

NEW ISSUE-FULL BOOK-ENTRY ONLY
TAXABLE (FEDERAL)
TAX EXEMPT (CALIFORNIA)

RATINGS: See "RATINGS" herein

INTEREST ON THE SERIES 2001 BONDS IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. In the opinion of Foley & Lardner, San Francisco, California, and Webster & Anderson, Oakland, California, Co-Bond Counsel, interest on the Series 2001 Bonds is exempt from State of California personal income taxes. See "TAX MATTERS" herein.



\$195,636,449.10
CITY OF OAKLAND, CALIFORNIA
TAXABLE PENSION OBLIGATION BONDS
SERIES 2001

Dated: Date of Delivery

Due: December 15, as shown on inside front cover

This cover page contains information for quick reference only. It is not a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The City of Oakland, California, Taxable Pension Obligation Bonds, Series 2001 (the "Series 2001 Bonds"), will be issued and delivered in the initial Denominational Amounts and will mature in the years and in the Maturity Amounts as set forth on the inside front cover. The Series 2001 Bonds will be issued in Denominational Amounts which will have an Accreted Value for each Series 2001 Bond at maturity of \$5,000 or any integral multiple thereof. The Series 2001 Bonds will be delivered in book-entry form, registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"). Purchases of beneficial interest in the Series 2001 Bonds will be made in book-entry-only form. Purchasers will not receive certificates representing their ownership interest in the Series 2001 Bonds purchased by them.

The Series 2001 Bonds will accrete in value from their date of delivery at the Accreted Value Rate set forth on the inside front cover, compounded semi-annually at such rate on June 15 and December 15 of each year to the maturity date thereof. No payments shall be made on the Series 2001 Bonds prior to the maturity thereof. So long as the Series 2001 Bonds are registered in the name of DTC, or its nominee, payments of the Maturity Amounts of the Series 2001 Bonds on their respective maturity dates will be made directly by the Trustee to DTC which, in turn, is obligated to remit such payments to its participants for subsequent distribution to beneficial owners of the Bonds, as described herein.

The Series 2001 Bonds will not be subject to redemption prior to their stated maturities.

The Series 2001 Bonds will be issued (i) to provide funds to purchase for cancellation and to legally defease a portion of the City's outstanding Taxable Pension Obligation Bonds, Series 1997 and (ii) to pay costs of issuance. The Series 1997 Bonds were issued to fund a portion of the obligation of the City of Oakland, California (the "City"), under its Charter to make payments to its Police and Fire Retirement System to fund retirement benefits accruing to the members of such Retirement System.

The Series 2001 Bonds are obligations imposed upon the City by law, are enforceable against the City pursuant to the provisions of the Trust Agreement and a procedural ordinance and resolutions of the City Council authorizing their issuance and are payable from any legally available source of funds of the City. The Series 2001 Bonds are being issued pursuant to the Trust Agreement, dated as of February 1, 1997, as amended, between the City and The Chase Manhattan Bank, Houston, Texas, as successor trustee. The Series 2001 Bonds do not constitute a debt of the City, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

The scheduled payment of the Maturity Amounts of the Series 2001 Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Series 2001 Bonds.



The Series 2001 Bonds will be offered when, as and if issued, and received by the Underwriters, subject to approval of legality by Foley & Lardner, San Francisco, California, and Webster & Anderson, Oakland, California, Co-Bond Counsel. Certain other legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, and for the City by John Russo, Esq., Oakland City Attorney. Squire, Sanders & Dempsey L.L.P., San Francisco, California, is acting as Disclosure Counsel to the City. The Series 2001 Bonds in book-entry form will be available for delivery through DTC in New York, New York, in the United States or through the Euroclear System ("Euroclear") and Clearstream, Luxembourg, in Europe, on or about October 17, 2001.

MORGAN STANLEY & CO. INCORPORATED

Samuel A. Ramirez & Co., Inc.

M♦R♦ Beal & Company

Redwood Securities Group, Inc.

Dated October 3, 2001

MATURITY SCHEDULE

\$195,636,449.10
City of Oakland, California
Taxable Pension Obligation Bonds
Series 2001

CAPITAL APPRECIATION SERIAL BONDS

<u>Maturity Dec. 15</u>	<u>Initial Denominational Amount</u>	<u>Accreted Value Rate (Yield to Maturity)</u>	<u>Accreted Value at Maturity (Maturity Amount)</u>
2011	\$20,859,882.50	6.090%	\$38,375,000.00
2012	19,923,062.40	6.240%	39,555,000.00
2013	18,881,125.05	6.430%	40,765,000.00
2014	18,079,003.50	6.510%	42,010,000.00
2015	17,210,116.00	6.620%	43,285,000.00
2016	16,369,434.90	6.720%	44,590,000.00
2017	15,609,448.25	6.790%	45,925,000.00
2018	14,887,520.10	6.850%	47,295,000.00
2019	14,281,275.00	6.870%	48,700,000.00
2020	13,692,231.20	6.890%	50,140,000.00
2021	13,172,907.80	6.890%	51,620,000.00
2022	12,670,442.40	6.890%	53,130,000.00

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 Series 2001 Bonds. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2001 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly stated to be such, are intended solely as such and are not to be construed as representations of fact. No representation is made that any past experience, as shown by any financial or other information herein, will necessarily continue or be repeated in the future. The information set forth in this Official Statement has been obtained from official sources and other sources which are believed to be reliable, but the accuracy or completeness of such information is not guaranteed by, and should not be construed as a promise by, the City. 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 initial sale of the Series 2001 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. All summaries of the documents and laws herein are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

Certain statements in this Official Statement, which may generally be identified by the use of such terms as "plan," "expect," "estimate," "budget" or other similar words, constitute "forward-looking statements." Such forward-looking statements include, but are not limited to, statements under the captions "PLAN OF FINANCE," "CITY POLICE AND FIRE RETIREMENT SYSTEM," "RISK FACTORS" and "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS." The achievement of certain results or other expectations or performance contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements described or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to such forward-looking

statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, or if actual results, performance or achievements are materially different from any results, performance or achievements described or implied by such forward-looking statements.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2001 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2001 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 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.

THE SERIES 2001 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE TRUST AGREEMENT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS.

IN MAKING ANY INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY, MBIA INSURANCE CORPORATION 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.

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

Edmund G. Brown, Jr.

CITY COUNCIL

Ignacio De La Fuente, President
Henry Chang, Jr.
Moses Mayne
Nancy Nadel

Jane Brunner, Vice Mayor
Larry Reid
Richard Spees
Danny Wan

CITY OFFICIALS

Robert C. Bobb, City Manager
Dolores E. Blanchard, Assistant City Manager
Dr. George G. Musgrove, Assistant City Manager
Ceda Floyd, City Clerk
Roland E. Smith, City Auditor
John Russo, City Attorney
Deborah A. Edgerly, Director, Financial Services Agency
Joseph T. Yew, Jr., Treasury Manager
Katano Kasaine, Investment Supervisor

CO-BOND COUNSEL

Foley & Lardner
San Francisco, California

Webster & Anderson
Oakland, California

FINANCIAL ADVISOR

Public Financial Management, Inc.
San Francisco, California

DISCLOSURE COUNSEL

Squire, Sanders & Dempsey L.L.P.
San Francisco, California

TRUSTEE

The Chase Manhattan Bank
Houston, Texas

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OFFICIAL STATEMENT

\$195,636,449.10

CITY OF OAKLAND, CALIFORNIA TAXABLE PENSION OBLIGATION BONDS SERIES 2001

INTRODUCTORY STATEMENT

The purpose of this Official Statement (including the cover page and appendices attached hereto) is to provide certain information concerning the initial issuance, sale and delivery by the City of Oakland, California (the "City") of the captioned Series 2001 Bonds.

This Introductory Statement contains only a brief summary of certain of the terms of the Series 2001 Bonds being offered and a brief description of this Official Statement. Prospective investors should read the entire Official Statement (including the Appendices) to obtain information essential to the making of an informed investment decision. The offering of the Series 2001 Bonds to potential investors is made only by means of the entire Official Statement.

Certain risks associated with any purchase of the Series 2001 Bonds are described under "RISK FACTORS," but such description is not intended to be an exhaustive list of risks and other considerations which may be relevant to investing in the Series 2001 Bonds.

All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings given such terms in the Trust Agreement. See APPENDIX C—"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Definitions of Certain Terms" for definitions of certain words and terms used, but not otherwise defined herein.

City of Oakland

The City is a charter city located on the east side of the San Francisco Bay, is the eighth most populous city in California and has a 2001-2002 budget of \$818 million. See APPENDIX A – "CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND."

Authority for Issuance; Purpose

The Series 2001 Bonds are authorized and issued pursuant to authorizing resolutions of the City Council adopted on July 24, 2001 and September 18, 2001 and pursuant to Article XXVI of the City Charter, as amended from time to time, and the PFRS Pension Obligation Bond Law, Chapter 4.44 of the Oakland Municipal Code (collectively the "Retirement Law").

The Series 2001 Bonds will be issued under, and are secured by, the Master Trust Agreement (the "Master Trust Agreement"), by and between the City and The Chase Manhattan Bank, Houston, Texas (successor trustee to Texas Commerce Bank National Association) (the "Trustee"), dated as of February 1, 1997, a First Supplemental Trust Agreement, dated as of February 1, 1997, and a Second Supplemental Trust Agreement, dated as of September 1, 2001 (the "Second Supplemental Trust Agreement"), by and between the City and the Trustee (the Master Trust Agreement as so amended is sometimes referred to collectively as the "Trust Agreement").

The Series 2001 Bonds are being issued to (a) provide funds to purchase for cancellation and to legally defease to maturity a portion of the City's outstanding Taxable Pension Obligation Bonds, Series 1997 (the "Series 1997 Bonds") and (b) to pay cost of issuance of the Series 2001 Bonds. See "PLAN OF FINANCE."

The (i) Series 2001 Bonds, (ii) the Series 1997 Bonds to remain Outstanding following the purchase and defeasance of a portion of the Series 1997 Bonds with proceeds of the Series 2001 Bonds, and (iii) any Additional Bonds issued under the Trust Agreement, are collectively referred to as the "Bonds."

Security and Source of Payment for the Series 2001 Bonds

The obligation of the City to pay the principal of, interest on and the redemption price, if any ("debt service"), on the Bonds is imposed upon the City by law and is enforceable against the City pursuant to the Trust Agreement, a procedural ordinance and resolutions adopted by the City Council authorizing the issuance of the Series 2001 Bonds. 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 and Trust Agreement, the City has agreed in the Trust Agreement to pay from any legally available source of revenues of the City (including the Tax Override Revenues) all amounts due and owing with respect to Bonds. As provided in the Trust Agreement and as described herein, the City has pledged and assigned to the Trustee, and has granted to the Trustee a lien on and security interest in, the Pledged Revenues (which consist solely of the Tax Override Revenues collected by the City pursuant to the levy of an ad valorem tax) and certain other moneys and securities held from time to time by the Trustee under the Trust Agreement for the payment of the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2001 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.

Bond Insurance

Scheduled payment of the Maturity Amount of the Series 2001 Bonds when due at maturity will be insured by the financial guaranty insurance policy (the "Bond Insurance Policy") to be issued by MBIA Insurance Corporation (the "Bond Insurer") simultaneously with the delivery of the Series 2001 Bonds. See "THE BOND INSURER AND THE BOND INSURANCE POLICY."

The Bond Insurer will have the right to consent on behalf of the owners of the Series 2001 Bonds (with certain exceptions) to amendments to the Trust Agreement.

Additional Bonds

The City is permitted under the Trust Agreement to issue at any time Additional Bonds in any principal amount, which Additional Bonds may be secured under the Trust Agreement by Pledged Revenues on a parity with the Series 1997 Bonds and the Series 2001 Bonds.

The City may also issue at any time, without any limit imposed by the Trust Agreement, general obligation bonds, or other evidences of indebtedness or liabilities, payable on a parity with the Bonds from the general revenues of the City (excluding the Tax Override Revenues).

The Series 2001 Bonds – General

All the Series 2001 Bonds are Capital Appreciation Bonds and no payment will be made thereon until their respective stated maturity dates. The Series 2001 Bonds will be issued in the initial Denominational Amounts, will accrete in value from their date of delivery at the Accreted Value Rate (yield to maturity) and will mature, all as indicated on the inside front cover of this Official Statement. The Series 2001 Bonds will be issued in book-entry form and in initial Denominational Amounts which will have an Accreted Value at stated maturity (the "Maturity Amount") of \$5,000 or any integral multiple thereof. See "THE SERIES 2001 BONDS." The Accreted Value of each maturity of the Series 2001 Bonds as of each December 15 and Maturity Amount of the Series 2001 Bonds for each maturity is illustrated in APPENDIX H.

The Series 2001 Bonds will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company ("DTC"). Purchasers in Europe may hold beneficial interests in the Series 2001

Bonds through Clearstream, Luxembourg, or through Euroclear, as described in APPENDIX I "Clearstream, Luxembourg and Euroclear."

Redemption

The Series 2001 Bonds will not be subject to redemption prior to maturity.

Validation

Prior to the issuance of the Series 1997 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 Series 1997 Bonds and any subsequent series of bonds issued pursuant to the Master Trust Agreement. See "APPROVAL OF LEGALITY - Validation Proceedings."

Continuing Disclosure

The City, for purposes of Rule 15c2-12 of the U.S. Securities and Exchange Commission, has agreed pursuant to a Continuing Disclosure Certificate to provide certain financial information and operating data relating to the City and to provide notices of the occurrence of certain enumerated events, if material. See "CONTINUING DISCLOSURE" and APPENDIX F - "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Financial Statements

The Series 2001 Bonds are obligations of the City payable from the City's general revenues, including amounts held in its General Fund and any other legally available source of funds. The most recent audited General Purpose Financial Statements of the City, which includes the City's General Fund, relate to its Fiscal Year ending June 30, 2000. The audited General Purpose Financial Statements of the City for its Fiscal Year ended June 30, 2000 (excluding the information entitled "Combining and Individual Fund and Account Group Financial Statements and Schedules") are included in APPENDIX B. Such Financial Statements have been audited by KPMG LLP, independent accountants (the "Auditor"), as stated in their report appearing in APPENDIX B. A complete copy of the City's General Purpose Financial Statements for Fiscal Year 2000 may be obtained upon request to the City's Treasury Manager at (510) 238-3201. The City has not requested, nor has the Auditor given, the Auditor's consent to the inclusion in APPENDIX B of its report. The Auditor has not reviewed this Official Statement nor performed any procedures subsequent to rendering its opinion on such Financial Statements.

Miscellaneous

The descriptions herein of the Trust Agreement and any other agreement relating to the Series 2001 Bonds do not purport to be comprehensive or definitive. All references herein to the Trust Agreement are qualified in their entirety by reference to the definitive form thereof, all references to laws are qualified in their entirety by reference to the complete text of the laws, all references to the Series 2001 Bonds are qualified by the form thereof contained in the Trust Agreement, and all such references are further qualified in their entirety by laws and principles of equity relating to or affecting the enforcement of creditors' rights against cities in California and of creditors' generally.

Copies of the Trust Agreement are available from the Underwriters until initial issuance of the Series 2001 Bonds and thereafter may be obtained by contacting the Trustee.

The presentation of information herein, including tables of receipts of revenues and other financial information, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or affairs of the City. No representation is made that past experience, as it might be shown by such financial or other information, will necessarily continue or be repeated in the future.

PLAN OF FINANCE

The City under its Charter established The Police and Fire Retirement System (the "Retirement System" or "PFRS"), which provides pension and other benefits to certain members of its Police and Fire Departments. See "CITY POLICE AND FIRE RETIREMENT SYSTEM." The City is obligated by its Charter to amortize by July 1, 2026 its unfunded actuarial accrued liability ("UAAL") for retirement benefits for members of its Police and Fire Departments under the Retirement System. Since 1981, the City has annually levied an ad valorem tax to amortize the UAAL. This tax is referred to in this Official Statement as the "Tax Override" and the proceeds derived from the collection of this tax are called "Tax Override Revenues." The Trust Agreement requires the City to use any legally available revenues (including Tax Override Revenues) to pay debt service on the Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2001 BONDS."

On February 25, 1997, the City issued its Series 1997 Bonds which were used: (1) to pay a Debenture that was issued by the City to PFRS, which Debenture evidenced a portion of the City's then existing UAAL to PFRS, (2) to pay a portion of the City's normal contribution to PFRS for its Fiscal Year 1997; and (3) to pay costs of issuance of the Series 1997 Bonds. In return for the payments described in (1) (the "1997 Payment"), PFRS agreed in a Funding Agreement, dated as of June 1, 1996 (the "Funding Agreement"), between the City and PFRS, that the City will not be required to make any further payments to PFRS for UAAL through June 30, 2011.

The issuance of the Series 2001 Bonds is part of a plan of finance being undertaken by the City to permit annual debt service on the Bonds to be paid from the annual amounts of Tax Override Revenues anticipated by the City to be received and to minimize the need for the City to use other revenues to pay such debt service. As part of this plan, the City has extended an "Invitation to Tender Bonds for Cash," dated August 31, 2001 (the "Invitation"), to the holders of the Series 1997 Bonds to tender a portion of the Series 1997 Bonds for purchase by the City for cancellation.

The City will use proceeds from the Series 2001 Bonds: (a) to pay the purchase price of the Series 1997 Bonds, which the City has determined to purchase and cancel in connection with the Invitation and (b) to legally defease a portion of the Series 1997 Bonds by purchasing Government Obligations to be held by the Trustee, acting as the Escrow Agent (see "VERIFICATION OF MATHEMATICAL COMPUTATIONS"); and (c) to pay costs of issuance of the Series 2001 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS." As a result of such purchase and defeasance, annual debt service through 2010 on the Bonds will be reduced on an annual basis, but total debt service on the Bonds will increase because the final maturity date for the Bonds will be extended from 2010 to 2022.

The City Charter requires PFRS to obtain an actuarial valuation of the UAAL every three years and the current policy of PFRS is to obtain such valuation every two years. Based upon future actuarial evaluations of the UAAL, PFRS will determine the annual payments, if any, beginning after June 30, 2011, which the City is obligated by the Retirement Law to make to amortize the UAAL, if any, by 2026. There can be no assurance that after June 30, 2011 the aggregate of the (i) annual debt service on the Bonds and (ii) any annual payment required by the Retirement Law to amortize the UAAL, will be less than the annual Tax Override Revenues.

CITY POLICE AND FIRE RETIREMENT SYSTEM

The information in this section has been included to provide certain information concerning the Retirement System. See also APPENDIX A - "CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND - Retirement Programs" and Notes (2) and (16) in "Notes to Audited Financial Statements" included in APPENDIX B - "EXCERPTED CITY AUDITED FINANCIAL STATEMENTS, JUNE 30, 2000"

Neither the Retirement System nor its assets are obligated for the payment of debt service on the Bonds.

The Retirement System is established pursuant to the Retirement Law and is a defined benefit pension system for the members of the City's Police and Fire Departments hired prior to July 1, 1976. The Retirement System is now closed; no new members can join PFRS. As of June 30, 2001, the Retirement System covered 144 current employees and 1,482 retired employees. PFRS provides for the payment of retirement allowances and

disability and death benefits to its members and their beneficiaries. PFRS is governed by a seven member Police and Fire Retirement Board (the "Retirement Board"), which controls the operation, investment and disbursement of the Retirement System's funds. The proceeds from the 1997 Payment were invested as directed by the Retirement Board and limited by the City Charter. PFRS is subject to federal and California law and the Retirement Board has discretion to invest plan assets under the prudent person standard of the City Charter Article XXVI, the California Constitution and other applicable law. PFRS has a stated investment objective to maintain the purchasing power of the principal of PFRS investments over the long term.

The most recent actuarial valuation of PFRS was as of July 1, 2000 and was contained in a report, dated February 15, 2001, from the Retirement System's independent actuary. That report indicated the Actuarial Value of Assets of PFRS exceeded the Projected City Liability (as defined in such report) by approximately \$21 million, which resulted in a Funded Ratio (defined as Actuarial Value of Assets divided by Projected City Liability) of 102%. When the Funded Ratio exceeds 100%, the City has no UAAL as of the date of such actuarial valuation. The actuarial evaluations of the PFRS as of July 1 of 1998, 1996, and 1994 made by PFRS's independent actuary reported the Funded Ratios as of such dates to be 105%, 36% and 31%, respectively.

In November, 2000, the voters of the City amended the Charter to give active members of the Retirement System the option to terminate their membership and transfer to the California Public Employees' Retirement System ("PERS") upon certain conditions, including a requirement that the Retirement Board authorize a transfer to PERS of funds held by the Retirement System representing City and employee contributions to the Retirement System for each member who exercises such option to transfer. As part of its planning for such transfers, the Retirement Board requested its independent actuary to do an interim estimate of the Funded Ratio. In a report dated May 24, 2001, the Retirement System's independent actuary estimated the Funded Ratio as of June 30, 2001 to be 96%, meaning that as of such date, the Projected City Liability exceeded the Actuarial Value of Assets by \$32 million, which was the estimated UAAL of the City as of such date. The deadline for active members of PFRS electing to transfer to PERS has expired and approximately 103 have elected to transfer. In conjunction with implementing these transfers, the City anticipates that the Retirement Board: (a) will obtain from its independent actuary a new interim estimate of the Funded Ratio based upon the number of transfers and other circumstances existing at that time, and (b) will transfer funds from the Retirement System to PERS to maintain the Funded Ratio as shown in such new estimate.

As noted above, actuarial valuation of the Funded Ratio of the Retirement System and the amount of the UAAL of the City have changed, and will continue to change, to the extent actual experience differs from the assumptions used by the independent actuary of the Retirement System in making its valuations. Various factors affecting the Retirement System could result in an increased (or decreased) UAAL obligation of the City as of any particular future actuarial valuation date of the Retirement System. Those factors include, among others, investment earnings of the System, cost of living adjustments, changes in the Retirement Law, changes in benefit levels, mortality experience and wage increases. It is not possible to know what annual payments the City will be required to make by the Retirement Law for UAAL after June 30, 2011 (the date on which the City must under the Funding Agreement resume payments with respect to the UAAL).

In addition, the annual contributions of the City for active members of the Retirement System who transfer to PERS will be determined by PERS and will be paid by the City from its general funds and is not anticipated to be paid by the City from Tax Override Revenues.

THE SERIES 2001 BONDS

General

All the Series 2001 Bonds will be Capital Appreciation Bonds and no payments will be made with respect to the Series 2001 Bonds prior to the respective maturity dates thereof. The Series 2001 Bonds will be issued in initial Denominational Amounts which will have an Accreted Value of each Bond on the stated maturity date thereof (the "Maturity Amount") of \$5,000 or an integral multiple thereof. The Series 2001 Bonds of each maturity will be issued in the initial Denominational Amounts, will accrete in value from their date of delivery at the Accreted Value Rate (yield to maturity) and will mature on the dates, all as indicated on the inside front cover of this Official Statement, compounded semi-annually at the Accreted Value Rate on June 15 and December 15 of each year,

commencing December 15, 2001, until maturity. Such compounding will be calculated on the basis of a year of 360 days comprised of twelve 30-day months, and the Accreted Value shall be payable only at maturity. The Accreted Value on any date other than June 15 and December 15 of any year shall be calculated by straight-line interpolation. A Table of Accreted Values (as of June 15 and December 15) of the Series 2001 Bonds of each maturity per \$5,000 stated Maturity Amount is attached hereto as APPENDIX H. Such Table is presented for illustrative purposes only. Any Accreted Value determined in accordance with the terms of the Trust Agreement shall control over any different Accreted Value determined by reference to such Table.

The Series 2001 Bonds will be on a parity with the Series 1997 Bonds. See "SECURITY AND SOURCE OF PAYMENT OF THE SERIES 2001 BONDS".

The Series 2001 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 Series 2001 Bonds will be made in book-entry-only form and purchasers will not receive physical delivery of the Series 2001 Bonds. Payment of the Maturity Amounts on the Series 2001 Bonds will be made by the Trustee to Cede & Co., as nominee for DTC, as registered owner of the Series 2001 Bonds, to be subsequently disbursed by DTC to its participants and thereafter to the beneficial owners of the Series 2001 Bonds, all as further described in APPENDIX G – "DTC Book-Entry System." Purchasers in Europe may hold beneficial interests in the Series 2001 Bonds through Clearstream, Luxembourg, or through Euroclear, as described in APPENDIX I "Clearstream, Luxembourg and Euroclear"

Redemption

The Series 2001 Bonds are not subject to redemption prior to their respective stated maturity dates.

Additional Bonds

The City is permitted under the Trust Agreement to issue at any time Additional Bonds in any principal amount secured under the Trust Agreement by Pledged Revenues on a parity with the Series 2001 Bonds and Series 1997 Bonds.

The City may also issue at any time, without any limit imposed by the Trust Agreement, general obligation bonds or other evidences of indebtedness or liabilities payable on a parity with the Bonds from the general revenues of the City (excluding Tax Override Revenues).

Power of the Bond Insurer to Consent to Amendments of the Trust Agreement

The Bond Insurer may consent, upon behalf of the Holders of the Series 2001 Bonds, to certain amendments to the Trust Agreement without the consent of or notice to the owners of the Series 2001 Bonds so long as the Bond Insurer has not lost its right to consent under the Trust Agreement and regardless of the current ratings on the bonds insured by the Bond Insurer or the effect of any such action or amendment on the ratings on the Series 2001 Bonds. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Execution of Supplemental Trust Agreements; Modification of the Trust Agreement" and "-Provisions Relating to Series 2001 Bond Insurer and Bond Insurance Policy." Such amendments could result in the modification, waiver or removal of existing covenants or restrictions contained in the Trust Agreement. The Bond Insurer shall have sole discretion as to whether to consent to any proposed amendment, and shall incur no liability to any owner of a Series 2001 Bonds in connection with granting any such consent.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2001 BONDS

The obligation of the City to make payments with respect to the Series 2001 Bonds, the Series 1997 Bonds and any Additional Bonds is an obligation of the City imposed upon the City by law. Such obligation is enforceable against the City pursuant to the Trust Agreement, a procedural ordinance and resolutions adopted on July 24, 2001 and September 18, 2001 by the City Council authorizing issuance of the Series 2001 Bonds and is payable from any

legally available source of funds of the City. 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 annually levy and collect the Tax Override (up to the maximum tax rate permitted by law, described below) in each Fiscal Year (whether or not the UAAL is amortized prior to the final maturity of the Bonds) in an amount that the City expects will be sufficient, together 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, interest on and the redemption price, if any, on the Bonds. 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. Measure R was enacted by the voters of the City on June 8, 1976, and amended certain provisions of the City Charter establishing the Retirement Law and required the City to amortize the UAAL by the year 2016. Beginning in 1981, the City Council levied the Tax Override to fund the UAAL. On June 7, 1988, the voters of the City adopted Measure O by a 71% vote. Measure O extended the period for amortizing the UAAL by 10 years to 2026.

The City has pledged the Tax Override Revenues, as provided in the Trust Agreement and as described in this paragraph, for the payment of the Bonds in each Fiscal Year. The City has pledged and assigned to the Trustee and granted to the Trustee, in the Master Trust Agreement, 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 has provided therein 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 therein provided. In the Master Trust Agreement, the City has covenanted that the Tax Override Revenues levied and collected in each Fiscal Year shall be pledged and applied to pay principal of and interest on and the redemption price of the Bonds in such Fiscal Year. The Master Trust Agreement further provides that, to the extent that, commencing on June 30, 1998 and on June 30 of each Fiscal Year thereafter during the term of any Bonds Outstanding thereunder, any surplus amount of Tax Override Revenues remains on deposit in the Pledged Revenues Fund after payment of all principal of and interest on and the 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 Trust Agreement requires the City to deposit all Tax Override Revenues into the Tax Override Revenue Account in the General Fund held by the City. The City is further required, on or before August 1 of each year, to deposit with the Trustee an aggregate amount, from its legally available revenues (including, but not limited to, the Tax Override Revenues held in the Tax Override Revenues Account of the City), sufficient to pay all principal and interest due on all the Bonds on the next succeeding December 15 and June 15. If this deposit is made by August 1 of each year, then the Trust Agreement imposes no further limitations upon the City's use of Tax Override Revenues held in the Tax Override Revenue Account of the City. See APPENDIX C - "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Establishment of Funds Relating To the Series 2001 Bonds and Application Thereof" and "-Covenants of the City."

The determination by the City Council in any year of the amount of the tax levy rate for the Tax Override may be subject to a variety of factors, including the amount of other City revenues, the prevailing levels of property taxation within the City, the assessed valuation of property in the City and political considerations and policies of the City Council at the time of the levy.

In 1982, a taxpayer filed a lawsuit challenging the Tax Override as violating Article XIII A of the California Constitution and arguing the Tax Override was not indebtedness which had been approved by the voters prior to July 1, 1978, as required by Article XIII A. That challenge was rejected in 1983 by the Court of Appeal, First Appellate District, in *Valentine v. City of Oakland*. The *Valentine* Court concluded that the obligation of the City to fund its contributions to the Retirement System constituted indebtedness which had been approved by the voters in 1976 when they adopted Measure R. The Court also rejected the challenge that the voters must approve

the specific tax levied to pay the indebtedness to the Retirement System because the City Council, under the City's home rule power as a charter city, had the legal authority to levy the Tax Override. In a validation action filed in the Alameda County Superior Court prior to the issuance of the Series 1997 Bonds, the Court determined that the City may use the Tax Override Revenues to pay principal of, interest on, and the redemption price, if any, on the Bonds. See "APPROVAL OF LEGALITY – Validation Proceedings".

State legislation enacted in 1985 limits the rate of the levy of the Tax Override to the rate levied by the City in Fiscal Year 1983 or 1984, which was 0.1575%. In addition, the tax levy rate may be affected by other existing and future statutory and constitutional limitations on taxes and appropriations, which may limit tax levy rates or otherwise have an adverse effect on the taxing or spending powers of the City. For example, 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 also limit the ability of the City to increase the tax levy rate for the Tax Override above its current level, or permit voters to reduce such tax levy rate, or may otherwise adversely affect the levy of the Tax Override. See "RISK FACTORS – Legal Limits on City's Revenues" and "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

For Fiscal Year 2001-02, the City Council has levied the Tax Override at a rate of 0.1575% of property assessed value and has budgeted collection of Tax Override Revenues in the amount of \$36.3 million. The City levied the Tax Override in each of the last 10 Fiscal Years of the City at this 0.1575% rate. During Fiscal Years 1998, 1999 and 2000, debt service on the Series 1997 Bonds exceeded Tax Override Revenues and the City paid the difference from its general funds. The amount of Tax Override Revenues and the annual growth rate of such Revenues for the last 10 Fiscal Years are shown in the following table:

<u>Fiscal Year (June 30)</u>	<u>Tax Override Revenues</u>	<u>Annual Growth Rate</u>
1991-1992	\$21,953,455	
1992-1993	23,333,426	6.3%
1993-1994	24,811,768	6.3
1994-1995	26,400,207	6.4
1995-1996	26,833,106	1.6
1996-1997	27,418,768	2.2
1997-1998	27,969,698	2.0
1998-1999	31,990,058	14.4
1999-2000	32,592,447	1.9
2000-2001	36,634,556 (unaudited)	12.4

Source: City of Oakland Financial Services Agency

See "RISK FACTORS — Changes in Amount of Revenues To Pay Bonds" for a discussion of the City's collections of Tax Override Revenues.

The City makes no representation as to its legal ability or intention to raise the levy rate for the Tax Override above 0.1575%. For a discussion of the City's legal ability to raise such levy rate, see "RISK FACTORS – Legal Limitations on City's Revenue." As discussed above, the City has no obligation under the Trust Agreement to levy the Tax Override in any Fiscal Year to the extent other legally available revenues are on hand or budgeted by the City in such Fiscal Year and expected by the City to be available for the payment of the Bonds. The City has covenanted in the Master Trust Agreement 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 thereunder 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. In any year in which the Tax Override is not levied or is levied at a lower rate, the City is required to pay debt service on the Bonds from any other legally available source of revenue of the City.

THE SERIES 2001 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 LIMITATION 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, the City 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 is served by 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 with an estimated population on Jan. 1, 2001 of 409,300. For Fiscal Year 2001-2002, the City's budget is \$818 million.

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 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; employee's pension funds; and the creation and organization of the Port of Oakland. The City's charter was amended on November 3, 1998 through the approval of ballot Measure X by the voters. This amendment created the Mayor-Council form of government, provided a two-term limit for the mayor, instituted a requirement of voter approval for increases to City Council compensation, and provided for the election of the City Attorney.

For additional information concerning the City, its government, its financial affairs and its investment policy, see APPENDIX A – "CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND" and APPENDIX B – "EXCERPTED CITY AUDITED FINANCIAL STATEMENTS, JUNE 30, 2000."

THE BOND INSURER AND THE BOND INSURANCE POLICY

The following information has been furnished by MBIA Insurance Corporation, the Bond Insurer, for use in this Official Statement. No representation is made by the City as to the accuracy or adequacy of the following information or as to the absence of material adverse changes in that information subsequent to the date of such information. For a specimen of the Bond Insurance Policy, see Appendix F.

The following information discusses redemptions and other accelerations of payment of debt service. The Series 2001 Bonds are not subject to redemption and their payment is not subject to acceleration.

The MBIA Insurance Corporation Bond Insurance Policy

The Bond Insurer's Bond Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Trustee, as 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 Series 2001 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 Bond 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 Series 2001 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 Bond Insurer's Bond Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2001 Bonds. The Bond Insurer's Bond Insurance 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 Series 2001 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Bond Insurer's Bond Insurance Policy also does not insure against nonpayment of principal of or interest on of the Series 2001 Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2001 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 Bond Insurer from the Trustee, as Paying Agent or any owner of a Series 2001 Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Bond 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 Series 2001 Bonds or presentment of such other proof of ownership of the Series 2001 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2001 Bonds as are paid by the Bond Insurer, and appropriate instruments to effect the appointment of the Bond Insurer as agent for such owners of the Series 2001 Bonds in any legal proceeding related to payment of insured amounts on the Series 2001 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 Series 2001 Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

The Bond Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Bond Insurer. The Bond 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 Bond 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 Bond Insurer, changes in control and transactions among affiliates. Additionally, the Bond Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Bond Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurance Policy and the Bond Insurer set forth under the heading "BOND INSURANCE". Additionally, the Bond Insurer makes no representation regarding the Series 2001 Bonds or the advisability of investing in the Series 2001 Bonds.

The Financial Guarantee Insurance Policies of the Bond Insurer, including the Bond Insurance Policy, are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Additional Information About the Bond Insurance

The following documents filed by the Company with the Securities and Exchange Commission are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2000.

- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.
- (3) The report on Form 8-K filed by the Company on January 30, 2001.

Any documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Official Statement and prior to the termination of the offering of the securities offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2000, (2) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, and (3) the report on Form 8-K filed by the Company on January 30, 2001) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2000, the Bond Insurer had admitted assets of \$7.6 billion (audited), total liabilities of \$5.2 billion (audited), and total capital and surplus of \$2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2001, the Bond Insurer had admitted assets of \$8.1 billion (unaudited), total liabilities of \$5.8 billion (unaudited), and total capital and surplus of \$2.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of the Bond Insurer

Moody's Investors Service, Inc. rates the financial strength of the Bond Insurer "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Bond Insurer "AAA."

Fitch, Inc. rates the financial strength of the Bond Insurer "AAA."

Each rating of the Bond Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Bond 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 Series 2001 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 Series 2001 Bonds. The Bond Insurer does not guaranty the market price of the Series 2001 Bonds nor does it guaranty that the ratings on the Series 2001 Bonds will not be revised or withdrawn.

In the event the Bond 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.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2001 Bonds are estimated to be applied as set forth in the following table:

Sources of Funds

Principal Amount of Series 2001 Bonds	\$195,636,449.10
Total Sources of Funds	<u>\$195,636,449.10</u>

Uses of Funds

Purchase and defeasance of Series 1997 Bonds (1)	\$192,370,590.86
Costs of Issuance (2)	\$ 2,189,857.76
Underwriters' Discount	\$ 1,076,000.48
Total Uses of Funds	<u>\$195,636,449.10</u>

(1) See "PLAN OF FINANCE" herein.

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

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DEBT SERVICE ON BONDS

The following table summarizes the City's annual debt service obligations on the Series 2001 Bonds and the Series 1997 Bonds to remain outstanding after the issuance of the Series 2001 Bonds. The final maturity date of the Series 1997 Bonds is December 15, 2010 and the first payment on Series 2001 Bonds is on December 15, 2011.

Period Ending June 30	Series 1997 Bonds		Series 2001 Bonds		Total Annual Debt Service
	Annual Principal Payment	Annual Interest Payment	Annual Principal Payment	Annual Accreted Value Payment	
2002	\$	\$14,306,275.50	—	—	\$14,306,275.50
2003	\$10,525,000.00	\$13,963,160.50	—	—	\$24,488,160.50
2004	\$20,025,000.00	\$12,954,214.25	—	—	\$32,979,214.25
2005	\$22,420,000.00	\$11,533,950.00	—	—	\$33,953,950.00
2006	\$25,020,000.00	\$ 9,927,586.00	—	—	\$34,947,586.00
2007	\$27,850,000.00	\$ 8,117,615.00	—	—	\$35,967,615.00
2008	\$30,920,000.00	\$ 6,091,289.00	—	—	\$37,011,289.00
2009	\$34,250,000.00	\$ 3,832,815.50	—	—	\$38,082,815.50
2010	\$37,860,000.00	\$ 1,321,314.00	—	—	\$39,181,314.00
2011*	\$40,305,000.00	—	—	—	\$40,305,000.00
2012	—	—	\$20,859,883	\$17,515,118	\$38,375,000.00
2013	—	—	\$19,923,062	\$19,631,938	\$39,555,000.00
2014	—	—	\$18,881,125	\$21,883,875	\$40,765,000.00
2015	—	—	\$18,079,004	\$23,930,997	\$42,010,000.00
2016	—	—	\$17,210,116	\$26,074,884	\$43,285,000.00
2017	—	—	\$16,369,435	\$28,220,565	\$44,590,000.00
2018	—	—	\$15,609,448	\$30,315,552	\$45,925,000.00
2019	—	—	\$14,887,520	\$32,407,480	\$47,295,000.00
2020	—	—	\$14,281,275	\$34,418,725	\$48,700,000.00
2021	—	—	\$13,692,231	\$36,447,769	\$50,140,000.00
2022	—	—	\$13,172,908	\$38,447,092	\$51,620,000.00
2023	—	—	\$12,670,442	\$40,459,558	\$53,130,000.00
TOTALS	\$249,175,000.00	\$82,048,219.75	\$195,636,449.10	\$349,753,550.90	\$876,613,219.75

* Maturity Amount of Series 1997 Capital Appreciation Bonds.

RISK FACTORS

The following information should be considered by prospective investors in evaluating the Series 2001 Bonds. It does not purport to be a complete listing of risks and other considerations which may be relevant to an investment in the Series 2001 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 Series 2001 Bonds. No payments are due on the Series 2001 Bonds until their maturity dates, which begin on December 15, 2011 following the final maturity of the Series 1997 Bonds. Events will occur between now and the maturity dates of the Series 2001 Bonds which cannot now be anticipated. No assurance can be given that such events and other risks and considerations will not become material in the future.

Market Volatility of Capital Appreciation Bonds

All Series 2001 Bonds are Capital Appreciation Bonds and no interest or other payments will be made on any Series 2000 Bond until its maturity date. An investor who purchases a Series 2001 Bond and holds it until maturity receives an amount equal to the original issuance amount plus the interest that is accrued and compounded over the life of that Bond at the stated compounding interest rate for that Bond. Investors should recognize that Capital Appreciation Bonds, such as the Series 2001 Bonds, have historically been subject to greater market volatility than traditional municipal bonds that have semiannual interest payments. In addition, an investor who sells a Series 2001 Bond prior to its maturity at a time when interest rates are higher than when such Bond was purchased may not receive all the interest that has accrued to that date and thus may realize a loss on the investment. Prospective purchasers of the Series 2001 Bonds who believe they may have to sell such Bonds prior to maturity should consider the market risk associated with Capital Appreciation Bonds.

It is particularly important for the first-time buyer of capital appreciation bonds to review the suitability of capital appreciation bonds with a personal broker or qualified financial or tax advisor prior to purchase.

Changes in Amount of Revenues To Pay Bonds

The Series 2001 Bonds, Series 1997 Bonds and any Additional Bonds are payable from any legally available source of revenues of the City, including its general funds and the Tax Override Revenues. The Trust Agreement imposes no restrictions on the amount of other obligations or expenditures which are payable by the City from its general funds nor any restriction on the amount of Additional Bonds that the City may issue.

Since their issuance, the City has paid a portion of the debt service on the Series 1997 Bonds from its general funds because the amount of annual Tax Override Revenues was less than annual debt service on the Series 1997 Bonds. The City is undertaking this financing to minimize the need in the future for the City to use revenues other than Tax Override Revenues to pay debt service on the Bonds. There can be no assurance this objective will be achieved.

The amount of annual Tax Override Revenues available to the City is determined by the rate of the levy of the Tax Override by the City Council, the assessed valuation of property in the City and the amount of taxes collected. For discussion of the levy of Tax Override by the City Council, see "SECURITY AND SOURCE OF PAYMENT OF SERIES 2001 BONDS". Changes in the City's assessed valuation have occurred and will continue to occur while the Bonds are outstanding. The City has experienced substantial increases in Tax Override Revenues in recent years due to, in part, increases in property tax valuations occurring upon transfers of property. There can be no assurance that future assessed valuation of the City will increase at rates it has recently experienced and the assessed valuation could decrease. Economic and other factors beyond the City's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, terrorist activities, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the City and could thereby result in a decrease in the amount of annual Tax Override Revenues available.

Legal Limitations on City's Revenues

There are legal 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, in 1986 California voters approved an initiative statute (Proposition 62) 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 reasonable 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 and grants voters expanded initiative powers to reduce or repeal property related taxes. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Legislation enacted in 1985 limits the rate of the levy of the Tax Override to 0.1575%, which is the rate levied by the City Council in Fiscal Year 1983 and 1984.

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. At times, 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.

Limitations on Remedies

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 payment of debt service on the Bonds when due. Bondowners would be limited to enforcement of each defaulted payments as such payments come due. Any such suit for money damages would be subject to the limitations on legal remedies described below.

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.

Various legal opinions to be delivered concurrently with the issuance of the Bonds will be qualified as to enforceability by limitations imposed by State and federal laws and by bankruptcy, reorganization and other laws affecting creditors' rights, including equitable principles.

If the City defaulted in its payment of debt service on the Bonds, the ability of the Bondholders to sue the City to compel the levy and collection of Tax Override Revenues (assuming the City had not already levied and collected the Tax Override Revenues at the maximum rate) or to compel the City to provide other revenues for payment of the Bonds, may be subject to various legal limitations on the ability of the City to raise revenues, in addition to other legal limitations. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Changes in Law

There can be no assurance that the State Legislature will not at some future time, as it has in the past, enact legislation that will amend or create laws which cause in a reduction of general revenues of the City, which would reduce moneys available to the City 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, as they have in the past, in a manner which could have the effect of reducing moneys available to the City to pay the Bonds.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND APPROPRIATIONS

Article XIII A of the State Constitution

Section 1(a) of Article XIII A of the State Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978 or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition or (3) bonded indebtedness incurred by a school district, community college district or county office of education for the construction, reconstruction, acquisition, equipping or leasing of school facilities approved by 55% of the voters voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment" (the "Full Cash Value"). The Full Cash Value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a change in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

The 1% property tax is automatically levied by the County of Alameda and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979. Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% 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.

The voters of the State subsequently approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the full cash value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reassessment under Article XIII A. This amendment could serve to reduce the property tax revenues of the City. Other amendments permitted the State Legislature to allow certain persons over 55 or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence.

In the November 1990 election, the voters approved the amendment of Article XIII A to permit the State Legislature to exclude from the definition of "new construction" seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also 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, provided 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. See "APPENDIX A - CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND - Property Taxation."

Article XIII B of the State Constitution

Article XIII B of the State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services for which the fiscal responsibility is shifted to or from the governmental entity. 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 these 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 and making the applicable annual adjustments as if the provisions of Proposition 111 had been in effect.

Appropriations of an entity of local government subject to Article XIII B include generally authorizations to expend during a fiscal year the proceeds of taxes levied by or for the entity and the proceeds of State subventions, exclusive of certain State subventions, refunds of taxes, and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues, most State subventions and the proceeds to the local governmental entity from (1) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost reasonably borne by such entity) and (2) the investment of tax revenues. Article XIII B permits any government entity to change the appropriations limit 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. Article XIII B provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must 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 received by the State to a fund established to assist in financing certain school needs.

Article XIII B does not limit the appropriation of moneys to pay debt service or indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose. Furthermore, in 1990, Article XIII B was amended to exclude from the appropriations limit "all qualified capital outlay projects, as defined by the Legislature" from proceeds of taxes. The Legislature has defined "qualified capital outlay project" to mean a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds \$100,000. As a result of this amendment, the appropriations to pay the lease payments on the City's long-term general fund lease obligations are generally excluded from the City's appropriations limit.

Statutory Spending Limitations

The Legislature adopted legislation in 1985 to limit the rate of the levy for the Tax Override to the rate imposed by the City Council in its Fiscal Years 1983 or 1984, during which the levy was at a 0.1575% rate. The City has complied with this statutory limitation.

A statutory initiative ("Proposition 62") was adopted by the voters in the State at the November 4, 1986 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 of the electorate 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 Guardino decision did not address the question of whether or not Proposition 62 should be applied retroactively nor whether it applies to charter cities, such as the City. On December 15, 1997, the Court of Appeal for the State of California, Fourth Appellate District, in *McBrearty v. City of Brawley*, concluded that Guardino is to be applied retroactively to require voter approval of previously enacted taxes. On June 4, 2001, the California Supreme Court concluded in *Jarvis Taxpayers Association v. City of La Habra* that the three-year statute of limitations on court challenges to special taxes begins to run from each collection of the tax, not its original imposition.

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.

Several questions raised by the Guardino, *McBrearty* and *La Habra* decisions remain unresolved. Proposition 62 provides that if a jurisdiction imposes a tax in violation of Proposition 62, the portion of the one percent general ad valorem property tax levy allocated to that jurisdiction is reduced by \$1 for every \$1 in revenue attributable to the improperly imposed tax for each year that such tax is collected. The practical applicability of this provision has not been fully determined. Potential future litigation and legislation may resolve some or all of the issues raised by these decisions.

Article XIII C and D of the State Constitution

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 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

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 to include a charter city. 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.

Proposition 218 also extends the initiative power to reducing or repealing local property-related taxes, assessments, fees and charges. 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 is not able to predict whether Proposition 218 will be held to be constitutional in the courts or its application limited in certain respects. If upheld, 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. If applied by the courts to the levy for the Tax Override, Proposition 218 could affect the current rate, and any increase in the rate, of the levy for the Tax Override.

Pursuant to Article XIII C, taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City's General Fund, require a two-thirds vote. Further, any general purpose tax which the City imposed, extended or increased, without voter approval, after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election which must be held within two years of November 5, 1996. Since December 31, 1994, the City has increased two classes of taxes within its Business Tax Ordinance, for firearms and electricity sales. The Firearms Business Tax was enacted after the passage

of Proposition 218, and was not collected until it was approved by the voters on June 2, 1998. The Electric Business Tax was enacted prior to the passage of Proposition 218 and was collected for a two-year period. However the Electric Business Tax was rejected by the voters on November 3, 1998, and the City has discontinued collecting this tax. The voter approval requirements of Article XIII C reduce the flexibility of the City to raise revenues for its General Fund, and no assurance can be given that the City will be able to impose, extend or increase taxes in the future to meet increased expenditure needs.

Article XIII D contains several new provisions making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. These provisions include, among other things, (i) a prohibition against assessments which exceed the reasonable cost of the proportional special benefit conferred on a parcel, (ii) a requirement that the assessment must confer a "special benefit," as defined in Article XIII D, over and above any general benefits conferred, and (iii) a majority protest procedure which involves the mailing of notice and a ballot to the record owner of each affected parcel, a public hearing and the tabulation of ballots weighted according to the proportional financial obligation of the affected property. "Assessment" in Article XIII D is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. This would include maintenance assessments for open space areas, street medians, street lights and parks. If the City were unable to continue to collect assessment revenues for these programs, the programs might have to be curtailed and/or funded by amounts in the City's General Fund. All but one of the City's assessments is security for bonded indebtedness, and should be exempt from the provisions of Article XIII D. The remaining assessment is levied by the Landscape and Lighting Assessment District, which was approved by the citizens through an initiative, and should be exempt from the provisions of Article XIII D.

In addition, Article XIII D adds several provisions affecting "fees" and "charges," defined for purposes of Article XIII D to mean "any levy other than an ad valorem tax, a special tax, or an assessment imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and, after June 30, 1998, existing property-related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. This may require the City's General Fund to forego collecting some or all of the annual amounts it collects from the City's enterprise funds. Further, before any property-related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services (these "property related" fee requirements also do not apply to fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIII D), no property-related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge (essentially the same procedure required for approval of assessments) or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The only enterprise funds operated by the City which may be subject to Proposition 218 are the Sewer Enterprise Fund and Golf Course Fund. The fees and charges of these Funds may be determined to be fees and charges subject to the initiative power referred to in Article XIII C, as described below. In the event that such fees and charges cannot be appropriately increased or are reduced pursuant to exercise of the initiative power, the City may have to decide whether to support any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

Article XIII C also removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. No assurance can be given that the voters of the City will not, in the future, approve an initiative or initiatives which reduce or repeal the Tax Override or other local taxes, assessments, fees or charges currently comprising a substantial part of the City's General Fund. "Assessments," "fees" and "charges" are not defined in Article XIII C, and it is unclear whether these terms are intended to have the same meaning for purposes of Article XIII C as for Article XIII D (which are generally property-related, as described above). If not, the scope of the initiative power under Article XIII C potentially could include the Tax

Override Revenues and all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

The interpretation and application of Proposition 218 will be determined by the courts and it is not possible to predict with certainty such future court decisions. Further analysis and future judicial interpretations may affect the City's estimate of the impact of Proposition 218 on its current General Fund revenues and Tax Override Revenues.

Further Initiatives

Articles XIII A, XIII B, XIII C and XIII D and Proposition 62 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 which could further affect the City's revenues or the ability to spend or to increase revenues.

TAX MATTERS

INTEREST ON THE SERIES 2001 BONDS IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. In the opinion of Foley & Lardner, San Francisco, California, and Webster & Anderson, Oakland, California, Co-Bond Counsel under existing law, interest on the Series 2001 Bonds is exempt from State of California personal income taxes.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The Series 2001 Bonds will not mature prior to December 15, 2011. The discussion of federal income tax consequences set forth below is based on current law which could change substantially in the period prior to a holder's receipt of the Maturity Amount of a Series 2001 Bond.

The following is a summary of certain United States federal income tax consequences of the ownership of the Series 2001 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 Series 2001 Bonds. For example, it generally is addressed only to original purchasers of the Series 2001 Bonds, deals only with Series 2001 Bonds held as capital assets within the meaning of Section 1221 of the Code, and does not address tax consequences of holding Series 2001 Bonds that may be relevant to investors in special tax situations, such as banks, insurance companies, tax-exempt organizations, dealers in securities or currencies, Series 2001 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 Series 2001 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.

Taxation of Accreted Value

Bondowners may realize taxable gain on the Accreted Value of the Series 2001 Bonds and may be required to pay federal and state income taxes to the extent of such gain, notwithstanding that no portion of the Accreted Value of the Series 2001 Bonds is payable until the maturity thereof.

Original Issue Discount

All of the Series 2001 Bonds will be offered and sold at an “issue price” of less than their “stated redemption price at maturity” (a “Discount Bond”). Each Discount Bond 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 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.

Defeasance

The Trust Agreement and Second Supplemental Trust Agreement permit legal defeasance of the Bonds. See “APPENDIX C – SUMMARY OF LEGAL DOCUMENTS – Defeasance.” Under existing law, Bonds that are legally defeased would be treated as retired at the time of the defeasance for federal income tax purposes, even if the Bonds are not otherwise modified. Under existing law, Owners of any such defeased Bonds would be treated for federal income tax purposes as if they exchanged their Bonds for new debt instruments, the defeased Bonds. Such a deemed exchange of the Bonds would have federal income tax consequences for an Owner, possibly including recognition of gain or loss and acceleration of recognition of “market discount” income.

NON-UNITED STATES HOLDERS – CERTAIN TAX CONSEQUENCES

This section describes the tax consequences to a non-United States holder. For purposes of this summary, the term “non-United States holder” refers to any beneficial owner of Series 2001 Bonds other than a United States holder. A United States holder means a beneficial owner of Series 2001 Bonds that is a citizen or resident of the United States, a partnership or corporation created or organized in the United States or any State thereof (including the District of Columbia), or any estate or trust the income of which is subject to United States federal income tax regardless of its source. In the case of any non-United States holder who is an individual, this discussion assumes

that such individual was not formerly a United States citizen and was not formerly a resident of the United States for federal income tax purposes.

A non-United States holder generally will not be subject to United States federal withholding tax with respect to payments of principal and interest (including original issue discount) on Series 2001 Bonds, provided that the beneficial owner of the Series 2001 Bonds provides a certification under penalties of perjury as to its status as a non-United States holder and complies with applicable identification procedures.

Special income tax rules apply to partnerships, estates and trusts, and in certain circumstances certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

In addition, a non-United States holder of a Series 2001 Bond generally will not be subject to United States federal income tax on any gain realized upon the sale, retirement or other disposition of such Bond, unless the holder is an individual who is present in the United States for 183 days or more during the taxable year of sale, retirement or other disposition and certain other conditions are met. If a non-United States holder of a Series 2001 Bond is engaged in a trade or business in the United States and income or gain from the Series 2001 Bond is effectively connected with the conduct of such trade or business, the non-United States holder will be exempt from withholding tax if appropriate certification has been provided, but will generally be subject to regular United States income tax on such income and gain in the same manner as if it were a United States holder. In addition, if such non-United States holder is a foreign corporation, it may be subject to a branch profits tax equal to 30 percent of its effectively connected earnings and profits for the taxable year, subject to adjustments.

Backup withholding and information reporting will not apply to payments of principal and interest, if any, made to a non-United States holder by the City on a Series 2001 Bond with respect to which the holder has provided the required certification under penalties of perjury of its non-United States holder status or has otherwise established an exemption. Payments on the sale, exchange or other disposition of a Series 2001 Bond by a non-United States holder effected outside the United States to or through a foreign office of a broker will not be subject to backup withholding. However, if such broker is a United States person, a controlled foreign corporation for United States tax purposes or a foreign person 50 percent or more of whose gross income is derived from its conduct of a United States trade or business for a specified three-year period, a foreign partnership engaged in a United States trade or business or in which United States persons hold more than 50 percent of the income or capital interests, or certain United States branches of foreign banks or insurance companies, information reporting will be required unless the beneficial owner has provided certain required information or documentation to the broker to establish its non-United States status or otherwise establishes an exemption. Payments to or through the United States office of a broker will be subject to backup withholding and information reporting unless the holder certifies under penalties of perjury to its non-United States holder status or otherwise establishes an exemption.

Non-United States holders should consult their tax advisors regarding the application of United States federal income tax laws, including information reporting and backup withholding, to their particular situations.

APPROVAL OF LEGALITY

Validation Proceedings

Prior to the issuance of the Series 1997 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, the procedural ordinance enacted by the City Council authorizing the issuance of the Bonds, the Debenture evidencing a portion of the City's obligation under the Retirement System, the authority to utilize Tax Override Revenues to pay debt service on Bonds and related matters. A judgment was entered in favor of the City validating the issuance of the Series 1997 Bonds and any subsequent series of bonds issued pursuant to the Master Trust Agreement and the procedural ordinance authorizing the issuance of the Bonds. No other validation action seeking approval of the issuance of the Series 2001 Bonds has been brought. Co-Bond Counsel is unaware of any changes in law or other circumstances that would vitiate the judgment in favor of the City in the validation action.

Opinions of Counsel

Legal matters incident to the issuance and delivery of the Series 2001 Bonds are subject to the approving opinion of Foley & Lardner, San Francisco, California, and Webster & Anderson, Oakland, California, Co-Bond Counsel. A complete copy of the proposed form of Co-Bond Counsel opinion is contained in Appendix D hereto. Certain other matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe, LLP, San Francisco, California, and for the City by the Oakland City Attorney, John Russo, Esq. and by Squire, Sanders & Dempsey L.L.P., San Francisco, California, Disclosure Counsel to the City. Co-Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement.

LITIGATION

No litigation is pending or, to the best of the knowledge of the City, threatened, to restrain or enjoin the issuance of the Series 2001 Bonds, or the execution and delivery of the Trust Agreement, or the purchase for cancellation and legal defeasance of the Series 1997 Bonds or in any way contesting or affecting the validity of any of the foregoing, the Pledged Revenues or any proceedings of the City taken with respect to any of the foregoing. The City Attorney will render an opinion at the time of original delivery of the Series 2001 Bonds to that effect. The City is not aware of any litigation pending or threatened questioning its political existence or contesting its ability to levy the Tax Override or to collect Tax Override Revenues or contesting its ability to pay the Maturity Amount of the Series 2001 Bonds as required by the Trust Agreement.

The City is involved in certain litigation and disputes relating to its operations. Upon the basis of information presently available, the City Attorney believes that there are substantial defenses to such litigation and disputes and that, in any event, any ultimate liability in excess of applicable insurance coverage resulting therefrom will not materially affect the financial position or results of the operations of the City. See APPENDIX A – “CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND – Litigation” herein.

RATINGS

Moody's Investors Service (“Moody's”), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”) and Fitch Investor Services, L.P. (“Fitch”), have given the Series 2001 Bonds ratings of “Aaa”, “AAA” and “AAA”, respectively, with the understanding that the Bond Insurance Policy will be issued by MBIA Insurance Corporation with respect to the Series 2001 Bonds.

Moody's, S&P and Fitch have given the Series 2001 Bonds ratings of “A2”, “A”, and “A”, respectively, without giving consideration to the Bond Insurance Policy.

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. In order to obtain such ratings, the City furnished to the rating agencies certain information and materials, some of which has not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and on their own investigation, studies and assumptions. There is no assurance that any ratings assigned to the Series 2001 Bonds by any rating agency will be continued 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 Series 2001 Bonds.

The City expects to furnish to each rating agency such information and materials as it may request. The City, however, assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. The failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Series 2001 Bonds.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Certificate, the City will covenant for the benefit of the holders and beneficial owners of the Series 2001 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 in 2002 with the report for the Fiscal Year ending June 30, 2001, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City 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 City 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 F - "FORM OF CONTINUING DISCLOSURE CERTIFICATE." A default under the Continuing Disclosure Certificate will not be an Event of Default under the Trust Agreement. The sole remedy under the Continuing Disclosure Certificate in the event of any failure of the City to comply will be an action to compel specific performance. 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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided upon behalf of the City relating to (a) computation of forecasted receipts of principal and interest on the Government Obligations held by the Trustee, acting as Escrow Agent under the Escrow Agreement, to legally defease certain Series 1997 Bonds, and the forecasted payments of principal and interest on the Series 1997 Bonds to be defeased, and (b) the purchase price of the Series 1997 Bonds being purchased for cancellation by the City was verified by Grant Thornton, LLP. Such computations were based solely upon assumptions and information supplied upon behalf of the City. Grant Thornton has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made a study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the ability to achieve the forecasted outcome.

UNDERWRITING

The Underwriters (listed on the cover page) have agreed, subject to certain conditions, to purchase from the City the Series 2001 Bonds described on the cover page of this Official Statement at an aggregate purchase price equal to \$194,560,448.62 and to reoffer such Series 2001 Bonds at the yields to maturity set forth on the inside cover page hereof. The Series 2001 Bonds may be offered and sold to certain dealers (including dealers depositing the Series 2001 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 Series 2001 Bonds if any Series 2001 Bonds are purchased.

Morgan Stanley & Co. Incorporated is also acting as Dealer Manager for the City's Invitation and will receive separate compensation for such services.

FINANCIAL ADVISOR

Public Financial Management, Inc. (the "Financial Advisor") has assisted the City in various matters relating to the planning, structuring and delivery of the Series 2001 Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Public Financial Management, Inc., is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities.

MISCELLANEOUS

The summaries of the Series 2001 Bonds, the Trust Agreement and laws and documents referred to in this Official Statement do not purport to be complete. Reference is made to such documents and the text of the laws for

full and complete statements of their provisions. All statements in this Official Statement involving matters of opinion, estimates, forecast, projections or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any such opinions or the like will be realized. The agreements of the City relating to the Bonds are set forth in the Trust Agreement. 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 Series 2001 Bonds.

This Official Statement and its distribution have been duly authorized and approved by the City Council of the City.

CITY OF OAKLAND, CALIFORNIA

By: /s/ Robert C. Bobb
City Manager

APPENDIX A

CERTAIN INFORMATION CONCERNING THE CITY OF OAKLAND

General Information

Overview. 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 downtown San Francisco via the San Francisco-Oakland Bay Bridge. The City ranges from industrialized lands bordering the Bay on the west to suburban foothills in the east. Formerly the industrial heart of the Bay Area, the City has developed into a financial, commercial and governmental center. The City 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 the 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 and as a city in 1854, and became a charter city in 1889. 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; employee's pension funds; and the creation and organization of the Port of Oakland (the "Port"). The City is governed by an eight-member City Council, seven of whom are elected by district and one of whom is elected on a city-wide basis. The Mayor is not a member of the City Council but is the City's chief elective officer. The Mayor and Council members serve four-year terms staggered at two-year intervals. The City Attorney is nominated and elected in the same manner, and for the same term, as the Council member-at-Large. The Mayor, subject to confirmation by the City 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 Clerk is appointed by the City Manager, subject to City Council confirmation. The City Auditor is elected at the same time as the Mayor. The Director of the Financial Services Agency serves as the City's Treasurer and supervises the City's financial affairs.

The City's charter was most recently amended through the approval of ballot Measure X by voters on November 3, 1998. Changes ratified at that time included the creation of the Mayor-Council form of government, the provision of a two-term limit for the Mayor, the institution of a requirement for voter approval for increases to City Council compensation, and a provision for the election of the City Attorney.

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 the Generally Accepted Accounting Principles ("GAAP") basis (modified accrual for governmental funds and accrual for proprietary and pension trust funds). The City Charter requires that the City Council adopt a balanced budget by June 30, preceding the start of the fiscal year on July 1. The City's budget cycle is a two-year process which promotes long-term decision making, increases funding stability and allows for greater performance evaluation. In advance of each two-year cycle, the City Manager and Agency heads conduct internal budget hearings to develop budget proposals for presentation to the Mayor. Within 60 to 90 days before the end of the prior two-year cycle, the Mayor submits the proposed two-year budget to the City Council and formal public budget hearings are scheduled. Upon conclusion of the public hearings, the City Council may make adjustments and/or revisions. The City Council adopts the City's operating budget on or before June 30. It contains appropriations for all funds and two-year appropriations for the five-year Capital Improvements Program.

As part of the two-year budget process, the City has designated specific criteria for mid-cycle (end of year one) review and/or revisions in Federal and State mandates, significant changes in mid-year revenue projections and any full cost-covered program changes. Additionally, one-third of any year-one surplus in the General Fund will roll forward to year two, one-third to programs, and one-third to the General Fund balance.

The City Council 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 employees or departments as the City Council directs. These duties are performed both annually and upon request. The City's independent auditor for fiscal years 1998-1999 and 1999-2000 was KPMG Peat, who will also serve as auditors for fiscal year 2000-2001.

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

The authority to invest the City's Operating Fund is derived from Council Resolution No. 56127 which delegates to the Director, Financial Services Agency/Treasurer the authority to invest this Operating Fund within the guidelines of Section 53600 et seq. of 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. The City Council adopted a policy for Fiscal Year 2001-2002 on July 10, 2001. The Investment Policy is subject to revision at any time.

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

The City currently maintains approximately \$171 million in operating funds, excluding capital, debt service funds, special revenue funds and pension trust funds. The Operating Fund is broken out 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 July 31, 2001. As of July 31, 2001, the City maintained approximately 63% of the Operating Fund in investments that mature in one year or less.

**CITY OF OAKLAND
Operating Fund
Portfolio Master Summary
July 31, 2001**

Investments	Book Value	Percent of Portfolio	Average Term-Days	Days To Mat./Call	--- Yield To Maturity ---	
					360 Equivalent	365 Equivalent
Federal Agency Issues- Coupon	\$ 76,592,425.63	44.87%	1,435	588	5.594%	5.672%
Money Market	56,310,000.00	32.99	1	1	3.925	3.980
Local Agency Investment Funds	26,300,000.00	15.41	1	1	4.665	4.730
Certificates of Deposit	1,500,000.00	0.68	182	154	3.724	3.776
Commercial Paper - Discount	<u>9,993,725.00</u>	5.85	6	0	3.767	3.820
TOTAL INVESTMENTS	\$ 170,696,150.63	100.00%	646	266	4.777%	4.843%

Source: City of Oakland Financial Services Agency

Fitch Inc. ("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 to, 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.

General Obligation Debt. As of June 30, 2001, the City had outstanding a total of \$137,080,000 aggregate principal amount of general obligation bonds. The bonds are general obligations of the City; the City is obligated to levy ad valorem taxes upon all property that is within the City and which is subject to taxation by the City, for the payment of principal and interest.

\$12,000,000 City of Oakland General Obligation Bonds, Series 1991 A (Measure K) On November 9, 1990, 66.8% of the voters passed a measure authorizing the City to issue \$60 million in general obligation bonds for the purposes of acquisition of open space and the rehabilitation, development and expansion of park and recreational facilities within the City. The 1991A Measure K Bonds were the first series to be issued under this authorization. On July 25, 2000, maturities from 2003 to 2015 were refunded via Series 2000E, leaving an outstanding balance of \$1.16 million.

\$50,000,000 City of Oakland General Obligation Bonds, Series 1992A (Measure I) By a measure passed on July 15, 1992 by 74.3% of the voters, the City received authorization to issue \$50 million general obligation bonds to be used for enhancement of the City's emergency response capabilities, and for seismic reinforcement of infrastructure and essential public facilities.

\$15,000,000 City of Oakland General Obligation Bonds, Series 1995B (Measure K) The 1995B Measure K Bonds represent the second series of bonds issued under the 1990 authorization of Measure K. Bond proceeds were being used for the purchase of Vista Madera Stables, construction of the West Oakland Senior Center, Chinese Gardens, Tassafioranga Gym and Woodminster Cascades, maintenance and improvements at the Oakland Museum and Raimondi Field, and the Oakland Zoo.

\$22,250,000 City of Oakland General Obligation Bonds, Series 1997C (Measure K) The 1997C Measure K Bonds are the third series of bonds issued under the 1990 Measure K authorization. These bonds have been used for open space acquisition, Oakland Zoo development projects and other site development projects.

\$45,420,000 City of Oakland General Obligation Bonds, Series 1997A (Measure I) On November 5, 1996, the electorate authorized this bond issue by a 77.6% vote, for the purpose of financing life enrichment improvements on various City-owned properties. These improvements include the repair, construction, acquisition and improvement of certain libraries, recreation centers and playing fields, the Oakland Zoo, the Oakland Museum and the Chabot Observatory Space and Science Center.

\$10,750,000 City of Oakland General Obligation Bonds, Series 2000D (Measure K) The 2000D Measure K Bonds are the fourth series of bonds issued under the 1990 Measure K authorization and completes the entire series. These bonds will be used to expand, develop, and rehabilitate park and recreational facilities.

\$9,000,000 City of Oakland General Obligation Bonds, Series 2000E (Measure K) The 2000E Measure K Bonds are the fifth series of bonds issued under the 1990 Measure K authorization. These bonds were used to refund a portion of Series 1991A issued under the same authorization.

Short-Term Obligations.

The City 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 11 Fiscal Years, including the issuance of \$65,000,000 Tax and Revenue Anticipation Notes for the Fiscal Year ended June 30, 2002. The City has never defaulted on the payment of any of these notes.

Lease Obligations.

\$52,300,000 Variable Rate Demand Certificates of Participation (Certain Capital Improvement Projects), 1985 Series 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 lease payments to the Civic Improvement Corporation.

\$39,408,000 City of Oakland Refunding Certificates of Participation (Oakland Museum), 1992 Series A The proceeds of the certificates were used to defease the outstanding Certificates of Participation 1987 Series A, which was issued in the amount of \$35,310,000, which in turn refunded and defeased the 1982 Municipal Improvement Revenue Bonds and provided new money for the Redevelopment Agency to acquire the Museum and its improvements from Oakart Associates Limited Partnership.

Under an amended and restated lease agreement, which provides for the sublease of the Museum by the City, the City has agreed to make lease payments to the Agency through maturity of the certificates in 2012. The Certificates are Aaa/AAA rated by Moody's and S&P, respectively, as a result of the bond insurance policy provided by AMBAC Indemnity Corporation.

\$197,700,000 Oakland-Alameda County Coliseum Authority Lease Revenue Bonds (Oakland Coliseum Project) 1995 Series The 1995 bonds were issued by the Authority to refund the outstanding 1965 bonds, to finance improvements to the Coliseum stadium, and to cover relocation costs for the National Football League team, the Oakland Raiders.

The Bonds comprise \$9,200,000 Fixed Rate Refunding Lease Revenue Bonds (Series A) and \$188,500,000 aggregate principal Variable Rate Lease Revenue Bonds (Series B). The Series A bonds are rated Aa3/AA- and the Series B bonds have long term ratings of Aa3/AA- and short-term ratings of A-1/P-1, by Moody's and S&P, respectively, based on a direct-pay letter of credit provided by Canadian Imperial Bank of Commerce.

These bonds are a joint and several obligation of both the City and the County; each entity has covenanted to budget and appropriate one-half of the annual lease payments.

On May 20, 2000, the Authority refunded the 1995 Series B bonds with its Lease Revenue Bonds (Oakland Coliseum Project) 2000 Refunding Series C (Tax-Exempt) bonds in the amount of \$150,800,000 and 2000 Refunding Series D (Taxable) bonds in the amount of \$50,500,000 (of which \$48,300,000 remains currently outstanding). The 1995 Series A bonds are still outstanding.

\$140,000,000 Oakland-Alameda County Coliseum Authority Lease Revenue Bonds (Oakland Coliseum Arena Project) 1996 Series A. The 1996 bonds were issued by the Authority to finance the costs of constructing the arena located at the Coliseum complex as well as other payments and costs associated with the retention of the Golden State Warriors to play basketball at the arena.

The bonds are comprised of \$70,000,000 Series A-1 Variable Rate Lease Revenue Bonds (Taxable) (Series A-1) and \$70,000,000 Series A-2 Variable Rate Lease Revenue Bonds (Taxable) (Series A-2). On July 26, 2001, the Authority substituted an irrevocable direct pay letter of credit relating to the Series A-1 bonds issued severally and not jointly by The Bank of New York and California State Teachers' Retirement System and an irrevocable direct pay letter of credit relating to the Series A-2 bonds issued severally and not jointly by The Bank of New York and Allied Irish Banks, p.l.c., New York Branch.

The Series A-1 bonds have been assigned long-term ratings of "Aa2", "AA-" and "AA" and short-term ratings of "VMIG 1", "A-1+" and "F1+" by Moody's, S&P and Fitch, respectively. The Series A-2 bonds have been assigned long-term ratings of "Aa3", "A+" and "AA-" and short-term ratings of "VMIG 1", "A-1" and "F1+" by Moody's, S&P and Fitch, respectively.

These bonds are a joint and several obligation of both the City and the County; each entity has covenanted to budget and appropriate one-half of the annual lease payments.

\$103,945,000 Oakland Joint Powers Financing Authority Lease Revenue Bonds (Oakland Administration Buildings) Series 1996 These bonds were issued to finance, design, construct, rehabilitate and equip two buildings and a civic plaza that are at the heart of the administrative complex of the City of Oakland for a total project cost of \$102 million.

Under a lease agreement between the City and the Joint Powers Financing Authority, the City will make lease payments to use and occupy the property. In addition to a \$13 million cash contribution made by the City, proceeds of the bonds have been used to fund the Construction Fund, Capitalized Interest Fund, Reserve Fund, and costs of issuance.

The bonds, insured by AMBAC Indemnity Corporation and rated Aaa/AAA, by Moody's and S&P, respectively, are limited obligations of the Authority payable solely from lease revenues from the City, as lessee, to the Authority, as lessor, pursuant to a Lease Agreement, dated as of March 1, 1996.

\$187,500,00 Oakland Joint Powers Financing Authority, 1998 Series A-1/A-2 The 1998 bonds were issued by the Joint Powers Authority on August 3, 1998, to refund the City of Oakland's Special Refunding Revenue Bonds (Pension Financing), Series 1998 A. The bonds were sold in a variable-rate mode, in two series: \$131,500,000 Series A-1 and \$56,000,000 Series A-2, both with a final maturity of August 1, 2021. The bonds are limited obligations of the Authority, payable by base rental payments from the City's General Fund, in exchange for the right to use and possession of a portion of the City's sewer system.

The City entered into a \$170,000,000 forwarding-starting, floating-to-fixed "synthetic-fixed-rate" swap with Goldman Sachs, which commenced on July 31, 1998 and terminates on July 31, 2021. The swap entitles the City to receive variable rate payments equal to the Bond Market Association Municipal Swap Index in exchange for a fixed rate payment to Goldman Sachs. The notional value of the swap declines in accord with the outstanding principal on the bonds.

\$134,890,000 Oakland Joint Powers Financing Authority Lease Revenue Refunding Bonds (Oakland Convention Centers) Series 2001 The Oakland Joint Powers Financing Authority issued \$134,890,000 Lease Revenue Refunding Bonds (Oakland Convention Centers), Series 2001 in May, 2001. This issue was used to redeem and defease the \$149,825,000 California Statewide Communities Development Authority, 1992 Lease Revenue Bonds (City of Oakland Convention Centers Project).

In the fiscal years 2000-01 through 2004-05 the City is required to make combined lease payments from its General Fund as shown below:

CITY OF OAKLAND GENERAL FUND LEASE OBLIGATIONS

Fiscal Year	Oakland Coliseum*	Oakland Convention Center	Civic Improvement Corp*	Oakland Museum	Oakland Admin. Building	Oakland Arcna*	Oakland JPA Revenue Bonds*	Total
2000-01	\$10,500,000	\$12,518,704	\$3,174,000	\$3,702,380	\$7,548,141	\$11,000,000	\$16,892,372	\$65,335,597
2001-02	12,750,000	12,377,082	3,212,000	3,703,480	7,549,536	11,000,000	19,309,635	69,901,733
2002-03	12,750,000	11,969,088	3,246,000	3,700,450	7,550,449	11,000,000	18,567,262	68,783,249
2003-04	12,750,000	11,967,025	3,374,000	3,702,750	7,550,009	11,000,000	18,010,914	68,354,698
2004-05	12,850,000	13,993,088	3,396,000	3,700,563	7,547,271	9,500,000	17,283,896	68,270,818
Principal Balance ⁽¹⁾	\$201,300,000	\$134,300,000	\$41,100,000	\$27,588,024	\$103,945,000	\$134,600,000	\$187,500,000	\$830,333,024

(1) as of July 1, 2001

*Variable rate debt, estimated

Source: City of Oakland Financial Services Agency

Other Long-Term Borrowings. In February 1997, the City issued \$436,289,659.15 of Series 1997 Bonds, a portion of which are being purchased and defeased with proceeds of the Series 2001 Bonds.

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, 2000, the redevelopment tax increment revenues within the City were approximately \$25,639,000.

In May of 2000, the Oakland Redevelopment Agency issued its \$39,395,000 Subordinate Housing Set Aside Revenue Bonds, Series 2000T (Taxable). Twenty percent of the Agency's share of property taxes, which must be set aside for affordable housing purposes, is the primary source of payments for the Series 2000 T Bonds. The Bonds provided money for the agency to increase, improve and preserve the supply of affordable housing for low-income households.

Special Assessment Debt.

\$2,020,000 City of Oakland 1994 Refunding Improvement Bonds Medical Hill Parking Assessment District Series 3 In April 1994, the City issued these bonds to defease the City of Oakland Medical Hill Parking Assessment District Refunding Bonds dated March 2, 1989. The bonds are rated Aaa/AAA by Moody's and Standard & Poor's and are insured by MBIA. The bonds are rated Aaa/AAA by Moody's and Standard & Poor's and are insured by MBIA. The original bonds were issued to finance the construction of a parking garage to serve facilities in the Medical Hill Area.

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 any property owner's 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.

\$349,989 City of Oakland Limited Obligation Improvement Bonds Skyline Sewer Assessment District In August 1994, the City issued \$349,989.42 of Limited Obligation Improvement Bonds for the Skyline Sewer Assessment District, consisting of 30 parcels in the Oakland hills. The proceeds of the bonds were used to finance the construction of a sewer line.

\$465,000 Oakland Joint Powers Financing Authority Special Assessment Pooled Revenue Bonds 1996, Series A On August 22, 1996, the Oakland Joint Powers Financing Authority issued bonds to fund certain capital improvement projects within the City, including sewer improvements, utility undergrounding and street lighting.

Each of these projects had previously been financed through the formation of its respective special assessment district, pursuant to the Municipal Improvement Act of 1915.

These districts are Skyline Sewer Assessment District; Lakeshore Utility Undergrounding Assessment District, Phases I and II; Ocean View Utility Undergrounding Special Assessment District; and Lower Hubert Road Utility Undergrounding Special Assessment District. The bonds are payable from the special assessment revenues levied for each of the respective special assessment districts.

\$1,250,000 Oakland Joint Powers Financing Authority Special Assessment Pooled Revenue Bonds, Series 1997 On December 3, 1997, the Oakland Joint Powers Financing Authority issued bonds to provide funding for portions of certain capital improvement projects in five special assessment districts within the City, for utility undergrounding and associated street lighting. The three remaining Utility Underground Assessment Districts are: LaSalle, Liggett, Pershing & Wood Area (1997-4); Harbord, Estates, McAndrew & Wood Area (1997-5); and Grizzly Peak (1997-6). The bonds are payable from the special assessment revenues levied for each of the individual special assessment districts.

\$7,255,000 Oakland Joint Powers Financing Authority Reassessment Revenue Bonds, Series 1999 On July 15, 1999, the Oakland Joint Powers Financing Authority issued bonds in order to refinance the local obligation bonds for two special assessment districts: (1) for a portion of the costs of construction of new underground support services and for repaving the street surfaces in conjunction with the undergrounding of utility lines in the area affected by the October 1991 firestorm (Fire Area Utility Underground Assessment District No. 1994-1), and (2) for a portion of the costs of providing new, enlarged water delivery lines and higher-flow fire hydrants in the upper Rockridge area (Rockridge Water Area Improvements District No. 1994-2). The bonds are rated A- by Standard & Poor's Corporation. The bonds are payable from revenues derived from the reassessments levied on the properties in the original two assessment districts.

The City has also established the 1999 Lakeshore Phase IV Utility Undergrounding Assessment District (\$57,450,000).

With respect to special assessment debt, the bonds are payable from annual assessment installments levied against property owners in the assessment district, and included on their respective property tax bills.

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, certificates of participation, and special assessment bonds. The direct and overlapping debt of the City as of June 30, 2001, according to California Municipal Statistics, Inc., is shown below. The City makes no assurance as to the accuracy of the following table, and inquiries concerning the scope and methodology of procedures carried out to complete the information presented should be directed to California Municipal Statistics, Inc. Self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations are excluded from this debt statement.

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CITY OF OAKLAND
Statement of Direct and Overlapping Debt, As of June 30, 2001

2000-01 Assessed Valuation: \$21,090,599,220
 Redevelopment Incremental Valuation: 2,452,124,634
 Adjusted Assessed Valuation: \$18,638,474,586

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/30/01</u>
East Bay Municipal Utility District	20.660%	\$ 1,305,712
East Bay Municipal Utility District, Special District No. 1	52.484	23,549,571
East Bay Regional Park District	11.039	19,212,828
Peralta Community College District	54.347	45,309,094
Berkeley and Castro Valley Unified School Districts	0.006 & 0.057	16,004
Oakland Unified School District	99.996	236,935,572
San Leandro Unified School District	18.795	4,280,561
City of Oakland	100.	138,205,000
City of Oakland 1915 Act Bonds	100.	9,385,000
City of Emeryville 1915 Act Bonds	4.183	<u>584,156</u>
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$478,783,498
Less: East Bay Municipal Utility District (100% self-supporting)		<u>1,305,712</u>
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$477,477,786

<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Alameda-Contra Costa Transit District Certificates of Participation	21.572%	\$ 5,107,171
Alameda County and Coliseum Authority General Fund Obligations	18.476	112,337,096
Alameda County Pension Obligations	18.476	89,544,523
Alameda County Board of Education Public Facilities Corporation	18.476	1,022,647
Chabot-Las Positas Community College District Certificates of Participation	2.357	117,496
Oakland Unified School District Certificates of Participation	99.996	47,918,083
San Leandro Unified School District Certificates of Participation	18.795	3,072,043
Castro Valley Unified School District Certificates of Participation	0.057	1,764
City of Oakland and Coliseum Authority General Fund Obligations	100.	654,193,025
City of Oakland Pension Obligations	100.	<u>390,534,659</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$1,303,848,507

GROSS COMBINED TOTAL DEBT \$1,782,632,005 (1)
NET COMBINED TOTAL DEBT \$1,781,326,293

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

Ratios to 2000-01 Assessed Valuation:

Direct Debt (\$138,205,000).....0.66%
 Total Gross Direct and Overlapping Tax and Assessment Debt.....2.27%
 Total Net Direct and Overlapping Tax and Assessment Debt2.26%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$1,182,932,684).....6.35%
 Gross Combined Total Debt9.56%
 Net Combined Total Debt.....9.56%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/01: \$1,220,431

Source: California Municipal Statistics, Inc.

Property Taxation

Ad Valorem Property Taxes

City property taxes are assessed and collected by the County of Alameda (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 0.55% of taxes collected for tax collection services provided in Fiscal Year 2000-2001.

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 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 VALUATIONS¹
(in \$000's)**

Fiscal Year	Local Secured	Utility	Unsecured	Total
1997-98	\$15,265,600	\$80,139	\$2,413,259	\$17,758,998
1998-99	15,927,351	78,976	2,670,736	18,677,063
1999-00	16,993,037	64,608	2,518,336	19,575,981
2000-01	18,453,636	62,398	2,574,565	21,090,599
2001-02	20,529,197	53,823	2,719,940	23,302,960

⁽¹⁾ Net of exemptions 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 January 1. A supplemental roll is developed when property changes hands or new construction is completed that produces additional revenue.

Secured property taxes are due on November 1 and March 1 and become delinquent, if not paid by December 10 and April 10, respectively. A 10% 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 following table represents a five-year history of the secured tax levy and of uncollected amounts in the City:

**CITY OF OAKLAND
SECURED TAX LEVY
AND AMOUNTS UNCOLLECTED
(in \$000's)**

Year Uncollected	Secured Tax Levy	Amount Uncollected as of June 30	Percent as of June 30
1996	\$94,756	\$5,368	5.67%
1997	95,519	5,554	5.82
1998	106,732	5,696	5.34
1999	105,036	6,411	6.10
2000	117,765	6,757	5.74

Source: Alameda County Auditor-Controller.

Tax Rates

The City is divided into thirty-three Tax Rate Areas. The largest Tax Rate Area within the City is Tax Rate Area 17-001 which has a total assessed valuation of \$12,748,989,870, or 60.45% of the City's total assessed valuation. A ten-year history of the property tax rates received by the City and the County of Alameda is shown below.

**CITY OF OAKLAND
PROPERTY TAX RATES**

Fiscal Year Ending June 30	City of Oakland	Alameda County	Others	Total
1992	0.5198%	0.3086%	0.4970%	1.2376%
1993	0.5222	0.3086	0.4130	1.2438
1994	0.4690	0.1555	0.6224	1.2469
1995	0.4643	0.1597	0.6169	1.2409
1996	0.4627	0.1595	0.6412	1.2634
1997	0.4468	0.1575	0.6412	1.2455
1998	0.4932	0.1567	0.6434	1.2933
1999	0.4568	0.1570	0.6370	1.2508
2000	0.5059	0.1570	0.6151	1.2780
2001	0.4694	0.1570	0.6775	1.3039

Sources: Alameda County Office of the Auditor-Controller and City of Oakland Financial Services Agency.

The following table lists the largest ten taxpayers in the City in terms of their 2000-01 assessed valuation.

**CITY OF OAKLAND
TOP TEN TAXPAYERS
2000 - 2001⁽¹⁾**

Property Owner	Type of Business	2000-01 Assessed Valuation	Percentage of Total Local Secured Valuation ²
1. Oakland City Center LLC	Property Management	\$185,605,023	1.01%
2. Prentiss Properties Acquisition Ptn LP	Property Management	118,720,680	0.64
3. Kaiser Foundation Health Plan, Inc.	Health Services	104,026,645	0.56
4. 1800 Harrison Foundation	Property Management	102,162,894	0.55
5. Clorox Company	Household Products	90,236,171	0.49
6. Kaiser Center Inc.	Hospital Services	85,631,901	0.46
7. Owens Illinois Glass Container, Inc.	Industrial	62,851,269	0.34
8. Webster Street Partners, Ltd.	Property Management	61,675,200	0.33
9. KSL Claremont Resort, Inc.	Property Management	58,658,060	0.32
10. Catellus Development Corporation	Industrial	36,976,094	0.20
Total - Top Ten		\$906,543,937	4.9%

⁽¹⁾ Net of Exemptions.

⁽²⁾ 2000-01 Local Secured Assessed Valuation: \$18,453,636,283

Source: California Municipal Statistics, Inc.

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. Government Funds consist of the following:

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 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. The exception to this general rule is that principal and interest on general long-term debt is recognized when due.

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

General Fund Revenues and Expenditures

The following table describes revenues and expenditures for the General Fund Group for five fiscal years. Fiscal Year 2001 revenues and expenditures are unaudited and include intra- and inter-departmental amounts and therefore are not comparable with previous fiscal years. The City's fiscal year ends on June 30.

CITY OF OAKLAND REVENUES AND EXPENDITURES GENERAL FUND GROUP (IN \$000s)

Fiscal Year Ending June 30:	1997	1998	1999	2000	2001*
<i>Revenues</i>					
Taxes ¹	\$ 221,793	\$ 237,658	\$ 258,853	\$ 282,322	\$ 299,690
Licenses and Permits	7,097	7,690	8,043	9,088	11,414
Traffic Fines and Various Penalties	9,506	11,873	13,224	14,129	15,526
Interest Income	8,702	5,793	4,785	10,019	2,793
Revenue from Current Services	32,008	30,920	34,517	36,506	41,709
Grant Revenue	7,443	6,242	6,695	7,265	5,430
Other Revenue, incl. Transfers	8,955	14,730	27,732	8,813	11,387
Total Revenues	\$ 295,504	\$ 314,902	\$ 353,849	368,142	\$ 387,949
<i>Expenditures</i>					
General Government ²	\$ 33,078	\$ 33,970	\$ 38,685	41,245	\$ 46,041
Public Safety ³	145,839	158,948	166,389	190,782	207,392
Public Works ⁴	41,552	29,359	26,070	25,050	23,727
Life Enrichment ⁵	25,038	26,565	28,874	31,749	36,842
Economic and Community Development ⁶	1,629	14,775	18,403	18,954	20,412
Payment to Unfunded Pension	440,409	-	-	-	-
Other ⁷	16,764	18,180	16,478	23,462	29,103
Transfers/other sources and uses	(410,044)	35,847	2,543	581	364
Total Expenditures	\$ 294,265	\$ 317,644	\$ 297,442	331,823	\$ 363,881
Excess of Revenues and Other Sources over Expenditures and Other Uses	\$ 1,239	\$ 2,738	\$ 56,407	36,319	\$ 24,068

Source: City of Oakland Financial Services Agency.

¹ Includes property, state and local taxes.

² Includes elected and appointed officials, general governmental agencies and administrative services.

³ Includes police and fire services.

⁴ Previously classified in Public Works, the Office of Planning and Building amount was reclassified to Community and Economic Development in FY 1997-1998.

⁵ Includes Parks and Recreation, Library, Museum, Aging and Health, and Human Services.

⁶ Includes Planning and Building (as of FY1997-98), Housing and Neighborhood Development, and Economic Development and Employment.

⁷ Includes capital outlays and certain debt service charges; does not include rent payable on lease obligations. In addition, approximately \$105.5 million in debt service charges were paid from sources outside the General Fund.

* Unaudited

Motor Vehicle License Fees

In the 2001 fiscal year the City received approximately \$10.08 million from the State allocated under the Motor Vehicle License Fee Statute, such amount representing approximately 1.15% of the City's budget. For the 2001-02 fiscal year, the City has budgeted for receipts of approximately \$6.8 million from vehicle license fees (0.85% of the City budget). It should be noted that legislation was recently adopted providing for the gradual elimination of the vehicle license fee on noncommercial vehicles over a five-year period, beginning 1999. This legislation provides for the transfer of sales and use tax revenues to any local government in the event that such local government loses money as a result of the reduction and/or elimination of the noncommercial license fee. The City

can provide no assurance, however, that such revenues from the State will be available to replace lost motor vehicle license fees.

Labor Relations

City employees are represented by seven 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 90% of all City employees are covered by negotiated agreements, as shown below. Memoranda of Understandings effective July 1, 2000 were entered into with all non-sworn employee organizations. 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**

Employee Organization/Bargaining Unit	Number of Employees	Contract Termination
International Association of Firefighters (Local 557)	481	6/30/07
International Brotherhood of Electrical Workers (Local 1245)	28	6/30/02
International Federation of Professional and Technical Engineers (Local 21)/Units A, W, and F	660	6/30/02
IFPTE, Local 21 Units H (Supervisors) & M (Managers)	375	6/30/02
IFPTE, Local 21 (Deputy City Attorney)	29	6/30/02
Oakland Police Officers Association	779	Negotiating
United Public Employees (Local 790)/full-time	1,479	6/30/02
United Public Employees (Local 790)/part-time	1,317	6/30/02
Ranger Association	21	Negotiating

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

Retirement Programs

The Police and Fire Retirement System (“PFRS”) is a defined benefit plan administered by a seven member Board of Trustees (the “Retirement Board”). The PFRS is a closed plan and covers uniformed employees hired prior to July 1, 1976. The Retirement Board is composed of: 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 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 year term, and, thereafter, alternately from the retirement rolls of each of said departments for successive three year terms.

As of June 30, 2001, PFRS covered 144 current employees and 1,482 retired employees. In November, 2000, the voters of the City amended the City Charter to give active members of the Retirement System the option to terminate their membership and transfer to the California Public Employees’ Retirement System (“PERS”) upon certain conditions, including the Retirement Board authorizing a transfer to PERS of funds held by the Retirement System representing City and employee contributions to the Retirement System for each member who exercises such option to transfer. Active members of PFRS must decide by September 26, 2001 whether to transfer.

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 actuarial accrued liability ("UAAL") 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 (the Tax Override) on all property within the City subject to taxation by the City to help fund the UAAL. For fiscal year 2002, the City has levied an ad valorem property tax at the rate of 0.1575% for this purpose.

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 will be such that the unfunded liabilities for PFRS and PERS will be extinguished by 2026. Contributions to PERS are deducted and the difference is contributed to PFRS.

For the fiscal year ended June 30, 2001, contributions to PFRS totaling \$641,985 (no employer contributions; all \$641,985 contributed by employees) were made in accordance with actuarially determined contribution requirements. Through the Series 1997 Bond financing in fiscal year 1996-97, the City made a payment of \$417,072,300 to PFRS to offset a portion of its then UAAL for the 14-year period ending June 30, 2011. The City's actuaries do not make an allocation of the contribution amount between normal cost and the UAAL because the PFRS plan is closed. An actuarial valuation on the PFRS benefit plan is conducted every two years with the most recent complete valuation conducted for the period ended June 30, 2000.

The Oakland Municipal Employees Retirement System ("OMERS") is administered by the City and covers two active nonuniformed employees hired prior to September 1, 1970 who have not elected to transfer to the PERS as well as 151 retired employees. For the fiscal year ended June 30, 2001, 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 and covers all nonuniformed employees except those who have not elected to transfer from OMERS and all uniformed employees hired after June 30, 1976.

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's contribution rates for the fiscal year ending June 30, 2001 are 0.0% and 8.488% 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. As of June 30, 2000, the pension benefit obligation for the City miscellaneous employees was overfunded by \$178.3 million.

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, 2026.

City Demographic and Economic Information

The City occupies approximately 53.8 square miles, with approximately 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 well regarded universities and research institutions; and its diverse employee base all contribute to the cosmopolitan character of the City and have made it a center of commerce in the Bay Area.

The City's estimated population as of January 1, 2001 is 409,300, making it the eighth largest city in the State and the third largest in the Bay Area. At least 81 different languages and dialects are spoken within the City. The City's workforce is both sizable and multi-skilled.

The City's economic base historically has 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. The City has embraced an aggressive economic development strategy surrounding five primary business clusters: (1) biotechnology/healthcare; (2) telecommunications; (3) software/multimedia; (4) food processing; and (5) transportation. No single business dominates Oakland's employment rolls; the largest categories are public administration, health and social assistance and business services, employing 20.9, 15.4 and 19.7 percent, respectively.

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 government itself, the San Francisco Bay Area Rapid Transit District ("BART"), the East Bay Municipal Utility District ("EBMUD") and the Alameda-Contra Costa Transit District ("AC Transit"). The City's largest private employer is Kaiser Permanente, followed by Alta-Bates Summit Medical Center and Southwest Airlines.

Despite the economic slowdown, the City has maintained its appeal. Warehouse space, which comprises the bulk of Oakland's industrial inventory, has increased 9.8 percent since year end. The direct weighted average asking rent rose from \$0.51 per square foot per month to \$0.55 per square foot per month. The bump in rent is the result of high demand continuing to come from the South Bay, where warehouse space is difficult to find. Oakland was rated the #1 office market now and for the next five years, according to the Landauer Office Momentum Index (Wall Street Journal, April 5, 2001).

The City's Community and Economic Development Agency (CEDA) unveiled its new Geographic Information Systems (GIS) website this spring, enabling visitors to go on a virtual tour of business opportunities in Oakland. Here one can find development sites and available real estate listed by local brokers in all sectors, including retail, industrial and office. In addition, a complete list of large development projects currently approved or under construction is also available.

According to the Cushman & Wakefield Office Market Report (First Quarter 2001), total inventory in the Oakland Metropolitan Area exceeds 23.9 million square feet, split nearly evenly between the Central Business District ("CBD") and the non-CBD. Increased demand in the Oakland market continues to be evident with a continuing drop in vacancy rates. Due to substantial leasing activity throughout the year, overall vacancy rates have fallen from 8.1% at the beginning of 2000 to 7.7% by the end of the first quarter for 2001.

A growing number of tenants have found that the East Bay has the infrastructure, economical rental rates, and tax incentive plans they desire. Mayor Brown is promoting the City's business-friendly atmosphere and a new image to companies from surrounding areas seeking to relocate to the City.

Housing Update

Oakland remains one of the most affordable Bay Area cities in which to purchase a home. Although Oakland's median price for single-family homes rose by more than 39.4 percent in March 2001 from March 2000, its median is still between two-thirds and one-half the median home price of many Bay Area cities. Sale prices varied by neighborhood, ranging from \$180,000 in East Oakland to \$600,000 in Rockridge. Shopping districts such as Montclair, College Avenue, Piedmont Avenue, Grand/Lakeshore Avenues and Park Boulevard form the spines for the surrounding residential areas.

Mayor Brown is on track to surpass his goal of attracting 10,000 new residents to Downtown Oakland. Over 7,000 residential units are either completed, under construction or in the planning stage – well over the 6,000 units needed to house the potential newcomers.

On March 6, 2001, the Oakland City Council approved nearly \$18 million in affordable housing loans, which can be leveraged for more than three times that amount in private funding. The projects will add 256 new affordable units to the Oakland housing stock, as well as replace 83 units and rehabilitate 214 others. Most will be rentals while some will be for sale at affordable prices. The low-and-no-interest loans will allow developers to seek federal tax credits, as well as HUD funding. The money will come mostly from a \$39.5 million redevelopment agency affordable housing bond issued in May of 2000.

Downtown Developments

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 buildings, refurbished public facilities, luxury hotels, park enhancements and outdoor art have created a cosmopolitan environment enhancing the City's status as a hub of the Bay Area.

Recently completed downtown projects include the \$43,000,000 renovation of the Rotunda Building (a 350,000 square foot Beaux Arts masterpiece) with office space fully leased and retail space more than 75% leased and the Swan's Market mixed-use project. In early 2000, The Shorenstein Company broke ground on the \$115 million 555 City Center office tower, a 20-story, 472,000 square-foot office-retail project. The 555 City Center will be the first class A building to go up in Oakland in a few years. The Shorenstein Company has three additional parcels on which it is authorized to develop up to 1.6 million square feet.

Other downtown projects currently under development include a new office tower, two new hotels and four new downtown housing sites. Construction on the \$20,000,000, 162-room "Courtyard by Marriott" hotel began in June 2000 and will be completed by January 2002. Construction on the 210-room Hilton Keystone Hotel began in July 2001 and is scheduled for completion by March 2003. In addition, the Wakefield Building, a 1920's urban design in revitalized Downtown is being completely refurbished to provide 60,000 square feet available space with fiber network nearby.

The City is developing a new concept in concert with the Oakland Unified School District, the Peralta Community College District, and BART for reshaping the Lake Merritt Channel Area. This area has potential for housing, recreation, and retail uses. The intention is to work collaboratively with these public entities to identify opportunity sites and implement public improvements.

The City is also helping to upgrade the façades of buildings in the Downtown Historic District and Uptown, along Broadway and Telegraph, in Chinatown and in Old Oakland. The City has more than 35 active façade improvement projects in the downtown area alone.

Port of Oakland and Transportation

Part of the City's economic expansion is evidenced by the ongoing activity at the Port of Oakland (the "Port") which is undertaking several capital improvement projects. The Port, established in 1927, is an independent department of the City employing some 560 people. The Port extends approximately 19 miles along the east side of the Oakland Estuary from the border of the city of Emeryville immediately north of the San Francisco-Oakland Bay Bridge, south to the border of the city of San Leandro. Port facilities include four major marine terminal areas covering almost 1,000 acres; Oakland International Airport (the "Airport") which covers an area of over 2,500 acres; 1,100 acres of commercial, industrial, recreational and other land; and 950 acres of underdeveloped land.

The Port of Oakland made several cash land sales in 2000, generating \$27 million. The largest deal was for a 16-acre site called Hegenberger Gateway, purchased by Simeon Commercial Properties. Simeon has plans to use the site to develop Metroport, a 1.3 million square foot class A office project that will include a 300-room full service hotel.

Much of the City's economic strength is attributable to its extensive transportation network. The City is today recognized as a center of commerce for the Bay Area and is the Bay Area's mainland connection. 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 whose 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 the Oakland 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 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 thirty in the world. About 72.0% of the City's foreign maritime trade is with Asia. The Port is currently undertaking a project to deepen the Bay's access channels, which will allow it to compete more effectively with other West Coast ports for Pacific Rim trade.

The Oakland International Airport, operated by the Port, is a major regional center of air passenger and cargo jet operations and the second largest airport in the Bay Area. The Airport has shown steady growth in passenger traffic, current activity is expected to increase annual passenger volume to over 12 million by the end of 2001.

In August 2001, the Oakland Port Commission voted unanimously to spend \$1.4 billion for a 10-year expansion of Oakland International Airport. The current plans are to expand the Airport to accommodate up to 22 million passengers a year by adding 12 new boarding gates, a new food court, a 6,000-car parking garage and a five-laned, double-decker access road. Under current plans, work on the new garage will start in 12 months, construction of the new terminal will begin in 2004, which would start serving passengers three years later, and the expansion would be complete in 2010.

Separately, BART intends to build an elevated people-mover system by 2007 to connect the Oakland Coliseum Station with the Airport terminal.

Other Information.

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 District operates 88 schools, which include elementary, middle, high schools, and special education programs daily. 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.

An unprecedented seven Oakland projects took top honors at the annual San Francisco Business Times Real Estate Deals of the Year awards held this spring in San Francisco. All of the winners were profiled in a special issue of the Business Times, in addition to four other Oakland projects that were named as finalists: Zhong Technologies Campus, Rainin Instrument Co., The Landing at Jack London Square and DoubleTwist, Inc.

Current State of California Electricity Crisis

A large portion of the State of California is currently undergoing shortages of electrical energy power supply as a result of significantly higher costs for wholesale electrical power being charged to the primary providers of electrical energy in the State, resulting in financial difficulties being experienced by such providers. Pacific Gas and Electric Company ("PG&E"), which has been the provider of electrical power to retail, commercial and industrial customers within the City of Oakland for many years, filed a petition for Chapter 11 bankruptcy protection on April 6, 2001. The California Public Utilities Commission, which sets rates for electric power sold by public utilities such as PG&E, has recently approved substantial increases in prices for electrical power for retail, commercial and industrial customers within the PG&E service area and elsewhere in the State, which are expected to be implemented retroactively to March 27, 2001.

PG&E pays unitary property taxes, business license taxes and utility service franchise fees to the City. For Fiscal Year 2000-01, these taxes and fees, which are accounted for in the City's General Fund, aggregated approximately \$730,000, \$700,000 and \$1,986,000, respectively (or 0.17%, 0.17% and 0.47% of the total General Fund revenue, respectively). The City has received payment in full of all amounts owed by PG&E for Fiscal Year 2000-2001.

The City paid approximately \$4.8 million to PG&E for electrical power from its total revenues in Fiscal Year 1999-2000 and expects that its costs for electrical power will be approximately \$5.8 million for Fiscal Year 2000-2001 and \$7.7 million for Fiscal Year 2001-2002. City's electrical power expenditures paid out of the General

Fund amounted to \$664,092 in Fiscal Year 1999-2000 and is expected to be approximately \$0.8 million in Fiscal Year 2000-2001 and \$1.08 million in Fiscal Year 2001-2002.

The City currently does not expect the PG & E bankruptcy organization proceeding to jeopardize the future collection of the unitary property taxes, business license taxes and utility service franchise fees annually paid by PG & E to the City. PG&E's bankruptcy has not so far affected PG&E's ability to pay its taxes and fees to the City. PG&E has remitted such taxes and fees to the City in full for Fiscal Year 2000-2001, and is expected to do so in Fiscal Year 2001-2002. In any event, such amounts are not deemed by the City to be material. In addition to their possible direct impact on City revenues, the PG & E bankruptcy and the anticipated substantial increases in prices of electrical power within the PG & E service area and elsewhere in the State may have adverse effects on the local economy, which could result in decreased City revenues. It is not possible for the City to predict whether or not such adverse effects will occur, whether such effects would be significant, or the duration of any such conditions.

Military Base Closures

All major military facilities in Alameda County have closed. These closures included the Alameda Naval Air Station, the Naval Medical Center Oakland, and the Oakland Army Base. The cumulative community and economic impacts of base closures on the County's economy have been approximated at exceeding \$2 billion and the aggregate job loss totals over 60,000 jobs.

Several efforts are underway to mitigate the impact of base closures in the City of Oakland and Alameda County, including the conversion of the military bases to civilian use. Among these are the activities of the Alameda County Economic Development Advisory Board ("EDAB"), a consortium of public and private entities in the County that assists with regional conversion efforts. EDB collaborates with organization such as the Bay Area Defense Conversion Action Team, the Bay Area Economic Forum, the Bay Area Regional Technology Alliance, and Joint Venture Silicon Valley to design in-fill redevelopment strategies for meeting the demand for community improvements. In addition, the East Bay Conversion and Reinvestment Commission have received grants from the Federal Office of Economic Adjustment to provide planning, analyses, and technical assistance.

Alameda County, the City of Oakland, and the Oakland Redevelopment Agency have formed a local reuse authority (the "Oakland Base Reuse Authority" or "OBRA") under a joint powers agreement for development of comprehensive local reuse plans with respect to the Naval Medical Center Oakland and the Oakland Army Base. These facilities are being prepared for reuse in ways that will stimulate economic development, maximize job creation, stimulate tax revenues to the City, minimize public investment in the projects, and maximize private investment.

During the past fiscal year, OBRA's plans for development of the Oakland Army Base underwent a major change of direction. Spurred by a San Francisco Bay Conservation and Development Commission ("BCDC") finding of inconsistency between the Draft Final Reuse Plan and BCDC's San Francisco Bay and Seaport Plans, OBRA was required to change its reuse footprint. OBRA's solution involved swapping designated development areas with the Port of Oakland in order to satisfy BCDC's maritime ("Port Priority") use requirements. BCDC accepted OBRA's proposed solution, and approved issuance of a Consistency Determination on April 19, 2001. OBRA is engaged in collaborative efforts with City and Port officials to jointly develop and implement an Army Base conveyance program, and OBRA continues to develop a Master Plan for development of the City's portion of the Oakland Army Base in collaboration with its Master Developer. The redevelopment of approximately 189 acres of the Oakland Army Base into a Mater Planned Business and Technology Park is projected to add 8,000 to 10,000 new jobs to the City's economy in the next ten years. The Port's Maritime program will also expand, through its receipt of approximately 500 acres of the Naval Fleet and Industrial Supply Center property and potentially up to 184 acres of the Oakland Army Base.

In the near term, OBRA will continue to operate its successful Interim Leasing Program, which it began in September 1999 pursuant to a Master Lease with the U.S. Department of the Army. The leasing program has created approximately 1,300 jobs across 50 tenants, and includes the Oakland Parks and Recreation Little League Program, the Parks and Recreation Department's Bicycle Program, the Head Start Program, and the Oakland Military Institute (a college preparatory academy). Projected revenues from the program are expected to exceed \$7

million in Fiscal Year 2000-2001, and reserves currently exceed \$5.4 million which, pursuant to the Master Lease, are reinvested into the Army Base operations.

The City is unable to predict the ultimate financial impact that it will experience due to the military base closures. However, the impact on the City to date has been less significant than originally anticipated, and the City's economy continues to thrive despite these closures.

Population

The City's population on January 1, 2001, was estimated at 409,300 by the Demographic Research Unit of the California Department of Finance. This figure represents 27.6% of the corresponding County figure and 1.18% of the corresponding State figure. The City's population has grown over 18% in the twenty years since 1980. The following table illustrates the City's population relative to the population of Alameda County and the State of California.

POPULATION

Year	City of Oakland	County of Alameda	State of California
1960	367,548	908,209	15,717,204
1970	361,561	1,071,446	19,953,134
1980	339,337	1,105,379	23,667,902
1990	371,100	1,276,702	29,473,000
1991	378,200	1,294,700	30,321,000
1992	378,200	1,310,500	30,982,000
1993	379,700	1,326,300	31,552,000
1994	381,400	1,338,400	31,952,000
1995	381,400	1,344,200	31,910,000
1996	383,900	1,356,300	32,223,000
1997	389,700	1,375,900	32,609,000
1998	397,800	1,408,100	33,252,000
1999	399,900	1,433,800	33,773,000
2000	402,100	1,454,300	34,336,000
2001	409,300	1,479,400	34,818,000

Sources: California State Department of Finance (estimates as of January 1)

Employment

Over the past several years, the City's labor force and employment levels have grown and unemployment rates have generally declined. The following table represents the labor patterns in the City, the State of California, and the United States as of June 1995 through 2001.

CITY OF OAKLAND, STATE OF CALIFORNIA AND UNITED STATES CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT As of June 1995 through 2001

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
1995				
City	180,540	164,290	16,290	9.0%
State	15,412,200	14,202,800	1,209,400	7.8
United States	132,304,000	124,900,000	7,404,000	5.6
1996				
City	180,130	166,040	14,090	7.8
State	15,568,600	14,444,400	1,124,200	7.2
United States	133,943,000	126,708,000	7,236,000	5.4
1997				
City	184,580	171,780	12,800	6.9
State	15,971,800	14,965,500	1,006,300	6.3
United States	136,297,000	129,558	6,739,000	4.9
1998				
City	186,130	174,000	12,130	6.5
State	16,329,100	15,360,600	968,500	5.9
United States	137,673,000	131,463,000	6,210,000	4.5
1999				
City	188,510	178,220	10,920	5.5
State	16,585,000	15,721,700	864,200	5.2
United States	140,108,000	134,420,000	5,688,000	4.1
2000				
City	193,010	184,880	8,130	4.2
State	17,034,600	16,139,500	895,100	5.3
United States	140,762,000	135,179,000	5,583,000	4.0
2001				
City	200,780	186,700	14,080	7.0
State	17,365,000	16,487,000	878,000	5.1
United States	141,354,000	134,932,000	6,422,000	4.5

Source: California State Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics.

Major Employers

As an integral part of the Bay Area, the City of Oakland benefits from the wide variety of job opportunities available throughout the area. Summarized below are the City's largest private and public employers as of June 30, 2001.

TOP TEN PUBLIC EMPLOYERS*

	Employer	Type of Organization	Number of Employees
1.	County of Alameda	Government Operations	11,762
2.	U.S. Federal Government (Civilian)	Government Operations	10,500
3.	Oakland Unified School District	Education	7,228
4.	State of California (not including University of California)	Government Operations	4,430
5.	City of Oakland	Government Operations	4,218
6.	Bay Area Rapid Transit District	Public Transportation	3,503
7.	East Bay Municipal Utility District	Utility/Water/Wastewater	1,954
8.	Alameda Contra Costa Transit	Public Transportation	1,168
9.	University of California (Office of the President)	Education	1,000
10.	East Bay Regional Park District	Parks and Recreation	758

TOP TEN PRIVATE EMPLOYERS*

	Employer	Type of Organization	Number of Employees
1.	Kaiser Permanente	Health Services	6,900
2.	Alta-Bates Summit Medical Center	Health Services	3,000
3.	Southwest Airlines	Air Transportation	2,979
4.	Federal Express Corporation	Air Courier Services	2,000
5.	Children's Hospital Medical Center	General Medical Surgical Hospital	1,900
6.	Clorox Company	Household Products	775
7.	Visiting Nurses Association	Home Health Care Services	700
8.	Pacific Gas and Electric	Utility	670
9.	Owens-Brockway Glass Container	Producer of Purchased Glass	619
10.	Alaska Airlines	Air Transportation	600

* Approximate figures

Sources: Alameda County, Economic Development Alliance for Business, Dun & Bradstreet and City of Oakland Financial Services Agency

Commercial Activity

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

CITY OF OAKLAND TAXABLE TRANSACTIONS 1996-2000

Year	Total Sales
1996	\$ 2,596,521,000
1997	2,767,367,000
1998	2,817,183,000
1999	3,085,079,000
2000 ⁽¹⁾	1,671,996,000

⁽¹⁾ First two quarters of 2000 only

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

Construction Activity

A five-year history of building permits and valuation (including electrical, plumbing, and mechanical permits) appears in the following table.

CITY OF OAKLAND BUILDING PERMITS AND VALUATIONS 1996-2000

Year	Number of Permits Issued	Authorized New Dwelling Units	Residential Valuation (In Thousands)	Nonresidential Valuation (In Thousands)
1996	12,154	180	\$ 79,278	\$ 99,844
1997	12,459	176	39,425	202,995
1998	12,545	233	121,006	302,080
1999	14,860	181	175,115	117,140
2000	16,725	542	272,170	195,270

Source: Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2000.

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 1995-2000⁽¹⁾ Median EBI

Year	City of Oakland	Alameda County	California	United States
1995	\$28,033	\$38,436	\$34,533	\$32,238
1996	28,788	39,658	35,216	33,482
1997	29,784	41,127	36,483	34,618
1998	30,388	41,715	37,091	35,377
1999	32,751	44,730	39,492	37,233
2000	38,602	50,631	44,464	39,129

⁽¹⁾ Most recent data available.

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

Litigation

The City is involved in certain litigation and disputes relating to its operations. Upon the basis of information presently available, the City Attorney believes that there are substantial defenses to such litigation.

Oakland Raider Litigation

On September 29, 1997, the City, The County of Alameda and the Oakland Alameda County Coliseum Authority (the "Authority"), filed suit against the Oakland Raiders and A.D. Football, Inc. (collectively "Raider Management") for breach of contract, declaratory relief and interference with prospective economic advantage. The suit asked for compensatory and punitive damages with regard to revenues lost as a result of actions by Raider Management, and for declaratory relief concerning (1) the parties' rights, duties and obligations under a Master Agreement concerning the naming rights for the Oakland Stadium, (2) whether Raider Management's claims of fraudulent inducement have merit and whether Raider Management has the right to rescind or terminate the Master Agreement, and (3) Visiting Team Share Agreement concerning the reimbursement of legal fees and costs. Raider Management filed a cross-complaint seeking the right to rescind the Master Agreement and seeking damages for breaches of the Master Agreement and for fraudulent inducement. In a series of decisions, the court has ruled that (1) the Raiders cannot rescind or terminate the Master Agreement; (2) the East Bay Entities do not have claims for damages, and (3) the Raiders do not have claims for tort damages against the City, the County or the Authority. Raider Management continues to have a claim for damages of \$1.1 billion related to claims of fraudulent inducement against the Oakland Alameda County Coliseum, Inc. and one of its former directors. The Authority, the City, and the County have indemnified this former director against the Raider Management claims. Raider Management also has several breach of contract claims against the City, County, the Authority and Oakland Alameda County Coliseum, Inc. These claims are currently pleaded to be worth less than \$5 million. The City is optimistic that all of the Raider Management claims will fail. However, the City cannot predict whether the Raider Management will be awarded damages at trial.

Golden State Warriors Arbitration

In November 1998, the Authority brought an arbitration proceeding against the Golden State Warriors (the "Warriors") to collect: (1) past due rents for use of the Oakland arena; (2) past due amounts of revenue sharing

required by the License Agreement; and (3) facility use fees collected by the Warriors for the Authority. The arbitration demand also seeks damages for the Warriors' breach of the License Agreement for failure to sell seat rights in the new Arena, a major source of revenue to the Authority. The arbitrator found on October 6, 1999, that the Warriors owed more than \$17 million to the Authority, net of some \$720,000 in offsets granted to the Warriors. A second phase of the arbitration was decided in July 2000, when the arbitrator decided that the Warriors breached the License Agreement by failing to sell seat rights in the new Arena. However, the arbitrator awarded no damages to the Authority because he determined the damages could not be proven. The Authority has brought a court proceeding to confirm this arbitration award. A favorable outcome of this proceeding would permit the Authority to execute the \$17 million award. The City will receive approximately one-half of any award paid by the Warriors.

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APPENDIX B

EXCERPTED CITY AUDITED FINANCIAL STATEMENTS, JUNE 30, 2000

Attached are the audited General Purpose Financial Statements of the City for its Fiscal Year ended June 30, 2000, which includes all Notes to the Financial Statements, but excludes the information entitled "Combining an Individual Fund and Account Group Financial Statements and Schedules." A complete copy of the City's General Purpose Financial Statements may be obtained upon request to the City Treasurer Manager at (510) 238-3201.

INDEPENDENT AUDITORS' REPORT

KPMG LLP 3

GENERAL PURPOSE FINANCIAL STATEMENTS

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[NOT INCLUDED IN APPENDIX B]

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Three Embarcadero Center
San Francisco, CA 94111

Independent Auditors' Report

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

We have audited the accompanying general purpose financial statements of the City of Oakland, California (the City) as of and for the year ended June 30, 2000, as listed in the accompanying 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 Municipal Employees' Retirement System, the Police and Fire Retirement System or the Oakland Redevelopment Agency, whose statements reflect total assets and total revenues which represent 1% and 0%, respectively, of the combined totals of the Special Revenue Funds; 31% and 12% of the combined totals of the Debt Service Funds; 60% and 80% of the combined totals of the Capital Projects Funds; 87% and 80% of the combined totals of the Fiduciary Fund Types and 15% 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 financial 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, Fiduciary Fund Types, the General Long-Term Obligations Account Group, and the discretely presented component unit, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Oakland, California, as of June 30, 2000, and the results of its operations and the changes in plan assets of the pension trust funds and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.





The schedules of funding progress on pages 91 and 92 are not a required part of the general purpose financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied to the schedules of funding progress certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

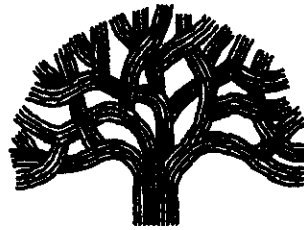
Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the foregoing table of contents, which are also the responsibility of the management 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 and the other auditors' audits of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

KPMG LLP

April 6, 2001

GENERAL PURPOSE FINANCIAL STATEMENTS

GENERAL PURPOSE FINANCIAL STATEMENTS



CITY OF OAKLAND



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

June 30, 2000

(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	\$ 19,613	\$ 32,624	\$ 9,364	\$ 75,592	\$ 460	\$ 11,645
Receivables (net of allowance for uncollectibles):						
Accrued interest and dividends	170	422	156	1,228	4	—
Property taxes	2,348	674	1,818	1,689	—	—
Accounts receivable	43,660	1,499	—	3,067	1,569	194
Grants receivable	—	48,556	—	—	—	—
Receivable from Port of Oakland	10,263	—	—	—	—	—
Due from other funds	82,415	5,632	10,063	3,951	—	—
Due from other governments	—	—	—	110	—	—
Notes and loans receivable	13,709	79,787	—	24,193	—	—
Restricted cash and investments	24	—	71,416	185,839	—	28,850
Inventories	—	—	—	—	—	885
Fixed assets (net, where applicable of accumulated depreciation)	—	—	—	—	79,998	16,278
Property held for resale	—	—	21,447	53,492	—	—
Other	1,509	26	460	2,407	—	—
Other Debits						
Amount available in debt service funds	—	—	—	—	—	—
Amount to be provided for long-term obligations	—	—	—	—	—	—
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 173,711</u>	<u>\$ 169,220</u>	<u>\$ 114,724</u>	<u>\$ 351,568</u>	<u>\$ 82,031</u>	<u>\$ 57,852</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
\$1,124,541	\$ —	\$ —	\$1,273,839	\$ 70,844	\$1,344,683
5,637	—	—	7,617	9,027	16,644
—	—	—	6,529	—	6,529
20,984	—	—	70,973	32,243	103,216
—	—	—	48,556	—	48,556
—	—	—	10,263	—	10,263
3,829	—	—	105,890	—	105,890
—	—	—	110	—	110
—	—	—	117,689	—	117,689
220,204	—	—	506,333	456,519	962,852
—	—	—	885	—	885
—	759,580	—	855,856	1,095,592	1,951,448
—	—	—	74,939	—	74,939
—	—	—	4,402	23,205	27,607
—	—	91,829	91,829	—	91,829
—	—	<u>1,398,896</u>	<u>1,398,896</u>	—	<u>1,398,896</u>
<u>\$1,375,195</u>	<u>\$ 759,580</u>	<u>\$1,490,725</u>	<u>\$4,574,606</u>	<u>\$1,687,430</u>	<u>\$6,262,036</u>

(continued)



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

June 30, 2000
(In Thousands)

	<u>Governmental Fund Types</u>				<u>Proprietary Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>
LIABILITIES, EQUITY AND OTHER CREDITS						
Liabilities						
Accounts payable and accrued liabilities	\$ 77,905	\$ 12,830	\$ 151	\$ 7,204	\$ 1,728	\$ 3,604
Due to other funds	12,124	36,932	20,492	23,816	—	5,533
Payable to primary government	—	—	—	—	—	—
Deferred revenue	50,562	88,791	1,458	49,548	—	—
Interest payable	—	—	794	—	—	—
Long-term obligations	—	—	—	—	8,923	28,760
Due to bond holders	—	—	—	—	—	—
Securities lending liability	—	—	—	—	—	—
Other	886	7	—	3,244	—	—
Total liabilities	<u>141,477</u>	<u>138,560</u>	<u>22,895</u>	<u>83,812</u>	<u>10,651</u>	<u>37,897</u>
Equity and Other Credits						
Investment in general fixed assets	—	—	—	—	—	—
Contributed capital	—	—	—	—	—	17,382
Retained earnings	—	—	—	—	71,380	2,573
Fund balances:						
Reserved	3,708	30,660	91,829	267,756	—	—
Unreserved:						
Designated	11,111	—	—	—	—	—
Undesignated	<u>17,415</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total equity and other credits	<u>32,234</u>	<u>30,660</u>	<u>91,829</u>	<u>267,756</u>	<u>71,380</u>	<u>19,955</u>
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	<u>\$ 173,711</u>	<u>\$ 169,220</u>	<u>\$ 114,724</u>	<u>\$ 351,568</u>	<u>\$ 82,031</u>	<u>\$ 57,852</u>

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

GENERAL PURPOSE FINANCIAL STATEMENTS

Fiduciary Fund Types Trust and Agency	Account Groups		Total (Memorandum Only)	Component Unit	Total (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	Primary Government	Port of Oakland	Reporting Entity
\$ 35,079	\$ —	\$ —	\$ 138,501	\$ 68,312	\$ 206,813
6,993	—	—	105,890	—	105,890
—	—	—	—	10,263	10,263
—	—	—	190,359	4,435	194,794
—	—	—	794	25,731	26,525
1,010	—	1,490,725	1,529,418	1,014,521	2,543,939
12,397	—	—	12,397	—	12,397
245,582	—	—	245,582	—	245,582
8	—	—	4,145	39,383	43,528
<u>301,069</u>	<u>—</u>	<u>1,490,725</u>	<u>2,227,086</u>	<u>1,162,645</u>	<u>3,389,731</u>
—	759,580	—	759,580	—	759,580
—	—	—	17,382	202,903	220,285
—	—	—	73,953	321,882	395,835
1,074,126	—	—	1,468,079	—	1,468,079
—	—	—	11,111	—	11,111
—	—	—	17,415	—	17,415
<u>1,074,126</u>	<u>759,580</u>	<u>—</u>	<u>2,347,520</u>	<u>524,785</u>	<u>2,872,305</u>
<u>\$ 1,375,195</u>	<u>\$ 759,580</u>	<u>\$1,490,725</u>	<u>\$4,574,606</u>	<u>\$1,687,430</u>	<u>\$6,262,036</u>

(concluded)



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

Year ended June 30, 2000

(In Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
REVENUES				
Taxes:				
Property	\$ 85,872	\$ 23,243	\$16,143	\$ 30,683
State:				
Sales and Use	38,470	8,321	—	—
Motor Vehicle In-lieu	19,314	—	—	—
Gas	—	8,052	—	—
Local:				
Business License	35,845	—	—	—
Utility Consumption	41,592	—	—	—
Real Estate Transfer	34,359	—	—	—
Transient Occupancy	12,100	—	—	—
Parking	5,686	—	—	—
Franchise	9,084	—	—	—
Licenses and permits	9,088	10	—	—
Fines and penalties	14,129	1,432	64	—
Interest and investment income	10,019	1,001	10,598	13,831
Charges for services	36,506	2,504	—	2,171
Federal and state grants and subventions	7,265	75,986	—	508
Pension annuity distribution	—	—	—	—
Other	8,813	4,246	1,220	2,880
TOTAL REVENUES	<u>\$368,142</u>	<u>\$124,795</u>	<u>\$28,025</u>	<u>\$ 50,073</u>

GENERAL PURPOSE FINANCIAL STATEMENTS

<u>Fiduciary Fund Type Expendable Trust</u>	<u>Total (Memorandum Only)</u>
\$ 149	\$156,090
—	46,791
—	19,314
—	8,052
—	35,845
—	41,592
—	34,359
—	12,100
—	5,686
—	9,084
—	9,098
—	15,625
1,458	36,907
1	41,182
136	83,895
17,600	17,600
<u>878</u>	<u>18,037</u>
<u>\$ 20,222</u>	<u>\$591,257</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, 2000
(In Thousands)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
EXPENDITURES				
Current:				
Elected and Appointed Officials:				
Mayor	\$ 918	\$ 1	\$ —	\$ 15
Council	2,350	52	—	142
City Manager	3,910	1,548	—	1,359
City Attorney	4,824	409	—	26
City Auditor	1,079	—	—	—
City Clerk	2,171	—	—	64
Agencies/Departments:				
Personnel Resource Management	3,898	30	—	126
Retirement and Risk Administration	1,055	—	—	—
Information Technology	7,024	26	—	662
Financial Services	14,016	206	642	1,114
Police Services	121,542	9,041	—	79
Fire Services	69,240	2,845	—	152
Life Enrichment				
Administration	610	5	—	—
Parks and Recreation	12,160	14,099	—	14,944
Library	9,089	4,527	—	255
Museum	5,268	18	—	226
Aging	2,512	4,188	—	—
Health and Human Services	579	12,577	—	—
Cultural Arts	1,531	97	—	89
Community and Economic Development	18,954	29,666	—	35,774
Public Works	25,050	16,393	—	7,061
Other	22,596	23,402	1,414	901
Capital outlay	866	1,762	—	15,978
Debt service:				
Principal repayment	—	—	36,144	—
Interest charges	581	—	73,162	—
TOTAL EXPENDITURES	<u>331,823</u>	<u>120,892</u>	<u>111,362</u>	<u>78,967</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 36,319</u>	<u>\$ 3,903</u>	<u>\$(83,337)</u>	<u>\$(28,894)</u>

GENERAL PURPOSE FINANCIAL STATEMENTS

Fiduciary Fund Type Expendable Trust	Total (Memorandum Only)
\$ 118	\$ 1,052
376	2,920
147	6,964
984	6,243
—	1,079
43	2,278
—	4,054
—	1,055
—	7,712
149	16,127
874	131,536
35	72,272
—	615
51	41,254
206	14,077
62	5,574
—	6,700
—	13,156
—	1,717
7,796	92,190
152	48,656
687	49,000
383	18,989
—	36,144
—	<u>73,743</u>
<u>12,063</u>	<u>655,107</u>
<u>\$ 8,159</u>	<u>\$ (63,850)</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, 2000
(In Thousands)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BROUGHT FORWARD	<u>\$ 36,319</u>	<u>\$ 3,903</u>	<u>\$(83,337)</u>	<u>\$(28,894)</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	1,166	143	7,255	39,493
Payment to refunded bond escrow agent	—	—	(7,125)	—
Property sale proceeds	79	205	—	4,573
Operating transfers in	116,700	6,842	122,426	12,901
Operating transfers out	<u>(164,902)</u>	<u>—</u>	<u>(24,625)</u>	<u>(61,308)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(46,957)</u>	<u>7,190</u>	<u>97,931</u>	<u>(4,341)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(10,638)	11,093	14,594	(33,235)
Fund balances at beginning of year	<u>42,872</u>	<u>19,567</u>	<u>77,235</u>	<u>300,991</u>
FUND BALANCES AT END OF YEAR	<u><u>\$ 32,234</u></u>	<u><u>\$ 30,660</u></u>	<u><u>\$ 91,829</u></u>	<u><u>\$267,756</u></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>
<u>\$ 8,159</u>	<u>\$ (63,850)</u>
—	48,057
—	(7,125)
—	4,857
10,963	269,832
<u>(18,338)</u>	<u>(269,173)</u>
<u>(7,375)</u>	<u>46,448</u>
784	(17,402)
<u>176,733</u>	<u>617,398</u>
<u>\$177,517</u>	<u>\$ 599,996</u>

(concluded)



**GENERAL FUND AND ANNUALLY BUDGETED SPECIAL REVENUE
AND DEBT SERVICE FUNDS**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL ON A BUDGETARY BASIS**

Year ended June 30, 2000

(In Thousands)

	General Fund		
	Revised Budget	Actual on a Budgetary Basis	Variance - Favorable (Unfavorable)
REVENUES			
Taxes:			
Property	\$ 82,345	\$ 85,872	\$ 3,527
State:			
Sales and Use	38,099	38,470	371
Motor Vehicle In-lieu	11,523	19,314	7,791
Gas	—	—	—
Local:			
Business License	37,766	35,845	(1,921)
Utility Consumption	38,355	41,592	3,237
Real Estate Transfer	20,519	34,359	13,840
Transient Occupancy	11,133	12,100	967
Parking	5,544	5,686	142
Franchise	9,756	9,084	(672)
Licenses and permits	10,316	9,088	(1,228)
Fines and penalties	17,899	14,129	(3,770)
Interest and investment income	3,583	9,365	5,782
Charges for services	41,463	36,506	(4,957)
Federal and state grants and subventions	3,313	7,265	3,952
Other	16,412	8,813	(7,599)
TOTAL REVENUES	<u>\$348,026</u>	<u>\$367,488</u>	<u>\$19,462</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)
\$ 16,413	\$ 17,326	\$ 913	\$ —	\$ 15,511	\$ 15,511
12,473	8,321	(4,152)	—	—	—
—	—	—	—	—	—
7,060	8,052	992	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
8	10	2	—	—	—
270	999	729	—	64	64
388	563	175	1,440	1,673	233
698	288	(410)	—	—	—
1,000	1,040	40	—	—	—
55	11	(44)	83	1,220	1,137
<u>\$ 38,365</u>	<u>\$ 36,610</u>	<u>\$ (1,755)</u>	<u>\$ 1,523</u>	<u>\$ 18,468</u>	<u>\$ 16,945</u>

(continued)



**GENERAL FUND AND ANNUALLY BUDGETED SPECIAL REVENUE
AND DEBT SERVICE FUNDS**

**COMBINED STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL ON A BUDGETARY BASIS, continued**

Year ended June 30, 2000

(In Thousands)

	<u>General Fund</u>		
	<u>Revised Budget</u>	<u>Actual on a Budgetary Basis</u>	<u>Variance - Favorable (Unfavorable)</u>
EXPENDITURES			
Current:			
Elected and Appointed Officials:			
Mayor	\$ 1,026	\$ 918	\$ 108
Council	2,427	2,350	77
City Manager	4,253	3,910	343
City Attorney	4,842	4,824	18
City Auditor	1,068	1,079	(11)
City Clerk	2,722	2,171	551
Agencies/Departments:			
Personnel Resource Management	3,592	3,898	(306)
Retirement and Risk Administration	1,188	1,055	133
Information Technology	8,255	7,024	1,231
Financial Services	15,318	14,016	1,302
Police Services	115,362	121,542	(6,180)
Fire Services	67,959	69,240	(1,281)
Life Enrichment			
Administration	550	610	(60)
Parks and Recreation	13,399	12,160	1,239
Library	9,170	9,089	81
Museum	5,241	5,268	(27)
Aging	3,402	2,512	890
Health and Human Services	557	579	(22)
Cultural Arts	2,536	1,531	1,005
Community and Economic Development	26,272	18,954	7,318
Public Works	26,850	25,050	1,800
Other	92,948	22,596	70,352
Capital outlay	827	866	(39)
Debt service:			
Principal repayment	—	119	(119)
Interest charges	152	462	(310)
TOTAL EXPENDITURES	<u>409,916</u>	<u>331,823</u>	<u>78,093</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (61,890)</u>	<u>\$ 35,665</u>	<u>\$ 97,545</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)
\$ —	\$ 1	\$ (1)	\$ —	\$ —	\$ —
—	—	—	—	—	—
127	148	(21)	—	—	—
87	87	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	1	(1)	—	—	—
—	—	—	—	—	—
24	21	3	—	—	—
89	65	24	39	642	(603)
—	6	(6)	—	—	—
—	—	—	—	—	—
2	3	(1)	—	—	—
14,097	13,529	568	—	—	—
—	1	(1)	—	—	—
—	17	(17)	—	—	—
—	58	(58)	—	—	—
888	989	(101)	—	—	—
—	—	—	—	—	—
22	9	13	—	—	—
29,981	12,989	16,992	—	—	—
654	6,062	(5,408)	—	—	—
—	205	(205)	486	889	(403)
200	—	200	38,540	19,248	19,292
—	—	—	<u>69,775</u>	<u>43,905</u>	<u>25,870</u>
<u>46,171</u>	<u>34,191</u>	<u>11,980</u>	<u>108,840</u>	<u>64,684</u>	<u>44,156</u>
<u>\$ (7,806)</u>	<u>\$ 2,419</u>	<u>\$ 10,225</u>	<u>\$(107,317)</u>	<u>\$ (46,216)</u>	<u>\$ 61,101</u>

(concluded)



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

Year Ended June 30, 2000

(In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
OPERATING REVENUES		
Rental	\$ 121	\$ —
Charges for services	18,313	31,108
Interest	3	—
Other	<u>6</u>	<u>326</u>
TOTAL OPERATING REVENUES	<u>18,443</u>	<u>31,434</u>
OPERATING EXPENSES		
Personnel	8,581	11,887
Supplies	346	5,220
Depreciation and amortization	2,800	2,821
Contractual services and supplies	1,317	1,181
Repairs and maintenance	80	1,985
General and administrative	1,619	3,526
Rental	553	1,211
Interest	—	259
Other	<u>96</u>	<u>5,345</u>
TOTAL OPERATING EXPENSES	<u>15,392</u>	<u>33,435</u>
OPERATING INCOME (LOSS)	<u>3,051</u>	<u>(2,001)</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest	(315)	727
Other, net	<u>—</u>	<u>—</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(315)</u>	<u>727</u>
INCOME BEFORE OPERATING TRANSFERS	<u>2,736</u>	<u>(1,274)</u>
Operating transfers out	<u>(659)</u>	<u>—</u>
TOTAL OPERATING TRANSFERS	<u>(659)</u>	<u>—</u>
NET INCOME (LOSS)	<u>2,077</u>	<u>(1,274)</u>
Depreciation of fixed assets acquired with contributed capital	—	—
Retained earnings at beginning of year	<u>69,303</u>	<u>3,847</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 71,380</u>	<u>\$ 2,573</u>

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

GENERAL PURPOSE FINANCIAL STATEMENTS

<u>Total (Memorandum Only)</u> Primary Government	<u>Component Unit</u> Port of Oakland	<u>Total (Memorandum Only)</u> Reporting Entity
\$ 121	\$ 172,725	\$ 172,846
49,421	—	49,421
3	—	3
<u>332</u>	<u>—</u>	<u>332</u>
<u>49,877</u>	<u>172,725</u>	<u>222,602</u>
20,468	41,885	62,353
5,566	—	5,566
5,621	34,900	40,521
2,498	—	2,498
2,065	19,873	21,938
5,145	29,072	34,217
1,764	—	1,764
259	—	259
<u>5,441</u>	<u>—</u>	<u>5,441</u>
<u>48,827</u>	<u>125,730</u>	<u>174,557</u>
<u>1,050</u>	<u>46,995</u>	<u>48,045</u>
412	(24,149)	(23,737)
<u>—</u>	<u>179</u>	<u>179</u>
<u>412</u>	<u>(23,970)</u>	<u>(23,558)</u>
<u>1,462</u>	<u>23,025</u>	<u>24,487</u>
<u>(659)</u>	<u>—</u>	<u>(659)</u>
<u>(659)</u>	<u>—</u>	<u>(659)</u>
<u>803</u>	<u>23,025</u>	<u>23,828</u>
—	6,273	6,273
<u>73,150</u>	<u>292,584</u>	<u>365,734</u>
<u>\$ 73,953</u>	<u>\$ 321,882</u>	<u>\$ 395,835</u>



**ALL PROPRIETARY FUND TYPES AND
DISCRETELY PRESENTED COMPONENT UNIT
COMBINED STATEMENT OF CASH FLOWS
Year ended June 30, 2000
(In Thousands)**

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	Primary Government
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ 3,051	\$(2,001)	\$ 1,050
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization	2,800	2,821	5,621
Changes in assets and liabilities:			
Receivables	1,559	(102)	1,457
Inventories	—	253	253
Other assets	—	—	—
Accounts payable and accrued liabilities	526	228	754
Deferred revenue	—	—	—
Other liabilities	—	—	—
Other	—	—	—
	<u>7,936</u>	<u>1,199</u>	<u>9,135</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Inter-fund receipts	7	174	181
Inter-fund (repayments) borrowings	(293)	1,904	1,611
Operating transfers to other funds	(659)	—	(659)
	<u>(945)</u>	<u>2,078</u>	<u>1,133</u>
NET CASH PROVIDED BY (USED IN) NON-CAPITAL AND RELATED FINANCING ACTIVITIES			

GENERAL PURPOSE FINANCIAL STATEMENTS

Component Unit <hr/> Port of Oakland	Total (Memorandum Only) <hr/> Reporting Entity
\$ 46,995	\$ 48,045
34,900	40,521
(9,165)	(7,708)
—	253
914	914
3,084	3,838
659	659
(2,122)	(2,122)
<u>(29,575)</u>	<u>(29,575)</u>
<u>45,690</u>	<u>54,825</u>
—	181
—	1,611
<u>—</u>	<u>(659)</u>
<u>\$ —</u>	<u>\$ 1,133</u>

(continued)



**ALL PROPRIETARY FUND TYPES AND
DISCRETELY PRESENTED COMPONENT UNIT
COMBINED STATEMENT OF CASH FLOWS, continued
Year ended June 30, 2000
(In Thousands)**

	Proprietary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	Primary Government
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Long-term debt:			
New borrowings	\$ —	\$ 28,760	\$ 28,760
Repayment of principal	(599)	—	(599)
Payment of interest	(315)	—	(315)
Proceeds from sale of fixed assets	—	—	—
Acquisition and construction of capital assets	(7,892)	(4,284)	(12,176)
Grants from governmental agencies	—	—	—
Other	—	727	727
Passenger facility charges	—	—	—
NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(8,806)</u>	<u>25,203</u>	<u>16,397</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	—	—	—
Proceeds from sales of investments	—	—	—
Interest on investments	—	—	—
NET CASH USED IN INVESTING ACTIVITIES	<u>—</u>	<u>—</u>	<u>—</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(1,815)	28,480	26,665
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	<u>2,275</u>	<u>12,015</u>	<u>14,290</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u>\$ 460</u>	<u>\$ 40,495</u>	<u>\$40,955</u>

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

GENERAL PURPOSE FINANCIAL STATEMENTS

<u>Component Unit</u> Port of Oakland	<u>Total (Memorandum Only)</u> Reporting Entity
\$1,810,102	\$ 1,838,862
(1,366,116)	(1,366,715)
(23,690)	(24,005)
1,664	1,664
(182,512)	(194,688)
3,896	3,896
—	727
<u>14,180</u>	<u>14,180</u>
<u>257,524</u>	<u>273,921</u>
(417,991)	(417,991)
76,071	76,071
<u>2,060</u>	<u>2,060</u>
<u>(339,860)</u>	<u>(339,860)</u>
(36,646)	(9,981)
<u>107,490</u>	<u>121,780</u>
<u>\$ 70,844</u>	<u>\$ 111,799</u>
	(concluded)



PENSION TRUST FUNDS
COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
Year ended June 30, 2000
(In Thousands)

ADDITIONS:

Members contributions	\$ 909
Investment income:	
Net appreciation in fair value of investments	44,783
Interest	25,810
Dividends	<u>7,785</u>
Total	78,378
Less investment expense	<u>(3,089)</u>
Net investment income	<u>75,289</u>
TOTAL ADDITIONS	<u>76,198</u>

DEDUCTIONS:

Disbursements to members and beneficiaries:	
Retirement	\$ 39,430
Disability	21,131
Death	<u>1,899</u>
Total	<u>62,460</u>
Administrative expenses	848
Interest expense - bonds	63
Interest on PERS	253
Termination refunds of employees' contributions	<u>197</u>
TOTAL DEDUCTIONS	<u>63,821</u>
EXCESS OF ADDITIONS OVER DEDUCTIONS	12,377

**NET ASSETS HELD IN TRUST
FOR PENSION BENEFITS:**

Beginning of year, restated	<u>884,232</u>
End of year	<u><u>\$896,609</u></u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2000

(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 Mayor/Council form of government was established in November 1998 through Charter amendment. The legislative authority is vested in the City Council and the executive authority is vested in the Mayor with administrative authority resting with the 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.

GAAP require 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 and expendable trust funds.

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

Financial Services Agency, Accounting Division
City of Oakland
150 Frank H. Ogawa Plaza, Suite 6353
Oakland, CA 94612-2093



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 Units

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 is 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.

(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

Governmental Fund Types are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in Proprietary Fund Types) are accounted for through Governmental Fund Types. The measurement focus is based upon determination of financial position and changes in financial position, rather than upon net income determination. The following are the City's 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,

NOTES TO FINANCIAL STATEMENTS

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

Proprietary Fund Types are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector and are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City adopts all applicable FASB Statements and Interpretations issued on or before November 30, 1989, in accounting and reporting for its proprietary operations unless those pronouncements conflict with or contradict Government Accounting Standards Board pronouncements. The measurement focus is based upon determination of net income, financial position and changes in cash flows. The following are the City's 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 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

NOTES TO FINANCIAL STATEMENTS

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, 2000.

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 either they are 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 and recognized as revenue upon receipt.

Budgetary Data

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.

On June 29, 1999, the City Council voted unanimously to adopt the City's second two-year budget for fiscal years July 1, 1999 through June 30, 2001. Although appropriations are adopted for a 24-month period, they are divided into two one-year spending plans. Agencies/departments ending the first year with budgetary non-project surplus, according to Council policy, will be allowed to carry-forward 1/3 for their operating budget, 1/3 for their capital spending, and 1/3 for reverting to the General Fund balance.

The revised budgetary data presented in the accompanying "General Fund and Annually Budgeted Special Revenue and Debt Service Funds—Combined Schedule of Revenues and Expenditures—Budget and Actual on a Budgetary Basis," reflect approved changes to the original 1999-00 budget. Certain projects 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.

Transfers of appropriations between funds and departments must be approved by the City Council. Supplemental appropriations financed by unanticipated revenues fund must be approved by the City Council.

Transfers of appropriations between 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.

Budgetary Basis of Accounting

The City adopts budgets each fiscal year on a basis of accounting which is substantially the same as GAAP. The area of difference is 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
- Lease Financings
- Civic Improvement
- JPFA Fund

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.



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

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 Fund

- Housing Finance Revenue Bond Fund

Cash and Investments

The City follows the practice of pooling cash of all operating funds for investment, except for the Oakland Redevelopment Agency funds, agency fund types, and funds held by outside custodians. Investments are generally carried at fair value. Money market investments (such as short term, highly liquid debt instruments including commercial paper, banker's acceptances, U.S. Treasury and agency obligations) and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity at the time of purchase of one year or less, are carried at amortized cost. Changes in fair value of investments are recognized as a component of interest income.

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

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The proprietary fund types' investments in the City's 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 prepaid expenses for governmental funds and 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 recognized as expenditures 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 expensed 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 the Port 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	3-10 years

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 California Public Employees' Retirement System (PERS). Employer contributions and member contributions made by the employer to the Plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the forms of the Plans. 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 (Note 12).

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:

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

Fixed assets contributed from the primary government or other funds.

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 (Note 13).

Portions of unreserved fund balances have been designated to indicate those portions of fund balances which the City has tentative plans to utilize in a future period. These amounts may or 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.



Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(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 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. Investments permitted by the policy include:

- United States Treasury securities (subject to restrictions by the Nuclear Free Ordinance);
- federal agency issues;
- bankers' acceptances;
- commercial paper;
- medium term corporate notes and deposit notes;
- negotiable certificates of deposit;
- certificates of deposit;
- Local Agency Investment Fund;
- money market mutual funds;
- local city/agency bonds;
- State of California bonds;
- secured obligations and agreements;
- 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, 2000, the City was in compliance with the above stated investment requirements.

NOTES TO FINANCIAL STATEMENTS

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 deposits and investments (in thousands):

	City	Port	Total
Deposits	\$ 177,738	\$ 1,644	\$ 179,382
Investments	<u>1,602,434</u>	<u>525,719</u>	<u>2,128,153</u>
TOTAL	<u>\$1,780,172</u>	<u>\$527,363</u>	<u>\$2,307,535</u>

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

	City	Port	Total
Cash and investments	\$1,273,839	\$ 70,844	\$1,344,683
Restricted cash and investments	<u>506,333</u>	<u>456,519</u>	<u>962,852</u>
TOTAL	<u>\$1,780,172</u>	<u>\$527,363</u>	<u>\$2,307,535</u>

Deposits

At June 30, 2000, the carrying amount of the City's deposits was \$177,738,000 and the bank balance was \$166,223,000. 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, \$600,000 was FDIC insured and \$165,623,000 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 that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance.



The collateral must be held by the pledging financial institution's trust department and is considered held in the City's name.

Investments

The City's investments are categorized to give an indication of the level of custodial 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.

At June 30, 2000, investments included the following (in thousands):

	Category 1	Carrying Value
Subject to Custodial Risk Categorization		
U.S. Treasury securities	\$ 130,138	\$ 130,138
Federal agency issues	280,302	280,302
Municipal bonds	4,913	4,913
Commercial paper	17,742	17,742
Bankers Acceptance	2,464	2,464
Negotiable certificates of deposit	5,998	5,998
Corporate stocks and bonds	528,800	528,800
Medium term corporate notes	247,801	247,801
Long-term repurchase and investment agreements	<u>468,817</u>	<u>468,817</u>
Total	<u>\$1,687,975</u>	<u>1,686,975</u>
Investments Not Subject to Custodial Risk Categorization		
Real estate deeds		5,226
Real estate mortgage loans/investments		138
Life insurance annuity contracts		154,436
Local Agency Investment Fund		35,796
Investments held by broker-dealers under securities loans		<u>245,582</u>
Total		<u>441,178</u>
TOTAL INVESTMENTS		2,128,153
Less Port of Oakland Investments		<u>(525,719)</u>
TOTAL CITY INVESTMENTS		<u>\$1,602,434</u>

Securities Lending Transactions

PFRS is authorized to enter into securities lending transactions which are short term collateralized loans of PFRS securities to brokers with a simultaneous agreement allowing PFRS to invest and receive earnings on the loan collateral for a loan rebate fee. All securities loans can be terminated on demand by either PFRS or the borrower, although the average term of such loans is one week.

Metropolitan West Securities, Inc. (MetWest) administers the securities lending program. MetWest is responsible for maintaining an adequate level of collateral in an amount equal to at least 102% of the market value of loaned U.S. government securities. Collateral received may include cash, letters of credit, or securities. If securities collateral is received, PFRS cannot pledge or sell the collateral securities unless the borrower defaults.

At year-end, PFRS had no credit risk exposure to securities borrowers because the amounts PFRS owed to borrowers exceeded the amounts the borrowers owed to PFRS. PFRS' contract with MetWest requires it to indemnify PFRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay PFRS for income distributions by the securities' issuers while the securities are on loan.

As of June 30, 2000, PFRS had securities on loan with a market value of approximately \$238,159,000 for cash collateral of \$245,582,000.

PFRS' securities lending income for the year ending June 30, 2000, is as follows:

Gross Income	\$ 10,388,658
Expenses:	
Borrower rebates	9,552,165
Administration fees	<u>356,166</u>
Total Expenses	<u>9,908,331</u>
NET INCOME FROM SECURITIES LENDING	<u>\$ 480,327</u>

Derivatives

The City's investment policy permits investments in certain derivatives. There were no derivatives included in the investment pool during the year ended June 30, 2000.

Discretely Presented Component Unit

The Port's cash and investments are reported as follows at June 30, 2000 (in thousands):

Cash and investments:	
Cash and investments with the City	\$ 69,200
Cash on hand	3
Cash in bank accounts	<u>1,641</u>
TOTAL CASH AND INVESTMENTS	<u>70,844</u>
Restricted cash and investments:	
Sinking fund and reserve deposits with fiscal agents	68,746
Unexpended bond proceeds restricted for construction	335,669
Deposits in escrow	4,204
Cash and investments with City:	
Passenger facility charges	45,794
Other	1,836
Restricted deposits with fiscal agents for current debt service	<u>270</u>
TOTAL RESTRICTED CASH AND INVESTMENTS	<u>456,519</u>
TOTAL	<u>\$527,363</u>

The carrying amount of Port cash and investments is as follows at June 30, 2000 (in thousands):

Cash on hand and at bank	\$ 5,850
Government securities money market mutual funds	3,683
U.S. Treasury obligations	19,640
Guaranteed investment contracts	381,360
Cash and investments with the City of Oakland	<u>116,830</u>
TOTAL	<u>\$527,363</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 and Investments

The carrying amount of Port deposits with banks and fiscal agents was \$1,644,000 at June 30, 2000. The bank balances of \$301,000 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 California Government Code requires governmental securities or first trust deed mortgage notes as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. The collateral must be held by the pledging financial institution's trust department and is considered held in the City's name.

All investments subject to custodial risk categorization are Category 1 investments.



(4) DUE FROM/DUE TO OTHER FUNDS

The following were the current interfund balances at June 30, 2000 (in thousands):

	Due from	Due to
General Fund	<u>\$ 82,415</u>	<u>\$ 12,124</u>
Special Revenue Funds		
Federal and State Grants	3,171	35,773
Other Special Revenue	1,926	1,105
Oakland Redevelopment Agency	<u>535</u>	<u>54</u>
	<u>5,632</u>	<u>36,932</u>
Debt Service Funds		
Tax Allocation Bonds	—	20,358
Lease Financings	9,942	106
Civic Improvement	121	5
JPFA Fund	—	19
Other Special Revenue Bonds	<u>—</u>	<u>4</u>
	<u>10,063</u>	<u>20,492</u>
Capital Projects Funds		
Municipal Improvement Capital	1,474	5,200
Emergency Services	—	112
Oakland Redevelopment Agency	<u>2,477</u>	<u>18,504</u>
	<u>3,951</u>	<u>23,816</u>
Internal Service Funds		
Facilities	—	2,784
Central Stores	<u>—</u>	<u>2,749</u>
	<u>—</u>	<u>5,533</u>
Trust and Agency Funds		
Expendable Trust Funds		
Oakland Redevelopment Agency Projects	<u>3,829</u>	<u>6,993</u>
	<u>3,829</u>	<u>6,993</u>
TOTAL	<u>\$ 105,890</u>	<u>\$105,890</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.

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, 2000, \$6,236,000 in Special Services expenditures have been 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 and Lake Merritt 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, 2000, \$527,000 and \$1,000,000, have been accrued by the Port as a current liability and by Oakland as a receivable for General Services and Lake Merritt tideland trust properties, respectively.

The City and Port are in the process of negotiating an MOU for payments to be made by the Port to the City in consideration for services provided by the City on Tidelands Trust properties. Such payments are expected to amount to \$3,000,000 per year, and represent a portion of the total expenses incurred by the City in the provision of services within the Lake Merritt Tidelands boundaries. Included in the amount recorded as a receivable from the Port of Oakland is \$2,500,000 for fiscal year 1997, which the Port has also recorded as an obligation due to the City. Any additional amount due to the City will be recorded when an MOU has been executed.

(6) NOTES AND LOANS RECEIVABLE

Notes and loans receivable at June 30, 2000, consisted of the following (in thousands):

Grant-in-aid loans at various interest rates and due dates (0% to 10% at June 30, 2000)	\$ 42,099
Oakland Hotel Associates, Ltd., bearing interest at 7.67%, principal and interest due July 1, 2013, or earlier under certain provisions of the note	7,986
Mar Associates, bearing interest at 8%, principal and interest due March 9, 2002	3,288
Oakland Hotel Associates, Ltd., bearing interest at Bank of America reference rate (0% at June 30, 2000), no principal and interest payable until December 30, 2026	3,379
Foothill Plaza Partnership, bearing interest at 3%, principal and interest payable in equal monthly installments through July 20, 2017	1,176
Oakland Renaissance Ltd., bearing interest at 7.72%, principal and interest due August 12, 2031	1,770
Oakland Business Development Corporation Neighborhood Economic Development Fund revolving loan program, non-interest bearing, various borrowers	1,237
Hillary Development, bearing interest at 3%. Final maturity is currently under negotiation.	1,793
Harrison Hotel Associates, bearing interest at 6%, principal and interest due December 15, 2048	2,287
Woodrow Hotel, bearing interest at 6.50%, principal and interest due December 3, 2023	1,626
Other pass-thru loans at various interest rates and maturities (0% to 10% at June 30, 2000)	17,291
Other notes and loans receivable at various interest rates and maturities	19,057
E.M. Health Service, bearing interest at 8.75%, principal and interest payable in equal monthly installments through April 1, 2004	1,100
Granny Goose Foods, bearing interest at 8.5%, principal and interest payable in equal monthly installments through October 1, 2016	1,660
Cahon, Inc., bearing interest at 6%, through June 30, 1993, and zero interest thereafter, principal and interest due December 31, 2000, or earlier under certain provisions of the note	1,100
Women's Economic Agenda, bearing interest at 6%, principal and interest due August 14, 2025	2,403
Eastmont Town Center, bearing interest at 9.51%, principal and interest payable in equal monthly installments through April 1, 2008	3,626
Alvingroom Court, bearing interest at 3.0%, principal and interest due December 24, 2026	2,491
Fruitvale Development Corporation bearing interest at 6.0%, interest only payments until June 1, 2002, principal and interest payable in equal monthly installments through June 1, 2016	1,160
Allen Temple Housing Corporation IV bearing interest at 6.0%, principal and interest due November 7, 2035	<u>1,160</u>
TOTAL	<u>\$ 117,689</u>

NOTES TO FINANCIAL STATEMENTS

(7) FIXED ASSETS

A summary of changes in general fixed assets for the year ended June 30, 2000, follows (in thousands):

	Balance July 1, 1999	Transfers/ Additions	Deletions	Balance June 30, 2000
Land	\$ 70,627	\$ 521	\$ —	\$ 71,148
Facilities and improvements	589,144	15,467	—	604,611
Furniture, machinery and equipment	38,121	1,526	1,901	37,746
Investments in joint venture	17,637	13,546	—	31,183
Construction in progress	<u>13,540</u>	<u>1,352</u>	<u>—</u>	<u>14,892</u>
TOTAL	<u>\$729,069</u>	<u>\$32,412</u>	<u>\$ 1,901</u>	<u>\$759,580</u>

A summary of property and equipment at June 30, 2000, for proprietary fund types and discretely presented component units follows (in thousands):

	Enterprise Funds	Internal Service Funds	<u>Component Unit Port of Oakland</u>
Land	\$ 220	\$ 310	\$ 186,552
Facilities and improvements	—	210	866,928
Container cranes	—	—	95,690
Furniture, machinery and equipment	100,358	59,989	32,328
Construction in progress	<u>—</u>	<u>—</u>	<u>288,714</u>
	100,578	60,509	1,470,212
Less accumulated depreciation and amortization	<u>20,580</u>	<u>44,231</u>	<u>374,620</u>
TOTAL	<u>\$79,998</u>	<u>\$16,278</u>	<u>\$1,095,592</u>



(8) PROPERTY HELD FOR RESALE

Property held for resale at June 30, 2000, consisted of the following (in thousands):

Chinatown	\$ 840
City Center	2,543
Coliseum Shoreline	2,749
Housewives Market	1,611
Multi-Service Center	5,100
Swans Market	4,425
Taldan Site	1,302
City Hall Annex	2,875
Preservation Park	6,448
City Center Garage West	21,447
Fox Theater	3,000
11th-12th Broadway & Franklin	3,153
U.S. Ice Skating Rink	10,588
819 Clay Street	141
Acom Shopping Center	2,970
529—20th Street, 1901 Telegraph Avenue, 538-544 & 562-570 William Street	1,791
550 William Street	192
562-570 William Street	121
584 William Street	36
811 Clay Street	312
Evelyn Rose Family Housing (Conveyance)	1,049
1818-1824 San Pablo Avenue	301
1826-1840 San Pablo Avenue (Res. 99-49)	607
728—73rd Avenue	365
1975 Telegraph Avenue	891
602, 604 & 608 William Street	82
Total	<u>\$74,939</u>

The Agency acquired the Preservation Park project, which was developed by a joint venture between the Agency and Bramalea Pacific, Inc., by credit bid at a foreclosure sale. On January 5, 1996, under an Assumption Agreement between the City and the Agency, the Agency assumed the \$6,448,000 obligation of the Preservation Park project.

On May 8, 1991, the Agency entered into a joint venture agreement with Bramalea Pacific, Inc. under the name of City Center Garage West Associates (Associates). The purpose of the joint venture was to construct and operate a multi-level parking structure and other related stores and offices. Associates entered into a loan agreement with the City for \$22,000,000 to construct the garage. On May 23, 1995, due to the Canadian bankruptcy of Bramalea's parent company, the City took title to the garage in settlement of the loan obligation of Associates. On October 12, 1995, the City transferred the title of the garage to the Agency to hold as property held for

NOTES TO FINANCIAL STATEMENTS

resale and will operate for the purpose of facilitating the future development of the City Center Project. In acceptance of the title to the garage, the Agency acquired the City's loan to Associates. The Agency agreed to repay the City's loan balance of \$21,447,000.

In June 1996, U.S. Ice Ventures defaulted on their loan repayment obligations to the Agency pursuant to loan documents between the Agency and U.S. Ice Ventures. As a result of the default, the Agency sued U.S. Ice Ventures to enforce the Agency's rights under the agreements between the Agency and U.S. Ice Ventures. In October 1996, U.S. Ice Ventures filed for bankruptcy. On May 1, 1997, under the bankruptcy settlement, the Agency took title of the property.

(9) TAX AND REVENUE ANTICIPATION NOTES PAYABLE

During the fiscal year ended June 30, 2000, the City issued tax and revenue anticipation notes payable of \$60,000,000. The notes were issued to satisfy General Fund obligations and carried an effective interest rate of approximately 4.25%. Principal and interest were due and repaid on June 30, 2000.

(10) 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, 2000 (in thousands):

	Balance at July 1, 1999	Additional Obligations and Net Increases	Maturities and Retirements	Balance at June 30, 2000
General obligation bonds	\$ 132,960	\$ —	\$ 3,295	\$ 129,665
Tax allocation bonds	184,839	39,395	7,955	216,279
Lease financings	508,648	—	6,035	502,613
Special assessment debt with governmental commitment	10,050	7,255	7,580	9,725
Special revenue bonds	422,850	—	15,570	407,280
Notes payable	29,036	4,280	7,376	25,940
Accrued vacation and sick leave	30,514	—	1,200	29,314
Self-insurance liability for workers' compensation	44,380	—	—	44,380
Estimated claims payable	13,757	8,749	—	22,506
Contingent liability for Authority debt (Note 15)	<u>94,750</u>	<u>8,273</u>	<u>—</u>	<u>103,023</u>
TOTAL	<u>\$1,471,784</u>	<u>\$67,952</u>	<u>\$49,011</u>	<u>\$1,490,725</u>



General long-term obligations at June 30, 2000, consisted of the following (in thousands):

	Maturities (Calendar Year)	Interest Rates	Balance at June 30, 2000
General Obligation Bonds			
General Obligation Bonds Series 1991A (a)	2000-2015	5.50%-8.50%	\$ 10,060
General Obligation Bonds Series 1995B (a)			
Serial bonds	2000-2013	5.30%-8.25%	7,685
Term bonds	2015	5.875%	1,760
Term bonds	2019	5.875%	4,190
General Obligation Bonds Series 1997C (a)			
Serial bonds	2000-2019	5.50%-6.00%	16,665
Term bonds	2022	5.90%	4,660
General Obligation Bonds Series 1992 (b)			
Serial bonds	2000-2012	4.25%-6.00%	16,320
Term bonds	2017	6.00%	10,435
Term bonds	2022	6.00%	14,460
General Obligation Bonds Series 1997 (c)			
Serial bonds	2000-2016	5.25%-5.75%	26,270
Term bonds	2019	5.75%	5,075
Term bonds	2022	5.85%	<u>12,085</u>
			<u>129,665</u>
Tax Allocation Bonds			
Acorn Refunding Series 1988 (d)			
Term bonds	2007	7.40%	2,075
Central District Tax Allocation Refunding Series 1989A (e)			
Serial bonds	2000-2000	6.40%-6.55%	3,485
Capital appreciation bonds	2001-2009	6.60%-6.65%	11,899
Central District Senior Tax Allocation Refunding Series 1992 (f)			
Serial bonds	2000-2008	5.10%-6.00%	38,165
Term bonds	2009-2014	5.50%-6.15%	35,910
Central District Subordinated Tax Allocation Refunding Series 1992A (g)	2000-2019	5.95%	52,800
Central District Subordinated Tax Allocation Series 1993A (h)			
Serial bonds	2000-2004	4.00%-4.90%	3,205
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 (i)			
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%	7,060
General Obligations - Tribune Tower Subordinated Housing Set Aside Revenue (j)	2011	5.643%	530
Bond Series 2000T			
Serial bonds	2003	7.39%	1,325
Serial bonds	2004	7.39%	1,425
Serial bonds	2010	7.82%	11,160
Serial Bonds	2015	7.93%	14,065
Serial Bonds	2018	8.03%	<u>11,420</u>
			<u>216,279</u>

NOTES TO FINANCIAL STATEMENTS

	Maturities (Calendar Year)	Interest Rates	Balance at June 30, 2000
Lease Financings			
Oakland JPFA Lease Revenue Bonds, Series 1996 (k)			
Serial bonds	2000-2011	4.60%-5.50%	\$ 28,125
Term bonds	2016	5.90%	18,395
Term bonds	2021	5.75%	24,610
Term bonds	2026	5.75%	32,815
California Statewide Communities Development Authority Bonds (l)			
Serial bonds	2000-2007	5.40%-6.20%	54,390
Term bonds	2010	6.00%	31,900
Term bonds	2014	5.50%	52,630
Oakland Museum 1992 Series A (m)			
Serial bonds	2000-2003	5.60%-6.00%	6,525
Term bonds	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 (n)			
2000-2015	2000-2015	Variable	42,600
Oakland JPFA Lease Revenue Bonds, Series 1998 (o)			
Swapped	2000-2021	5.6775%	170,000
Variable Rate	2000-2021	Variable	<u>17,500</u>
			<u>502,613</u>
Special Assessment Debt with Governmental Commitment			
Medical Hill Parking District Refunding Improvement Bonds 1994 (p)			
Term bonds	2004	6.00%	1,145
Oakland JPFA Reassessment Revenue Bonds			
Serial bonds	2000-2010	3.70-5.15%	2,025
Term bonds	2018	5.40%	2,465
Term bonds	2024	5.50%	2,620
Oakland JPFA Special Assessment Pooled Revenue Bonds 1996 Series A (q)			
2000-2020	2000-2020	4.20-6.70%	385
Oakland Special Assessment Pooled Revenue Bonds 1997 (r)			
Serial Bonds	2000-2007	4.20-5.20%	575
Term bonds	2012	5.65%	<u>510</u>
			<u>9,725</u>
Special Revenue Bonds			
Taxable Pension Obligation Bonds Series 1997 (s)			
2000-2010	2000-2010	5.63%-7.31%	<u>407,280</u>
Notes Payable			
Koch Financial Corporation (t)			
2000-2003	2000-2003	4.11%	8,976
Department of Housing Urban Development (u)			
N/A	N/A	N/A	15,985
Light-Emitting Diode Traffic Signal Conversion Project (v)			
			<u>979</u>
			<u>25,940</u>



	Maturities (Calendar Year)	Interest Rates	Balance at June 30, 2000
Other Long-Term Liabilities			
Accrued vacation and sick leave			\$ 29,314
Self-insurance liability for workers' compensation (Note 12)			44,380
Estimated claims payable (Note 12)			22,506
Contingent liability for Authority debt (Note 15)			<u>103,023</u>
			<u>199,223</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS			<u><u>\$ 1,490,725</u></u>

General Obligation Bonds

(a) General Obligation Bonds Series 1991A, Series 1995B and Series 1997C

The City received authorization to issue \$60 million of General Obligation Bonds by a two-thirds vote of the electorate at 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 \$12,000,000 of General Obligation Bonds Series 1991A. On March 1, 1995, the City issued a second series, \$15,000,000 General Obligation Bonds Series 1995B. On April 1, 1997, the City issued a third series, \$22,250,000 General Obligation Bonds Series 1997C, leaving the authorized but unissued amount of \$10,750,000. 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 at 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.

(c) General Obligation Bonds Series 1997

On March 15, 1997, the City issued \$45,420,000 of General Obligation Bonds Series 1997 to repair, construct, acquire and improve libraries, museums and other cultural and recreational facilities throughout the City. The bonds represent the first and only series of bonds within the authorization approved by the voters of the City on November 5, 1996. 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

(d) Acorn Tax Allocation Refunding Bonds Series 1988

On November 1, 1988, the Agency issued the \$3,375,000 of Acorn Tax Allocation Refunding Bonds Series 1988 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.

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

On August 1, 1989, the Agency issued \$92,399,000 of 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 1989A bonds.

(f) 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 on a senior basis by tax increment 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.

(g) 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.

(h) 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.

(i) Central District Subordinated Tax Allocation 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.

(j) Subordinated Housing Set-Aside Revenue Bonds Series 2000T

On May 1, 2000, the Agency issued Subordinated Housing Set Aside Revenue Bonds, Series 2000T in aggregate principal amount of \$39,395,000 at interest rates ranging from 7.39% to 8.03%, which will mature on September 01, 2018. Proceeds of the bonds will be used by the Agency to increase, improve, and preserve the supply of housing within the City of Oakland available at affordable housing cost to persons or families of low or very low income. The bonds are secured by portion of the 20% housing set-aside tax increment revenues from the City's six redevelopment project areas. These bonds were issued on a federally taxable basis to provide the greatest flexibility on the use of proceeds. A portion

of the proceeds (\$1,028,641) was used to pay for closing costs such as: cost of issuance, underwriter's discount, insurance premium, and surety bond.

Lease Financings

(k) 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 \$103,947,000. 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.

(l) 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.

(m) Oakland Museum 1992 Series A

On May 15, 1992, the Agency issued \$39,408,000 of 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 by the City to finance the reacquisition of the Museum. Accordingly, the Certificates are recorded by the City 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.

(n) 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 Landesbank Hessen-Thuringen Girozentrale. The LC expires August 2, 2002. In aggregate, the City has available under the LC \$44,925,808 as of June 30, 2000, of which \$44,000,000 may be drawn for the payment of the unpaid principal amount of the certificates, and \$925,808 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 one-quarter of one percent per annum on the available amount outstanding on the LC. For the year ended June 30, 2000, the City paid a total letter of credit fee of approximately \$106,000.

(o) Oakland Joint Powers Financing Authority, Series 1998

The 1998 bonds were issued by the Joint Powers Authority on August 3, 1998, to refund the City of Oakland's Special Refunding Revenue Bonds (Pension Financing), Series 1988A. The bonds were sold in a variable-rate mode, in two series: \$131,500,000 Series A-1 and \$56,000,000 Series A-2, with a final maturity of August 1, 2021. The bonds are limited obligations of the Authority, payable by base rental payments from the City's General Fund, in exchange for the right to use and possession of a portion of the City's sewer system. The City entered into a \$170,000,000 forwarding-starting, floating-to-fixed "synthetic-fixed-rate" swap, at a 5.6775% interest rate, with Goldman Sachs, which commenced on July 31, 1998, and terminates on July 31, 2021. The swap entitles the City to receive variable rate payments equal to the Bond Market Association Municipal Swap Index in exchange for a fixed rate payment to Goldman Sachs. The notional value of the swap declines in accord with the outstanding principal on the bonds.

Special Assessment Debt with Governmental Commitment

(p) 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 bonds are redeemed.

(q) Oakland JPFA Reassessment Revenue Bonds

On July 5, 1999, the Oakland Joint Powers Financing Authority issued bonds in order to refinance the local obligation bonds for two special assessment districts: (1) for a portion of the costs of construction of new underground support services and for repaving the street surfaces in conjunction with the undergrounding of utility lines in the area affected by the October 1991 firestorm (Fire Area Utility Underground Assessment District No. 1994-1), and (2) for a portion of the costs of providing new, enlarged water delivery lines and higher-flow fire hydrants in the upper Rockridge area (Rockridge Water Area Improvements District No. 1994-2). The bonds are rated A- by Standards & Poors Corporation. The bonds are payable from revenues derived from the reassessments levied on the properties in the original two assessment districts.



(r) Oakland JPFA Special Assessment Pooled Revenue Bonds 1996 Series A

In August 1996, the Oakland Joint Powers Financing Authority ("JPFA") issued \$465,000 of Special Assessment Pooled Revenue Bonds 1996 Series A. The Bonds were issued pursuant to Resolution No. 96-02 of the JPFA to provide funds for a loan to the City (pursuant to City Resolution No. 72830) for the purpose of funding (1) the installation of certain underground utilities and street light fixtures within four districts in the City of Oakland, and (2) the construction of a sewer line in the Skyline Sewer District. Loan repayment will be secured exclusively by the unpaid portion of special assessments levied upon the properties benefited by the improvements acquired and constructed with the loan proceeds.

(s) Oakland Special Assessment Pooled Revenue Bonds 1997

In December 1997, the Oakland Joint Powers Authority ("JPFA") issued \$1,250,000 of Special Assessment Pooled Revenue Bonds, Series 1997. The bonds were issued pursuant to Resolution No. 97-01 of the JPFA to finance the purchase by the JPFA from the City of Oakland Assessment Bonds issued by the City of Oakland. Each issue of Assessment Bonds were issued for the purpose of funding the installation of undergrounding certain utilities and the construction of street lighting within five districts of the City of Oakland. The Assessment Bonds are payable from the unpaid assessments levied upon real property within the five districts.

(t) Taxable Pension Obligation Bonds Series 1997

On February 1, 1997, the City issued Taxable Pension Obligation Bonds Series 1997, Sub-series A, comprised of \$393,790,000 of Current Interest Bonds and \$26,705,000 of Capital Appreciation Bonds and Sub-series B in the amount of \$15,795,000 Current Interest Bonds. The proceeds of the bonds were used to fund (1) a portion of the current balance of the City's unfunded actuarial accrued liability (UAAL) for retirement benefits to members of the Oakland Police and Fire Retirement System (PFRS), (2) a portion of the City's current normal contribution to PFRS for the fiscal year ended June 30, 1997, and (3) pay costs of issuance of the Bonds. The payment to PFRS in the amount of \$417,173,000 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 as stated in (2) above.

In March 1997, the City entered into a debt service deposit agreement with a third party whereby the City received \$8,147,000 in exchange for forgoing its right to receive investment earnings on the amounts deposited with the trustee in advance of the date that the Pension Obligation Bonds debt service payment is due to the bondholders. The compensation the City received has been recorded in the General Fund as deferred revenue and is being amortized over the 14 year life of the agreement using the effective interest method.

Notes Payable

(u) Koch Financial Corporation

The City entered into a financing agreement with Oracle Credit Corporation in March 1998 for financing costs associated with implementing a new financial and human resources/payroll system. That agreement was subsequently assigned to Koch Financial Corporation. This project will be financed over a five-year period with quarterly payments of \$894,950 beginning August 1, 1998, at an interest rate of 4.11%. The total amount to be financed is \$15.8 million. The City made an initial down payment of \$2.0 million in March 1998. As of June 30, 2000, \$15.7 million in costs had been incurred related to implementing these new systems. It is anticipated that this project will be completed prior to the end of the 2000-01 fiscal year. The balance of the loan as of June 30, 2000, was \$8,976,000.

(v) Department of Housing and Urban Development

On July 14, 1995, the City of Oakland and IDG/Banner Urban Ventures, a California Corporation, entered into a Disposition and Development Agreement pursuant to which the City agreed to sell City-owned real property located on Martin Luther King, Jr. Way. The agreement provided that the developer would acquire and renovate the core and shell of buildings on the property. The City borrowed Housing and Urban Development (HUD), Section 108 loan funds in its own name to finance the project. On February 9, 1996, the City terminated the Disposition and Development Agreement with IDG/Banner Urban Ventures and assumed full responsibility in the development of the property to commercial and high technology oriented companies. The total amount of the note was \$10,945,000. On July 28, 1998, the City Council passed Resolution No. 12074 C.M.S. authorizing the sale of the property to Children's Hospital Oakland. The balance of the note as of June 30, 2000 was \$5,620,000.

In addition to the above note to the City, an additional \$10,365,000 remain outstanding in Section 108 loans provided to private sector recipients for housing, business enterprises, and other eligible purposes. These loans are secured by Community Development Block Grant (CDBG) funds with the City.

As of June 30, 2000, the total balance outstanding under the HUD Section loan program was \$15,985,000.

(w) Light-Emitting Diode Traffic Signal Conversion Project

The City entered into a financing agreement with Banc One Leasing Corporation in November 1998 for financing costs associated with replacement of incandescent traffic light bulbs. The notes carry an interest rate of 4.3% and a final maturity of July 15, 2003.



Current Year Defeasance

In July 1999, the City sold \$7,255,000 in Marks-Roos Bonds for the sole purpose of purchasing from the City \$7,095,000 Limited Tax Obligation Bonds, Reassessment District No. 99-1 (the "Reassessment Bonds"). The Reassessment Bonds were sold by the City on behalf of two existing assessment districts, No. 1994-1 and No. 1994-2, to refund the outstanding limited obligation bonds within each of these districts (Fire Area Utility Underground, Series 1994A and Series 1994, and the Rockridge Area Water Improvements, Series 1994)—(the "Refunded Bonds"). Through a successful pricing, the City was able to produce savings that directly translated into substantial reductions on the annual assessment on each parcel within two districts. From this refinancing, Assessment District No. 1994-1 (Fire Area) was able to realize \$2,234,687 in total debt service savings, which translated into an average annual savings per home of \$41. Assessment District No. 1994-2 (Rockridge) was able to realize \$292,571 in total debt service savings, which translated into average annual savings per home of \$23. The refunding produced an economic gain (the present value of debt service savings) of \$1,504,000.

Prior Year Defeasance

In prior years, the City defeased its 1976 Pension Revenue Bonds. A portion of the proceeds of the refunding issue was placed in an irrevocable trust to provide for debt service on the defeased bonds. At June 30, 2000, \$1 million of the 1976 Pension Revenue Bonds remained outstanding.

Proprietary and Fiduciary Fund Long-Term Debt

Proprietary and fiduciary fund long-term debt at June 30, 2000, was as follows (in thousands):

	Maturity	Interest Rates	Balance at June 30, 2000
Sewer Service Enterprise Fund			
Construction Loans			
	1992-2011	3.50%	\$ 4,840
	1992-2011	3.50%	699
	1993-2015	3.00%	<u>3,384</u>
			\$ 8,923
Internal Service Fund - Master Equipment Lease			
Schedule No. 1	2001-2003	5.46%	\$ 5,099
Schedule No. 2	2001-2005	5.40%	4,392
Schedule No. 3	2001-2007	5.39%	11,323
Schedule No. 4	2001-2010	5.43%	<u>7,946</u>
			\$28,760
Pension Trust Fund			
Oakland Municipal Employees' Retirement System Revenue Bonds 1976			
	2002	6.50%	\$ 1,010

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 its share of the completed project costs. The liability will be repaid, together with interest thereon, to EBMUD in equal annual installments through 2015. The main source of repayment comes from monthly sewer service charges collected from property owners within the EBMUD service area.

In April 2000, the City entered into a Master Lease Purchase Agreement for \$28,760,000 in equipment leases. The lease provide funding for the replacement of City vehicles and equipment. The four lease schedules bear interest rates of 5.39% to 5.46% and a final maturity of April 26, 2010.



Discretely Presented Component Unit - Port of Oakland

The Port of Oakland debt at June 30, 2000, was as follows (in thousands):

	Maturity	Interest Rates	Balance at June 30, 2000
Parity Bonds (a)			
1990 Revenue Bonds Series D	2003	6.125-8.00%	\$ 27,575
1992 Revenue Bonds Series E	2022	5.00-6.50%	141,130
1993 Revenue Bonds Series F	2009	2.75-5.75%	32,297
1997 Revenue Bonds Series G	2025	3.60-6.00%	83,395
1997 Revenue Bonds Series H	2015	3.60-5.50%	76,240
1997 Revenue Bonds Series I	2019	5.40-5.60%	84,820
1997 Revenue Bonds Series J	2026	5.50%	14,845
2000 Revenue Bonds Series K	2030	5.00-5.88%	<u>400,000</u>
Total Parity Bonds			<u>860,302</u>
Department of Boating and Waterways (DBW) Loans (b)			
Small Craft Harbor Revenue Bonds Series A-D	2009	4.50%	1,656
Small Craft Harbor Revenue Bonds Series 1981	2010	4.50%	1,129
Small Craft Harbor Revenue Bonds Series 1982	2019	4.50%	934
Small Craft Harbor Revenue Bonds Series 1983	2020	4.50%	352
Small Craft Harbor Revenue Bond Series 1993	2028	4.50%	6,500
1991 Marina Planning Loan	2002	4.70%	<u>34</u>
Total DBW Loans			<u>10,605</u>
GE Capital Tax Exempt Loan (c)	2005	4.89%	4,014
Mitsubishi Note	2000	9.00%	27
Taxable Commercial Paper 1998 Series D (d)	2003		80,940
Taxable Commercial Paper 1998 Series B (d)			19,480
Special Facilities Revenue Bonds 1992 Series A (e)	2019	5.00%-6.80%	48,500
Unamortized Bond Discount/Premium			<u>(9,347)</u>
TOTAL PORT OF OAKLAND LONG-TERM DEBT			<u>\$1,014,521</u>

(a) Parity Bonds

The 1990 Series D Bonds, the 1992 Series E Bonds, the 1993 Series F Bonds, and the 1997 Series G, Series H, Series I, Series J and 2000 Series K Bonds (collectively the Parity Bonds) are payable solely from and secured by a pledge of "Pledged Revenues." The 1989 Indenture and the Supplemental Trust Ninth Indenture, dated February 1, 1997 (the Ninth Supplemental Trust Indenture) define Pledged Revenues as substantially all revenues and other cash receipts of the Port, including amounts held in the Port Revenue Fund and the lesser of Oakland Portside Associate's (OPA) net revenues or \$3,300,000, but excluding amounts received from certain taxes, certain insurance proceeds and special facilities revenues. Pledged revenues do not include cash received from Passenger Facility Charges (PFC) unless projects included in a financing are determined to be PFC eligible, in which case PFCs can be pledged for debt service on the bonds. Currently the Port has not included any of these type of projects in a bond issuance. 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 as they become due and payable in each year; all payments for compliance with terms of the Indenture and Supplemental Indentures, including but not limited to required deposits to any Reserve Fund; 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, 2000, 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 outstanding bonds (as defined) under the Ninth Supplemental Trust Indenture. The 1990 Bonds, 1992 Bonds, 1993 Bonds, 1997 Bonds, and 2000 Bonds have been issued at parity. Additional bonds may be issued on a parity or subordinate basis with the outstanding 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) GE Capital Loan

The Port of Oakland entered into a tax-exempt financing agreement with GE Capital for the purchase of five 40-foot Gillig AirBART shuttle buses and fifteen 35-foot Gillig parking lot shuttle buses. The loan is for \$5,000,000 effective November 9, 1998, at the rate of 4.89% for a seven-year term. GE Capital is the lien holder on the buses' title. BART has agreed to share the costs and revenues of the AirBART shuttle service, including the debt service payments.

(d) Commercial Paper

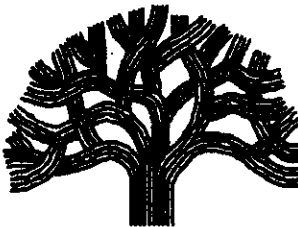
The Port Board authorized a \$300,000,000 Commercial Paper program in September 1998. The maximum maturity of the notes is 270 days and the maximum interest rate is 12%. The notes will be issued in three series: tax exempt AMT, tax exempt non-AMT and taxable. \$150,000,000 of the Notes is backed as to credit and liquidity by an irrevocable letter of credit issued jointly by Commerzbank AG and The Bank of Nova Scotia for a five-year period beginning October 14, 1998. This will allow the Port to refinance the borrowings on a long-term basis. The Port also signed a second letter of credit for an additional \$150,000,000 with Bank of America on September 1, 1999, for a three-year period ending September 16, 2002. As of June 30, 2000, the Port had \$100,420,000 outstanding under the commercial paper program.

(e) 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.

Principal and interest on the bonds when due is also collateralized by an irrevocable direct-pay letter of credit expiring July 1, 2002, issued by The Industrial Bank of Japan, Ltd., Los Angeles Agency. If the letter of credit expires or terminates without being replaced or renewed, the bonds will be subject to mandatory redemption.



CITY OF OAKLAND



Repayment Schedule

The annual requirements to amortize all long-term debt as of June 30, 2000, 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	
2001	\$ 10,970	\$ 20,301	\$ 48,836	\$ 956
2002	10,894	21,096	46,285	973
2003	10,775	21,062	45,559	953
2004	10,706	22,360	45,124	953
2005	10,649	22,425	46,435	945
Thereafter	<u>176,066</u>	<u>272,654</u>	<u>599,081</u>	<u>11,823</u>
	230,060	379,898	831,320	16,603
Less amounts representing interest and discounts	<u>(100,395)</u>	<u>(163,619)</u>	<u>(328,707)</u>	<u>(6,878)</u>
Principal due at June 30, 2000	<u>\$ 129,665</u>	<u>\$ 216,279</u>	<u>\$ 502,613</u>	<u>\$ 9,725</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	Notes Payable	Enterprise Fund Debt	Internal Service Fund Debt	Pension Trust Fund Debt	Total Primary Government	Component Unit Port of Oakland
\$ 42,122	\$ 5,741	\$ 915	\$ 5,881	\$ 545	\$ 136,267	\$ 167,572
44,437	5,893	915	5,881	224	136,598	66,227
46,884	5,780	915	5,881	309	138,118	66,701
49,461	2,148	915	4,016	—	135,683	66,673
52,182	2,381	915	4,016	—	139,948	66,666
<u>379,210</u>	<u>12,736</u>	<u>6,388</u>	<u>9,127</u>	<u>—</u>	<u>1,467,085</u>	<u>1,526,639</u>
614,296	34,679	10,963	34,802	1,078	2,153,699	1,960,478
<u>(207,016)</u>	<u>(8,739)</u>	<u>(2,040)</u>	<u>(6,042)</u>	<u>(68)</u>	<u>(823,504)</u>	<u>(945,957)</u>
<u>\$ 407,280</u>	<u>\$ 25,940</u>	<u>\$ 8,923</u>	<u>\$ 28,760</u>	<u>\$ 1,010</u>	<u>\$ 1,330,195</u>	<u>\$ 1,014,521</u>



Conduit Debt

The following long-term debt has been issued by the City on behalf of named agents of the City. The bonds do not constitute an indebtedness of the City. The bonds are payable solely from revenue sources defined in the individual bond documents, and from other monies held for the benefit of the bond holders pursuant to the bond indentures. In the opinion of City officials, these bonds 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. Accordingly, no liability has been recorded in the General Long-Term Obligations Account Group. The debt issued and outstanding at June 30, 2000, follows (in thousands):

	Authorized and Issued	Maturity	Outstanding at June 30, 2000
Housing Mortgage Programs			
Housing Revenue Bonds Series D, 1991	\$ 112,890	2010-2024	\$ 6,230
City of Oakland Insured Refunding Revenue Bonds (Children's Hospital Medical Center of Northern California), 1994 Series A	19,490	05/01/09	14,725
County of Alameda/City of Oakland Variable Rate Demand Revenue Bonds (The Old Oakland Company Project), December 1984	9,900	12/04/04	9,900
City of Oakland Variable Rate Demand Revenue Bonds (The Delger Block/Ross House Company Project), December 1984	9,500	12/04/04	9,500
County of Alameda/City of Oakland Variable Rate Demand Revenue Bonds (The Wilcox/Leimert Company Project), December 1984	9,500	12/04/04	9,500
City of Oakland Liquidity Facility Revenue Bonds (Association of Bay Area Governments), Series 1984	3,300	12/01/09	1,835
City of Oakland Health Facility Revenue Bonds (Children's Hospital Medical Center of Northern California), 1988	23,000	07/01/08	17,550
City of Oakland Insured Health Facility Revenue Bonds (East Oakland Health Center Project), Series 1990	2,500	10/01/20	2,225
City of Oakland Refunding Revenue Bonds (Oakland YMCA Project), Series 1996	8,650	06/01/10	7,150
City of Oakland Variable Economic Development Revenue Bond 1997 Series A (Allen Temple Family Life Center Project)	5,000	08/01/04	<u>4,800</u>
TOTAL			<u><u>\$ 83,415</u></u>

(11) CONTRIBUTED CAPITAL

A summary of changes in contributed capital for the year ended June 30, 2000, follows (in thousands):

	Primary Government	Component Unit
	Internal Service Funds	Port of Oakland
BALANCE AT JUNE 30, 1999	\$ 17,382	\$191,100
Grants from governmental agencies	—	3,896
Passenger facility charges	—	14,180
Depreciation of property and equipment acquired with contributed capital	—	(6,273)
BALANCE AT JUNE 30, 2000	<u>\$ 17,382</u>	<u>\$202,903</u>

(12) SELF-INSURANCE

Changes in the balances of claims liabilities for all self-insured claims for the years ended June 30, 2000 and 1999, are as follows (in thousands):

	2000	1999
Unpaid claims, beginning of fiscal year	\$79,854	\$60,581
Current year claims and changes in estimates	20,799	32,556
Claim payments	(14,103)	(13,283)
Unpaid claims, end of fiscal year	<u>\$86,550</u>	<u>\$79,854</u>

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 estimates that as of June 30, 2000, the amount of liability determined to be probable of occurrence is approximately \$31,053,000. Of this amount, claims and litigation approximating \$8,547,000 are estimated to be payable with current expendable resources and are included as accrued liabilities of the General Fund (\$7,651,000), the Capital Fund (\$220,000), and the Sewer Fund (\$676,000). The remainder of \$22,506,000 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. The City had an actuarial review of its self-insured workers' compensation program in the Fall of 1999. The following information is from the resulting report by the independent actuaries, dated October 5, 1999, and reflects the program as of June 30, 2000. The amount of workers' compensation liability determined to be probable is approximately \$55,497,000. Of this amount, approximately \$11,117,000 workers' compensation is estimated to be payable with expendable resources and is included as accrued liabilities of the general fund. The remaining amount of \$44,380,000 is included in the General Long-Term Obligations Account Group.

Discretely Presented Component Unit

Workers' Compensation

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 \$350,000 per accident. Effective February 7, 1996, the Port carries commercial insurance for claims in excess of \$350,000.

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):

	2000	1999
Workers' compensation liability at beginning of fiscal year	\$3,000	\$ 3000
Current year claims and changes in estimates	830	1,076
Claim payments	<u>(830)</u>	<u>(1,076)</u>
Workers' compensation liability at end of fiscal year	<u>\$3,000</u>	<u>\$3,000</u>

General Liability

The Port maintains general liability insurance in excess of specified deductibles. For the airport, coverage is provided in excess of \$100,000 in the aggregate up to a maximum of \$200,000,000. For the harbor area, coverage is provided in excess of \$100,000 per occurrence up to \$150,000,000. Liabilities are recorded as accrued expense when it is determined that a loss to the Port is probable and the amount is estimable.



(13) RESERVATIONS AND DESIGNATIONS OF FUND BALANCES

The components of the City's reserved and unreserved-designated fund balances at June 30, 2000, follow (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds
RESERVED			
Pension obligations	\$ —	\$ —	\$ —
Capital projects	—	19,816	—
Property held for resale	—	—	21,447
Employees' retirement systems	—	—	—
Debt service	—	—	70,382
Encumbrances	<u>3,708</u>	<u>10,844</u>	<u>—</u>
TOTAL RESERVED FUND BALANCES	<u>\$ 3,708</u>	<u>\$ 30,660</u>	<u>\$ 91,829</u>
UNRESERVED-DESIGNATED			
Capital improvement projects	\$ 1,889	\$ —	\$ —
Recycling program	7,026	—	—
Multi-purpose reserve	<u>2,196</u>	<u>—</u>	<u>—</u>
TOTAL UNRESERVED- DESIGNATED FUND BALANCES	<u>\$ 11,111</u>	<u>\$ —</u>	<u>\$ —</u>

NOTES TO FINANCIAL STATEMENTS

Capital Projects Funds	Pension Trust Funds	Total
\$ —	\$ 177,517	\$ 177,517
214,264	—	234,080
53,492	—	74,939
—	896,609	896,609
—	—	70,382
—	—	14,552
<u>\$267,756</u>	<u>\$1,074,126</u>	<u>\$1,468,079</u>
\$ —	\$ —	\$ 1,889
—	—	7,026
—	—	2,196
<u>—</u>	<u>—</u>	<u>—</u>
<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11,111</u>



(14) SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City accounts for operations which provide parks and recreation programs and sewage treatment as enterprise funds. These operations are financed by user charges or interest income. Segment information as of and for the year ended June 30, 2000, follows (in thousands):

	Parks and Recreation	Sewer Service	Total Enterprise Funds
For Year Ended June 30, 2000			
Operating revenues	\$ 516	\$ 17,927	\$ 18,443
Operating income	257	2,794	3,051
Depreciation and amortization	1	2,799	2,800
Operating transfers out	—	(659)	(659)
Interest and other non-operating revenues (expenses), net	—	(315)	(315)
Net income	257	1,820	2,077
Property and equipment - additions (deletions)	3	8,803	8,806
As of June 30, 2000			
Net working capital	\$ 411	\$ (106)	\$ 305
Total assets	660	81,371	82,031
Total equity	637	70,743	71,380
Long-term obligations and advances - Payable from operating revenues	—	8,923	8,923

Parks and Recreation

The City owns and operates two 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.

(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 Oakland-Alameda County Coliseum Complex (Coliseum Complex) pursuant to the Mark-Roos Local Bond Pooling Act of 1985. The Oakland-Alameda County Coliseum Financing Corporation (the Corporation) is reported as a blended component unit of the Authority. The Board of Directors of the Authority and the Corporation consists of two council members from the City and two members of the Board of Supervisors from the County. The Board of Directors of the Corporation consists of the City Manager and the County Administrator.

In August 1995, the Authority issued \$9,200,000 in Fixed Rate Refunding Lease Revenue Bonds and \$188,500,000 in Variable Rate Lease Revenue Bonds (collectively known as the Stadium Bonds) to satisfy certain obligations of the Authority, the City, the County, the Corporation and Oakland-Alameda County Coliseum Inc. (Coliseum Inc.), which manages the operations of the Coliseum Complex, to finance the costs of remodeling the stadium portion of the Coliseum complex as well as relocating the Raiders to the City.

The Stadium Bonds are limited obligations of the Authority, consisting primarily of base rental payments to be received by the Authority from the City and the County. Certain revenues collected from Raiders football operations consisting of 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 may be used toward meeting this liability. 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 payments from their respective General Funds. The City and the County each have covenanted to appropriate \$11 million 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 million annually in the event of default by the County.

On May 25, 2000, the Authority issued \$201,300,000 in series 2000 C and D Refunding Bonds to retire \$181,900,000 of the 1995 Variable Rate Lease Revenue Stadium Bonds (\$188,500,000 less \$6,600,000 principal payment).

On August 2, 1996, the Authority issued \$70,000,000 Series A-1 and \$70,000,000 Series A-2 Variable Rate Lease Revenue Bonds (Arena Bonds) to finance the costs of remodeling 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 Golden State 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 Agreement) among the Warriors, the City, the County, Coliseum Inc. and the Authority.



Under the original Warriors Agreements, the Arena Bonds are limited obligations of the Authority payable solely from base rental 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 \$10,000,000 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; however, the City and the County are jointly and severally liable to cover such shortfalls, which means that the City would have to pay up to \$19,000,000 annually in the event of default by the County.

The Coliseum Authority has entered into an agreement with the Oakland Coliseum Joint Venture to manage the entire Coliseum Complex beginning July 1, 1998.

On September 27, 1997, the City of Oakland, the County of Alameda, and the Oakland-Alameda County Coliseum Authority, collectively known as the "East Bay Entities", filed suit against the Oakland Raiders and A.D. Football, Inc. (collectively, "Raider Management") for breach of contract, declaratory relief and interference with prospective economic advantage. The suit asks for compensatory and punitive damages with regards to revenues lost as a result of actions by Raider Management, and for declaratory relief concerning (1) the parties' rights, duties and obligations under the Master Agreement concerning the naming rights for the Stadium, (2) whether Raider Management's claims of fraudulent inducement have merit and whether Raider Management has the right to rescind or terminate the Master Agreement, and (3) under the Visiting Team Share Agreement concerning the reimbursement of legal fees and costs. Raider management has filed a cross-complaint seeking the right to rescind the Master Agreement and seeking damages for breaches of the Master Agreement and for fraudulent inducement. In a series of decisions, the court has ruled that (1) the Raiders cannot rescind or terminate its lease; and (2) the East bay Entities do not have claims for damages. Raider Management increased their claim against the East Bay Entities for damages to \$1.1 billion related to claims of fraudulent inducement. The City is optimistic that it will prevail against Raider Management claims.

In November 1998, the Authority brought an arbitration proceeding against the Golden State Warriors to collect: (1) past due rents for use of the arena; (2) past due amounts of revenue sharing required by the License Agreement; and (3) facility use fees collected by the Warriors for the Authority. The arbitration demand also seeks damages for the Warriors breach of the License Agreement for failure to sell seat rights in the new Arena, a major source of revenue to the Authority. The arbitration was divided into two phases. In the first phase on the collection issues, on October 6, 1999, the arbitrator found that the Golden State Warriors owed in excess of \$17 million to the Authority, net of some \$720,000 in offsets granted to the Warriors. The second phase of the arbitration was decided in July 2000, when the arbitrator decided that the

NOTES TO FINANCIAL STATEMENTS

Warriors breached the License Agreement by failing to sell seat rights in the new Arena. However, the arbitrator awarded no damages to the Authority because he determined the damages could not be quantified.

In fiscal year 1997, the Authority entered an interest rate swap agreement for portions of the bonds issued to finance the Arena improvements. The interest rate swap is for \$84,000,000 of the variable rate Arena bonds at a fixed rate of 6.85%. The agreement expires on September 1, 2001. The market value of the swap at June 30, 2000, is \$56,000.

Based on the swap agreements, the Authority owes interest calculated at the fixed rates stated above to the counterparty of the swap. In return, the counterparties owe 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 counterparties. The 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. The Authority will be exposed to variable rates if the counterparties to the swaps default or if the swaps are terminated. A termination of any 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 any counterparty to these interest rate swaps, but has no off-balance sheet credit risk of accounting loss. The Authority anticipates, however, that each counterparty will be able to fully satisfy its obligations under the respective agreement.

Debt service requirements for the Coliseum debt are as follows (in thousands):

Years Ending June 30,	Stadium Debt	Arena Debt
2001	\$ 11,803	\$ 10,521
2002	12,816	10,517
2003	12,810	10,589
2004	12,903	10,649
2005	12,876	10,597
2006-2010	61,631	53,522
2011-2015	62,838	54,237
2016-2020	65,274	54,862
2021-2025	68,931	56,258
2026 on	—	11,497
Less interest	<u>(115,836)</u>	<u>(148,648)</u>
Total	<u>\$206,046</u>	<u>\$134,601</u>

Complete financial statements for the Authority can be obtained from the County Auditor-Controller's office at 1221 Oak Street, Oakland, CA 94612.



The City has a 50% equity interest in the Joint Venture. The City's portion of net liability is calculated from the unaudited June 30, 2000, financial activity of the Authority as follows:

	<u>Unaudited</u>
Total Assets	\$707,864
Less: Amounts to be provided for retirement of long-term debt	<u>292,914</u>
Adjusted total assets	414,950
Less: Total liabilities	<u>352,585</u>
Net asset	<u>\$ 62,365</u>
50% interest	<u>\$ 31,183</u>

The City's share of cumulative net equity in the operation of the Authority was \$31,183,000 as of June 30, 2000, the date of the latest available unaudited financial statements. This amount is included in the General Fixed Asset Account Group. Under the joint exercise of power agreement which formed the Authority, the City is responsible for funding up to 50% of the Authority's operating costs, to the extent such funding is necessary. During the year ended June 30, 2000, the City made contributions of approximately \$15,000,000 to fund its share of operating deficits, as well as its share of the final construction costs of the Arena.

The Authority has anticipated a deficit for repayment of its Stadium bonds, such that the City and County may have to contribute to base rental payments. Of the \$20.5 million appropriated in the General Fund as part of the above agreements, it is estimated that the City may have to contribute \$13,000,000 for the 2000-01 fiscal year. There are many uncertainties in the estimation of revenues for the Authority beyond one year into the future, therefore the City has established a contingent liability to fund the Authority deficit in the General Long-Term Obligations Account Group at an amount equal to its contingent share (50%) of the outstanding Stadium bonds in the amount of \$103,023,000. The City has not established a contingent liability for the Arena debt because management is of the opinion that revenues from the Arena, including payments from the Warriors, will be sufficient to cover the debt payments.

(16) PENSION 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.

Member and employer contributions are recognized in the period in which the contributions are due, and benefits and refunds are recognized when payable.

NOTES TO FINANCIAL STATEMENTS

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 approximate the value of future principal and interest payments 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.

Investments representing 5% or more of the fair value of the OMERS net assets for pension benefits as of June 30, 2000, are as follows:

Stocks	Shares	Fair Value
American Express	10,500	\$ 547,313
American Telephone and Telegraph Company	10,000	316,250
Bristol Myers Squibb	9,000	524,250
Chase Manhattan Corporation	12,750	587,297
Dean Foods	8,000	253,500
Duke Energy Corporation	12,000	676,500
Emerson Electric Company	6,000	362,250
Ford Motor Company	6,000	258,000
Franklin Resources, Inc.	8,000	243,000
Hibernia Corporation	25,000	271,875
Internal Business Machine	3,000	328,688
Lucent Technologies	7,000	414,750
Marsh & McLennan Companies, Inc.	6,000	626,625
Penny, JC	28,000	516,250
Phillips Petroleum Company	8,000	405,500
SBC Communications	13,000	562,250
Shared Medical Services	5,000	364,688
Sherwin-Williams Company	12,000	254,250
Southern Company Electric	20,000	466,250
Varian Medical Systems	10,000	391,250
Varian Semiconductor	6,000	376,875
Worldcom, Inc. GA New	5,000	<u>229,375</u>
		8,976,986
Bonds		
U.S. Treasury Notes	3,000	<u>295,395</u>
Total		<u>\$9,272,381</u>

No investments in any one non-federal organization represented 5% or more of PFRS net assets for pension benefits as of June 30, 2000.



Complete financial statements of the Plans can be obtained from:

William E. Noland, Controller
City of Oakland
150 Frank H. Ogawa Plaza, Suite 6353
Oakland, CA 94612

	PFRS	OMERS	PERS
Type of plan	Single employer	Single employer	Agent multi-employer
Reporting entity	City	City	State
Last complete actuarial study	July 1, 1998	July 1, 1999	June 30, 1999

Significant actuarial assumptions

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the City's actuarial accrued liability.

	PFRS	OMERS	PERS
General wage increase:			
Inflation	3.5%	4.0%	3.5%
Post-retirement benefit increase	4.0%	3.0%	3.5%
Investment return	8.0%	8.0%	8.3%

	PFRS	OMERS	PERS	Total
Employees covered as of June 30, 2000				
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not currently receiving them	1,495	151	1,809	3,455
Current employees—vested	161	2	2,949	3,112

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

NOTES TO FINANCIAL STATEMENTS

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 contributes, at a minimum, such amounts that are necessary, determined on an actuarial basis, to provide assets sufficient to meet benefits to be paid to plan members. The City is required to fund all liabilities for future benefits for all members by June 30, 2026. In order to do so, the City makes contributions at rates established by consulting actuaries based upon plan valuations using various assumptions as to salary progression, inflation, and rate of return on investments. The City's contributions are based on a level percentage of all uniformed employees' compensation. Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation. Contributions to the California PERS are subtracted and the difference is contributed to the Plan. The City contributed \$22,868,000 to the Plan during the fiscal year ended June 30, 1997, at an actuarially determined contribution rate of 60.49%. The City issued pension obligation bonds in February 1997 to fund the Plan through 2011. Bond proceeds in the amount of \$417,173,300 were contributed in fiscal 1997 and, as a result, no employer contributions are required through fiscal year 2011.

For the year ended June 30, 2000, employee contributions to PFRS totaling \$904,000 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. The actuarial calculations are based on the aggregate cost method and the asset valuation method is on the market value basis. The aggregate actuarial cost method does not identify and separately amortize unfunded actuarial liabilities.

The plan is currently involved in class action litigation seeking payment of additional benefits to retired firefighters. If petitioners prevail, management estimates that an award could range between \$5,400,000 and \$27,300,000. In the City's opinion, at this point, the ultimate resolution of this litigation will not have a significant impact on the financial statements.



Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contributions (\$ in millions)	Percentage (%) Contributed
1998	—*	—
1999	—*	—
2000	—*	—

*Annual contribution requirement, subsequent to receipt of pension obligation bond proceeds, is zero through the year 2011.

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 5 years of service and reach the age of 60, 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 \$5,766,000 were made during 2000 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 years ended June 30, 2000, 1999 and 1998, the City, in accordance with actuarially determined contribution requirements, was not required to make contributions to OMERS. The actuarial calculations are computed using the projected unit credit cost method and the asset valuation is on a market value basis. Under this method, the normal cost is the actuarial present value of a member's benefit divided by the member's expected future working lifetime. The funding of the unfunded actuarial accrued liability is based on a level percentage of payroll over a period ending July 1, 2020, as required by the City Charter. The most recent actuarial valuation determined the funding status to be 190%.

California Public Employees Retirement System

Plan Description

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

Funding Policy

Participants are required to contribute 7% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 3.57% for non-safety employees and 6.2564% for police and fire employees, of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by PERS.

Annual Pension Cost

For 1999-00, the City's annual pension cost of \$23,591,088 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2000, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of the unfunded actuarial liability ends June 30, 2011.

**Three-Year Trend Information Information for PERS
(in millions)**

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1998	\$14.6	100%	\$ 0
1999	19.4	100	0
2000	23.6	100	0

(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 Combined Schedule of Revenues and Expenditures - Budget and Actual on a Budgetary Basis" has been prepared on the budgetary basis, which is different from GAAP.

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (GAAP). The results of operations are presented in



the budget to actual comparison statement in accordance with the budgetary process (Budgetary Basis) to provide a meaningful comparison with the budget.

The main difference between Budgetary Basis “actual” and GAAP basis is a timing difference:

In March 1997, the City entered into a debt service deposit agreement with a third party whereby the City received approximately \$8.1 million in exchange for forgoing its right to receive investment earnings on the amounts deposited with the trustee in advance of the date that the related debt was due to the bondholders. The compensation to the City was recorded as revenue in fiscal 1997 when received on a budgetary basis. On a GAAP basis, the revenue was deferred and is being recognized over the 14-year life of the agreement. Amortization for the year ended June 30, 2000, was \$654,000.

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

	General Fund
Excess of revenues over expenditures - GAAP basis	\$ 36,319
Amortization of debt service deposit agreement	<u>(654)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	<u>\$ 35,665</u>

The General Fund Balance on a Budgetary Basis reconciled to that on a GAAP basis as of June 30, 2000, is as follows (in thousands):

	General Fund
Fund Balance, June 30, 2000 - GAAP Basis	\$ 32,234
Prior year debt service deposit agreement recorded on Budgetary Basis in the year of receipt	<u>6,252</u>
Fund Balance, June 30, 2000 - Budgetary Basis	<u>\$ 38,486</u>

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General Fund Budgetary Basis Fund Balance at June 30, 2000, is composed of the following (in thousands):

	General Fund
Reserved	\$ 3,708
Unreserved, designated for:	
Capital improvement projects	1,889
Recycling program	7,026
Other	<u>2,196</u>
Total designated	11,111
Unreserved, undesignated	<u>23,667</u>
Fund Balance, June 30, 2000 - Budgetary Basis	<u>\$ 38,486</u>

(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. Approximately \$266,868 was paid on behalf of 1,809 retirees under this program for the year ended June 30, 2000.

(19) EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2000, no funds reported excess expenditures over appropriations.

(20) COMMITMENTS AND CONTINGENT LIABILITIES

Grants and Subventions

Receipts from federal and state financial assistance programs are subject to review and 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 review and audits.

Due to the nature of the various grant agreements and of the City's grants billing process, certain amounts included in grants receivables have not yet been billed to the granting agencies. Management believes that any amounts ultimately uncollectible on such unbilled grants receivable will not be material to the financial statements.



Construction Commitments

Primary Government

The City has committed funding in the amount of \$136,578,000 to a number of capital improvement projects.

Discretely Presented Component Unit

The Port has developed a \$1.4 billion five-year capital improvement program which forms the basis of a long-term strategic financial plan. The most significant projects include the development and construction of new container terminals, 50-foot deepening of the channel, a new airport terminal, and a new airport parking garage and surface parking lots.

The Port participated in the Corps of Engineers' Congressionally authorized project to dredge the inner and outer harbor channel to a depth of 42 feet. The actual dredging was completed in fiscal year 1998 at a cost to the Port of \$45,840,000. The Port has spent \$5,325,000 for landfill closure and a replacement of a golf course used in connection with the dredging project and estimates an additional cost of \$15,656,000.

As of June 30, 2000, the Port has firm commitments for the acquisition and construction of assets as follows (in thousands):

Maritime	\$216,648
Aviation	135,314
Commercial real estate	<u>2,859</u>
	<u>\$354,821</u>

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, September 11, 1995, and September 16, 1996, whereby DBW agreed to make a construction loan to the Port in the amount of \$7,176,000. 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. As of June 30, 2000, the Port has outstanding obligations of \$6,500,000 pursuant to this loan. Repayment of the loan will begin on August 1, 2001.

Other Contingencies

Primary Government

As of June 30, 2000, the Agency has entered into contractual commitments of approximately \$5,046,751 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, 2000, the Agency was committed to fund \$3,395,193 in loans and had issued \$1,648,600 in 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 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 in Embarcadero Cove. In October 1990, the Port and a former tenant agreed to share equally in the remediation costs. During 1992, the Port submitted a feasibility study to the Department and received a Remedial Action Plan during fiscal 1993 which included an apportionment of liability for the costs of hazardous substance removal and remedial actions. As of June 30, 2000, the Port had accrued a liability of \$820,000 representing its expected 50% share of the total estimated investigation, monitoring and remediation costs related to the site.

The Port has certain legal obligations to modify or remove various underground storage tanks. As of June 30, 2000, a liability of \$750,000 has been recorded representing the expected remaining costs to modify or remove designated Port-owned underground storage tanks.

On August 9, 1994, the Board authorized a settlement for a lawsuit involving the 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. Construction was completed and title to the 72 acres of land was transferred to the East Bay Regional Park District (EBRPD). \$255,000 of funds remaining was turned over to the EBRPD to fund monitoring and maintenance of wetlands. As of June 30, 2000, the Port has accrued \$130,000 which will be transferred to an escrow account upon instructions from the environmental plaintiffs. The transfer to the escrow will fulfill all of the Port's obligations under the Consent Decree.

In addition to those noted above, the Port has accrued approximately \$12,442,000 as of June 30, 2000, for environmental clean-up and remediation at various identified sites based on management's best estimates. The nature of all remediation activities that may be required on these sites are currently unknown. The extent of the clean up, therefore, has not yet been fully determined.

The Port's management believes the total environmental accrual provides for all significant hazardous waste sites that are currently considered probable to require remediation and for which the potential liability can be estimated.

As future development planning is undertaken, the Port evaluates its overall provision for environmental liabilities in conjunction with the nature of future activities contemplated for



each site and accrues for a liability if necessary. It is, therefore, reasonably possible that in future reporting periods, current estimates of environmental liabilities could materially change causing additional expense to the Port.

(21) INDIVIDUAL FUND DEFICITS

As of June 30, 2000, the following funds reported deficits in fund balances and/or retained earnings (in thousands):

Internal Service	
Facilities	\$ 4,073
Central Stores	\$ 2,624

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

Expendable Trust	
Oakland Redevelopment Agency Projects	\$ 3,476

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

(22) SUBSEQUENT EVENT

Tax and Revenue Anticipation Notes

On July 25, 2000, the City issued tax and revenue anticipation notes payable of \$65,000,000. The notes were issued to satisfy General Fund obligations and carried an effective interest rate of approximately 4.001%. Principal and interest are due and payable on July 24, 2001.

REQUIRED SUPPLEMENTAL SCHEDULES**OAKLAND MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM****SCHEDULE OF FUNDING PROGRESS****(unaudited)***(In Millions)*

Actuarial Valuation Date July 1,	Actuarial Value (\$) of Plan Assets⁽¹⁾ (a)	Accrued Actuarial Liability (\$) (AAL) (b)	Funded Ratio (%) (a/b)	Actuarial Surplus (AS) (\$) (b-a)	Covered Payroll (\$) (c)	AS as a Percentage (%) of Covered Payroll [(b-a)/c]
1994	16.2	12.0	135	(4.2)	.119	(3529)
1995 ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A
1996	16.9	11.8	143	(5.1)	.124	(4113)
1997 ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A
1998	18.8	10.8	174	(8.0)	.137	(5839)
1999	18.2	9.6	190	(8.6)	.150	(5734)

⁽¹⁾At market.⁽²⁾Actuarial valuation conducted biennially.



POLICE AND FIRE RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
 (unaudited)
 (In Millions)

Actuarial Valuation Date July 1,	Actuarial Value (\$) of Plan Assets⁽¹⁾ (a)	Accrued Actuarial Liability (\$) (AAL) (b)	Funded Ratio (%) (a/b)	Unfunded/ (Overfunded) AAL (\$) (UAAL) (b-a)	Covered Payroll (\$) (c)	UAAL as a Percentage (%) of Covered [(b-a)/c]
1994	304.3	947.4	32.1	643.1	20.1	3200
1995 ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A
1996	359.2	983.2	36.5	624.0	19.6	3184
1997 ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A
1998	861.4	805.5	106.9	(55.9)	19.0	(294.2)
1999 ⁽²⁾	N/A	N/A	N/A	N/A	N/A	N/A

⁽¹⁾At market.

⁽²⁾Actuarial valuation conducted biennially.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of provisions of the Trust Agreement and the Second 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 Second Supplemental Trust Agreement for the complete terms thereof. Copies of the Trust Agreement and the Second Supplemental Trust Agreement may be obtained by contacting the Trustee. As used in this APPENDIX C, the "City of Oakland, Taxable Pension Obligation Bonds, Series 2001" are referred to as the "Series 2001 Bonds. The Series 1997 Bonds, the Series 2001 Bonds and any Additional Bonds are referred to collectively as "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 Second 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. The *"Accreted Value"* with respect to the Series 2001 Bonds as of certain dates is set forth in Exhibit B to the Second Supplemental Trust Agreement and in Appendix H to this Official Statement, and shall be calculated with straight-line interpolation between the dates listed therein. The Accreted Value of the Series 2001 Bonds shall be determined in accordance with the provisions of the Second Supplemental Trust Agreement.

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

"ATOP Account" means the Automated Tender Offer Program Account established by the City through the Information Agent pursuant to the Invitation to Tender Bonds.

"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 with respect to the Denominational Amount with respect to each maturity of the Series 2001 Bonds.

"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 2001" are referred to as the "Series 2001 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 financial guaranty insurance policy issued by the Series 2001 Bond Insurer to the City and held by the Trustee to secure payment of the Series 2001 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 2001 Bonds.

"Cede & Co." shall mean Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Series 2001 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 2001 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 2001 Bonds, *"Costs of Issuance"* means all costs and expenses incurred by the City in connection with the issuance of the Series 2001 Bonds, including, but not limited to, costs and expenses of preparation, printing and copying of the preliminary official statement and other documents and agreements, costs associated with the solicitation and tender of any Series 1997 Bonds, the preparation of the Series 2001 Bonds, bond insurance premium, underwriters' compensation, 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.

"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.

"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"* means, with respect to the Series 2001 Bonds, the initial dollar amount in which each maturity of the Series 2001 Bonds are denominated in accordance with the terms of the Second Supplemental Trust Agreement.

“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.

“Escrow Agent” means The Chase Manhattan Bank, acting as Escrow Agent pursuant to the Escrow Agreement.

“Escrow Agreement” means the Escrow Agreement dated as of September 1, 2001 between the City and the Escrow Agent, providing for the defeasance of a portion of the Series 1997 Bonds.

“Event of Default” shall mean any occurrence or event specified in the Trust Agreement.

“First Supplemental Trust Agreement” means the First Supplemental Trust dated as of February 1, 1997 between the Trustee and the City, providing for the issuance 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 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 Agent” means Bondholder Communications Group, Inc., acting as Information Agent to the City in connection with the purchase of a portion of the Series 1997 Bonds.

“Information Services” means: (1) Financial Information, Inc.’s “Daily Called Bond Service”; (2) Interactive Data Corporation’s Bond Service; (3) Kenny Information Service’s “Called Bond Service”; (4) Moody’s “Municipal and Government Called Bond Service”; or (3) Standard & Poor’s “Called Bond Record.”

"Invitation to Tender Bonds" means the City's Invitation to Tender Bonds for Cash dated August 31, 2001, as amended by Amendment No. 1 dated September 17, 2000 relating to the tender for purchase of the Series 1997 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.

"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 Capital Appreciation Bonds at the maturity thereof. *"Maturity Amount"* means, with respect to the Series 2001 Bonds, the amount of the Accreted Value payable with respect to each maturity of the Series 2001 Bonds at their respective maturity date.

"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 Second 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 2001 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 States 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 (GMNA 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 debentures
U.S. Public Housing Notes and Bonds -- 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 US. 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 Mac")
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, or AA-m, or AA-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. Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to MBIA.
- 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. Repurchase Agreements must 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, market-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.

“PFRS Pension Obligation Bond Law” means Chapter 4.44 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” means the fund of such designation created pursuant to the First Supplemental Trust Agreement and the Second Supplemental Trust Agreement.

“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.

“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 2001 Bonds, the December 1 for each December 15 Maturity Date (whether or not a Business Day).

“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 Second 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

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 applicable to the Series 2001 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.

“Second Supplemental Trust Agreement” means the Second Supplemental Trust Agreement dated as of September 1, 2001 between the City and the Trustee and which sets forth the terms of the Series 2001 Bonds.

“Securities Depositories” means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax (616) 227-4039 or 4190; or, in accordance with then current guidelines of the Securities and Exchange Commission, and such other securities depositories as the City may designate in a certificate of the City delivered to the Trustee.

“Series 2001 Bonds” means the \$195,636,449.10 original aggregate Denominational Amount of Bonds issued under the Trust Agreement and the Second Supplemental Trust Agreement and designated as “City of Oakland, Taxable Pension Obligation Bonds, Series 2001.”

“Series 2001 Bond Insurer” means MBIA Insurance Corporation and any successor thereto.

“Series 2001 Costs of Issuance Fund” means the Costs of Issuance Fund designated by such name created in the Second Supplemental Trust Agreement and into which money is to be deposited to pay Costs of Issuance with respect to the issuance of the Series 2001 Bonds.

“Series 2001 Debt Service Fund” means the Debt Service Fund designated by such name created in the Second Supplemental Trust Agreement and into which money is to be deposited to pay the Maturity Amount of the Series 2001 Bonds.

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

“Serial Bonds” 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.

"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 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 any 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.

COVENANT OF PAYMENT AND GRANTING CLAUSE; SECURITY FOR THE 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 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 (exclusive of investment earnings thereon) 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 the Trust Agreement or 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 2001 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 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 2001 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 Trust Agreement to pay from any legally available source of revenues of the City, including but not limited to the Tax Override Revenues, as and to the extent provided in the Trust Agreement, all amounts due and owing with respect to the Series 2001 Bonds issued under the Second 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 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 and to the extent therein provided. There shall inure to the benefit of the 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 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.

THE BONDS

Issuance of Bonds. Bonds may be used 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.

The Series 2001 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 Master Trust Agreement and in accordance with the terms of the Trust Agreement, on a parity with the Outstanding Series 1997 Bonds. The City agrees to pay from any legally available source of revenues of the City, including but not limited to the Tax Override Revenues, as and to the extent therein provided, all amounts due and owing with respect to the Series 2001 Bonds issued under the Second Supplemental Trust Agreement according to the provisions of such agreement, including the Maturity Amount thereof, and on a parity with the Outstanding Series 1997 Bonds. There shall inure to the benefit of the Series 2001 Bonds the City's pledge, assignment and grant to the Trustee set forth in the Covenant of Payment and Granting Clauses of the Master 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 and to the extent provided in the Trust Agreement, and on a parity with the Outstanding Series 1997 Bonds. There shall inure to the benefit of the Series 2001 Bonds, on a parity with the Outstanding 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 Master 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 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 Second Supplemental Trust Agreement, for the equal and proportionate benefit and security of all Series 2001 Bonds and Series 1997 Bonds and any Additional Bonds, in pari passu and without preference of any of such Bonds over any other Bonds.

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.

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.

The Series 2001 Bonds will be dated their date of delivery and will accrete in value from such date, compounded on June 15 and December 15 of each year (the "compounding dates") to their respective maturity dates. The Accreted Value of Series 2001 Bonds shall be determined by straight-line interpolation between such compounding dates. Ownership interests in the Series 2001 Bonds may be purchased in book-entry form only in Denominational Amounts and the Accreted Value represented by each such Series 2001 Bond on the maturity dates thereof (the "Maturity Amount") shall be \$5,000 or any integral multiple thereof. The aggregate amount of Series 2001 Bonds maturing on any maturity date shall be as set forth on Exhibit B of the Second Supplemental Trust Agreement. The Accreted Value of the Series 2001 Bonds as of any compounding date shall be computed on the basis of a 360-day year comprised of twelve 30-day months. The Series 2001 Bonds shall mature on December 15 of each of the years set forth on Exhibit B of the Second Supplemental Trust Agreement at the Maturity Amounts set forth therein. No payments shall be made with respect to the Series 2001 Bonds prior to their respective maturity dates. The Maturity Amount will be paid to the person in whose name each Series 2001 Bond is registered at the close of business on the Record Date for such payment. The Record Date shall be the December 1 preceding each December 15 Maturity Date (whether or not a Business Day).

If the Maturity Amount of a Series 2001 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 accrete value at the same rate after such default as on the day before the default occurred.

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 nomination 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 2001 Bonds which are delivered to the Registrar for exchange may be exchanged for an equal total Denominational Amount of Series 2001 Bonds of the same maturity date.

The Registrar will not, however, be required to transfer or exchange any such Series 2001 Bond during the period established by the Registrar for selection of Series 2001 Bonds for redemption or any Series 2001 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, 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 aspects 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 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 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 2001 BONDS

The Series 2001 Bonds shall not be subject to redemption prior to their maturity.

PAYMENTS AND FUNDS

Bonds Payable Out of Payments 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 create 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 2001 BONDS AND APPLICATION THEREOF

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

- (a) The City of Oakland, Taxable Pension Obligation Bonds, Series 2001 Debt Service Fund;
- (b) The City of Oakland, Taxable Pension Obligation Bonds, Series 2001 Costs of Issuance Fund; and
- (c) The City of Oakland, Taxable Pension Obligation Bonds, Series 2001 Bond Proceeds Fund.

Application of Proceeds and Other Funds and Securities. The proceeds of the sale of the Series 2001 Bonds net of the underwriters' discount received by the Trustee shall be deposited by the Trustee in the Series 2001 Bond Proceeds Fund and then portions thereof shall be: (1) transferred to the Escrow Agent for deposit in the Escrow Fund established under the Escrow Agreement; (2) transferred to DTC for deposit in the ATOP Account; and (3) deposited in the Series 2001 Costs of Issuance Fund.

City Transfers of Annual Debt Service; Series 2001 Debt Service Fund. The City shall deposit with the Trustee on or before August 1, of each year, commencing August 1, 2011, an aggregate amount from its legally available revenues and such amount of the Tax Override Revenues held in the Tax Override Revenues Account of the City as is necessary (when added together with other monies of the City), to pay the Maturity Amount of any Series 2001 Bonds maturing on the next December 15 thereafter; provided, however, that Tax Override Revenues shall be deposited by the Trustee in the Pledge Revenue Account and shall be applied to pay the Maturity Amount of the Bonds, including the Series 2001 Bonds, only as and to the extent due and payable. 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 pursuant to the Trust Agreement.

The Trustee shall deposit into the Series 2001 Debt Service Fund the amounts received from the City, as provided in the Second Supplemental Trust Agreement, to be used to pay the Accreted Value of the Series 2001 Bonds maturing on the next December 15 thereafter. Earnings on the Series 2001 Debt Service Fund shall be withdrawn and paid to, or otherwise applied in accordance with the written direction of, the City unless an Event of Default exists under the Trust Agreement, in which event the earnings shall be retained in such Fund.

The Series 2001 Debt Service Fund shall be invested and reinvested as directs by an Authorized City Representative in Permitted Investments.

Tax Override Revenues Account; Pledged Revenue Account and Application of Pledged Revenues. Until such time as no Series 2001 Bonds remain Outstanding under the Trust Agreement, all Tax Override Revenues, as and when collected by the City shall be deposited in the Tax Override Revenues Account of the City as provided in the First Supplemental Trust Agreement and shall be applied solely as provided in the Trust Agreement, the First Supplemental Trust Agreement, the Second Supplemental Trust Agreement, and any supplemental trust

agreement providing for the issuance of Additional Bonds or Refunding Bonds. As provided in the First Supplemental Trust Agreement, the City shall transfer, not later than August 1 of each Fiscal Year in which the payment of the Maturity Amount on any Series 2001 Bond shall be due and payable, such amount of the Tax Override Revenues, which together with other moneys of the City, shall be sufficient to pay the Maturity Amount on all Series 2001 Bonds maturing in said Fiscal Year.

The Trustee is directed to take such actions as are necessary to apply amounts of Pledged Revenues credited to the Pledged Revenue Account to the payment of the Maturity Amount of the Series 2001 Bonds in accordance with the Trust Agreement.

Notwithstanding the provisions of the Trust Agreement, nothing in the Trust Agreement shall preclude the City from making the payments described 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. 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.

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 times 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 Causes 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 say 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 effort 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 Revenue. 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 Second 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 2001 Bonds (including persons holding Series 2001 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 officer, 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 is 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, and subject to the right of the Series 2001 Bond Insurer to act upon behalf of the Holders of the Series 2001 Bonds, 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 and subject to the right of the Series 2001 Bond Insurer to act upon behalf of the Holders of the Series 2001 Bonds, 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; or

(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 not requiring consent of Bondholders and any Supplemental Trust Agreement entered into pursuant to the following paragraph, subject to the terms and provisions contained in the Trust Agreement and not otherwise and subject to the right of the Series 2001 Bond Insurer to consent upon behalf of the Holders of the Series 2001 Bonds, 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 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 the following paragraph, 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 not requiring consent of Bondholders, 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 not requiring consent of Bondholders, 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 provisions of the Trust Agreement which permit delivery of a Supplemental Trust Agreement without consent of Bondholders is not applicable, then the provisions of this paragraph rather than the paragraph above shall control and, subject to the terms and provisions contained in this paragraph 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 (and subject to the right of the Series 2001 Bond Insurer to consent upon behalf of Holders of the Series 2001 Bonds) 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 not requiring consent of Bondholders, 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 requiring consent of Bondholders, the City shall cause notice of the proposed execution of the Supplemental Trust Agreement to be given by mail to all Bondholders or, under the immediately preceding paragraph, 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.

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 2001 BOND INSURER AND BOND INSURANCE POLICY

The provisions of the Second Supplemental Trust Agreement relating to the Series 2001 Bond Insurer shall be effective only for so long as the Series 2001 Bonds are outstanding.

The Series 2001 Bond Insurer may consent, on behalf of the Holders of the Series 2001 Bonds, to the amendment of any provision of the Second Supplemental Trust Agreement or the Master Trust Agreement affecting the Series 2001 Bonds, without the consent of or notice to the owners of the Series 2001 Bonds, so long as the Series 2001 Bond Insurer is not in default under the Bond Insurance Policy. The Series 2001 Bond Insurer may not consent on behalf of the Holders of the Series 2001 Bonds to any amendment or modification of the Master Trust Agreement or the Second Supplemental Trust Agreement which, pursuant to the provisions of Article X of the Master Trust Agreement, requires the consent of all of the Holders of the Series 2001 Bonds then Outstanding.

So long as the payment of any Series 2001 Bonds are insured by the Series 2001 Bond Insurer, anything in the Trust Agreement to the contrary notwithstanding, the Series 2001 Bond Insurer shall be entitled to exercise, control and direct the enforcement of all rights and remedies granted to the Bondholders of the Series 2001 Bonds (or to the Trustee for the benefit of the Bondholders of the Series 2001 Bonds) under the Trust Agreement as if (and to the extent that) the Series 2001 Bond Insurer were the Bondholder of all of the Series 2001 Bonds then outstanding. Nothing in the preceding sentence shall be construed to grant rights to the Series 2001 Bond Insurer which the Insurer would not have if it were not the Bondholder of all the Series 2001 Bonds.

In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the Series 2001 Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Series 2001 Bonds due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the Series 2001 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 2001 Bonds as follows: (A) if and to the extent there is a deficiency, in amounts required to pay interest on the Series 2001 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 2001 Bond Insurer as agent for such Owners in any legal proceeding related to the payment of such interest and as assignment to the Series 2001 Bond Insurer of the claims for interest to which such deficiency relates and which are paid by the Series 2001 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 2001 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 2001 Bond Insurer as agent for such Owner in any legal proceeding relating to the payment of such principal and an assignment to the Series 2001 Bond Insurer of any of the Series 2001 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.

APPENDIX D

PROPOSED FORM OF CO-BOND COUNSEL OPINION

[Date of Closing]

City of Oakland, California
150 Frank S. Ogawa Plaza, 5th Floor
Oakland, California

Re: \$195,636,449.10, City of Oakland, California Taxable Pension Obligation Bonds, Series 2001

Ladies and Gentlemen

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 \$195,636,449.10, aggregate principal amount of Taxable Pension Obligation Bonds, Series 2001 (the "Series 2001 Bonds"). The Series 2001 Bonds have been issued pursuant to Section 2619 of the City Charter of the City, as amended, Ordinance No. 11851, passed by the Council of the City on January 23, 1996 and now codified as Chapter 4.44 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"); authorizing resolutions of the Council adopted on July 24, 2001 and September 18, 2001; a Master Trust Agreement dated as of February 1, 1997 (the "Master Trust Agreement"), by and between the City and The Chase Manhattan Bank, as successor trustee to Texas Commerce Bank National Association, Houston, Texas, as trustee (the "Trustee"), a First Supplemental Trust Agreement (the "First Supplemental Trust Agreement") dated as of February 1, 1997 and a Second Supplemental Trust Agreement (the "Second Supplemental Trust Agreement") dated as of September 1, 2001, each by and between the City and the Trustee, supplementing and amending the Master Trust Agreement (collectively, the Master Trust Agreement, the First Supplemental Trust Agreement and the Second Supplemental Trust Agreement being referred to herein collectively as the "Trust Agreement").

The Series 2001 Bonds are issued to defease a portion of the outstanding Series 1997 Bonds, to pay the cash tender costs of purchasing a portion of the outstanding Series 1997 Bonds, and to pay costs and expenses related to the issuance of the Series 2001 Bonds. Capitalized terms used herein and not defined shall have the meanings given such terms in the Trust Agreement.

The Series 2001 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 including, but not limited to, the Tax Override Revenues levied and collected by the City within each fiscal year (the "Pledged Revenues"). The City reserves the right to issue additional bonds secured by the Pledged Revenues on a parity with the Series 2001 Bonds, as stated in the Trust Agreement. In addition, the City has the right to incur additional debt and liabilities payable from any legally available source, which right is not restricted by the Trust Agreement or the Series 2001 Bonds. The Series 2001 Bonds are issued as Additional Bonds on a parity with the City's Taxable Pension Obligation Bonds, Series 1997, Subseries A and Subseries B (collectively, the "Series 1997 Bonds").

We have also examined originals, or copies authenticated or otherwise identified to our satisfaction, of such other agreements, documents, opinions 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 Second Supplemental Trust Agreement, to issue the Series 2001 Bonds, to use the proceeds from the sale thereof for the purposes stated in the Second Supplemental Trust Agreement, to pledge the Pledged Revenues to the payment of the Series 2001 Bonds and to carry out its obligations under the Second Supplemental Trust Agreement.

(2) The Second Supplemental Trust Agreement has been duly authorized and approved by the City in accordance with law and constitutes the legal, valid and binding obligation of the City enforceable in accordance with its terms.

(3) The Series 2001 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 2001 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 2001 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 2001 Bonds are secured by a pledge of the Pledged Revenues, on a parity with the Series 1997 Bonds, 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 2001 Bonds in accordance with, and subject to the terms of, the Trust Agreement.

(5) We are of the opinion that interest on the Series 2001 Bonds 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 2001 Bonds. The ownership of the Series 2001 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 2001 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.

We have acted in this transaction as Co-Bond Counsel to the City. This opinion is issued to you as the addressee solely for your benefit in connection with the initial issuance and delivery of the Series 2001 Bonds on the date hereof. No persons other than you may rely upon this letter without our express written consent. This opinion may not be utilized by you for any other purpose and may not be quoted by you without our express written consent. This opinion speaks only as of its date and is limited to the opinions expressly stated herein. We assume no obligation to review or supplement this opinion subsequent to its date, whether by reason of a change in law, legislative or regulatory action, judicial decision or for any other reason.

Very truly yours,

Very truly yours,

APPENDIX E

FORM OF BOND INSURANCE POLICY



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-cancelable 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

SPECIMEN

Assistant Secretary

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed by the **CITY OF OAKLAND, CALIFORNIA** (the "City") in favor of **THE CHASE MANHATTAN BANK**, as trustee, in connection with the issuance of \$195,636,449.10, City of Oakland, Taxable Pension Obligation Bonds, Series 2001 (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Council of the City on September 18, 2001 (the "Authorizing Resolution"), a Master Trust Agreement dated as of February 1, 1997 and a Second Supplemental Trust Agreement dated as of September 1, 2001 (collectively, the "Trust Agreement"), each 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. As of the date of delivery of this Disclosure Certificate, no Dissemination Agent has been designated by the City hereunder.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean the repositories designated by the Securities and Exchange Commission from time to time for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at www.sec.gov/consumer/nrmsir.htm.

"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 2002 for the fiscal year ended June 30, 2001):

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, substantially in the form of the Notice set forth in Exhibit ^ A hereof.

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.

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, this Certificate is given this ____ day of October, 2001.

CITY OF OAKLAND, CALIFORNIA

By: _____
City Manager

THE CHASE MANHATTAN BANK

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: **THE CITY OF OAKLAND, CALIFORNIA**

Name of Bond Issue: City of Oakland, California, Taxable Pension Obligation Bonds, Series 2001 (the "Series 2001 Bonds")

Date of Delivery: _____, 2001.

NOTICE IS HEREBY GIVEN that the City of Oakland, California (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Second Supplemental Trust Agreement dated as of September 1, 2001 relating to the Bonds. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF OAKLAND, CALIFORNIA

By: _____
Authorized Representative

APPENDIX G

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in this Appendix G concerning The Depository Trust Company, New York, New York ("DTC") and DTC's book-entry system has been obtained from DTC and the City takes no responsibility for the accuracy thereof. The City cannot and does not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (all as defined below): (a) payments of Accreted Value of the Series 2001 Bonds; (b) confirmations of ownership interest in the Series 2001 Bonds; or (c) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2001 Bonds, or that they will so do on a timely basis or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

Neither the City nor the Trustee will have any responsibility or obligations to DTC, the Direct Participants, the Indirect Participants of DTC or the Beneficial Owners with respect to: (1) the accuracy of any records maintained by DTC or any Direct Participants or Indirect Participants of DTC; (2) the payment by DTC or any Direct Participants or Indirect Participants of DTC of any amount due to any Beneficial Owner in respect of the Accreted Value of Series 2001 Bonds; (3) the delivery by DTC or any Direct Participants or Indirect Participants of DTC of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the Trust Agreement; or (4) any consent given or other action taken by DTC as registered owner of the Series 2001 Bonds.

DTC will act as securities depository for the Series 2001 Bonds. The Series 2001 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other names as may be requested by an authorized representative of DTC. One fully registered Bond certificate for each maturity will be issued for the Series 2001 Bonds in the aggregate principal amount of each maturity, and will be deposited with DTC.

DTC is a limited-propose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds 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 Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of Series 2001 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2001 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 Series 2001 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2001 Bonds, except in the event that use of Direct or Indirect the book-entry system for the Series 2001 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2001 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other names as may be requested by an authorized representative of DTC. The deposit of Series 2001 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2001 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2001 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2001 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2001 Bonds such as redemptions, renders, defaults, and proposed amendments to the Trust Agreement. Beneficial Owners of Series 2001 Bonds may wish to ascertain that the nominee holding the Series 2001 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2001 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (or any other DTC nominee) will consent or vote with respect to Series 2001 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns the consenting or voting rights of the DTC nominee to those Direct Participants to whose accounts the Series 2001 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2001 Bonds will be made to DTC or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detailed information from the City or the Trustee, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants 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 Series 2001 Bonds at any time by giving reasonable notice to the City or the Trustee, or the City may decide to discontinue use of the system of book-entry transfers through DTC. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

Discontinuation of Book-Entry Only System; Payment to Beneficial Owners

In the event that the book-entry system described above is no longer used with respect to the Series 2001 Bonds, the provisions of the Trust Agreement relating to place of payment, transfer and exchange of Series 2001 Bonds, regulations with respect to exchanges and transfers, Bond register, Series 2001 Bonds mutilated, destroyed or stolen, and evidence of signatures of Bond Owners and ownership of Series 2001 Bonds will govern the payment, registration, transfer, exchange and replacement of the Series 2001 Bonds. Interested persons should contact the City or the Trustee for further information regarding such provisions of the Trust Agreement.

APPENDIX H

TABLE OF ACCRETED VALUES

The Accreted Value (which includes the initial principal Denominational Amount and accreted interest thereon) per each \$5,000 Maturity Amount, as of June 15 and December 15, is set forth in the following table of Accreted Values.

Year of Maturity:	2011	2012	2013	2014	2015	2016
Initial Denominational Amount:	\$2,717.90	\$2,518.40	\$2,315.85	\$2,151.75	\$1,988.00	\$1,835.55
Compounding Rate:	6.09%	6.24%	6.43%	6.51%	6.62%	6.72%
Compounding Date						
12/15/01	\$2,744.25	\$2,543.45	\$2,339.60	\$2,174.10	\$2,009.00	\$1,855.20
6/15/02	2,827.85	2,622.80	2,414.80	2,244.85	2,075.50	1,917.55
12/15/02	2,913.95	2,704.65	2,492.45	2,317.90	2,144.20	1,981.95
6/15/03	3,002.70	2,789.00	2,572.55	2,393.35	2,215.15	2,048.55
12/15/03	3,094.10	2,876.05	2,655.30	2,471.30	2,288.50	2,117.40
6/15/04	3,188.35	2,965.75	2,740.65	2,551.70	2,364.25	2,188.55
12/15/04	3,285.40	3,058.30	2,828.75	2,634.80	2,442.50	2,262.05
6/15/05	3,385.45	3,153.70	2,919.70	2,720.55	2,523.35	2,338.05
12/15/05	3,488.55	3,252.10	3,013.55	2,809.10	2,606.85	2,416.65
6/15/06	3,594.75	3,353.60	3,110.45	2,900.55	2,693.15	2,497.85
12/15/06	3,704.25	3,458.20	3,210.45	2,994.95	2,782.30	2,581.75
6/15/07	3,817.00	3,566.10	3,313.70	3,092.45	2,874.40	2,668.50
12/15/07	3,933.25	3,677.40	3,420.20	3,193.10	2,969.55	2,758.15
6/15/08	4,053.00	3,792.10	3,530.15	3,297.05	3,067.85	2,850.85
12/15/08	4,176.45	3,910.45	3,643.65	3,404.35	3,169.35	2,946.65
6/15/09	4,303.60	4,032.45	3,760.80	3,515.15	3,274.30	3,045.65
12/15/09	4,434.65	4,158.25	3,881.70	3,629.60	3,382.65	3,148.00
6/15/10	4,569.70	4,288.00	4,006.50	3,747.70	3,494.65	3,253.75
12/15/10	4,708.85	4,421.75	4,135.35	3,869.70	3,610.30	3,363.10
6/15/11	4,852.20	4,559.75	4,268.30	3,995.65	3,729.80	3,476.10
12/15/11	5,000.00	4,702.00	4,405.50	4,125.75	3,853.25	3,592.85
6/15/12	0	4,848.70	4,547.15	4,260.00	3,980.80	3,713.60
12/15/12	0	5,000.00	4,693.35	4,398.70	4,112.55	3,838.35
6/15/13	0	0	4,844.25	4,541.85	4,248.70	3,967.35
12/15/13	0	0	5,000.00	4,689.70	4,389.35	4,100.65
6/15/14	0	0	0	4,842.35	4,534.60	4,238.45
12/15/14	0	0	0	5,000.00	4,684.70	4,380.85
6/15/15	0	0	0	0	4,839.80	4,528.05
12/15/15	0	0	0	0	5,000.00	4,680.20
6/15/16	0	0	0	0	0	4,837.45
12/15/16	0	0	0	0	0	5,000.00
6/15/17	0	0	0	0	0	0
12/15/17	0	0	0	0	0	0
6/15/18	0	0	0	0	0	0
12/15/18	0	0	0	0	0	0
6/15/19	0	0	0	0	0	0
12/15/19	0	0	0	0	0	0
6/15/20	0	0	0	0	0	0
12/15/20	0	0	0	0	0	0
6/15/21	0	0	0	0	0	0
12/15/21	0	0	0	0	0	0
6/15/22	0	0	0	0	0	0
12/15/22	0	0	0	0	0	0

Year of Maturity:	2017	2018	2019	2020	2021	2022
Initial Denominational Amount:	\$1,699.45	\$1,573.90	\$1,466.25	\$1,365.40	\$1,275.95	\$1,192.40
Compounding Rate:	6.79%	6.85%	6.87%	6.89%	6.89%	6.89%
Compounding Date						
12/15/01	\$1,717.80	\$1,591.10	\$1,482.30	\$1,380.40	\$1,290.00	\$1,205.50
6/15/02	1,776.15	1,645.60	1,533.20	1,427.95	1,334.40	1,247.00
12/15/02	1,836.45	1,701.95	1,585.85	1,477.15	1,380.40	1,290.00
6/15/03	1,898.80	1,760.25	1,640.35	1,528.00	1,427.95	1,334.40
12/15/03	1,963.25	1,820.55	1,696.70	1,580.65	1,477.15	1,380.40
6/15/04	2,029.90	1,882.90	1,754.95	1,635.10	1,528.00	1,427.95
12/15/04	2,098.85	1,947.40	1,815.25	1,691.45	1,580.65	1,477.15
6/15/05	2,170.10	2,014.05	1,877.60	1,749.70	1,635.10	1,528.00
12/15/05	2,243.75	2,083.05	1,942.10	1,810.00	1,691.45	1,580.65
6/15/06	2,319.95	2,154.40	2,008.80	1,872.35	1,749.70	1,635.10
12/15/06	2,398.70	2,228.20	2,077.85	1,936.85	1,810.00	1,691.45
6/15/07	2,480.15	2,304.50	2,149.20	2,003.60	1,872.35	1,749.70
12/15/07	2,564.35	2,383.45	2,223.05	2,072.60	1,936.85	1,810.00
6/15/08	2,651.40	2,465.05	2,299.40	2,144.00	2,003.60	1,872.35
12/15/08	2,741.40	2,549.50	2,378.35	2,217.85	2,072.60	1,936.85
6/15/09	2,834.50	2,636.80	2,460.05	2,294.30	2,144.00	2,003.60
12/15/09	2,930.70	2,727.15	2,544.60	2,373.30	2,217.85	2,072.60
6/15/10	3,030.20	2,820.55	2,632.00	2,455.10	2,294.30	2,144.00
12/15/10	3,133.10	2,917.15	2,722.40	2,539.65	2,373.30	2,217.85
6/15/11	3,239.45	3,017.05	2,815.90	2,627.15	2,455.10	2,294.30
12/15/11	3,349.45	3,120.40	2,912.65	2,717.65	2,539.65	2,373.30
6/15/12	3,463.15	3,227.25	3,012.70	2,811.30	2,627.15	2,455.10
12/15/12	3,580.75	3,337.80	3,116.15	2,908.15	2,717.65	2,539.65
6/15/13	3,702.30	3,452.10	3,223.20	3,008.30	2,811.30	2,627.15
12/15/13	3,828.00	3,570.35	3,333.95	3,111.95	2,908.15	2,717.65
6/15/14	3,957.95	3,692.65	3,448.45	3,219.15	3,008.30	2,811.30
12/15/14	4,092.35	3,819.10	3,566.90	3,330.05	3,111.95	2,908.15
6/15/15	4,231.25	3,949.90	3,689.45	3,444.80	3,219.15	3,008.30
12/15/15	4,374.90	4,085.20	3,816.15	3,563.45	3,330.05	3,111.95
6/15/16	4,523.45	4,225.15	3,947.25	3,686.20	3,444.80	3,219.15
12/15/16	4,677.00	4,369.85	4,082.85	3,813.20	3,563.45	3,330.05
6/15/17	4,835.80	4,519.50	4,223.10	3,944.60	3,686.20	3,444.80
12/15/17	5,000.00	4,674.30	4,368.15	4,080.45	3,813.20	3,563.45
6/15/18	0	4,834.40	4,518.20	4,221.05	3,944.60	3,686.20
12/15/18	0	5,000.00	4,673.40	4,366.45	4,080.45	3,813.20
6/15/19	0	0	4,833.95	4,516.90	4,221.05	3,944.60
12/15/19	0	0	5,000.00	4,672.50	4,366.45	4,080.45
6/15/20	0	0	0	4,833.45	4,516.90	4,221.05
12/15/20	0	0	0	5,000.00	4,672.50	4,366.45
6/15/21	0	0	0	0	4,833.45	4,516.90
12/15/21	0	0	0	0	5,000.00	4,672.50
6/15/22	0	0	0	0	0	4,833.45
12/15/22	0	0	0	0	0	5,000.00

APPENDIX I

CLEARSTREAM, LUXEMBOURG, AND EUROCLEAR

The information in this Appendix I has been obtained from Clearstream, Luxembourg and Euroclear and other sources which are believed by the City to be accurate, but the City takes no responsibility for the accuracy thereof. The City cannot and does not give any assurances that DTC, Direct Participants or Indirect Participants of DTC, Clearstream, Luxembourg, Clearstream customers, Euroclear or Euroclear participants will distribute to the Beneficial Owners (as defined in Appendix G) of the Series 2001 Bonds: (i) payments of the Accreted Value of the Series 2001 Bonds; (ii) confirmations of their ownership interests in the Series 2001 Bonds; or (iii) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2001 Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants, Clearstream, Luxembourg, Clearstream customers, Euroclear or Euroclear participants will serve and act in the manner described in this Official Statement.

Neither the City nor the Trustee will have any responsibility or obligations to DTC, the Direct Participants, the Indirect Participants of DTC, Clearstream, Clearstream customers, Euroclear, Euroclear participants or the Beneficial Owners with respect to: (1) the accuracy of any records maintained by DTC or any Direct Participants or Indirect Participants of DTC, Clearstream, Luxembourg, Clearstream customers, Euroclear or Euroclear participants; (2) the payment by DTC or any Direct Participants or Indirect Participants of DTC, Clearstream, Luxembourg, Clearstream customers, Euroclear or Euroclear participants of any amount due to any Beneficial Owner in respect of the Accreted Value of the Series 2001 Bonds; (3) the delivery by DTC or any Direct Participants or Indirect Participants of DTC, Clearstream, Luxembourg, Clearstream customers, Euroclear or Euroclear participants of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the Trust Agreement; or (4) any consent given or other action taken by DTC as registered holder of the Series 2001 Bonds.

Clearstream, Luxembourg

Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), was incorporated in 1970 as "Cedel S.A.," a company with limited liability under Luxembourg law (a société anonyme). Cedel S.A. subsequently changed its name to Cedelbank. On January 10, 2000, Cedelbank's parent company, Cedel International ("CI") merged its clearing, settlement and custody business with that of Deutsche Börse Clearing AG ("DBC"). The merger involved the transfer by CI of substantially all of its assets and liabilities to a new Luxembourg company, New Cedel International ("New CI"), which is 50% owned by CI and 50% owned by DBC's parent company Deutsche Börse AG. The shareholders of these two entities are banks, securities dealers and financial institutions. CI currently has 92 shareholders, including U.S. financial institutions or their subsidiaries. No single entity may own more than 5% of CI's stock.

In conjunction with the merger, the Board of Directors of New CI decided to re-name the companies in the group in order to give them a cohesive brand name. The new brand name that was chosen is "Clearstream." With effect from January 14, 2000, New CI has been renamed "Clearstream International, société anonyme." On January 18, 2000, Cedelbank was renamed "Clearstream Banking, société anonyme," and Cedel Global Services was renamed "Clearstream Services, société anonyme."

On January 17, 2000, DBC was renamed "Clearstream Banking AG." This means that there are now two entities in the corporate group headed by Clearstream International which share the name "Clearstream Banking," the entity previously named "Cedelbank" and the entity previously named "Deutsche Börse AG."

Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of 36 currencies, including United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in over 30 countries through established

depository and custodial relationships. Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier, "CSSF," which supervises Luxembourg banks. Clearstream, Luxembourg's customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream, Luxembourg's U.S. customers are limited to securities brokers and dealers, and banks. Currently, Clearstream, Luxembourg has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg has established an electronic bridge with the Operator of Euroclear in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and Euroclear.

Euroclear System

The Euroclear System ("Euroclear") was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment. This system eliminates the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. The Euroclear Operator is Euroclear Bank S.A./N.V. The Euroclear Operator conducts all operations. All Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. The Euroclear Operator establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Initial Settlement; Distributions; Actions Upon Behalf of Holders

All the Series 2001 Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream, Luxembourg and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream, Luxembourg's and Euroclear's names on the books of their respective U.S. Depository which in turn holds such positions in customers' securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream, Luxembourg and the Euroclear Operator acts as depository for Euroclear (in such capacities, individually, the "U.S. Depository" and, collectively, the "U.S. Depositories").

Holders of the Series 2001 Bonds may hold their Series 2001 Bonds through DTC (in the United States) or Clearstream, Luxembourg or Euroclear (in Europe) if they are participants of such systems, or indirectly through organizations which are participants in such systems.

Investors electing to hold their Series 2001 Bonds through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Securities will be credited to the securities custody accounts of Euroclear and Clearstream, Luxembourg holders on the business day following the settlement date against payment for value on the settlement date.

Distributions with respect to the Series 2001 Bonds held beneficially through Clearstream, Luxembourg will be credited to the cash accounts of Clearstream, Luxembourg customers in accordance with its rules and procedures, to the extent received by its U.S. Depository (as defined below). Distributions with respect to the Series

2001 Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Terms and Conditions, to the extent received by its U.S. Depository.

Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations.

Clearstream, Luxembourg or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a Holder of the Series 2001 Bonds under the Trust Agreement on behalf of a Clearstream customer or Euroclear participant only in accordance with the relevant rules and procedures and subject to the relevant U.S. Depository's ability to effect such actions on its behalf through DTC.

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of the trading of any securities where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading Between DTC Participants Secondary market trading between DTC Participants (other than U.S. Depositories) will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds.

Trading Between Euroclear Participants and/or Clearstream, Luxembourg Customers Secondary market trading between Euroclear participants and/or Clearstream, Luxembourg customers will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

Trading Between DTC Seller and Euroclear or Clearstream, Luxembourg Purchaser When securities are to be transferred from the account of a DTC Participant (other than U.S. Depositories) to the account of a Euroclear participant or a Clearstream, Luxembourg customer, the purchaser must send instructions to the applicable U.S. Depository before settlement date 12:30. Euroclear or Clearstream, Luxembourg, as the case may be, will instruct its U.S. Depository to receive the securities against payment. Payment will then be made by its U.S. Depository to the DTC Participant's account against delivery of the securities. After settlement has been completed, the securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participants' or Clearstream, Luxembourg customers' accounts. Credit for the securities will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Series 2001 Bonds will accrue from the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade fails), the Euroclear or Clearstream, Luxembourg cash debit will be valued instead as of the actual settlement date.

Euroclear participants and Clearstream, Luxembourg customers will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream, Luxembourg. Under this approach, they may take on credit exposure to Euroclear or Clearstream, Luxembourg until the securities are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream, Luxembourg has extended a line of credit to them, participants/customers can elect not pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream, Luxembourg customers purchasing securities would incur overdraft charges for one day, assuming they cleared the overdraft when the securities were credited to their accounts. However, interest on the securities would accrue from the value date. Therefore, in many cases, the investment income on securities earned during that one day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's/customer's particular cost of funds.

Because the settlement is taking place during New York business hours, DTC Participants can employ their usual procedures for sending securities to the applicable U.S. Depository for the benefit of Euroclear participants or

Clearstream, Luxembourg customers. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC Participant, a cross-market transaction will settle no differently from a trade between two DTC Participants.

Trading Between Euroclear or Clearstream, Luxembourg Seller and DTC Purchaser Due to time zone differences in their favor, Euroclear participants and Clearstream Luxembourg customers may employ their customary procedure for transactions in which securities are to be transferred by the respective clearing system, through the applicable U.S. Depository to another DTC Participant. The seller must send instructions to Clearstream, Luxembourg before settlement date 12:30. In these cases, Euroclear or Clearstream, Luxembourg will instruct its U.S. Depository to credit the securities to the DTC Participant's account against payment. The payment will then be reflected in the account of the Euroclear participant or Clearstream, Luxembourg customer the following business day, and receipt of the cash proceeds in the Euroclear participants' or Clearstream, Luxembourg customers' accounts will be back-valued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear participant or Clearstream, Luxembourg customer has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear participant's or Clearstream, Luxembourg customer's accounts would instead be valued as of the actual settlement date.

Procedures May Change

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to these procedures in order to facilitate transfers of securities among participants of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by any of them.