covenants, stipulations, obligations and agreements of the City contained in the Trust Agreement shall be deemed to be covenants, stipulations, obligations and agreements of the City to the full extent authorized or permitted by law. If the powers or duties of the City shall hereafter be transferred by amendment of the Charter or a new Charter or any provision of the Constitution or

any other law of the State or in any other manner there shall be a successor to the City, and if such transfer shall relate to any matter or thing permitted or required to be done under the Trust Agreement by the City, then the entity that shall succeed to such powers or duties of the City shall act and be obligated in the place and stead of the City as in the Trust Agreement provided, and all such covenants, stipulations, obligations and agreements shall be binding upon the successor or successors thereof from time to time and upon any officer, City Council, body or commission to whom or to which any power or duty affecting such covenants, stipulations, obligations and agreements shall be transferred by or in accordance with law.

Except as otherwise provided in the Trust Agreement, all rights, powers and privileges conferred and duties and liabilities imposed upon the City by the provisions of the Trust Agreement shall be exercised or performed by the City or by such officers, City Council, body or commission as may be permitted by law to exercise such powers or to perform such duties.

Trust Agreement To Constitute a Contract. The Trust Agreement, including all Supplemental Trust Agreements, is executed by the City for the benefit of the Bondholders and constitutes a contract with the Trustee for the benefit of the Bondholders.

INVESTMENTS

Moneys held by the Trustee in the funds and accounts created in the Trust Agreement and under any Supplemental Trust Agreement shall be invested and reinvested as directed by the City in Permitted Investments subject to the restrictions set forth in the Trust Agreement and such Supplemental Trust Agreement creating any such fund or account and subject to the investment restrictions imposed upon the City by the Charter and the laws of the State. The City shall direct such investments by written certificate of an Authorized City Representative or by telephone instruction followed by prompt written confirmation by an Authorized City Representative. Any moneys held in any fund or account which have been paid to or constructively received by the System shall be subject to such investment restrictions imposed by the Charter relating to the System, as such restrictions may be modified or amended from time to time.

DEFEASANCE

Bonds or portions thereof (such portions to be in integral multiples of the Authorized Denomination) which have been paid in full or which are deemed to have been paid in full shall no longer be secured by or entitled to the benefits of the Trust Agreement except for the purposes of payment from moneys or Government Obligations held by the Trustee or a Paying Agent for such purpose. When all Bonds which have been issued under the Trust Agreement have been paid in full or are deemed to have been paid in full, and all other sums payable under the Trust Agreement by the City, including all necessary and proper fees, compensation and expenses of the Trustee, the Registrar and the Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Trustee in and to any Pledged Revenues and any other assets pledged to secure the Bonds under the Trust Agreement shall thereupon cease, terminate and become void, and thereupon the Trustee shall cancel, discharge and release the Trust Agreement, shall execute, acknowledge and deliver to the City such instruments as shall be requisite to evidence such cancellation, discharge and release and shall assign and deliver to the City any property and revenues at the time subject to the Trust Agreement or any Supplemental Trust Agreement applicable thereto which may then be in the Trustee's possession, except funds or securities in which such funds are invested and are held by the Trustee or the Paying Agent for the payment of the principal of, premium, if any, and interest on the Bonds.

A Bond shall be deemed to be paid within the meaning of and for all purposes of the Trust Agreement when payment of the principal, interest and premium, if any, either (a) shall have been made or caused to be made in accordance with the terms of the Bonds and the Trust Agreement or (b) shall have been provided for by depositing with the Trustee in trust and setting aside exclusively for such payment: (i) moneys sufficient to make such payment, and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such

times as Bonds shall be deemed to be paid under the Trust Agreement, such Bonds shall no longer be secured by or entitled to the benefits of the Trust Agreement, except for the purposes of payment from such moneys or Government Obligations.

Any deposit under clause (b) of the foregoing paragraph shall be deemed a payment of such Bonds. Once such deposit shall have been made, the Trustee shall notify all holders of the affected Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the defeasance provisions of the Trust Agreement. No notice of redemption shall be required at the time of such defeasance or prior to such date as may be required by the Supplemental Trust Agreement under which such Bonds were issued. Notwithstanding anything in the Trust Agreement to the contrary, moneys from the trust or escrow established for the defeasance of Bonds may be withdrawn and delivered to the City so long as the requirements above are met prior to or concurrently with any such withdrawal.

DEFAULTS AND REMEDIES

Events of Default. Each of the following events shall constitute and is referred to in the Trust Agreement as an "Event of Default":

(a) a failure to pay the principal of or premium, if any, on any of the Bonds when the same shall become due and payable at maturity or upon redemption;

(b) a failure to pay any installment of interest on any of the Bonds when such interest shall become due and payable;

(c) a failure to pay the purchase price of any Bond when such purchase price shall be due and payable upon an optional or mandatory tender date as provided in the Supplemental Trust Agreement;

(d) a failure by the City to observe and perform any covenant, condition, agreement or provision (other than as specified in the foregoing paragraphs that is to be observed or performed by the City and which is contained in the Trust Agreement or a Supplemental Trust Agreement, which failure shall continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the City by the Trustee, which notice may be given at the discretion of the Trustee and shall be given at the written request of holders of 25% or more of the Principal Amount of the Bonds then Outstanding, unless the Trustee, or the Trustee and holders of Bonds in a Principal Amount not less than the Principal Amount of Bonds the holders of which requested such notice, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee or the Trustee and the holders of such principal amount of Bonds shall be deemed to have agreed to an extension of such period if corrective action is initiated by the City within such period and is being diligently pursued;

(e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including without limitation proceedings under Chapter 9 of the United States Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the City and, if instituted against the City, said proceedings are consented to or are not dismissed within 60 days after such institution; or

(f) the occurrence of any other Event of Default as is provided in a Supplemental Trust Agreement.

If, on any date on which payment of principal of or interest on the Bonds is due, sufficient moneys are not available to make such payment, irrespective of any previous notices which may have been given, the Trustee shall give telephone notice of such insufficiency to the City.

Remedies.

Upon the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and upon the written direction of the holders of 25% or more of the Principal Amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction, shall, in its own name and as the Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, and require the City to carry out any agreements with or for the benefit of the Bondholders and to perform its or their duties under the Charter or any other law to which it is subject and the Trust Agreement, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Trust Agreement;

(ii) bring suit upon the Bonds;

(iii) commence an action or suit in equity to require the City to account as if it were the trustee of an express trust for the Bondholders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

The Trustee shall be under no obligation to take any action with respect to and shall not be deemed to have notice of an Event of Default or of any event or conditions which, with the giving of notice, the passage of time, or both, might constitute an Event of Default unless (i) the Trustee has received written notice thereof from the City, any Credit Provider, or any Holder or (ii) a Responsible Officer of the Trustee shall have actual knowledge thereof. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein, or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default thereunder.

Restoration to Former Position. In the event that any proceeding taken by the Trustee to enforce any right under the Trust Agreement shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then the City, the Trustee, and the Bondholders shall be restored to their former positions and rights under the Trust Agreement, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

Bondholders' Right To Direct Proceedings. Anything in the Trust Agreement to the contrary notwithstanding, holders of a majority in Principal Amount of the Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Trustee under the Trust Agreement to be taken in connection with the enforcement of the terms of the Trust Agreement or exercising any trust or power conferred on the Trustee by the Trust Agreement; provided that such direction shall not be otherwise than in accordance with the provisions of law and the Trust Agreement and that there shall have been provided to the Trustee security and indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Trustee.

Limitation on Right To Institute Proceedings. No Bondholder shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power under the Trust Agreement, or any other remedy under the Trust Agreement or on such Bonds, unless such Bondholder or Bondholders previously shall have given to the Trustee written notice of an Event of Default and unless also holders of 25% or more of the Principal Amount of the Bonds then Outstanding shall have made written request of the Trustee to do so, after the right to institute such suit, action or proceeding under the Trust Agreement shall have accrued, and shall have afforded the Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the institution of such suit, action or proceeding; it being

understood and intended that no one or more of the Bondholders shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Trust Agreement, or to enforce any right under the Trust Agreement or under the Bonds, except in the manner provided in the Trust Agreement, and that all suits, actions and proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Trust Agreement and for the equal benefit of all Bondholders.

No Impairment of Right To Enforce Payment. Notwithstanding any other provision in the Trust Agreement, the right of any Bondholder to receive payment of the principal of and interest on such Bond or the purchase price thereof, on or after the respective due dates expressed therein and to the extent of the Pledged Revenues and other security provided for the Bonds, or to institute suit for the enforcement of any such payment on or after such respective date, shall not be impaired or affected without the consent of such Bondholder.

Proceedings by Trustee Without Possession of Bonds. All rights of action under the Trust Agreement or under any of the Bonds secured which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the equal and ratable benefit of the Bondholders, subject to the provisions of the Trust Agreement.

EXECUTION OF SUPPLEMENTAL TRUST AGREEMENTS; MODIFICATION OF THE TRUST AGREEMENT

Limitations. The Trust Agreement shall not be modified or amended in any respect subsequent to the first delivery of fully executed and authenticated Bonds except as provided in and in accordance with and subject to the provisions of the Trust Agreement.

Supplemental Trust Agreements Not Requiring Consent of Bondholders. The City may, from time to time and at any time, without the consent of or notice to the Bondholders, execute and deliver Supplemental Trust Agreements supplementing and/or amending the Trust Agreement or any Supplemental Trust Agreement as follows:

- (a) to provide for the issuance of a Series or multiple Series or Subseries of Bonds under the provisions of the Trust Agreement and to set forth the terms of such Bonds and the special provisions which shall apply to such Bonds;
- (b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Trust Agreement or any Supplemental Trust Agreement, or to conform the Trust Agreement or any Supplemental Trust Agreement to the requirements of law, provided such supplement or amendment is not materially adverse to the Bondholders;
- (c) to add to the covenants and agreements of the City in the Trust Agreement or any Supplemental Trust Agreement other covenants and agreements, or to surrender any right or power reserved or conferred upon the City, provided such supplement or amendment shall not adversely affect the interests of the Bondholders;
- (d) to confirm, as further assurance, any interest of the Trustee in and to the Pledged Revenues or in and to the funds and accounts held by the Trustee or in and to any other moneys, securities or funds of the City provided pursuant to the Trust Agreement or to otherwise add additional security for the Bondholders;
- (e) to evidence any change made in the terms of any Series or Subseries of Bonds if such changes are authorized by the Supplemental Trust Agreement at the time the Series or Subseries of Bonds is issued and such change is made in accordance with the terms of such Supplemental Trust Agreement;

- (f) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended;
- (g) to modify, alter, amend or supplement the Trust Agreement or any Supplemental Trust Agreement in any other respect which is not materially adverse to the Bondholders;
- (h) to provide for uncertificated Bonds or for the issuance of coupons and bearer Bonds or Bonds registered only as to principal;
- (i) to qualify the Bonds or a Series or Subseries of Bonds for a rating or ratings by Moody's, S&P or Fitch;
- (j) to accommodate the technical, operational and structural features of Bonds which are issued or are proposed to be issued or of a Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, variable rate or adjustable rate bonds, discounted or compound interest bonds or other forms of indebtedness which the City from time to time deems appropriate to incur;
- (k) to accommodate the use of a Credit Facility or Liquidity Facility for specific Bonds or a specific Series or Subseries of Bonds;
- (l) if so determined by the City, to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to cause the interest on any Series or Subseries of Bonds to be excluded from gross income for purposes of federal income taxation, including, without limitation, the segregation of moneys held under the Trust Agreement into different funds and the creation of a Rebate Fund.

Before the City shall, pursuant to the Trust Agreement, execute any Supplemental Trust Agreement, there shall have been delivered to the City an opinion of Bond Counsel to the effect that such Supplemental Trust Agreement is authorized or permitted by the Trust Agreement, the Charter and other applicable law, complies with their respective terms, and will, upon the execution and delivery thereof, be valid and binding upon the City in accordance with its terms. If any Series or Subseries of Bonds shall have been issued and be outstanding the interest on which is excluded from gross income for federal income tax purposes, such opinion shall either state that such Supplemental Trust Agreement shall have no effect on such Series or Subseries of Bonds or, alternatively, that such Supplemental Trust Agreement will not cause interest on any such Series of the Bonds which is then excluded from gross income of the recipient thereof for federal income tax purposes to be included in gross income for federal income tax purposes.

Supplemental Trust Agreement Requiring Consent of Bondholders.

Except for any Supplemental Trust Agreement entered into pursuant to the Trust Agreement and any Supplemental Trust Agreement entered into pursuant to the Trust Agreement (b) below, subject to the terms and provisions contained in the Trust Agreement and not otherwise, the holders of not less than a majority in aggregate Principal Amount of the Bonds then Outstanding shall have the right from time to time to consent to and approve the execution by the City of any Supplemental Trust Agreement deemed necessary or desirable by the City for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Trust Agreement or in a Supplemental Trust Agreement; provided, however, that, unless approved in writing by the holders of all the Bonds then Outstanding or unless such change affects less than all Series or Subseries of Bonds and the following paragraph (b) is applicable, nothing contained in the Trust Agreement shall permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of or interest on any Outstanding Bonds or (ii) a reduction in the principal amount or redemption price of any Outstanding Bonds or the rate of interest thereon; and provided that nothing contained in the Trust Agreement, including the provisions of paragraph (b) below, shall, unless approved in writing by the holders of all the Bonds then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except

as expressly permitted by the Trust Agreement) upon or pledge of the Pledged Revenues created by the Trust Agreement, ranking prior to or on a parity with the claim created by the Trust Agreement, (iv) except with respect to additional security which may be provided for a particular Series or Subseries of Bonds, a preference or priority of any Bond or Bonds over any other Bond or Bonds with respect to the security granted therefor under the Granting Clauses of the Trust Agreement, or (v) a reduction in the aggregate Principal Amount of Bonds the consent of the Bondholders of which is required for any such Supplemental Trust Agreement. Nothing contained in the Trust Agreement, however, shall be construed as making necessary the approval by Bondholders of the execution of any Supplemental Trust Agreement as authorized in the Trust Agreement, including the granting, for the benefit of particular Series or Subseries of Bonds, security in addition to the pledge of the Pledged Revenues.

The City may, from time to time and at any time, execute a Supplemental Trust Agreement which amends the provisions of an earlier Supplemental Trust Agreement under which a Series or multiple Series or Subseries of Bonds were issued. If such Supplemental Trust Agreement is executed for one of the purposes set forth in the Trust Agreement, no notice to or consent of the Bondholders shall be required. If such Supplemental Trust Agreement contains provisions which affect the rights and interests of less than all Series or Subseries of Bonds Outstanding and the Trust Agreement is not applicable, then the provisions of (b) rather than paragraph (a) above shall control and, subject to the terms and provisions contained in the paragraph (b) and not otherwise, the holders of not less than 51% in aggregate Principal Amount of the Bonds of all Series which are affected by such changes shall have the right from time to time to consent to any Supplemental Trust Agreement deemed necessary or desirable by the City for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Trust Agreement and affecting only the Bonds of such Series; provided, however, that, unless approved in writing by the holders of all the Bonds of all the affected Series then Outstanding, nothing contained in the Trust Agreement shall permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on any Outstanding Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Bonds of such Series or the rate of interest thereon. Nothing contained in the Trust Agreement, however, shall be construed as making necessary the approval by Bondholders of the adoption of any Supplemental Trust Agreement as authorized in the Trust Agreement, including the granting, for the benefit of particular Series or Subseries of Bonds, of security in addition to any pledge of Pledged Revenues.

If at any time the City shall desire to enter into any Supplemental Trust Agreement for any of the purposes of the Trust Agreement, the City shall cause notice of the proposed execution of the Supplemental Trust Agreement to be given by mail to all Bondholders or, under paragraph (b) above, all Bondholders of the affected Series. Such notice shall briefly set forth the nature of the proposed Supplemental Trust Agreement and shall state that a copy thereof is on file at the office of the City for inspection by all Bondholders and it shall not be required that the Bondholders approve the final form of such Supplemental Trust Agreement but it shall be sufficient if such Bondholders approve the substance thereof.

The City may execute and deliver such Supplemental Trust Agreement in substantially the form described in such notice, but only if there shall have first been delivered to the City (i) the required consents, in writing, of Bondholders and (ii) the opinion of Bond Counsel required by the Trust Agreement.

If Bondholders of not less than the percentage of Bonds required by the Trust Agreement shall have consented to and approved the execution and delivery thereof as provided in the Trust Agreement, no Bondholders shall have any right to object to the adoption of such Supplemental Trust Agreement, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution and delivery thereof, or to enjoin or restrain the City from executing the same or from taking any action pursuant to the provisions thereof.

Modification of Trust Agreement and the First Supplemental Trust Agreement. The City and the Trustee may, from time to time and at any time, with the written consent of the Insurer only with respect to any amendment or supplement requiring the consent of Bond Owners as set forth in the Trust Agreement of the Trust Agreement, which consent shall not be unreasonably withheld, execute and deliver Supplemental Trust

Agreements supplementing and/or amending the Trust Agreement and the First Supplemental Trust Agreement to the extent and in the manner set forth in the Trust Agreement.

Effect of Supplemental Trust Agreement. Upon execution and delivery of any Supplemental Trust Agreement pursuant to the provisions of the Trust Agreement, the Trust Agreement or the Supplemental Trust Agreement shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Trust Agreement and the Supplemental Trust Agreement of the City, the Trustee, the Paying Agent and all Bondholders shall thereafter be determined, exercised and enforced under the Trust Agreement and the Supplemental Trust Agreement, if applicable, subject in all respects to such modifications and amendments.

PROVISIONS RELATING TO SERIES 1997 BOND INSURER AND BOND INSURANCE POLICY

If less than all of the Series 1997 Bonds are insured by the Bond Insurance Policy, the provisions of the Trust Agreement relating to the Bond Insurer shall be effective only as to the Series 1997 Bonds so insured and only for so long as the insured Series 1997 Bonds are outstanding.

In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the Series 1997 Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Series 1997 Bonds due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the Series 1997 Bond Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

The Trustee is irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Holders of the Series 1997 Bonds as follows: (A) if and to the extent there is a deficiency, in amounts required to pay interest on the Series 1997 Bonds, the Trustee shall (a) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the Bond Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Series 1997 Bond Insurer as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to the Series 1997 Bond Insurer of the claims for interest to which such deficiency relates and which are paid by the Series 1997 Bond Insurer, (b) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Bond Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Owners; and (B) if and to the extent of a deficiency in amounts required to pay principal of the Series 1997 Bonds, the Trustee shall (a) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Series 1997 Bond Insurer as agent for such Owner in any legal proceeding relating to the payment of such principal and an assignment to the Series 1997 Bond Insurer of any of the Series 1997 Bonds surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Bond Insurance Policy payment therefor from the Insurance Paying Agent, and (c) disburse the same to such Owners.

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APPENDIX D

CITY OF OAKLAND INVESTMENT POLICY, FISCAL YEAR 1996-1997

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City of Oakland Investment Policy Fiscal Year 1997

*Prepared by
Treasury Division, Budget and Finance Agency*

Adopted by the City Council on July 23, 1996

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1

General

Authority

Council Resolution No. 56127 delegates to the Director of Finance/Treasurer the authority to invest the City's operating fund within the guidelines of Section 53600 of the Government Code of the State of California (the "Code"). The Code also directs the City to present an annual investment policy for confirmation to the City Council. This Investment Policy, is now amended and adopted as of July 23, 1996, and will serve as the City of Oakland's Investment Policy for Fiscal Year 1996-97 until further revised.

Delegation

Management responsibility for the investment program is specifically delegated to the Treasury Manager who shall establish procedures for the investment program which are consistent with this Investment Policy. Authorization for investment decisions are limited to the Treasury Manager and Investment Officer. The Treasury Analyst may make decisions only with respect to overnight investments.

Conflicts of Interest

Both officers and employees shall not engage in any personal business activity which could conflict with proper execution of the investment program. Any material financial interests in financial institutions which do business with the City should be disclosed to the City Manager. Personal investment transactions are to be subordinate to those of the City, particularly with respect to the timing of purchases and sales.

Internal Control

The external auditors shall perform an annual appraisal audit of the investment portfolio to evaluate the effectiveness of the City's investment program as well as its compliance with the Investment Policy. Additionally, the City Auditor's Office is directed to conduct periodic audits of Treasury operations to review its procedures and policies and to make recommendations for changes and improvements, if warranted.

2

Applicable Ordinances

Nuclear Free Zone Ordinance

Under the guidelines of a voter-approved Measure, the Oakland City Council approved Ordinance No. 11062 which restricts the City's investment in U.S. Government Treasuries. The Treasurer will make every attempt to invest in any available short-term option that provides approximately the same level of security and return as Treasuries issued by the Government. In the event that no reasonable alternatives exist, or to the extent that the City may experience financial hardship as a result of investment in these alternatives, the City Council may adopt a waiver for a period not to exceed 60 days, as authorized by the Ordinance, allowing the City to invest in U. S Treasuries.

Linked Banking Ordinance

Pursuant to Ordinance No. 11067 C.M.S. the City has established a Linked Banking Service Program.¹ This reference applies to depositories for both the City of Oakland and the Port of Oakland banking needs. Depositories are defined within the Ordinance as "all banking services utilized by the City including the Port of Oakland operating fund, with the exception of investments made through investment banks and broker/dealers." Depositories providing services to the City and the Port of Oakland must provide to the City, annually, the information enumerated under Section 3 of the Ordinance.

Burma & Nigeria Ordinances

On May 7, 1996 Council adopted Ordinance No. 11885 and 11886 C.M.S. which restricts the deposit, investment, or use of City funds with banks, financial institutions, or investment firms who do business in or with either the public or private sector of Burma or Nigeria. A statement is required certifying that the bank or financial institution does not have any outstanding loans or investments with either country, nor does it intend to enter into any future business until democratic rights are restored.

¹The program is subject to the Code governing the local deposit of public funds.

3

The Portfolio

The portfolio is defined as the pool of unexpended fund balances of all City funds, funds held for the City's Retirement Systems and funds held for the Port of Oakland (the "Fund"). Cash available for investment is determined by available cash, plus maturities, less disbursements. All other funds not governed by this investment policy, are governed by their respective indentures.

Objectives

Preservation of capital

The first and primary goal of the Fund is preservation of capital. This statement refers to the overall portfolio as opposed to individual investments. The issue of loss on a particular investment is later addressed. Diversification of the Fund further ensures that potential losses on individual securities do not exceed the income generated on the remainder of the Fund.

Liquidity

Adequate cash on hand to meet cash disbursements and payroll are to be covered through maturing investments. Cash flow modeling is an integral part of the overall cash management responsibilities of the Treasurer.

Diversity

To reduce the overall portfolio risks while still maintaining market average rates of return is essential. The objective is to avoid over-concentration in issuers, instruments and maturity sectors. No more than 5% of the total cash portfolio (excluding tax and revenue anticipation notes) is to be invested in any one issue.

Yield

While not the primary consideration of the Fund, it is important to recognize that the objectives of the City go beyond the preservation of capital. The Fund is managed to maximize its overall return with consideration of the safety, liquidity, and diversity parameters discussed above.

Custody

All investments of the City are to be secured through third-party custody and safekeeping procedures. All securities purchased from dealers and brokers shall be held in safekeeping by the City's custodial bank which establishes the City of Oakland's ownership.

All collateralized securities, such as repurchase agreements, are to be purchased using delivery versus payment procedures.

Reporting Requirements

Interim Requirements

The Treasurer will submit a quarterly investment report within 30 days following the period being reported to the City Council. The report will summarize economic conditions, terms of investment securities, maturities, risk characteristics and other features of the portfolio. The report will also detail the total investment return for the 3-month period. The report shall include an appendix that discloses all holdings at the end of the period being reported. The Fund's market value will also be reported each quarter.

Annual Requirements

The annual report should provide an overall performance appraisal of various investment securities classes, the overall economic and interest rate trend, and the investment manager's overall outlook for the portfolio. As a part of the annual audit, the portfolio will be marked to market as of each June 30.

Derivatives

Callable step-up securities and floaters (which are tied to a short-term index such as 3- or 6-month LIBOR, 3-month Treasury Bills or Fed Funds rate) are considered suitable investments.

Structured notes, capped and range floaters, floating rate notes tied to a long-term index such as Cost of Funds Index, inverse floaters and leveraged floaters are not permitted investments of the Fund at this time.

Collateralized Mortgage Obligations or their derivatives such as interest only strips are not permitted investments at this time.

General Credit Quality

The minimum credit requirement for each security is further defined within the Permitted Investments section of the policy. If securities which are purchased for the Fund are downgraded below the credit quality required by the Fund, the Treasurer will determine whether to retain or to sell the security. Evaluation of divestiture of securities will be determined on a case-by-case basis.

Maturity

The average maturity of the investment portfolio shall not exceed 540 days. The maximum maturity for any one investment shall not exceed 5 years.

Trading Policies

Sales Prior to Maturity

"Buy and hold" is not necessarily the strategy in managing the Fund. It is expected that gains will be realized when prudent. Losses are acceptable if the proposed swap/trade clearly enhances the yield over the life of the new security on a total return basis.

Sufficient written documentation will be maintained to facilitate audit of the transaction. Losses, if any, will be recognized and recorded based on the transaction date.

Purchasing Entities

- ✓ Institutions licensed by the State of California as broker/dealer
- ✓ National or state chartered banks
- ✓ Federal or state savings institutions
- ✓ Brokerage firms designated as a primary government dealer by the Federal Reserve Bank
- ✓ Members of a federally regulated securities exchange

The Treasurer will maintain a current and eligible list of reputable California primary dealers, brokers, banks and savings and loan associations with whom securities trading and placement of funds are authorized. A strong capital base and credit worthiness are primary criteria for inclusion on the City of Oakland's approved list. Dealers and brokers should be regulated by the Securities and Exchange Commission and be members in good standing with the National Association of Securities Dealers.

4

Permitted Investments

The following securities are permissible investments pursuant to Section 53601 of the Government Code as well as those guidelines established by the City.

U. S. Treasury Securities

Bills, notes and bonds issued by the U.S. Treasury which are **direct** obligations of the federal government.

- ❖ *Maximum Maturity:* 5 years
- ❖ *Maximum Exposure:* 20%²

Federal Agencies and Instrumentalities

Notes and bonds of federal agencies, government-sponsored enterprises and international institutions. Not all are direct obligations of the U. S. Treasury but may involve federal sponsorship and/or guarantees, in some instances.

- ❖ *Maximum Maturity:* 5 years
- ❖ *Maximum Exposure:* 75%

Banker's Acceptances

A time draft drawn on and accepted by a bank, typically created from a letter of credit issued in a foreign trade transaction.

- ❖ *Maximum Maturity:* 270 days
- ❖ *Maximum Exposure:* 40%
- ❖ *Credit Requirement:* A1/P1 (S&P/Moody's)

Commercial Paper

A short-term, *unsecured* promissory note issued by financial and non-financial companies to raise short-term cash. Financial companies issue commercial paper to support their consumer and/or business lending; non-financial companies for operating funds.

²Limit as a result of Nuclear Free Zone Ordinance. There is no limitation under the Code.

- ❖ *Maximum Maturity:* 180 days
- ❖ *Maximum Exposure:* 15%
- ❖ *Additional Overnight:* 10%
- ❖ *Credit Requirement:* A1/P1 (S&P/Moody's)
- ❖ *Eligibility:* Limited to United States corporations with assets in excess of \$500 million

Ratings are to be routinely monitored. Investment Officer is to perform his/her own due diligence as to creditworthiness.

Medium Term Notes

Corporate Notes and Deposit Notes. Issuers are banks and bank holding companies, thrifts, finance companies, insurance companies and industrial corporations. These are debt obligations which are generally *unsecured*.

- ❖ *Maximum Maturity:* 5 years
- ❖ *Maximum Exposure:* 15%
- ❖ *Credit Requirement:* Top 3 rating categories (A-/A3 [S&P/Moody's] being the lowest)
- ❖ *Eligibility:* Limited to United States corporations

Negotiable Certificates of Deposit

Issued by commercial banks and thrifts, and foreign banks (Yankee CD's)

- ❖ *Maximum Maturity:* 360 days
- ❖ *Maximum Exposure:* 30%
- ❖ *Credit Requirement:* Top 3 rating categories (A-/A3 [S&P/Moody's] being the lowest)
Domestic Banks - C³
Foreign Banks - I/III/IV

Repurchase Agreements

A contractual transaction between the investor and a bank/dealer to exchange cash for temporary ownership or control of securities/collateral with an agreement by the bank/dealer to repurchase the securities on a future date. Primarily used as an overnight investment vehicle.

- ❖ *Maximum Maturity:* 360 days
- ❖ *Maximum Exposure:* 20%
- ❖ *Collateral Requirements:* 102 - 103%
- ❖ *Mark-to-market:* Daily
Collateral limited to Treasuries and Agencies
- ❖ *Eligibility:* Limited to primary dealers of the Federal Reserve Bank of New York
- ❖ A master Repurchase Agreement must be on file with the City

³Thomson Bank Watch.

Reverse Repurchase Agreements

The mirror image of a repurchase agreement. Used as a source of liquidity when there is a mismatch of cash flow requirement and scheduled maturities. A mechanism to avoid liquidating securities for immediate cash needs.

This strategy should be used solely for liquidity and not for arbitrage or leverage purposes.

- ❖ *Maximum Maturity:* 91 days
- ❖ *Maximum Exposure:* 15%
- ❖ *Maximum Dealer Exposure:* 10% of value of portfolio
- ❖ *Mark-to-Market:* Daily
- ❖ *Eligibility:* Limited to primary dealers of the Federal Reserve Bank of New York

Certificates of Deposit

Issued most commonly by commercial banks and savings and loans with federal deposit insurance available for amounts up to \$100,000. Deposits will be made pursuant to the following conditions:

- ❖ *Collateral:* Waive first \$100,000⁴
- ❖ *Credit Requirement:* Top 3 rating categories (A-/A3 [S&P/Moody's] being the lowest)
Domestic Banks - C
Foreign Banks - I/III/IV
- ❖ *Deposit Limit:* May not exceed total of paid-up capital and surplus of depository
- ❖ *Depository Selection:* Highest available rate of interest
- ❖ *Institution Requirements:* Annual Report

Money Market Mutual Funds

Regulated by the SEC, these funds operate under strict maturity and diversification guidelines. These funds have no federal guarantee but are viewed as a very safe way to invest short-term cash.

- ❖ *Maximum Exposure:* 15%
- ❖ *NAV Requirement:* \$1.00
- ❖ *Credit Requirement:* Top three rating categories by two of three rating agencies or have an investment advisor registered with the SEC with not less than 5 years experience in investing securities as authorized by the Code, and with assets under management in excess of \$500 million.
- ❖ *Fund Composition:* Must comprise instruments in accordance with the Code.

⁴If FDIC insured.

***State Investment Pool
(Local Agency Investment Fund)***

A pooled investment fund overseen by the state treasurer, which operates like a money market fund, but is for the exclusive benefit of governmental entities within the state.

Maximum currently authorized by LAIF is \$20 million.

❖ *Maximum Exposure:* 15% or \$20 million

OAKLAND CITY COUNCIL
72827

RESOLUTION NO. _____ C.M.S.

RESOLUTION ADOPTING THE CITY OF OAKLAND INVESTMENT POLICY
FOR FISCAL YEAR 1997

WHEREAS, the California Government Code requires annual review and acceptance of the City's Investment Policy; and

WHEREAS, the City Council adopted its City of Oakland Investment Policy for Fiscal Year 1996 in April, 1995, and amended said Policy on November 7, 1995; and

WHEREAS, a proposed City of Oakland Investment Policy for Fiscal Year 1997 has been presented to the City Council;

NOW, THEREFORE, BE IT RESOLVED that the proposed City of Oakland Investment Policy for Fiscal Year 1997 be adopted.

*I certify that the foregoing is a full, true and correct copy
of a Resolution passed by the City Council of the City of
Oakland, California on*

JUL 23 1996

CEDA FLOYD
City Clerk and Clerk of the Council

Per Gnetta Middleton Deputy

APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

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APPENDIX E
FORM OF OPINION OF BOND COUNSEL

February __, 1997

City Council
City of Oakland, California

Re: \$436,289,659.15, City of Oakland, California, Taxable Pension Obligation Bonds,
Series 1997, Subseries A and Subseries B

Members of the City Council:

We have examined a record of proceedings relating to the issuance and delivery on the date hereof by the City of Oakland, California (the "City") of \$436,289,659.15 aggregate principal amount of Taxable Pension Obligation Bonds, Series 1997, Subseries A and Subseries B (collectively, the "Series 1997 Bonds"). The Series 1997 Bonds have been issued pursuant to Section 218 and Article XXVI (referred to herein as the "Retirement Law") of the Charter of the City adopted by the electorate of the City on November 5, 1968, as amended; Ordinance No. 11851, adopted by the Council of the City on January 23, 1996 and now codified as Chapter 20 of the Oakland Municipal Code (the "PFRS Pension Obligations Bond Law"), to establish a program for the financing and refinancing of the City's obligations to the Police and Fire Retirement System (the "System") under the Retirement Law; authorizing resolutions of the Council adopted on February 6, 1996 and February 4, 1997; a Master Trust Agreement dated as of February 1, 1997 (the "Master Trust Agreement"), by and between the City and Texas Commerce Bank National Association, Houston, Texas, as trustee (the "Trustee") and a First Supplemental Trust Agreement (the "First Supplemental Trust Agreement") dated as of February 1, 1997 between the City and the Trustee, supplementing and amending the Master Trust Agreement (collectively, the Master Trust Agreement and the First Supplemental Trust Agreement being referred to herein collectively as the "Trust Agreement").

The Series 1997 Bonds are issued to fund the payment to the System of the balance of the City's normal contribution owed to the System under the Retirement Law for the fiscal year 1996-97, to refund a portion of the City's outstanding unfunded pension liability to the System under the Retirement Law, both such amounts being represented by the 1997 Debenture (as defined in the First Supplemental Trust Agreement), and to pay costs and expenses incidental to the issuance of the Series 1997 Bonds. Capitalized terms used herein and not defined shall have the meanings given such terms in the Trust Agreement.

The Series 1997 Bonds are secured under the Trust Agreement by a covenant by the City of payment of principal and interest thereon from the general revenues of the City and, in the case of the Subseries A Bonds only, are further secured by a pledge of Tax Override Revenues levied and collected by the City within each fiscal year, net of certain collection and administrative costs (the "Pledged Revenues"). The City reserves the right to issue additional bonds secured by the Pledged Revenues on a parity with the Series 1997 Bonds as stated in the Trust Agreement. In addition, the City has the unrestricted right to incur additional debt and liabilities payable from its general revenues.

We have also examined originals, or copies authenticated or otherwise identified to our satisfaction, of such other agreements, documents and certificates of public officials and representatives of the City, and we have made such investigation of law and of facts as we have deemed necessary or advisable for purposes of the opinions herein expressed.

Based upon the foregoing, we are of the opinion that:

(1) The City is authorized and empowered by law to execute and deliver the Master Trust Agreement and the First Supplemental Trust Agreement, to issue the Series 1997 Bonds, to use the proceeds from the sale thereof for the purposes stated in the First Supplemental Trust Agreement, to pledge the Pledged Revenues to the payment of the Series 1997, Subseries A Bonds and to carry out its obligations under the Master Trust Agreement and the First Supplemental Trust Agreement.

(2) The Master Trust Agreement, the Funding Agreement and the First Supplemental Trust Agreement have been duly authorized and approved by the City Council in accordance with law and constitute the legal, valid and binding obligations of the City enforceable in accordance with their terms.

(3) The Series 1997 Bonds have been duly and validly authorized, executed and delivered in accordance with law and are the legal, valid and binding obligations of the City. The Series 1997 Bonds are enforceable in accordance with their terms and the terms of the Trust Agreement and are entitled to the benefits of the Trust Agreement. The Series 1997 Bonds are general obligations of the City and are not limited as to payment from any special source of funds of the City. The Series 1997, Subseries A Bonds are secured by a pledge of the Pledged Revenues, subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.

(4) The Trust Agreement creates a valid lien upon the Pledged Revenues and certain of the funds and accounts securing the Series 1997, Subseries A Bonds in accordance with, and subject to the terms of, the Trust Agreement.

(5) We are of the opinion that interest on the Series 1997 Bonds will be included in the gross income of the recipient thereof for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code"). We are also of the opinion that the Series 1997 Bonds and the interest thereon is exempt from personal income taxation in the State of California.

We express no opinion regarding any other specific federal, state or local tax consequences arising with respect to ownership of the Series 1997 Bonds. The ownership of the Series 1997 Bonds may result in collateral tax consequences to the owners thereof.

The opinions set forth above are qualified only to the extent that certain rights and remedies of the owners of the Series 1997 Bonds may be limited or rendered ineffective by applicable bankruptcy, insolvency, reorganization or moratorium or other similar laws or judicial decisions or principles of equity relating to or generally affecting the enforcement of creditor's rights or contractual obligations and limiting legal remedies against public agencies in the State of California.

Our opinion is limited to matters of California law and applicable federal law, and we assume no responsibility as to the applicability of laws of other jurisdictions.

This opinion is furnished by us, as bond counsel to the City, to you and is for your exclusive benefit and no other person shall be entitled to rely upon this opinion without our prior written consent.

Very truly yours,

PRESTON GATES & ELLIS LLP

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APPENDIX F

FORM OF MUNICIPAL BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

**MBIA Insurance Corporation
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that 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 guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

F-1

Assistant Secretary

SPECIMEN

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at [INSERT NAME OF TRUSTEE OR PAYING AGENT, INCLUDING CITY, STATE].

The Insurer, in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [INSERT NAME OF TRUSTEE OR PAYING AGENT] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that 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 guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean: [INSERT LEGAL TITLE OF BONDS, CENTERED AS FOLLOWS:]

[\$ PAR AMOUNT]
[ISSUER]
[DESCRIPTION OF BONDS]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

MBIA Insurance Corporation

PAYMENTS UNDER THE POLICY

A. In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the Obligations, the Paying Agent has not received sufficient moneys to pay all principal of and interest on the Obligations due on the second following or following, as the case may be, Business Day, the Paying Agent shall immediately notify the Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

B. If the deficiency is made up in whole or in part prior to or on the payment date, the Paying Agent shall so notify the Insurer or its designee.

C. In addition, if the Paying Agent has notice that any Bondholder has been required to disgorge payments of principal or interest on the Obligation to a trustee in Bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Paying Agent shall notify the Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

D. The Paying Agent is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Holders of the Obligations as follows:

1. If and to the extent there is a deficiency in amounts required to pay interest on the Obligations, the Paying Agent shall (a) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Insurer as agent for such Holders in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (b) receive as designee of the respective Holders (and not as Paying Agent) in accordance with the tenor of the Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Holders; and

2. If and to the extent of a deficiency in amounts required to pay principal of the Obligations, the Paying Agent shall (a) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Insurer as agent for such Holder in any legal proceeding relating to the payment of such principal and an assignment to the Insurer of any of the Obligation surrendered to the Insurance Paying agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Paying Agent and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Holders (and not as Paying Agent) in accordance with the tenor of the Policy payment therefor from the Insurance Paying Agent, and (c) disburse the same to such Holders.

E. Payments with respect to claims for interest on and principal of Obligations disbursed by the Paying Agent from proceeds of the Policy shall not be considered to discharge the obligation of the Issuer with respect to such Obligations, and the Insurer shall become the owner of such unpaid Obligation and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

F. Irrespective of whether any such assignment is executed and delivered, the Issuer and the Paying Agent hereby agree for the benefit of the Insurer that:

1. They recognize that to the extent the Insurer makes payments, directly or indirectly (as by paying through the Paying Agent), on account of principal of or interest on the Obligations, the Insurer will be subrogated to the rights of such Holders to receive the amount of such principal and interest from the Issuer, with interest thereon as provided and solely from the sources stated in this Indenture and the Obligations; and

2. They will accordingly pay to the Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in this Indenture and the Obligation, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Obligations to Holders, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.

G. In connection with the issuance of additional Obligations, the Issuer shall deliver to the Insurer a copy of the disclosure document, if any, circulated with respect to such additional Obligations.

H. Copies of any amendments made to the documents executed in connection with the issuance of the Obligations which are consented to by the Insurer shall be sent to Standard & Poor's Corporation.

I. The Insurer shall receive notice of the resignation or removal of the Paying Agent and the appointment of a successor thereto.

J. The Insurer shall receive copies of all notices required to be delivered to Bondholders and, on an annual basis, copies of the Issuer's audited financial statements and Annual Budget.

Notices: Any notice that is required to be given to a holder of the Obligation or to the Paying Agent pursuant to the Indenture shall also be provided to the Insurer. All notices required to be given to the Insurer under the Indenture shall be in writing and shall be sent by registered or certified mail addressed to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504 Attention: Surveillance.

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APPENDIX G
FORM OF CONTINUING DISCLOSURE CERTIFICATE

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APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed by the CITY OF OAKLAND, CALIFORNIA (the "City") in favor of Texas Commerce Bank, as trustee and Dissemination Agent (as herein defined), in connection with the issuance of \$_____ City of Oakland, Pension Obligation Bonds, Series 1997 (the "Bonds"). The Bonds are being issued pursuant to resolutions adopted by the Council of the City on February 6, 1996 and February 4, 1997 (collectively, the "Authorizing Resolutions"), a Master Trust Agreement and a First Supplemental Trust Agreement, each dated as of February 1, 1997 (collectively, the "Trust Agreement"), by and between the City and the Trustee. The City covenants and agrees as follows:

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

Section 2. Definitions. The definitions set forth in the Trust Agreement apply to all capitalized terms used in this Disclosure Certificate unless otherwise defined in this Section. The following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Dissemination Agent" shall mean the Trustee, or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository.

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

"State Repository" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Undertaking to Provide Ongoing Disclosure. This Disclosure Certificate constitutes the City's written undertaking for the benefit of the owners of the Bonds as required by Section (b)(5) of the Rule.

Section 4. Financial Statements/Operating Data. The City agrees to provide or cause to be provided to each National Repository and to the State Repository, if any, in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 1997 for the fiscal year ended June 30, 1996):

1. The adopted budget of the City for the then current fiscal year, the audited financial statements of the City for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles applicable to government entities in effect from time to time, and material historical quantitative data (including financial information and operating data) on the City and revenues, expenditures, financial operations and indebtedness generally found in the City's (general fund credit) official statements;

2. The assessed valuation of taxable property in the City;

3. Property taxes (including the Tax Override Revenues) due, property taxes collected and property taxes delinquent;
4. Property tax levy rate per \$1,000 of assessed valuation; and
5. Outstanding general obligation debt of the City.

Such annual information and operating data described above shall be provided on or before seven months after the end of the City's fiscal year. The City's current fiscal year ends June 30. The City may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing National Repository and the State Repository, if any. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents provided to the National Repository, the State Repository or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the annual financial information discussed above, the City shall provide the City's audited annual financial statement prepared in accordance with generally accepted accounting principles when and if available to each then existing National Repository and the State Repository, if any.

Section 5. Material Events. The City agrees to provide or cause to be provided, in a timely manner, to the State Repository, if any, and to each National Repository or to the MSRB notice of the occurrence of any of the following events (the "Listed Events") with respect to the Bonds, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves, if any, for the Bonds reflecting financial difficulties;
4. Unscheduled draws on credit enhancements, if any, for the Bonds reflecting financial difficulties;
5. Substitution of credit or liquidity providers, if any, or their failure to perform;
6. Modifications to the rights of Bond owners;
7. Optional redemption of Bonds prior to their maturity;
8. Defeasance of the Bonds;
9. Release, substitution or sale of property, if any, securing repayment of the Bonds; and
10. Rating change for the Bonds.

With reference to items 4 and 9 above, no debt service reserves secure payment of the Bonds and no interest in real or personal property secures repayment of the Bonds. If the City subsequently chooses to establish any debt service reserves or to provide property as security for the Bonds, the City will provide notice of such establishment or provision and will provide notice of material events relating thereto, should such events occur.

Section 6. Notification Upon Failure to Provide Financial Data. The City agrees to provide or cause to be provided, in a timely manner, to each National Repository or to the MSRB and to the State Repository, if any, notice of its failure to provide the annual financial information described in Section 5 above on or prior to the date set forth in Section 5 above.

Section 7. Termination/Modification. The City's obligations to provide annual financial information and notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. The City may, at its option, elect not to comply with any provision of this Disclosure Certificate if the City (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this Section, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (2) notifies

each then existing National Repository and the State Repository, if any, of such opinion and the cancellation of this Section.

Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

1. If the amendment or waiver relates to the provisions of Section 4, item (1)-(5) or Section 5, 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 the City with respect to the Bonds, or the type of business conducted;

2. The undertaking, 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 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

3. The amendment or waiver either (i) is approved by the owners of the Bonds or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Section 7, the City shall describe such amendment in the 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 material event under Section 5, and (ii) the annual report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 8. Bond Owner's Remedies Under This Disclosure Certificate. The right of any Bond Owner or Beneficial Owner of Bonds to enforce the provisions of this Disclosure Certificate shall be limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this Disclosure Certificate shall not be an event of default with respect to the Bonds hereunder. For purposes of this Section, "Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

Section 9. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 10. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Trustee.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder (including, without limitation, any alleged violations of the Securities Exchange Act of 1934, as amended), 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 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Neither the Trustee nor the Dissemination Agent shall be responsible for the accuracy or validity of any information contained in any Annual Report or report of a Listed Event prepared by the City under this Disclosure Certificate.

Section 12. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

IN WITNESS WHEREOF, I hereunto set my hand this ____ day of March, 1997.

Dated: _____, 1997.

CITY OF OAKLAND, CALIFORNIA

By: _____

TEXAS COMMERCE BANK

By: _____
Authorized Officer

DISSEMINATION AGENT

By: _____
Authorized Officer

APPENDIX H
DTC BOOK-ENTRY SYSTEM

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APPENDIX H

DTC BOOK-ENTRY SYSTEM

The Depository Trust Company ("DTC") or its successor, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond for each maturity will be issued, in the aggregate principal amount of each maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 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, but Beneficial Owners are 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 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the 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. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 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. 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.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee 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 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal of, premium, if any, and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Direct and Indirect 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 the principal of, premium, if any, and interest on the

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 the principal of, premium, if any, and interest on the Bonds to DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

The information concerning DTC and DTC's book-entry system set forth above has been obtained from DTC. The City makes no representation or warranty regarding the accuracy or completeness thereof.

So long as the Bonds are in book-entry only form, Cede & Co., as nominee for DTC, will be treated as the sole owner of the Bonds for all purposes under the Trust Agreement, including receipt of all principal of, premium, if any, and interest on the Bonds, receipt of notices, voting and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under such Trust Agreement. The City and the Trustee have no responsibility or obligation to the Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Participant; (b) the payment by DTC or any Participant or other person of any amount due to any Beneficial Owner as owner of the Bonds in respect of the principal of, premium, if any, and interest on the Bonds; (c) the delivery or timeliness of delivery to any Participant or any other person (other than an Owner as shown in the Bond Register) of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture to be given to owners of Bonds, including notice of redemption on; or (d) the selection by the Depository and its Participants of the beneficial interests in book-entry Bonds to be prepaid in the event the City redeems the Bonds in part.

APPENDIX I
TABLE OF ACCRETED VALUES

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APPENDIX I

TABLE OF ACCRETED VALUES

For Capital Appreciation Bonds, the Accreted Value (which includes the principal amount and accrued interest thereon) per each \$5,000 payment at maturity amount as of June 15 and December 15, is set forth in the following table of Accreted Values. Such table is provided for the purpose of affording information to Owners of Capital Appreciation Bonds that may be necessary in connection with the computation of taxable gain, if any, upon the sale of a Capital Appreciation Bond for Federal income tax purposes. See "CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES."

Interest Accrual Date	Maturity Date <u>December 15, 2010</u>
February 25, 1997	\$ 1,855.65
June 15, 1997	1,896.85
December 15, 1997	1,966.15
June 15, 1998	2,038.00
December 15, 1998	2,112.50
June 15, 1999	2,189.70
December 15, 1999	2,269.75
June 15, 2000	2,352.70
December 15, 2000	2,438.70
June 15, 2001	2,527.85
December 15, 2001	2,620.25
June 15, 2002	2,716.00
December 15, 2002	2,815.30
June 15, 2003	2,918.20
December 15, 2003	3,024.85
June 15, 2004	3,135.40
December 15, 2004	3,250.00
June 15, 2005	3,368.80
December 15, 2005	3,491.90
June 15, 2006	3,619.55
December 15, 2006	3,751.85
June 15, 2007	3,889.00
December 15, 2007	4,031.10
June 15, 2008	4,178.45
December 15, 2008	4,331.20
June 15, 2009	4,489.50
December 15, 2009	4,653.60
June 15, 2010	4,823.65
December 15, 2010	5,000.00

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