SUPPLEMENT TO OFFICIAL STATEMENT

$9,125,000
City of San Mateo Joint Powers Financing Authority
Revenue Bonds
(Golf Course Project)
Refunding Series 2007B

Page 16 of the Official Statement dated October 3, 2007 for the above referenced Bonds is hereby amended by adding the following text immediately prior to the heading "RISK FACTORS":

"Recent Developments

On October 18, 2007, FGIC Corporation, the parent company of Financial Guaranty, announced that it expects third quarter 2007 financial results to be negatively impacted by a mark-to-market (or fair value) adjustment on Financial Guaranty's insured credit derivative portfolio. The announcement stated that the adjustment, which relates principally to transactions that Financial Guaranty has guaranteed in credit default swap form, is expected to produce an unrealized loss of approximately $206 million before taxes for the quarter and to result in a net loss of approximately $65 million for the quarter.

The announcement also stated management's belief that the adjustment does not reflect the credit quality of Financial Guaranty's insured credit derivative portfolio and that there is a low potential for Financial Guaranty to pay claims that would have a material impact on its claims-paying resources. In addition, the announcement stated that continuing volatility in the credit markets may lead to positive or negative fair value adjustments in the future."

Dated: October 18, 2007

NEW ISSUE – FULL BOOK ENTRY **Ratings: Standard & Poor's: AAA**

In the opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Authority, based upon existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of the interest on, the Bonds. See "TAX MATTERS" herein.

$9,125,000
City of San Mateo Joint Powers Financing Authority
Revenue Bonds
(Golf Course Project)
Refunding Series 2007B

Dated: Date of Delivery **Due: August 1, as shown below**

This cover page contains certain information for general reference only. It is not intended to be 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. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The City of San Mateo Joint Powers Financing Authority (the "Authority") is offering $9,125,000 of its Revenue Bonds (Golf Course Project), Refunding Series 2007B (the "Bonds"), pursuant to a Trust Agreement, dated as of October 1, 2007 (the "Trust Agreement"), between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The Bonds are being issued to provide funds to: (i) refinance the construction and renovation of an 18-hole municipal golf course and appurtenant facilities (the "Golf Course Project") for the City of San Mateo (the "City") and (ii) pay costs of issuance of the Bonds. See "PLAN OF REFUNDING" herein.

Interest on the Bonds will be payable on February 1 and August 1 in each year, commencing February 1, 2008. The Bonds will be issued in denominations of $5,000 or any integral thereof. See "THE BONDS" herein. The Bonds are issuable as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and individual purchases of the Bonds will be made in book-entry form only. Principal of and interest on the Bonds will be payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds, as described herein. See APPENDIX B – "BOOK-ENTRY SYSTEM" herein.

The Bonds are subject to redemption prior to maturity, as described herein. See "THE BONDS" herein.

The Bonds are payable solely from, and secured solely by, Revenues of the Authority, consisting primarily of Base Rental Payments to be received by the Authority from the City under a Facility Lease, dated as of October 1, 2007 (the "Facility Lease"), by and between the Authority and the City, and Installment Payments received by the Authority from the City under an Installment Payment Contract, dated as of October 1, 2007 (the "Installment Payment Contract"), by and between the Authority and the City, for the right to use and the possession of the real property and facilities comprising the Golf Course Project (the "Facilities"), as more fully described herein. The City has agreed in the Facility Lease to make all Base Rental Payments, subject to abatement of such Base Rental Payments in the event of material damage to or destruction of the Facilities or a taking of the Facilities in whole or in part. The City's obligation to make the Installment Payments is not subject to abatement, diminution or set-off whatsoever.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company simultaneously with the delivery of the Bonds.

FGIC

The Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. The full faith and credit of none of the Authority, the City or any other member of the Authority is pledged for the payment of the interest on or principal of the Bonds nor for the payment of Base Rental Payments. Neither the payment of the principal of or interest on the Bonds nor the obligation to make Base Rental Payments constitutes a debt, liability or obligation of the Authority, the City or any other Member of the Authority for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

The Bonds were sold at competitive sale to Citigroup Global Markets Inc. (the "Underwriter") and will be offered when, as and if issued and accepted by the Underwriter, subject to approval as to legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the Authority by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Disclosure Counsel. It is anticipated that the Bonds, in book entry form, will be available for delivery on or about October 25, 2007.

October 3, 2007

$9,125,000
City of San Mateo Joint Powers Financing Authority
Revenue Bonds
(Golf Course Project)
Refunding Series 2007B

MATURITY SCHEDULE

Maturity (August 1)	Amount	Interest Rate	Yield	CUSIP*
2010	$ 305,000	4.00 %	3.40 %	798892 DM4
2011	320,000	4.00	3.42	798892 DN2
2012	330,000	4.00	3.45	798892 DP7
2013	345,000	4.00	3.47	798892 DQ5
2014	360,000	4.00	3.50	798892 DR3
2015	370,000	4.00	3.55	798892 DS1
2016	385,000	4.00	3.60	798892 DT9
2017	405,000	3.75	3.70	798892 DU6
2018	420,000	3.70	3.75	798892 DV4
2019	435,000	4.00	3.85	798892 DW2
2020	450,000	4.00	4.00	798892 DX0
2021	470,000	4.00	4.10	798892 DY8
2022	485,000	4.125	4.125	798892 DZ5
2023	510,000	4.20	4.20	798892 EA9
2024	530,000	4.25	4.25	798892 EB7
2025	550,000	4.25	4.30	798892 EC5
2026	575,000	4.25	4.375	798892 ED3
2027	600,000	4.375	4.375	798892 EE1
2028	625,000	4.375	4.375	798892 EF8
2029	655,000	4.375	4.40	798892 EG6

* CUSIP numbers are provided for convenience of reference only. The Authority assumes no responsibility for the accuracy of such numbers.

CITY OF SAN MATEO JOINT POWERS FINANCING AUTHORITY

MEMBERS

City of San Mateo, California
and
Redevelopment Agency of the City of San Mateo

CITY COUNCIL/GOVERNING BOARD

(The Governing Board of the Authority is comprised of
Council Members of the City)

Jack Matthews, Mayor/Chair
Carole Groom, Deputy Mayor/Vice Chair
Jan Epstein, Council Member/Board Member
Brandt Grotte, Council Member/Board Member
John Lee, Council Member/Board Member

CITY AND AUTHORITY OFFICIALS

Arne Croce, City Manager/Executive Director
Hossein Golestan, Finance Director/Controller
Norma Gomez, City Clerk/Secretary
Shawn Mason, City Attorney/Authority Counsel

FINANCIAL ADVISORS

William Euphrat Municipal Finance, Inc.
San Francisco, California

Kitahata & Company
San Francisco, California

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

TRUSTEE

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

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, and the Trust Agreement has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions provided thereunder.

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

Certain references are made herein to the City's website for further information. No assurance can be made about the ongoing accuracy, completeness or timeliness of information posted on the City's website, and such information is not incorporated herein by such references.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

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

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

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OFFICIAL STATEMENT

$9,125,000

CITY OF SAN MATEO JOINT POWERS FINANCING AUTHORITY
Revenue Bonds
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Refunding Series 2007B

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Introduction and not otherwise defined herein shall have the respective meanings assigned to them elsewhere in this Official Statement.

Purpose

The purpose of this Official Statement, including the cover page through the appendices hereto, is to provide certain information concerning the sale and delivery by the City of San Mateo Joint Powers Financing Authority (the "Authority") of its $9,125,000 Revenue Bonds (Golf Course Project), Refunding Series 2007B (the "Bonds"). The Bonds are being issued to provide funds to: (i) refinance the construction and renovation of the Golf Course Project for the City of San Mateo (the "City") and (ii) pay costs of issuance of the Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Bond Act"), and the Trust Agreement, dated as of October 1, 2007 (the "Trust Agreement"), by and between the Authority and The Bank of New York Trust Company, N.A. (the "Trustee"). The City and the Authority will enter into a Facility Lease (as described below) and an Installment Payment Contract (as described below) pursuant to and in accordance with the Government Code of the State of California (the "State"), other applicable laws of the State and resolutions adopted by the City and the Authority prior to the issuance of the Bonds.

Security for the Bonds

The Bonds are limited obligations of the Authority payable solely from, and secured solely by, Revenues of the Authority, consisting primarily of base rental payments (the "Base Rental Payments") to be received by the Authority from the City under the Facility Lease, dated as of October 1, 2007 (the "Facility Lease"), by and between the Authority and the City, and Installment Payments received by the Authority from the City under an Installment Payment Contract, dated as of October 1, 2007 (the "Installment Payment Contract"), by and between the Authority and the City. The Installment Payments to be made or caused to be made by the City pursuant to the Installment Payment Contract are payable by the City, but solely from its Golf Course Revenues, defined generally as all charges received for, and all other income and receipts derived by the City from, the ownership and operation of the Golf Course Project, including greens fees, driving range fees, food services and restaurant rental charges. The Base Rental Payments to be made or caused to be made by the City pursuant to the Facility Lease are payable by the City from its General Fund to the Authority in an amount equaling the debt service for the Bonds for the use by the City of the real property and facilities comprising the Golf Course Project (the "Facilities"). On any date upon which a Base Rental Payment is due, the City's obligation to pay such Base Rental Payment shall be deemed satisfied to the extent that the City's obligation to make Installment Payments has been satisfied as of such date. The City has agreed in the Facility Lease to make all Base Rental Payments, subject to abatement of such Base Rental Payments in the event of material damage to or destruction of all or a portion of the Facilities or a taking of the Facilities in whole or in part. The City's obligation to make the Installment Payments is not subject to abatement, diminution or set-off whatsoever. Pursuant to the Site Lease, dated as of October 1, 2007, (the "Site Lease"), between the City and the Authority, the City has leased to the Authority the real property upon which the Facilities are located. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

The City covenants under the Facilities Lease to take such action as may be necessary to include all Base Rental Payments and Additional Payments in its annual budgets and to make the necessary annual appropriations therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Base Rental Payments" herein.

Bonds Constitute Limited Obligations

The Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the funds pledged pursuant to the Trust Agreement. The full faith and credit of none of the Authority, the City or any other Member of the Authority is pledged for the payment of the interest on or principal of the Bonds or for the payment of Base Rental Payments. Neither the payment of the principal of or interest on the Bonds nor the obligation to make Base Rental Payments constitutes a debt, liability or obligation of the Authority, the City or any other Member of the Authority for which any such entity is obligated to levy or pledge any form or taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

Bond Insurance

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy (the "Policy") to be issued concurrently with the delivery of the Bonds by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company (the "Bond Insurer"). See "BOND INSURANCE" herein.

Summaries Not Definitive

Brief descriptions of the Bonds, the Authority, the City and the Facilities are included in this Official Statement, together with summaries of the Site Lease, the Facility Lease, the Installment Payment Agreement and the Trust Agreement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Bonds, the Site Lease, the Facility Lease, the Installment Payment Agreement and the Trust Agreement are qualified in their entirety by reference to the actual documents, or with respect to the Bonds, the forms thereof included in the Trust Agreement, copies of all of which are available for inspection at the corporate trust office of the Trustee at 550 Kearny Street, Suite 600, San Francisco, California, 94108.

Additional Information

The City regularly prepares a variety of publicly available reports, including audits, budgets and related documents. Any 2007 Bondholder may obtain a copy of any such report, as available, from the Trustee or the City. Additional information regarding this Official Statement may be obtained by contacting the Trustee or Mr. Hossein Golestan, Finance Director, City of San Mateo, 330 West 20th Avenue, San Mateo, CA 94403.

PLAN OF REFUNDING

The Bonds are being issued to provide funds to: (i) refinance the construction and renovation of the Golf Course Project for the City of San Mateo (the "City") and (ii) pay costs of issuance of the Bonds.

All of the Authority's Revenue Bonds (Golf Course Project), Series 1999 (the "Refunded Bonds"), will be refunded with the proceeds of the Bonds. The Refunded Bonds were issued on June 30, 1999 in the aggregate principal amount of $10,400,000, of which $9,240,000 remain outstanding. The Refunded Bonds were issued to finance the Golf Course Project.

A portion of the proceeds of the Bonds will be deposited in an escrow fund pursuant to the Trust Agreement and will be applied on the date of issuance of the Bonds to pay all of the Refunded Bonds on such date, which shall be the date of redemption of the Refunded Bonds, at their redemption price plus accrued interest thereon to such date.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources of Funds	
Aggregate Principal Amount of Bonds	$ 9,125,000.00
Transfer of Refunded Bonds Debt Service Reserve Fund	746,387.74
Original Issue Premium (Discount)	47,208.45
Total Sources	$ 9,918,596.19
Uses of Funds	
Escrow Fund Deposit	$ 9,540,587.58
Costs of Issuance[1]	378,008.61
Total Uses	$ 9,918,596.19

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(1) Includes legal fees, financing and consulting fees, underwriters' discount, fees of bond counsel, printing costs, rating agency fees, bond insurance and reserve fund policy premiums and other miscellaneous expenses. .

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Trust Agreement for a more detailed description of these provisions. The discussion herein is qualified by such reference. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS" herein.

General

The Bonds will be issued in the aggregate principal amount and will mature on the dates and bear interest at the rates shown on the cover page of this Official Statement. The Bonds will be dated the date of original delivery and will bear interest from that date. Interest on the Bonds will be payable on the unpaid principal amount thereof on February 1 and August 1 in each year, commencing February 1, 2008. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof.

The Depository Trust Company ("DTC"), will act as the initial securities depository for the Bonds, which will be issued initially pursuant to a book-entry only system. See APPENDIX B – "BOOK-ENTRY SYSTEM" herein. Under the Trust Agreement, the Authority may appoint a successor securities depository to DTC for the Bonds. The Holders of the Bonds have no right to a book-entry only system for the Bonds. The information under this caption, "THE BONDS" is subject in its entirety to the provisions described below under APPENDIX B – "BOOK-ENTRY SYSTEM" while the Bonds are in the book-entry only system.

Payment of Principal and Interest

The Bonds will be issued as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. Individual purchases of interests in the Bonds will be made in book-entry form only, in authorized denominations. Purchasers of interests will not receive certificates representing their interests in the Bonds. For a description of the method of payment of principal, premium, if any, and interest on the Bonds and matters pertaining to transfers and exchanges while in the book-entry system, see APPENDIX B – "BOOK-ENTRY SYSTEM."

So long as Cede & Co. is the registered owner of the Bonds, the Trustee will pay principal of and interest on the Bonds to DTC, which will remit principal, premium, if any, and interest payments to the Beneficial Owners of the Bonds, as described under APPENDIX B – "BOOK-ENTRY SYSTEM."

The principal or redemption price of the Bonds and interest thereon shall be payable in lawful money of the United States of America at the principal corporate trust office of the Trustee.

While the Bonds are book-entry bonds, payment of the principal of and interest on any Bonds will be made by the Trustee directly to DTC, to the account of Cede & Co. Interest on the Bonds will be payable on February 1 and August 1 in each year, commencing February 1, 2008 (each, an "Interest Payment Date"). In the event the Bonds are no longer in a book-entry system, principal or purchase price on such Bonds will be payable at the Principal Corporate Trust Office of the Trustee, and interest on the Bonds due on or before the maturity or prior redemption thereof shall be paid by check mailed by first class mail on each Interest Payment Date to the person in whose name the Bond is registered as of the applicable Record Date for such Interest Payment Date at the address shown on the registration books maintained by the Trustee; provided, however, that interest on the Bonds shall be paid by wire transfer or other means to provide immediately available funds to any owner of at least $1,000,000 in aggregate principal amount of Bonds, at its option, according to wire instructions given to the Trustee in writing for such purpose and on file as of the applicable Record Date preceding the Interest Payment Date. The Record Date for the Bonds means the close of business on the fifteenth calendar day (whether or not a Business Day) of the month preceding any Interest Payment Date.

Redemption Terms of the Bonds

Optional Redemption of the Bonds. The Bonds maturing on or prior to August 1, 2017 are not subject to optional redemption. The Bonds maturing on or after August 1, 2018 are subject to redemption prior to their respective stated maturities at the written direction of the Authority, from any moneys deposited by the Authority or the City, as a whole or in part on any date (in such maturities as are designated in writing by the Authority to the Trustee) on or after August 1, 2017, at the principal amount of Bonds called for redemption together with accrued interest to the date fixed for redemption, without premium.

General Redemption Provisions

Selection of Bonds for Redemption. The Authority shall designate which maturities of Bonds are to be redeemed. If less than all Outstanding Bonds maturing by their terms on any one date are to be redeemed at any one time, the Trustee shall select the Bonds of such maturity date to be redeemed by lot and shall promptly notify the Authority in writing of the numbers of the Bonds so selected for redemption. For purposes of such selection, Bonds shall be deemed to be composed of multiples of minimum Authorized Denominations and any such multiple may be separately redeemed. In the event Term Bonds are designated for redemption, the Authority may designate which sinking account payments are allocated to such redemption.

Notice of Redemption. Notice of redemption shall be mailed by first-class mail by the Trustee, not less than 30 nor more than 60 days prior to the redemption date to the respective Bondholders of the Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds, the Series, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Bonds of such maturity, to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the redemption price thereof, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such redemption.

Rescission. The Authority may, at its option, prior to the date fixed for redemption in any notice of redemption rescind and cancel such notice of redemption by Written Request to the Trustee and the Trustee shall mail notice of such cancellation to the recipients of the notice of redemption being cancelled.

Effect of Redemption. If notice of redemption has been duly given as aforesaid and money for the payment of the redemption price of the Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice Bonds so called for redemption shall become due and payable, and from and after the date so designated interest on such Bonds shall cease to accrue, and the Bondholders of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

THE FACILITIES

The Facilities initially include the real property and facilities comprising the Golf Course Project.

The City-owned golf course (the "Golf Course") was developed initially as a Works Progress Administration project and a joint effort of the City and the County of San Mateo. Construction commenced in 1932, and the Golf Course first opened for play in 1933. The Golf Course subsequently became owned and operated by the City and has served as only one of two municipal golf courses in the County of San Mateo. (The other municipal course is Sharp Park in Pacifica, operated by the City and County of San Francisco. Crystal Springs is a privately-operated golf course located in Burlingame that is open to the public.) Situated on approximately 105 acres of land and measuring approximately 6,000 yards, the San Mateo Golf Course has routinely produced at least 83,000 rounds of play each year for the past ten years.

From 1999 to 2000, approximately $8.55 million of the proceeds of the Refunded Bonds were used, along with over $2 million of the City's golf enterprise funds, to finance reconstruction of the Golf Course and replacement of the clubhouse and support facilities. In addition to aesthetically improving the look of the Golf Course, the reconstruction addressed problems related to drainage, safety, playability, irrigation and an aged infrastructure. The project included a new routing plan for the 18 holes to allow the front and back nine holes each to return to the clubhouse, re-grading the fairways to provide improved drainage, excavating new lakes for increased water storage capacity, installing a new underground drainage and pumping system, building new tees and greens, and installing a new irrigation system.

The clubhouse and adjacent parking lot were demolished and replaced with a new 11,743 square foot building that houses the pro shop, administrative offices, kitchen and dining facilities, as well as an additional 1,848 square feet of outdoor viewing terraces. A new snack bar and restrooms are located between the 9th and 10th holes. The maintenance facility was enhanced with the addition of a perimeter fence and a paved parking area. A new parking lot expanded the number of parking spaces available from 168 to 264. Part of the new parking lot is located on .75 acre of land owned by the County of San Mateo, which is currently leased to the City until April, 2034.

The City and the Authority may substitute real property as part of the Facilities for purposes of the Facility Lease, but only after the City shall have filed with the Authority and the Trustee, all of the following:

(a) Executed copies of the Facility Lease or amendments thereto containing the amended description of the Facilities, including the Demised Premises, including the legal description of the Demised Premises as modified if necessary.

(b) A Certificate of the City with copies of the Facility Lease or a Site Lease, if needed, or amendments thereto containing the amended description of the Facilities stating that such documents have been duly recorded in the official records of the County Recorder of San Mateo County.

(c) A Certificate of the City evidencing that the annual fair rental value of the Facilities which will constitute the Facilities after such substitution will be at least equal to 100% of the maximum amount of Base Rental Payments becoming due in the then current year ending July 31 or in any subsequent year ending July 31.

(d) A Certificate of the City stating that, based upon review of such instruments, certificates or any other matters described in such Certificate of the City, the City has good merchantable title to the Facilities which will constitute the Facilities after such substitution. The term "Good Merchantable Title" shall mean such title as is satisfactory and sufficient for the needs and operations of the City.

(e) A Certificate of the City stating that such substitution does not adversely affect the City's use and occupancy of the Facilities.

(f) An Opinion of Counsel (as such term is defined in the Trust Agreement) stating that such amendment or modification (i) is authorized or permitted by the Constitution and laws of the State and the Trust Agreement; (ii) complies with the terms of the Constitution and laws of the State and of the Trust Agreement; (iii) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the City; and (iv) will not cause the interest on the Bonds to be included in gross income for federal income tax purposes.

(g) Written consent of the Bond Insurer approving such substitution, which the Bond Insurer has agreed to provide so long as the foregoing conditions (a) to (f), inclusive, have been satisfied. Each of the certificates and opinions described in conditions (a) to (f) shall be addressed to the Bond Insurer and shall be in form and substance satisfactory to the Bond Insurer.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bonds are limited obligations of the Authority payable solely from, and secured solely by, Revenues of the Authority, consisting primarily of Base Rental Payments payable to the Authority by the City under the Facility Lease and Installment Payments received by the Authority from the City under the Installment Payment Contract. The Base Rental Payments to be made or caused to be made by the City pursuant to the Facility Lease are payable by the City from its General Fund to the Authority in an amount equaling the debt service for the Bonds for the use by the City of the Facilities. The Installment Payments to be made or caused to be made by the City pursuant to the Installment Payment Contract are payable by the City in an amount equaling the debt service for the Bonds, but solely from its Golf Course Revenues, which includes as all charges received for, and all other income and receipts derived by the City from, the ownership and operation of the Golf Course Project, including greens fees, driving range fees, food services and restaurant rental charges. The City's obligation to make the Installment Payments is not subject to abatement, diminution or set-off whatsoever. On any date upon which a Base Rental Payment is due, the City's obligation to pay such Base Rental Payment shall be deemed satisfied to the extent that the City's obligation to make Installment Payments has been satisfied as of such date. The City has agreed in the Facility Lease to make all Base Rental Payments, subject to abatement of such Base Rental Payments in the event of material damage to or destruction of all or a portion of the Facilities or a taking of the Facilities in whole or in part. Pursuant to the Site Lease, the City has leased to the Authority the real property upon which the Facilities are located.

Pledge Under the Trust Agreement

Under the Trust Agreement, the Revenues consist of the Base Rental Payments and Installment Payments made by the City to the Authority. In accordance with the Trust Agreement, all Revenues are irrevocably pledged to and will be used for the punctual payment of the principal of and interest on the Bonds and will not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues may be applied such sums as are permitted under the Trust Agreement. This pledge constitutes a first lien on the Revenues in accordance with the terms of the Trust Agreement.

The Authority has directed that all Base Rental Payments and Installment Payments be paid directly to the Trustee to be held in trust by the Trustee in the Revenue Fund for the benefit of the Bondholders. The City has covenanted under the Facility Lease that so long as the Facilities are available for the City's use and occupancy, it will take such action as may be necessary to include all Base Rental Payments and Additional Payments due under the Facility Lease in its annual budgets and to make the necessary annual appropriations therefor. The obligation of the City to make Installment Payments is absolute and unconditional; however, the City's obligation to make Installment Payments is payable solely from Golf Course Revenues.

Base Rental Payments

Base Rental Payments are calculated on an annual basis, for twelve-month periods commencing on August 1 and ending on July 31, and each annual Base Rental Payments will be divided into two interest components, due on February 1 and August 1, and one principal component, due on August 1, except that the first Base Rental Payment period will commence on the date of recordation of the Facility Lease and end on January 31, 2008. Each Base Rental Payment with respect to the Facility Lease will be payable on the 25th day of the month immediately preceding each Interest Payment Date on the Bonds. Each annual Base Rental payment will be for the use of the Facilities for the twelve-month period commencing on August 1 of the period in which such installments are payable (except for the first Base Rental Payment period which will commence on the date of recording of the Facility Lease).

The Trust Agreement requires that the Base Rental Payments be deposited in the Revenue Fund maintained by the Trustee. In accordance with the Trust Agreement, the Trustee will transfer such amounts as are necessary to the Interest Account or the Principal Account, as the case pay be, to pay interest and principal with respect to the Bonds as the same becomes due and payable. On each Principal Payment Date, following the payment of principal of and interest on the Bonds, any excess amount in the Revenue Fund will be transferred to the Reserve Fund, as necessary, and thereafter deposited into the Revenue Fund to be applied to pay the principal of and interest on the Bonds. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE TRUST AGREEMENT—Creation of Funds and Accounts" herein.

The obligation of the City to make Base Rental payments is an obligation payable solely from amounts legally available therefor, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction or an obligation for which the City must levy or pledge, or has levied or pledged, any form of taxation.

Installment Payments

On or before the 25th day of each January and July, commencing January 25, 2008, the City shall, from the moneys in the Golf Course Revenue Fund, pay the aggregate amount of interest and principal due on the next Interest Payment Date on the Bonds as Installment Payments, which shall be deposited to the Installment Payment Fund to be held by the City. Moneys may be withdrawn solely for the purpose of paying Installment Payments to the Authority as they become due and payable on or before the 25th day of the month prior to each Interest Payment Date.

On or before the 25th day of each January and July, commencing January 25, 2008, the City shall, from the moneys in the Golf Course Revenue Fund, pay for deposit into the Reserve Fund, an amount equal to one-half of the aggregate amount of any withdrawal from the Reserve Fund in order to make a payment of principal of or interest on the Bonds, so that the Reserve Fund is replenished to the Reserve Account Requirement within one year following any such withdrawal. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Reserve Fund; Debt Service Reserve Fund Policy."

The Installment Payment Contract establishes a rate covenant that requires the City, to the extent reasonably practicable, to fix, prescribe and collect rates and charges for the Golf Course which are reasonably fair and nondiscriminatory and to establish a budget that will enable the City to collect such rates and charges and other amounts which will be at least sufficient to yield during each Fiscal Year an amount not less than the sum of: (i) the Maintenance and Operation Costs of the Golf Course for such Fiscal Year; and (ii) one (1) times the debt service on all Installment Payments for such Fiscal Year, to the extent they are then unpaid or are not discharged in accordance with their terms. All Golf Course Revenues are to be deposited to the City's Golf Course Revenue Fund, which will then be used in the following order of priority: (i) Maintenance and Operation Costs; (ii) Installment Payments; and (iii) Reserve Fund replenishment, if required.

Debt Service Schedule

The following table shows the debt service schedule relating to the Bonds:

DEBT SERVICE SCHEDULE

Bond Year (August 1)	Principal	Interest	Total	Bond Year (August 1)	Principal	Interest	Total
2008	-	$287,914.96	$287,914.96	2019	$435,000	$248,213.75	$683,213.75
2009	-	375,541.25	375,541.25	2020	450,000	230,813.75	680,813.75
2010	$305,000	375,541.25	680,541.25	2021	470,000	212,813.75	682,813.75
2011	320,000	363,341.25	683,341.25	2022	485,000	194,013.75	679,013.75
2012	330,000	350,541.25	680,541.25	2023	510,000	174,007.50	684,007.50
2013	345,000	337,341.25	682,341.25	2024	530,000	152,587.50	682,587.50
2014	360,000	323,541.25	683,541.25	2025	550,000	130,062.50	680,062.50
2015	370,000	309,141.25	679,141.25	2026	575,000	106,687.50	681,687.50
2016	385,000	294,341.25	679,341.25	2027	600,000	82,250.00	682,250.00
2017	405,000	278,941.25	683,941.25	2028	625,000	56,000.00	681,000.00
2018	420,000	263,753.75	683,753.75	2029	655,000	28,656.25	683,656.25

Golf Course Revenues

The City has covenanted that it will make Installment Payments from all Golf Course Revenues as part of the Revenues pledged under the Trust Agreement to secure the Bonds. The following table shows Golf Course Revenues and expenses for the fiscal years ended June 30, 2002 to June 30, 2006. The figures exclude depreciation.

City of San Mateo
Statement of Golf Course Revenues and Expenses
2002-2006

	2002	2003	2004	2005	2006
Operating Revenues					
Charge for Services	$2,545,562	$2,735,082	$2,524,165	$2,337,499	$2,310,981
Other	159,748	210,402	208,505	227,578	267,274
Total Operating Revenues	2,705,310	2,945,484	2,732,670	2,565,077	2,578,255
Non-Operating Revenues					
Interest Income	-	62,372	42,694	39,596	30,906
Total Revenues	**2,705,310**	**3,007,856**	**2,775,364**	**2,604,673**	**2,609,161**
Operating Expenses					
Cost of Sales & Services	1,946,264	1,006,343	928,781	1,004,985	1,363,891
Administration	-	981,124	1,014,967	1,044,304	665,710
Total Operating Expenses	1,946,264	1,987,467	1,943,748	2,049,289	2,029,601
Non-Operating Expenses					
Debt Service (1)	637,743	682,453	685,783	703,308	705,028
Fiscal Charges	991	1,094	903	421	229
Total Expenses	**2,584,997**	**2,671,013**	**2,630,433**	**2,753,017**	**2,734,857**
Income (Loss) before advances	120,313	336,843	144,931	(148,344)	(125,696)
Advances from General Fund (2)	-	-	-	27,269	120,093
Income (Loss) NON-GAAP (3)	**120,313**	**336,843**	**144,931**	**(121,075)**	**(5,603)**
NET ASSETS:					
Beg of Year Net Assets	1,516,831	1,338,769	1,270,271	1,155,497	780,320
End of Year Net Assets	1,637,144	1,675,612	1,415,202	1,034,422	774,717
Adjustments to GAAP (4)	463,375	405,341	259,705	254,102	339,639
End of Year Net Assets GAAP (5)	**$1,173,769**	**$1,270,271**	**$1,155,497**	**$780,320**	**$435,078**

(1) Debt Service interest and principal payments during the year are shown as an expense. Note that for accrual basis accounting principal payments are not treated as an expense. The City's Comprehensive Annual Financial Report ("CAFR") is compiled on an accrual basis. See Appendix C.

(2) Cash advances from General Fund were made in years the Golf fund incurred a shortfall in cash to meet operational needs.

(3) Income (loss) differs from accrual basis accounting as it excludes depreciation expense, includes principal payment expense, and advances from the general fund. As the City's CAFR is based on accrual accounting there will be differences between this statement and the City's CAFR. See Appendix C.

(4) Adjustments to GAAP are depreciation expense, bond principal payments, and advances from the General Fund.

(5) In Appendix C, see the Proprietary Funds section of the City's 2006 CAFR for additional information concerning the components of Net Assets.

The City's pledge of Golf Course Revenues constitutes a gross revenue pledge. Pursuant to the Installment Payment Contract, all Golf Course Revenues are irrevocably pledged to the payment of the Installment Payments as provided herein and the Golf Course Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided, however, that Golf Course Revenues will first be deposited in the Maintenance and Operation Fund on or before the 25th day of the month in an amount at least equal to Maintenance and Operation Costs becoming due in the next succeeding month. Golf Course Revenues may then be deposited to the Installment Payment Fund and then to the Reserve Fund, to the extent necessary to increase the amount therein to the Reserve Fund Requirement.

Reserve Fund

Upon issuance of the Bonds, there shall be deposited in the Reserve Fund established pursuant to the Trust Agreement from the proceeds of the Bonds an amount sufficient to cause the amount on deposit therein to be at least equal to maximum annual debt service on the Bonds (the "Reserve Fund Requirement"). All money in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on or principal of the Bonds or for the retirement of all the Bonds then outstanding, except that so long as the Authority is not in default under the Trust Agreement, any cash amounts in the Reserve Fund in excess of the Reserve Fund Requirement may be withdrawn from the Reserve Fund and deposited in the Revenue Fund. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE TRUST AGREEMENT—Creation of Funds and Accounts—*Revenue Fund*" herein.

A surety bond or insurance policy may be issued to the Trustee, on behalf of the Bondowners, to be deposited in the Reserve Fund to meet the Reserve Fund Requirement, subject to the terms and conditions of the Trust Agreement. Any such surety bond or insurance policy issued to the Trustee, on behalf of the Bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds (a "municipal bond insurer") if such municipal bond insurer shall be rated in the highest rating categories issued by Moody's and by S&P, or a letter of credit issued or confirmed by a state or national bank, or a foreign bank with an agency or branch located in the continental United States, which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category by Moody's and S&P, or any combination thereof.

Upon the issuance of the Bonds, a Debt Service Reserve Fund Policy will be provided by the Bond Insurer. See "BOND INSURANCE—Debt Service Reserve Fund Policy."

Abatement

Base Rental Payments are paid by the City in each rental payment period for and in consideration of the right of use and occupancy of the Facilities during each such period for which said rental is to be paid. The Base Rental Payments and Additional Payments shall be abated proportionately during any period in which by reason of any damage or destruction (other than by condemnation which is hereinafter provided for) there is substantial interference with the use and occupancy of the Facilities by the City, in the proportion in which the initial cost of that portion of the Facilities rendered unusable bears to the initial cost of the whole of the Facilities, including the Demised Premises. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Facility Lease shall continue in full force and effect and the City waives any right to terminate the Facility Lease by virtue of any such damage or destruction. In the event the Facilities cannot be repaired during the period of time that proceeds of the City's rental interruption insurance will be available in lieu of Base Rental Payments (a period of two years) plus the period for which funds are available from the Reserve Fund, or in the event that casualty insurance proceeds are insufficient to provide for complete repair of the Facilities, there could be insufficient funds to cover payments to Bondowners in full. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—FACILITY LEASE—Rental Abatement" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Insurance" herein.

Insurance

The Facility Lease requires the City to maintain or cause to be maintained throughout the term of the Facility Lease insurance against loss or damage to any structures constituting any part of the Facilities by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance and earthquake insurance, if available on the open market from reputable insurance companies at a reasonable cost, as determined by the City. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the replacement cost (without deduction for depreciation) of all structures constituting any part of the Facilities, excluding the cost of excavations, of grading and filling, and of the land (except that such insurance may be subject to deductible clauses for any one loss of not to exceed $250,000 or comparable amount adjusted for inflation or more in the case of earthquake insurance), or, in the alternative, shall be in an amount and in a form sufficient (together with moneys held under the Trust Agreement), in the event of total or partial loss, to enable all outstanding Bonds to be redeemed.

The Facility Lease requires the City to maintain or cause to be maintained throughout the term of the Facility Lease insurance against loss or damage by flood to any structures constituting any part of the Facilities but which insurance may also cover other properties of the City. Such insurance shall be in an amount equal to the lesser of (i) the amount of the replacement cost (without deduction for depreciation) of all structures constituting any part of the Facilities and any other properties of the City so insured, excluding the cost of excavations, of grading and filling, and of the land or (ii) $10,000,000 on a per occurrence basis subject to an aggregate claim limit of $100,000,000 (except that such insurance may be subject to deductible clauses for any one loss of not to exceed $250,000 or comparable amount adjusted for inflation) or, in the alternative, shall be in an amount and in a form sufficient (together with moneys held under the Trust Agreement), in the event of total or partial loss, to enable all outstanding Bonds to be redeemed. Such insurance may be provided by the California Municipal Excess Liability Program or a similar entity.

In the event of any damage to or destruction of any part of the Facilities, caused by the perils covered by such insurance, the Authority is to cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Facilities, and the Trustee is to hold said proceeds separate and apart from all other funds, in a special fund to be designated the "Insurance and Condemnation Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Facilities to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The Trustee will permit withdrawals of said proceeds from time to time upon receiving the Written Request of the Authority, stating that the Authority has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred. Any balance of said proceeds not required for such repair, reconstruction or replacement shall be treated by the Trustee as Base Rental Payments and applied in the manner provided by the Trust Agreement. Alternatively, the Authority, at its option, with the written consent of the City, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to redeem an aggregate principal amount of outstanding Bonds, equal to the amount of Base Rental attributable to the portion of the Facilities so destroyed or damaged (determined by reference to the proportion which the cost of such portion of the Facilities bears to the cost of the Facilities), may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Facilities and thereupon shall cause said proceeds to be used for the redemption of outstanding Bonds pursuant to the provisions of the Trust Agreement.

The Authority and the City shall promptly apply for Federal disaster aid or State of California disaster aid in the event that the Facilities are damaged or destroyed as a result of an earthquake occurring at any time. Any proceeds received as a result of such disaster aid shall be used to repair, reconstruct, restore or replace the damaged or destroyed portions of the Facilities, or, at the option of the City and the Authority, to redeem outstanding Bonds if such use of such disaster aid is permitted.

Under the Facility Lease, the City is required to maintain or cause to be maintained, throughout the term of the Facility Lease, a standard comprehensive general liability insurance policy or policies in protection of the Authority and its members, directors, officers, agents and employees and the Trustee, indemnifying said parties against all direct or contingent loss or liability for damages for personal injury, death or property damage occasioned by reason of the operation of the Facilities, with minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of $200,000 for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of $3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the City.

As an alternative to providing the fire and extended coverage insurance or the liability insurance required by the Facility Lease, or any portion thereof, the City may provide a self insurance method or plan of protection if and to the extent such self insurance method or plan of protection shall afford reasonable coverage for the risks required to be insured against, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the City. Participation by the City in an insurance program established by or pursuant to a joint powers authority shall not constitute a self insurance method or plan of protection that requires the prior written consent of the Authority and the Bond Insurer. So long as such method or plan is being provided to satisfy the requirements of the Facility Lease, there shall be filed annually with the Trustee a statement of an actuary, insurance consultant or other qualified person (which may be the Risk Manager of the City), stating that, in the opinion of the signer, the substitute method or plan of protection is in accordance with the requirements of this Section and, when effective, would afford reasonable coverage for the risks required to be insured against. There shall also be filed a Certificate of the City setting forth the details of such substitute method or plan. In the event of loss covered by any such self insurance method, the liability of the City hereunder shall be limited to the amounts in the self insurance reserve fund or funds created under such method.

Under the Facility Lease, the City is also required to maintain or cause to be maintained rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from or the use of the Facilities as the result of any of the hazards covered by its fire and extended coverage insurance (provided with respect to earthquake insurance, only if available on the open market from reputable insurance companies at a reasonable cost, as determined by the City), in an amount sufficient to pay the part of the total rent hereunder attributable to the portion of the Facilities rendered unusable (determined by reference to the proportion which the cost of such portion bears to the cost of the Facilities) for a period of at least two years, except that such insurance may be subject to a deductible clause of not to exceed two hundred fifty thousand dollars ($250,000) or a comparable amount adjusted for inflation (or more in the case of earthquake coverage). Any proceeds of such insurance shall be used by the Trustee to reimburse to the City any rental theretofore paid by the City under the Facility Lease attributable to such structure for a period of time during which the payment of rental under the Facility Lease is abated, and any proceeds of such insurance not so used shall be applied as provided in the Facility Lease and any remainder shall be treated as Revenue under the Trust Agreement.

The City is also required under the Facility Lease to obtain, for the benefit of the Authority, title insurance on the Demised Premises, in an amount equal to the aggregate principal amount of the Bonds.

Additional Bonds

Additional Bonds may be issued on a parity with the Bonds upon the terms and subject to the conditions set forth in the Trust Agreement, which includes the prior written consent of the Bond Insurer. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE TRUST AGREEMENT—Additional Bonds" herein.

Investment of Bond Funds

Pursuant to the Trust Agreement, all money held by the Trustee in any of the funds or accounts established pursuant to the Trust Agreement are required to be invested only in "Investment Securities" as defined in the Trust Agreement. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—CERTAIN DEFINITIONS" herein.

For a further description of the provisions of the Facility Lease, including the terms thereof and a description of certain covenants therein, including construction, maintenance, utilities, taxes, assessments, insurance and events of default and available remedies, see “SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—Facility Lease” in APPENDIX D attached hereto.

For information regarding the City, see APPENDIX A and APPENDIX C attached hereto. See also “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” herein.

BOND INSURANCE

The following information concerning the Bond Insurer and the Policy has been provided by Financial Guaranty Insurance Company, doing business in California as FGIC Insurance Company ("Financial Guaranty") and has not been independently certified or verified by the Authority or the City. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. Reference is made to APPENDIX I for a specimen of the Policy

Financial Guaranty has supplied the following information for inclusion in this Official Statement. No representation is made by the Authority, the City or the underwriter as to the accuracy or completeness of this information.

Payments Under the Policy

Concurrently with the issuance of the Bonds, Financial Guaranty will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the “Policy”). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority. Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the “Fiscal Agent”), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Bonds or the Trustee or paying agent (if any) of the nonpayment of such amount by the Authority. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner’s right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner’s rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term “nonpayment” in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and will be fully subrogated to all of the Bondholder’s rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Authority, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Bonds, Financial Guaranty may be granted certain rights under the Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law. The Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

Financial Guaranty Insurance Company

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At June 30, 2007, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York's comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders' surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At June 30, 2007, Financial Guaranty had net admitted assets of approximately $4.040 billion, total liabilities of approximately $2.944 billion, and total capital and policyholders' surplus of approximately $1.096 billion, determined in accordance with statutory accounting practices ("SAP") prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements as of June 30, 2007, and the audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles ("GAAP"), as of December 31, 2006 and December 31, 2005, which will be filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs"), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading "BOND INSURANCE," the subheading "Debt Service Reserve Fund Policy" or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's audited SAP financial statements.

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. Financial Guaranty does not guarantee the market price or investment value of the Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "BOND INSURANCE" and the subheading "Debt Service Reserve Fund Policy." In addition, Financial Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds.

Debt Service Reserve Fund Policy

The following information concerning Financial Guaranty and the Debt Service Reserve Fund Policy has been provided by Financial Guaranty and has not been independently certified or verified by the Authority or the City. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct.

The Reserve Policy. Concurrently with the issuance of the Bonds, Financial Guaranty will issue its Municipal Bond Debt Service Reserve Fund Policy (the "Reserve Policy"). The Reserve Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Authority, provided that the aggregate amount paid under the Reserve Policy may not exceed the Reserve Fund Requirement. Financial Guaranty will make such payments to the Trustee on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Trustee of the nonpayment of such amount by the Authority. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

The Reserve Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Reserve Policy covers failure to pay principal or accreted value (if applicable) of the Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The Reserve Policy shall terminate on the earlier of the scheduled final maturity date of the Bonds as of the issuance date of the Reserve Policy or the date on which no Bonds are outstanding under the authorizing document.

Generally, in connection with its issuance of a Reserve Policy, Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Reserve Policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Bonds or (B) remedies which would adversely affect holders in the event that the Authority fails to reimburse Financial Guaranty for any draws on the Reserve Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its issuance of the Reserve Policy may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Authority is required to provide additional or substitute credit enhancement, and related matters.

The Reserve Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law. The Reserve Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

For additional information concerning Financial Guaranty, see "BOND INSURANCE—Financial Guaranty Insurance Company."

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "BOND INSURANCE" and the subheading "Debt Service Reserve Fund Policy." In addition, Financial Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds.

RISK FACTORS

General

The following factors, which represent material risk factors that have been identified at this time, should be considered along with all other information in this Official Statement by potential investors in evaluating the Bonds. There can be no assurance made that other risk factors will not become evident at any future time.

The Bonds are payable solely from the Revenues of the Authority under the Trust Agreement consisting primarily of the Base Rental Payments payable by the City pursuant to the Facility Lease and Installment Payments payable by the City pursuant to the Installment Payment Agreement for the beneficial use and occupancy of the Facilities.

The practical realization of any rights upon default by the City under the Facility Lease will depend upon the exercise of various remedies specified in such instrument, as restricted by state and federal law. The federal bankruptcy laws may have an adverse effect on the ability of the Trustee to enforce its rights under the Trust Agreement and of the Authority to enforce its rights under the Facility Lease. See "Limitation on Remedies" herein.

In certain situations, with the consent of the Owners of a majority in aggregate principal amount of the Outstanding Bonds, certain amendments to the Trust Agreement, the Installment Payment Agreement and the Facility Lease may be made. Such amendments could affect the security of the Bondholders.

Future economic and other conditions may adversely affect the value or essential nature of the Facilities and, consequently, the value of the Facilities to the Authority in exercising available remedies upon default by the

City. In addition, there are certain other factors discussed herein as a result of which certain remedies available to the Trustee or the Authority may not be a viable option.

Limited Obligation

The Bonds are limited obligations of the Authority and are payable solely from the Revenues (as described herein), and the Authority is not obligated to pay the principal of or the interest on the Bonds except from the Revenues. All Bonds are equally and ratably secured in accordance with the terms and conditions of the Trust Agreement by a pledge of and charge and lien upon the Revenues, and the Revenues constitute a trust fund for the security and payment of the Bonds as provided in the Trust Agreement. The Bonds are not a debt of the City or any member of the Authority, and neither the City nor any member of the Authority is liable thereon, nor in any event will the Bonds be payable out of or secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. Neither the full faith and credit of the Authority, the City nor any member of the Authority is pledged for the payment of the principal of or interest on the Bonds or for the payment of Base Rental Payments. Neither the payment of the principal of or interest on the Bonds nor the obligation to make Base Rental Payments constitutes a debt, liability or obligation of the Authority, the City nor any member of the Authority for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

Base Rental Payments

General. The Base Rental Payments and Additional Payments due under the Facility Lease (including insurance, payment of costs of repair and maintenance of the Facilities, taxes and other governmental charges and assessments levied against the Facilities) are not secured by any pledge of taxes or other revenues of the City but are payable from any funds lawfully available to the City. The City will incur other obligations in the future payable from the same sources as the Base Rental Payments. In the event the City's revenue sources are less than its total obligations, the City could choose to fund other City services before making Base Rental Payments. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. The City's appropriations, however, have never exceeded the limitation on appropriations under Article XIIIB of the California Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS - Article XIII B of the State Constitution" herein.

Covenant to Budget and Appropriate. Pursuant to the Facility Lease, the City covenants to take such action as may be necessary to include Base Rental Payments due in its annual budgets and to make the necessary annual appropriations for all such payments. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS - Base Rental Payment Provisions" herein. Such covenants are deemed to be duties imposed by law, and it is the duty of the public officials of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform such covenants. A court, however, in its discretion may decline to enforce such covenants. Upon issuance of the Bonds, Bond Counsel will render its opinion (substantially in the form of Appendix F attached hereto) to the effect that, subject to the limitations and qualifications described therein, the Facility Lease constitutes a valid and binding obligation of the City. As to the Trustee's or the Authority's practical realization of remedies upon default by the City, see "Limitations on Remedies" herein.

Installment Payments

The Installment Payments due under the Installment Payment Agreement (including payment of Operating and Maintenance Expenses of the Golf Course) are not secured by any pledge of taxes or other revenues of the City but are payable from the Golf Course Revenues. The City covenants in the Facility Lease, to the extent reasonably practicable, to fix, prescribe and collect rates and charges for the Golf Course which are reasonably fair and nondiscriminatory and to establish a budget that will enable the City to collect such rates and charges and other amounts which will be at least sufficient to yield during each Fiscal Year an amount not less than the sum of: (i) the Maintenance and Operation Costs of the Golf Course for such Fiscal Year; and (ii) one (1) times the debt service on all Installment Payments for such Fiscal Year, to the extent they are then unpaid or are not discharged in accordance with their terms. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – Installment Payments" herein. Such covenants are deemed to be duties imposed by law, and it is the duty of the public officials of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform such covenants. A court, however, in its discretion may decline to enforce such covenants. As to the Trustee's or the Authority's practical realization of remedies upon default by the City, see "Limitations on Remedies" herein.

Abatement Risk

During any period in which, by reason of material damage or destruction, there is substantial interference with the use and occupancy by the City of any portion of the Facilities, rental payments due under the Facility Lease with respect to the Facilities will be abated proportionately, and the City waives any and all rights to terminate the Facility Lease by virtue of any such interference and the Facility Lease shall continue in full force and effect. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Abatement" herein.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the total Base Rental Payments due over the term of the Facility Lease nor of the total Installment Payments due under the Installment Payment Agreement, and the Trustee is not empowered to sell a fee simple interest in the Facilities and use the proceeds of such sale to prepay the Bonds or pay debt service thereon. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest as described below.

Limitation on Remedies

The enforcement of any remedies provided in the Installment Payment Agreement, the Facility Lease and the Trust Agreement could prove both expensive and time consuming. Although the Facility Lease provides that if the City defaults the Trustee may reenter the Facilities and re-let it, portions of the Facilities may not be easily recoverable, and even if recovered, could be of little value to others because of the Facilities' specialized nature. Additionally, the Trustee may have limited ability to re-let the Facilities to provide a source of rental payments sufficient to pay the principal and interest on the Bonds so as to preserve the tax-exempt nature of interest on the Bonds. The Trustee is not obligated to re-let the Facilities in a manner so as to preserve the tax-exempt nature of interest on the Bonds. Furthermore, due to the governmental nature of the Facilities, it is not certain whether a court would permit the exercise of the remedy of re-letting with respect thereto.

Alternatively, the Trustee may terminate the Facility Lease and proceed against the City to recover damages pursuant to the Facility Lease. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

The rights of the Owners of the Bonds are subject to certain limitations on legal remedies against cities and other governmental entities in the State, including but not limited to a limitation on enforcement against funds that are otherwise needed to serve the public welfare and interest. Additionally, the rights of the Owners of the Bonds may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, or similar laws limiting or otherwise affecting the enforcement of creditors' rights generally (as such laws are now or hereafter may be in effect), (ii) equity principles (including but not limited to concepts of materiality, reasonableness, good faith and fair dealing) and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or law, (iii) the exercise by the United States of America of the powers delegated to it by the Constitution, and (iv) 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. Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs bankruptcy proceedings for public agencies, there are no involuntary petitions in bankruptcy. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners, the Trustee and the Authority could be prohibited or severely restricted from taking any steps to enforce their rights under the Facility Lease and from taking any steps to collect amounts due from the City under the Facility Lease.

City Obligations

The City has a significant amount of obligations payable from its general fund, including but not limited to capital lease obligations and other obligations related to retirement benefits and other post employment benefits as well as certain other liabilities. See APPENDIX A - "THE CITY OF SAN MATEO: ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION" herein.

Risk of Earthquake

The City and the Facilities are located in a seismically active region within the vicinity of several active and inactive faults, including the San Andreas fault line, which runs within approximately two miles of the City. The City could sustain extensive damage to its facilities in a major earthquake which could result in the closing of the Facilities for extended periods of time.

In October 1989, the Loma Prieta earthquake, measuring 7.1 on the Richter scale and with an epicenter approximately 45 miles southeast of the City, struck the San Francisco Bay Area. The Loma Prieta earthquake was the largest earthquake to strike the San Francisco Bay area since 1906. The City received no substantial damage as a result of the Loma Prieta earthquake.

The City is not obligated under the Facility Lease to maintain earthquake insurance on the Facilities. In the event of damage or destruction to the Facilities caused by perils for which the City does not provide insurance and is not required to provide insurance under the Facility Lease, the City is not obligated to repair, replace or reconstruct the Facilities. If an earthquake were to cause serious damage to the Facilities during any period when such facilities were not insured for earthquake damage, or if the proceeds of any earthquake insurance were insufficient to replace or repair the damaged Facilities, the City would be limited to its General Fund, reserves, and emergency grants, if any, in seeking to make appropriate repairs. Pending such repairs, the City's obligation to make Base Rental Payments would be subject to abatement and rental interruption insurance proceeds likely would not cover losses caused by earthquakes. The City will not be obligated to repair or restore the Facilities in the event of uninsured damage caused by an earthquake. See "RISK FACTORS – Abatement Risk." While the obligation of the City to make Installment Payments under the Installment Payment Agreement would continue following an earthquake, the damage caused by an earthquake could materially adversely affect the amount of Golf Course Revenues and the City's obligation to make Installment Payments from Golf Course Revenues.

Hazardous Substances

Owners and operators of real property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly and adversely affect the operations and finances of the City.

The City knows of no existing hazardous substances which require remedial action on or near the Facilities. However, it is possible that such substances do currently or potentially exist and that the City is not aware of them.

Flood Risk

The Federal Emergency Management Agency ("FEMA") as part of its National Flood Insurance Program ("NFIP"), prepared a Flood Insurance Study ("FIS") for the City beginning in 1996. The FIS modified the City's Flood Insurance Rate Map ("FIRM") and corresponding base flood elevations ("BFEs"), which are flood elevations that, according to methodology used by FEMA, have a 1% probability (100-year storm or tide) of occurring in any given year. A revised FIRM that includes a portion of the City in Zone AE, a designated special flood hazard area, became effective on October 19, 2001. Properties within Zone AE that have federally insured mortgages (virtually all institutional lenders are federally insured) are required to purchase flood insurance.

According to the FIRM, a portion of the property in the Golf Course is within Zone AE. Damage from flooding could adversely affect the Golf Course and Golf Course Revenues available to pay debt service on the Bonds.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIIIA of the State Constitution

Article XIIIA of the State Constitution, known as Proposition 13, was approved by California voters in June 1978. Section 1(a) of Article XIIIA limits the maximum ad valorem tax on real property to one percent of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIIIA provides that the one percent 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, (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 or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition.

Section 2 of Article XIIIA defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 fiscal year tax bill or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed two percent per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be 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 XIIIA provides that, notwithstanding any other law, local agencies may not levy any additional ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIIIA, which is $1.00 per $100 of taxable value.

Since its adoption, Article XIIIA has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be assessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIIIA.

Article XIIIB of the State Constitution

In addition to the limits Article XIIIA imposes on property taxes that may be collected by local governments, certain other revenues of the State and most local governments are subject to an annual "appropriations limit" imposed by Article XIIIB of the State Constitution, which limits the amount of revenues that government entities are permitted to spend. Article XIIIB, approved by California voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to "proceeds of taxes," which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service." "Proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds.

Article XIIIB also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Proposition 111 requires that each governmental entity's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to such entity's taxpayers through tax rate or fee reductions over the following two years.

The City has estimated that for the 2007-08 Fiscal Year, permitted appropriations of "proceeds of taxes" are limited to $130,661,565, and the City's budgeted appropriations from the proceeds of taxes for the 2007-08 Fiscal Year are within such limit.

Articles XIIIC and XIIID of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218 – the "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which affect the ability of local governments, including cities, to impose new, or increase or extend existing, taxes, assessments, fees and charges. Proposition 218 became effective on November 6, 1996, although application of some of its provisions was deferred until July 1, 1997.

Article XIIIC requires that all new local taxes be submitted to the electorate for approval before such taxes becomes effective. General taxes imposed for general governmental purposes of the City require a majority vote and special taxes imposed for specific purposes (even if deposited in the general fund) require a two-thirds vote. The voter approval requirements of Article XIIIC reduce the flexibility of local governments to deal with fiscal problems by raising revenue through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if they were approved by voters by November 6, 1998. Any tax levied by the City subject to such approval has been either authorized in accordance with Proposition 218 or discontinued.

Among other things, Section 3 of Article XIIIC states that ". . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge." Absent the application of other legal authority, Section 3 of Article XIIIC could result in a local initiative measure to retroactively reduce or repeal the Assessment.

Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIIIC and Article XIIID ("SB 919") provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters within the City will not, in the future, approve an initiative that reduces or repeals local taxes, assessments, fees or charges or what limitations, if any, future court decisions may place on the initiative power granted under Article XIIIC.

The City raises a portion of its revenues from various local taxes which could be reduced by initiative under Article XIIIC. "Assessment," "fee" and "charge" are not defined in Article XIIIC and it is not clear whether the definitions of these terms in Article XIIID (which are generally property-related, as described below) would be applied to Article XIIIC. However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil* (Kelley) that charges for ongoing water delivery are property related fees and charges within the meaning of Article XIIID and are also fees or charges within the meaning of Section 3 of Article XIIIC.

Article XIIID contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" for local services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon real property, and expressly includes standby charges. Article XIIID also includes new provisions affecting "fees" and "charges," defined for purposes of Article XIIID to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a county 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 existing property related fees and charges must conform to specific requirements and prohibitions set forth in Article XIIID. 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 (or fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIIID), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge, or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues. The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Statutory Limitations

On November 4, 1986, California voters adopted Proposition 62, a statutory initiative which, among other matters, requires (i) that any tax for general governmental purposes imposed by local governmental entities be approved by a majority vote of the voters voting in an election on the issue, (ii) 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 voting in an election on the issue, and (iii) that the revenues from a special tax be used for the purposes or for the services for which the special tax was imposed.

On September 28, 1995, the California Supreme Court filed its decision in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995), which upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a "special tax" as required by Proposition 62. The *Santa Clara* decision did not address the question of whether or not it should be applied retroactively.

In mid-2001, the California Supreme Court issued its decision in *Howard Jarvis Taxpayers Association et al v. City of La Habra*, 25 Cal. 4th 809 (2001), in which it concluded, in part, that if a tax is illegal, the statute of limitations applicable thereto begins to run anew with each collection of that tax.

Proposition 62 as an initiative statute does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. Since the passage of Proposition 218, however, certain provisions of Proposition 62 (e.g., voter approval of taxes) are governed by the State Constitution. For a discussion of taxes affected by Proposition 218 see "Articles XIIIC and XIIID of the California Constitution" above.

If a court determined that a jurisdiction imposed a tax in violation of Proposition 62, Proposition 62 would require that the portion of the 1% general ad valorem property tax levy allocated to that jurisdiction be reduced by $1 for every $1 in revenue attributable to the tax for each year that the tax had been collected.

Proposition 1A

Proposition 1A, proposed by the State Legislature in connection with the 2004-05 Budget Act, approved by the voters in November 2004 and generally effective in Fiscal Year 2006-07, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the vehicle license fee rate currently in effect, 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing spending on other State programs or other action, some of which could be adverse to the finances of the City.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID of the State Constitution and the statutes added by Proposition 62 and Proposition 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

THE AUTHORITY

The City of San Mateo Joint Powers Financing Authority was formed pursuant to the provisions of Articles 1 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the "Act") and a Joint Exercise of Powers Agreement dated April 1, 1998 and amended June 1, 1999 (the "Joint Powers Agreement"), by and between the City and the Redevelopment Agency of the City of San Mateo (the "Agency"). The Joint Powers Agreement authorizes the Authority, among other things, to provide financing for public capital improvements and working capital for the City and the Agency through the lease, acquisition or construction of such public capital improvements, all as authorized by the Act.

The Authority functions as an independent entity and its policies are determined by its Governing Board, which is comprised of the members of the City Council and the members of the Board of the Agency. The members of the City Council serve as the members of the Board of the Agency. The Authority has no employees and all staff work is done by the City staff or by consultants to the Authority. The Finance Director of the City has been designated as Treasurer/Auditor of the Authority. The Treasurer/Auditor of the Authority has charge of, handles, and has access to any property of the Authority, has custody of all the money of the Authority from whatever source, and is required to perform the other functions of Treasurer/Auditor of the Authority as set forth in the Act.

The Authority, the City and the Agency are each separate and distinct legal entities, and the debts and obligations of any one such entity are not debts or obligations of the other entity.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED SOLELY BY THE REVENUES PLEDGED UNDER THE TRUST AGREEMENT. NEITHER THE PAYMENT OF THE PRINCIPAL OF NOR INTEREST ON THE BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE CITY OR THE AGENCY.

CITY FINANCIAL INFORMATION

The City covenants to annually budget and appropriate sufficient funds to make all Base Rental Payments due under the Facility Lease. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein. For further information concerning the financial condition of the City, see APPENDIX A — "THE CITY OF SAN MATEO - ECONOMIC, DEMOGRAPHIC AND FINANCIAL INFORMATION" and APPENDIX C — "AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

Upon the issuance of the Bonds, the City will execute and deliver its certificate to the effect that to the best of the City's knowledge, with respect to the information concerning the City contained in this Official Statement, no event affecting the City has occurred since the date of this Official Statement which either makes untrue or incorrect in any material respect, as of the date of the issuance of the Bonds, any statement or information contained in this Official Statement relating to the City or the Project or is not reflected in this Official Statement but should be reflected herein in order to make the statements and information herein relating to the City or the Project not misleading in any material respect.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 270 days following the end of the City's Fiscal Year (presently June 30) (the "Annual Report"), commencing with the report for the 2006-07 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Trustee on behalf of the City with each Nationally Recognized Municipal Securities Information Repository and with a State Repository, if any (collectively, the "Repositories"). The notices of material events will be filed by the Trustee on behalf of the City with the Municipal Securities Rulemaking Board and with the Repositories. The specific procedure for filing with the Repositories, the nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption APPENDIX E— "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the underwriters of the Bonds in complying with Securities Exchange Commission Rule 15c2-12(b)(5).

The City has never failed to comply in all material respects with its previous undertakings to provide annual reports and notices of material events pursuant to said rule.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of

1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

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

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the City have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

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

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

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, on May 21, 2007, the United States Supreme Court agreed to hear an appeal from a Kentucky state court which ruled that the United States Constitution prohibited the state from providing a tax exemption for interest on bonds issued by the state and its political subdivisions but taxing interest on obligations issued by other states and their political subdivisions. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. A copy of the proposed form of Bond Counsel opinion with respect to the Bonds is contained in Appendix F hereto. Certain legal matters will be passed upon for the Authority and the City by Shawn Mason, Esq., City Attorney. Certain legal matters will be passed upon for the Authority by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel.

LITIGATION

There is no controversy or litigation of any nature now pending or, to the knowledge of their respective officers, threatened against the City or the Authority restraining or enjoining the issuance or sale of the Bonds or in any way contesting or affecting the validity of the Bonds, any proceedings of the City or the Authority taken concerning the issuance or sale thereof, the pledge or application of any monies or security provided for the payment of the Bonds, or existence or powers of the City or the Authority relating to the issuance of the Bonds.

FINANCIAL ADVISORS

Kitahata & Company, San Francisco, California, and William Euphrat Municipal Finance, Inc., San Francisco, California (the "Financial Advisors") have served as financial advisors to the Authority on the issuance of the Bonds. Both firms are independent financial advisors that are not engaged in the underwriting, sale or trading of municipal securities. The Financial Advisors have read and participated in the drafting of certain portions of this Official Statement. The Financial Advisors have not audited, authenticated or otherwise verified the information set forth in the Official Statement, or any other related information available to the City or the Authority with respect to the accuracy and completeness of the disclosure of such information, and the Financial Advisors make no guaranty, warranty or other representation respecting the accuracy and completeness of the Official Statement or any other matter related to the Official Statement. The fee to be paid to the Financial Advisors for services rendered with respect to the Bonds is contingent upon the sale and issuance of the Bonds.

RATINGS

Standard & Poor's is expected to assign the Bonds the rating of "AAA" based upon the delivery concurrently with the delivery of the Bonds of the Policy by the Bond Insurer. Such rating expresses only the views of the rating agency and any explanation of the significance of such rating should be obtained from the rating agency. Such rating is not a recommendation to buy, sell or hold the Bonds. There is no assurance that such rating will continue for any given period of time or that it will not be revised, either downward or upward, or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. The Authority, the City and the Trustee undertake no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased for reoffering by Citigroup Global Markets Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of $9,033,750.00 (representing the principal amount of the Bonds, plus an original issue premium of $47,208.45, less an Underwriter's discount of $138,458.45). The Underwriter will purchase all of the Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the purchase contract relating to the Bonds.

EXECUTION AND DELIVERY

The preparation and distribution of this Official Statement have been authorized by the Authority and the City.

CITY OF SAN MATEO JOINT POWERS
FINANCING AUTHORITY

By: ____
Controller

CITY OF SAN MATEO

By: ____
City Manager

APPENDIX A

THE CITY OF SAN MATEO: ECONOMIC, DEMOGRAPHIC, AND FINANCIAL INFORMATION

General

The City of San Mateo (the "City") is located on the San Francisco Peninsula, approximately 20 miles south of San Francisco and 30 miles north of San Jose. The City is at the northern end of the electronics research and manufacturing area known as Silicon Valley. San Mateo has long been recognized as a prime residential community conveniently located mid-way between major areas of employment to the north and the south. The City's strategic location at the crossroads of major freeways (Interstate 280, U.S. 101 and State Route 92) and its proximity to San Francisco International Airport (8 miles north) have contributed to its reputation as a desirable residential and commercial location on the San Francisco Peninsula.

The City, as the second most populous city in San Mateo County (the "County"), occupies 14.6 square miles. The City's population was 95,510 as of June 2007 according to the State Department of Finance. A portion of the northeastern boundary of the City fronts on San Francisco Bay and the Pacific Ocean is about 12 miles west of the City.

The County embraces the major portion of the San Francisco Peninsula. The County occupies 454 square miles with approximately 25 miles of San Francisco Bay frontage and 55 miles of Pacific Ocean coastline.

Municipal Services

The information below is from the City and is current as of as of June 30, 2006.

Police and Fire. The City has 264.86 full-time equivalent ("FTE") public safety employees, which is more than one-third of the City total of 679.12 FTEs in all categories. The Police Department every day receives an estimated average of 330 police telephone calls, 150 police service calls, 70 Emergency 9-1-1 calls and 5,000 radio messages. Six fire stations are strategically located throughout the City which house six engine companies, two aerial truck companies and two reserve engines. All first-line apparatus is diesel powered and equipped with the latest firefighting equipment.

Parks and Recreation. The City's Park and Recreation Department offers a varied, year-round recreation program to all ages. The City has six community centers and two swim centers. The King Center, with a swimming pool and indoor gymnasium, is one of the largest recreation centers in the County.

The City has 30 developed parks and playgrounds totaling 200 acres; three open space areas; an 18-hole municipal golf course with clubhouse facilities; a marina lagoon with two beaches and small craft launching facilities; tennis courts; baseball diamonds and two public swimming pools.

Library. The City has recently completed a new main library and renovated its two branch libraries, funded in part from $35 million of general obligation bonds authorized by the City's electorate in 1999. In addition, the Peninsula Library System makes library services available to all library users of the seven municipal libraries, the County's 11 libraries and the three campuses of the San Mateo Community College District through a shared network and database access to over 2.5 million volumes and delivery service.

Population

The following table shows the City's population every ten years from 1960 to 2000, and as of January 2007.

TABLE A-1
CITY OF SAN MATEO
Population

Year (January 1)	City of San Mateo	% Increase
1960	69,870	
1970	78,991	13.1%
1980	77,561	-1.8%
1990	85,486	10.2%
2000	92,482	8.2%
2006	94,315	2.0%
2007	95,510	3.3%

Source: City of San Mateo, State Department of Finance.

Employment and Industry

The City is a major administrative headquarters and financial center for private enterprise on the San Francisco Peninsula, as well as being conveniently located for residents who commute north to San Francisco, east to the East Bay or south to the area known as "Silicon Valley" in southern San Mateo County and Santa Clara County, all major employment centers for individuals residing on the San Francisco Peninsula.

Employment

The following table presents annual labor force and employment data for the City for the years 2002 through 2006.

TABLE A-2
CITY OF SAN MATEO
Unemployment Rate
2002 through 2006

Year	Rate of Unemployment
2002	5.0%
2003	5.1%
2004	5.1%
2005	4.2%
2006	3.4%

Source: City of San Mateo.

Retail Sales

The table below provides a detailed summary of transactions subject to sales and use tax by type of business for the City for the years 2001 through 2005.

TABLE A-3
CITY OF SAN MATEO
Detail of Taxable Transactions 2001-2005
($ in 000)

Type of Business	2001	2002	2003	2004	2005
Apparel Stores	$106,173	$100,126	$101,195	$106,014	$115,202
General Merchandise Stores	290,967	273,069	270,524	275,493	278,143
Food Stores	66,500	64,708	67,812	66,134	67,673
Eating and Drinking Places	145,339	136,937	143,406	157,019	166,439
Home Furnishings and Appliances	115,871	107,024	101,649	101,981	103,054
Bldg. Materials & Farm Implements	98,735	97,973	95,766	111,292	101,610
Auto Dealers & Auto Supplies	122,810	111,093	110,227	122,923	127,743
Service Stations	87,456	76,907	92,255	98,022	107,434
Other Retail Stores	273,416	236,814	234,262	217,753	219,624
Retail Stores Total	1,307,267	1,204,651	1,217,096	1,256,631	1,286,922
All Other Outlets	260,373	230,373	207,453	187,955	189,506
Total All Outlets	$1,567,640	$1,435,024	$1,424,549	$1,444,586	$1,476,428
Number Retail Store Permits	1,456	1,513	1,651	1,719	1,742
Number Permits All Outlets	3,630	3,626	3,726	3,701	3,651

Assessed Valuation, Property Tax Levies and Collections

The table below sets forth a ten-year history of the City's assessed valuation. Real and personal property categories include both secured and unsecured property. Total assessed value has grown by an average annual rate of approximately 8% over this ten-year period.

TABLE A-4
CITY OF SAN MATEO
Assessed Valuations of Real and Personal Property
($ in 000)

Fiscal Year	Real Property	Personal Property	Exemptions	Net Total Assessed Value	Percent Increase
1998-99	7,750,874	459,783	397,807	7,887,976	9.9%
1999-00	8,424,599	506,524	335,752	8,595,371	9.0%
2000-01	9,184,776	489,892	305,634	9,369,034	9.0%
2001-02	10,312,505	564,521	323,302	10,553,724	12.6%
2002-03	11,008,836	620,819	350,129	11,279,526	6.9%
2003-04	11,568,477	478,198	371,420	11,675,255	3.5%
2004-05	12,344,962	440,918	411,532	12,374,348	6.0%
2005-06	13,193,778	396,334	422,313	13,167,799	6.4%
2006-07	14,441,105	366,071	494,189	14,312,987	8.7%
2007-08	15,627,186	317,188	447,993	15,496,381	8.3%

Source: City of San Mateo.

The next table shows total property tax levies and collections for the ten year period through 2005-06. Data in this table includes the basic and supplemental City property taxes and subventions, debt service tax and Redevelopment Agency tax increment allocations, ERAF refunds, and property tax in-lieu of motor vehicle fees. San Mateo County assesses properties and it bills, collects and distributes property taxes to all taxing entities, including the City. Under State law, known as the Teeter Plan, the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Collections exceed the original tax levied because of supplemental taxes and State subventions collected during the fiscal year.

TABLE A-5
CITY OF SAN MATEO
Property Tax Levies and Collections: FY1996-97 through FY2005-06

Fiscal Year	Tax Levy	Total Tax Collections	Percentage of Levy
1996-97	$15,173,000	$15,467,000	102%
1997-98	16,060,000	16,261,000	101%
1998-99	17,603,000	18,132,000	103%
1999-00	19,180,000	20,451,000	107%
2000-01	22,631,000	23,387,000	103%
2001-02	26,464,000	28,740,000	109%
2002-03	28,180,000	28,484,000	101%
2003-04	29,032,000	29,363,000	101%
2004-05	33,831,000	34,355,000	101%
2005-06	40,267,000	40,871,000	101%

Source: City of San Mateo.

Largest Assessees

A table of the ten largest assessees in the City as of June 30, 2007, is set forth below, by order of assessed valuation.

TABLE A-6
CITY OF SAN MATEO
Largest Assessees of June 30, 2007
($000s)

Taxpayer	Assessed Value	Percent of Total Assessed Value
Franklin Templeton Corporate	$ 188,324	1.32%
Bohannon Development Co	152,293	1.06%
Jefferson at Bay Meadows LP	132,986	0.93%
Sobrato Interest III	99,013	0.69%
DW Bridgepointe LLC	88,000	0.61%
Peninsula Office Park	85,380	0.60%
Bay Meadows Main Track Investors	84,786	0.59%
Atrium Plaza LLC Lessee	80,450	0.56%
Bay Meadows Park Place Inv LLC	78,450	0.55%
Crossroads Assoc. Et. Al Lessee	71,489	0.50%
Total	$ 1,061,171	7.41%

Source: City of San Mateo.

Utilities

Gas and electricity are furnished by the Pacific Gas and Electric Company. Water is distributed through the facilities of the California Water Service Company.

Education

The City is served by two school districts and one community college district. With nearly 10,000 students, the San Mateo-Foster City School District operates all but one of its 21 schools in San Mateo. The San Mateo Union High School District has approximately 8,200 students, and three of its seven high schools are located in San Mateo. The San Mateo County Community College District has approximately 40,000 day and evening students and serves nearly all of the County with three accredited modern campuses. The three schools are the College of San Mateo, Cañada College and Skyline College.

More than twenty nearby accredited colleges include Stanford University, College of Notre Dame, University of California at Berkeley, University of Santa Clara, University of San Francisco and California State Universities at San Jose and San Francisco.

Transportation

The City is traversed by three major, north-south routes: U.S. 101 (Bayshore Freeway) and Interstate 280 which provide freeway transportation through the San Francisco Peninsula, and State Route 82 (El Camino Real) which also passes through the San Francisco Peninsula. The City is also the western terminus of the nearly 7-mile long, 4-lane, high-level San Mateo-Hayward Bridge which connects the City with Alameda County and the east bay region of the Greater San Francisco Bay Area. State Route 92 connects the San Mateo-Hayward Bridge with Interstate 280 and U.S. 101.

The San Francisco International Airport is only 8 freeway miles from the City. Non-stop and direct service to major U.S. and international cities is available from San Francisco International.

Commuter service is available via either the San Mateo County Transit System or CalTrain. The latter has a main line traversing the City, which connects San Francisco with San Jose.

Recent Financial Performance

Tables A-7 through A-9 summarize certain financial data of the City and have been prepared from the City's audited financial statements. Reference is made to APPENDIX C — "AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR ENDED JUNE 30, 2006."

TABLE A-7
CITY OF SAN MATEO
City Budget: Summary by Fund

FUND	ACTUAL 2005-06	BUDGET 2006-07 (As amended)	ESTIMATED ACTUAL 2006-07	ADOPTED 2007-08 (As amended)
A. General Funds (Discretionary)				
10 General[(1)]	$60,850,486	$68,814,023	$67,521,835	$72,968,261
18 Recreation	6,122,284	6,674,821	6,625,171	6,945,211
Subtotal A: General Funds	**$66,972,770**	**$75,488,844**	**$74,147,006**	**$79,913,472**
B. Debt Service Funds (Non-discretionary)				
41 Landfill Bonds	496,991	493,802	496,477	493,165
48 G.O. Bonds	2,896,522	2,921,373	2,901,612	2,932,445
56 2% Hotel Tax (Measure C Bonds)	0	700,000	0	926,000
Subtotal B: Debt Service	**$3,393,513**	**$4,115,175**	**$3,398,089**	**4,351,610**
C. Special Funds				
20 Police Grants	420,019	312,594	313,005	153,951
21 Solid Waste	782,509	976,060	803,945	1,041,792
22 H.O.M.E.	253,437	1,515,795	1,377,974	589,169
23 Block Grant	783,942	783,330	744,152	800,220
24 Fire Prevention	1,469,686	1,774,725	1,575,743	1,869,711
25 Advance Planning	308,420	312,183	296,235	329,887
26 Construction services	3,028,143	3,862,159	3,499,910	4,458,677
28 Parking District	1,638,370	1,736,110	1,608,141	1,757,919
30 Housing-City	248,598	270,000	261,116	130,000
72 Sewer	16,280,226	17,156,860	16,247,888	17,520,633
79 Golf	2,954,403	2,984,263	2,808,699	3,124,564
81 Vehicle & Equipment Replacement[(2)]	1,487,502	3,477,175	4,137,545	2,449,254
82 Fleet Service & Building Maint[(2)]	2,598,888	2,976,549	3,009,508	2,969,042
87 Worker's Compensation[(2)]	2,476,587	2,570,958	1,604,584	2,580,229
88 Liability Insurance[(2)]	1,326,949	1,076,470	186,690	1,081,612
Subtotal C: Special Funds	**$36,057,679**	**$31,684,079**	**$29,536,808**	**$31,776,523**
Total City Operating Budget	**$106,423,962**	**$111,288,098**	**$107,081,903**	**$116,041,605**

Notes:
[(1)] General Fund includes Operating reserve ($500K).
[(2)] Dollar amounts are not included in totals. They are already counted in other funds' budgets.
Source: City of San Mateo.

TABLE A-8
CITY OF SAN MATEO
General Fund Balance Sheet

ASSETS	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006
Cash and investments	$ 11,227,461	$ 12,518,244	$ 14,635,935
Restricted cash and investments held by fiscal agents	-		-
Accounts receivable	296,660	300,043	312,853
Interest receivable	435,608	695,556	1,251,892
Taxes receivable	4,200,464	4,353,272	3,846,314
Due from other funds	84,635	161,421	247,681
Prepaids and supplies	80,765	316,565	346,683
Total assets	$ 16,325,593	$ 18,345,101	$ 20,641,358
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 914,708	$ 1,037,367	$ 1,393,038
Accrued salaries and wages payable	1,477,437	1,407,453	1,734,712
Deposits payable	3,928,034	4,118,500	4,632,146
Deferred revenue	739,380	1,426,519	723,499
Total liabilities	7,059,559	7,989,839	8,483,395
Fund Balances:			
Reserved:			563,082
Encumbrances	850,286	757,297	-
Petty cash	30,800	28,600	-
Prepaids and supplies	80,765	59,594	-
Unreserved, designated:			-
Future emergencies	4,000,000	4,000,000	-
Subsequent year's expenditures	1,600,000	-	-
Compensation - employee variable pay	352,092	-	-
Future years' expenditures	-	3,159,771	-
Service stability	2,000,000	2,350,000	-
General Fund	-	-	11,570,000
Unreserved, undesignated, reported in:			
General fund	352,091	-	-
Capital projects	-	-	24,881
			-
Total fund balances	9,266,034	10,355,262	12,157,963
Total liabilities and fund balances	$ 16,325,593	$ 18,345,101	$ 20,641,358

See APPENDIX C —"AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2006.
Source: City of San Mateo.

TABLE A-9
CITY OF SAN MATEO
General Fund Revenue and Expenditures by Source and Use

	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006
REVENUES:			
Property taxes	$ 18,201,077	$ 20,694,520	$ 27,034,392
Sales taxes	15,360,076	15,216,331	16,141,282
Other taxes	12,550,508	13,237,790	15,149,365
Licenses, building and other permits	1,792,175	1,924,648	2,167,952
Fines, forfeitures and penalties	1,237,079	1,599,599	2,097,422
Intergovernmental	4,578,842	4,581,582	2,550,872
Charges for services	4,926,526	5,019,196	5,236,515
Investment income	197,398	645,247	1,289,043
Other revenues	2,282,868	1,939,197	1,678,628
Total revenues	61,126,549	64,858,110	73,345,471
EXPENDITURES:			
Current:			
General government			
City Council	299,164	319,891	336,172
City Manager	774,804	823,607	903,015
City Clerk	340,154	384,993	424,546
City Attorney	632,257	726,487	776,252
Business services	2,046,146	2,195,298	2,178,248
Information technology	2,177,734	2,370,047	2,624,373
Human resources	956,835	1,045,955	1,283,975
Community development	516,654	684,627	795,517
Public safety			
Police	20,040,827	21,986,971	23,586,434
Fire	13,025,833	13,584,044	14,633,777
Public works	3,385,719	3,340,780	3,768,514
Parks and recreation	9,454,803	9,422,904	10,282,039
Library	4,169,051	4,428,132	4,679,854
Non-departmental	809,051	700,146	700,054
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	58,629,032	62,013,882	66,972,770
REVENUES OVER (UNDER) EXPENDITURES	2,497,517	2,844,228	6,372,701
OTHER FINANCING SOURCES (USES):			
Transfers in	2,515,000	1,515,000	1,515,000
Transfers out	(4,930,000)	(3,270,000)	(6,085,000)
Total other financing sources (uses)	(2,415,000)	(1,755,000)	(4,570,000)
Net change in fund balances	82,517	1,089,228	1,802,701
FUND BALANCES:			
Beginning of year	9,183,517	9,266,034	10,355,262
End of year	$ 9,266,034	$ 10,355,262	$ 12,157,963

See APPENDIX C —"AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE 30, 2006."

Source: City of San Mateo.

Direct and Overlapping Debt

Contained within the City are overlapping local agencies providing public services which have issued general obligation bond and other types of indebtedness. Direct and overlapping bonded indebtedness is shown in the following table compiled by California Municipal Statistics, Inc. The City has not independently verified the information in the table and makes no representations as to completeness or accuracy.

TABLE A-10
CITY OF SAN MATEO
Statement of Direct and Overlapping Debt as of June 30, 2007

2006-07 Assessed Valuation:	$14,436,380,584
Redevelopment Incremental Valuation:	1,107,084,169
Adjusted Assessed Valuation:	$13,329,296,415

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable (1)	City's Share of Debt 6/30/07
San Mateo Community College District	11.913%	$ 78,967,107
San Mateo Union High School District	33.157	41,796,040
Sequoia Union High School District	0.870	1,725,558
Hillsborough School District	0.0003	118
San Mateo-Foster City School District	72.877	71,511,096
Belmont-Redwood Shores School District	4.908	544,543
City of San Mateo	**100.**	**35,090,000**
Estero Municipal Improvement District	0.002	18
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$229,634,480
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
San Mateo County Certificates of Participation	11.913%	$47,886,069
San Mateo County Board of Education Certificates of Participation	11.913	1,629,698
San Mateo Union High School District Certificates of Participation	33.157	24,707,348
Belmont School District Certificates of Participation	4.908	289,817
City of San Mateo General Fund Obligations	**100.**	**34,495,000** (2)
San Mateo County Mosquito Abatement District Certificates of Participation	16.595	172,588
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$109,180,520
COMBINED TOTAL DEBT		$338,815,000 (3)

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the city.
(2) Excludes refunding golf revenue bonds to be sold.
(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2006-07 Assessed Valuation:
Direct Debt ($35,090,000).. 0.24%
Total Direct and Overlapping Tax and Assessment Debt...... 1.59%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($69,585,000)................................ 0.52%
Combined Total Debt 2.54%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: $0

Source: California Municipal Statistics, Inc.

Outstanding Underlying Credit Ratings

The City's underlying ratings issued by Moody's Investor's Service ("Moody's") and Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P") are shown below. Some bond issues are insured and so also carry the Aaa/AAA ratings of the applicable bond insurer. The ratings issued reflect only the view of such rating agencies, and any explanation of the significance of such ratings should be obtained from such rating agencies. There is no assurance that such ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely, if, in the judgment of such rating agencies, circumstances so warrant. The Agency undertakes no responsibility to oppose any such revision or withdrawal. The abbreviation "RDA" refers to the City of Redevelopment Agency of the City of San Mateo and the abbreviation "JPFA" refers to the City of San Mateo Joint Powers Financing Authority, a special purpose financing entity created by the City and the Agency to facilitate the financing of capital projects.

Moody's	S&P	Type of Debt	
Baa1	A-	RDA:	Tax allocation bonds
A1	AA-	City:	Sewer revenue bonds
A2	A	JPFA:	General fund revenue bonds for golf course project
A1	AA-	JPFA:	General fund revenue bonds for landfill closure project
Aa2	AA	City:	General obligation bonds

Outstanding Indebtedness

The City's outstanding debt as of June 30, 2007 is shown in detail in the table below. At the bottom of the table is a percentage allocation of the City's outstanding debt in three categories: fully self-supporting revenue bonds, general fund lease revenue bonds and general obligation bonds.

TABLE A-11
CITY OF SAN MATEO
Summary of Outstanding Indebtedness as of June 30, 2007

Amount Issued	Outstanding as of 6/30/07	Date Issued	Final Maturity	Description
$11,240,000	$ 1,920,000	11/05/97	08/01/08	RDA: Tax Allocation Refunding Bonds, 1997 Series B (Taxable)
46,135,000	46,135,000	05/01/07	08/01/25	RDA: Tax Allocation Refunding Bonds, 2007 Series A
38,665,000	38,777,407	06/01/05	08/01/32	RDA: Tax Allocation Bonds, 2005 Series A
11,195,000	10,715,000	06/30/05	08/01/27	RDA: Housing Tax Allocation Bonds, 2005 Series A (Taxable)
$103,670,000	$97,547,407			RDA: Tax allocation bonds secured solely by tax increment revenue
$8,095,000	$4,270,000	04/15/96	08/01/14	City: Sewer Revenue Refunding Bonds, Series 1996A
11,305,000	11,305,000	12/02/98	08/01/28	City: Sewer Revenue Bonds, Series 1998A
13,555,000	10,340,000	12/02/98	08/01/17	City: Sewer Revenue Refunding Bonds, Series 1998B
16,300,000	15,363,340	12/03/03	08/01/28	City: Sewer Revenue Bonds, Series 2003
$49,255,000	41,278,340			City: Sewer revenue bonds secured solely by sewer enterprise revenues
$17,400,000	$17,400,000	04/16/07	04/01/39	JPFA: Variable Rate Lease Revenue Bonds, Series 2007A (Public Safety Project)
$10,400,000	9,380,416	06/30/99	08/01/29	JPFA: Revenue Bonds, Series 1999 (Golf Course Project)
7,900,000	7,635,000	11/13/03	08/01/34	JPFA: Revenue Bonds, Series 2003 (Landfill Closure Project)
$35,700,000	$34,415,416			JPFA: Revenue bonds secured by enterprise or special fund revenues or dedicated taxes with City general fund lease overlay
$12,000,000	$11,040,000	06/28/00	08/01/30	City: G.O. Bonds, Series 2000 (Library Improvement Project)
23,000,000	22,095,000	06/03/04	08/01/30	City: G.O. Bonds, Series 2004A (Library Improvement Project)
2,845,000	1,955,000	06/03/04	07/01/10	City: G.O. Refunding Bonds, Series 2004B (Sr.Ctr. & Park Facilities Proj.)
$37,845,000	$35,090,000			City: G.O. bonds secured by voter-approved property taxes

$138,825,747	67%	Revenue bonds secured entirely by sources other than the City's general fund
34,415,416	17%	General fund lease revenue bonds but with dedicated enterprise revenues or special taxes paying all debt service
35,090,000	17%	G.O. bonds voter-approved property tax override paying all debt service
$208,331,163	100%	Total City and Agency debt outstanding as of 6/30/06

Source: City of San Mateo

APPENDIX B

BOOK-ENTRY SYSTEM

The following information concerning The Depository Trust Company ("DTC") and DTC's book-entry system has been obtained from sources that the Authority and the Underwriter believe to be reliable, but neither the Authority nor the Underwriter take responsibility for the accuracy thereof. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in this Official Statement and in Appendix D – "Summary of Certain Provisions of Principal Legal Documents."

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants (the "Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust and Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's highest rating: AAA. The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

Principal, and interest payments with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have any outstanding Bonds purchased or tendered, through its Participant, to the Remarketing Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds on DTC's records to the Remarketing Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Remarketing Agent's DTC account.

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

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered as described in the Trust Agreement.

The Authority cannot and does not give any assurances that DTC will distribute to Participants, or that Participants or others will distribute to the Beneficial Owners, payments of principal of, interest and premium, if any, on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the Authority nor the Underwriter are responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay related thereto.

APPENDIX C

AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR FISCAL YEAR ENDED JUNE 30, 2006

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City of San Mateo

San Mateo, California

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

CITY OF SAN MATEO
SAN MATEO, CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2006

Prepared by:

FINANCE DEPARTMENT

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FINANCIAL SECTION, Continued

Supplementary Information:

STATISTICAL SECTION (Unaudited)

City of San Mateo
Comprehensive Annual Financial Report
For the year ended June 30, 2006

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STATISTICAL SECTION (Unaudited), Continued

Page

FINANCE DEPARTMENT

330 West 20th Avenue
San Mateo, California 94403-1388
Telephone (650) 522-7100
FAX: (650) 522-7101
Website: //www.cityofsanmateo.org

October 20, 2006

Honorable Mayor
Members of the City Council
City of San Mateo, California

The Comprehensive Annual Financial Report (CAFR) of the City of San Mateo, California for the fiscal year ended June 30, 2006 is hereby submitted. The CAFR includes the independent auditor's report. The City Charter (Section 5.26) requires that an independent Certified Public Accountant, hired by the City Council, conduct an annual audit of the City's financial transactions and issue appropriate reports to the City Council.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe that the financial statements are accurate in all material respects, and fairly present revenues, expenditures and the financial position of the City. All significant disclosures necessary to enable the reader to gain an understanding of the City's financial affairs have been included.

Caporicci & Larson, a firm of licensed certified public accountants, has audited the City of San Mateo's financial statements.

The analysis of the financial condition and the result of operations are in the Management's Discussion and Analysis document in the Financial Section immediately following the auditor's report.

Profile of the City

The City was incorporated in 1894, and was originally chartered in 1922. The current charter was adopted in 1971 and revised in 2002. San Mateo has a Council-Manager form of government. The five Council members serve at-large for four-year terms. The Council selects a Mayor from among its members each December for a one-year term. The City Manager, appointed by the Council, serves as chief executive officer and is responsible for the day-to-day administration of City affairs. The City Council also appoints a City Attorney. There are ten Advisory Boards and Commissions that are appointed by the City Council.

The City of San Mateo is located in San Mateo County, on the Peninsula in the San Francisco Bay Area. The City borders Burlingame to the north, Foster City to the east, Belmont to the south, Hillsborough and San Mateo County to the west. The City is conveniently situated 19 miles south of San Francisco and 30 miles north of San Jose. It covers an area of 14.6 square miles, including 3.87 square miles of tidelands from San Francisco Bay to the east and a range of coastal mountains to the west. The population of San Mateo was approximately 72,000 in 1970 and 95,000 as of January 2006.

The City provides a full range of municipal services. These include police and fire protection, public works, parks & recreation, library, planning and zoning, building, sewer service, street maintenance, economic development, and general administrative services. The City offers thirty parks, six recreation centers, an 18-hole golf course, and three libraries including a newly constructed main library. California Water Service, a private company, provides water to the residents of the City of San Mateo. The San Mateo Performing Arts Center hosts productions by numerous local, regional, and international artistic enterprises, including the Peninsula Ballet Theatre, the Peninsula Civic Light Opera, and the Peninsula Symphony. San Mateo has abundant shopping areas, including two major regional shopping centers, the Hillsdale Shopping Mall and Bridgepointe.

The City operates on a two-year budget cycle (Business Plan). The two-year budget process requires that each department submit two one-year expenditure plans and revenue estimates to the City Council for approval. In each alternate year the Department Heads present mid-cycle performance reports to the City Manager and City Council to summarize budget status to date and to obtain approval for year-2 funding. The Department Heads are responsible for containing expenditures within their budgeted appropriations as approved by the City Council. Budgetary control is managed at department level and fund level. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts in the operating budget lapse one year after the end of the fiscal year. The City utilizes a five-year plan for capital improvements. The plan serves as a guide for the allocation of future resources. However, specific funding in the budget covers one year only.

The City's management has adopted a set of "organizational principles" which reflect the management philosophy. These principles are: service to the community is our purpose; we all work for one organization; look at the long term; seek constant improvement; and lead by example. These principles are intended to guide management actions throughout the City organization.

The goals of City management are to see that necessary and desired services are provided in an efficient and effective manner, and that planning and improvement take place to provide for the community's future.

Local Economy

San Mateo is the premier city on the mid-Peninsula, located between San Francisco and San Jose. It benefits from a strong and diverse economic base. It features a diverse mix of economic components, with established financial institutions such as Franklin Templeton and leading edge information technology companies such as Serena Software, Keynote Systems, and Netsuite. Also, San Mateo continues to be an innovation center for exciting new businesses such as YouTube (to be acquired by Google Inc.) and a strong base for national, regional, and independent retailers.

As in the previous year, overall economic growth in San Mateo continues to reflect a broader recovery from the economic contraction that followed the dot-com decline and September 11, 2001. The most recent data indicates that local sales tax revenue continues to grow at a slow yet gradual pace, led by in the general retail category. Retail accounts for nearly half of San Mateo's annual sales tax generation. Additionally, transportation and food product businesses have continued to grow steadily, with three-year highs in each category.

Employment in San Mateo, with a total of approximately 50,000 jobs, is concentrated in three sectors: professional and financial services; health, educational and recreational services; and retail. According to Association of Bay Area Governments (ABAG) projections, future job growth will occur primarily in the first two of these sectors, led by a 15% increase in professional and financial services jobs between 2000 and 2015. Unemployment in San Mateo is approximately 3.4%, which is below both the California (4.9%) and national (4.6%) unemployment levels.

The real estate market continues to be strong, despite showing recent signs of cooling off. The median home value in the City is still in excess of $700,000.

The total 2006 assessed value for all property in the City of San Mateo is approximately $14 billion, reflecting an 8.6% increase from the previous year.

Most economic indicators show a gradual and steady increase in the overall economic vitality in San Mateo.

Long-term Financial Planning

The City monitors the revenues and expenditures on a regular basis to ensure that the ongoing expenditures remain within ongoing revenues. We also maintain a multi-year financial projection model that helps us stay financially sound beyond the current year.

We maintain an emergency reserve of $7.3M, an increase of $3.3M from the prior year, as a last resort source and a service stability reserve of $2.35M to cope with unexpected revenue shortfalls.

In addition, the City maintains adequate reserves for estimated cost of workers compensation and liability claims to the extent that we are self-insured for such claims. The City also annually budgets and sets aside adequate funds in a sinking fund for future replacement of vehicles and equipment.

Major Initiatives

The Bay Meadows Phase II development plan for the 83-acre site would build a significant number of residential, office, and commercial units in the "rail corridor". The build out is expected to take 15 to 20 years and is projected to have a significant positive impact on the City's General Fund in future years.

The City has acquired a site for the new 43,000 square foot Police Station and plans are underway for construction to begin in 2007. The estimated project costs is $53M, with funding from, Measure C 2% hotel tax and bonds, Redevelopment Agency, sale of existing site, and General Fund allocations.

The new 90,000 square-foot Main Library was successfully completed and opened in August 2006.

Accounting System and Internal Controls

Note 1 in the Basic Financial Statements provides a detailed explanation of the significant accounting policies. In developing and evaluating the City's accounting system, consideration is given to the adequacy of controls. Internal accounting controls are designed to provide reasonable assurance regarding: safeguarding of assets against loss, accuracy and reliability of accounting data, and adherence to prescribed policies. The concept of reasonable assurance recognizes that the cost of a control should not exceed benefits likely to be derived and that the evaluation of costs and benefits require estimates and judgments by management.

Awards and Acknowledgments

Certificates of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) has awarded the Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the past 16 years.

The California Municipal Finance Officers Association (CSMFO) has also awarded the Certificate for Outstanding Financial Reporting to the City for its CAFR for the past 17 years.
To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

We believe our current report continues to conform to both Certificate requirements, and we are submitting it to GFOA and CSMFO to determine its eligibility for the awards.

Acknowledgements. The preparation of the comprehensive annual financial report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department and our auditors from Caporicci & Larson. Each member of the department and the audit team has our sincere appreciation for the contributions made in the preparation of this report.

In closing, the staff wishes to express deep appreciation to the City Council for their leadership and their support and especially for their responsiveness to the financial concerns of the City.

Respectfully submitted,

ARNE L. CROCE
City Manager

HOSSEIN GOLESTAN
Finance Director

City of San Mateo
San Mateo, California

City Council

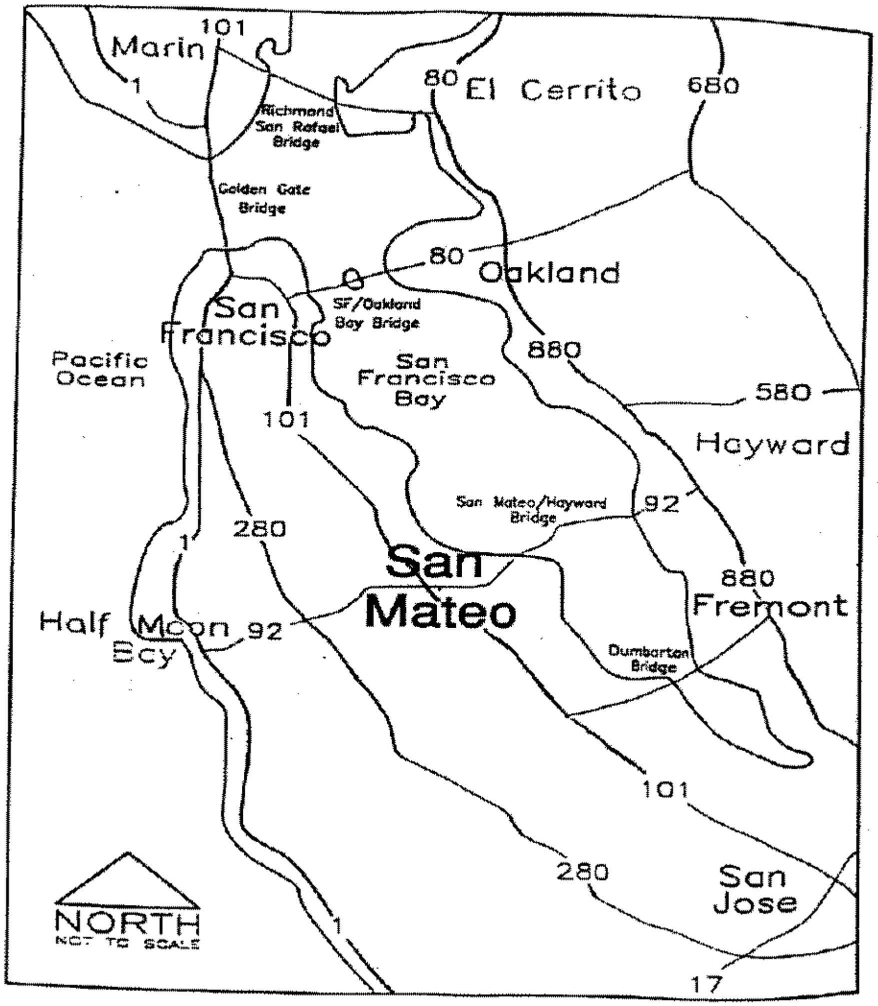
John Lee, Mayor

Jack Matthews, Deputy Mayor

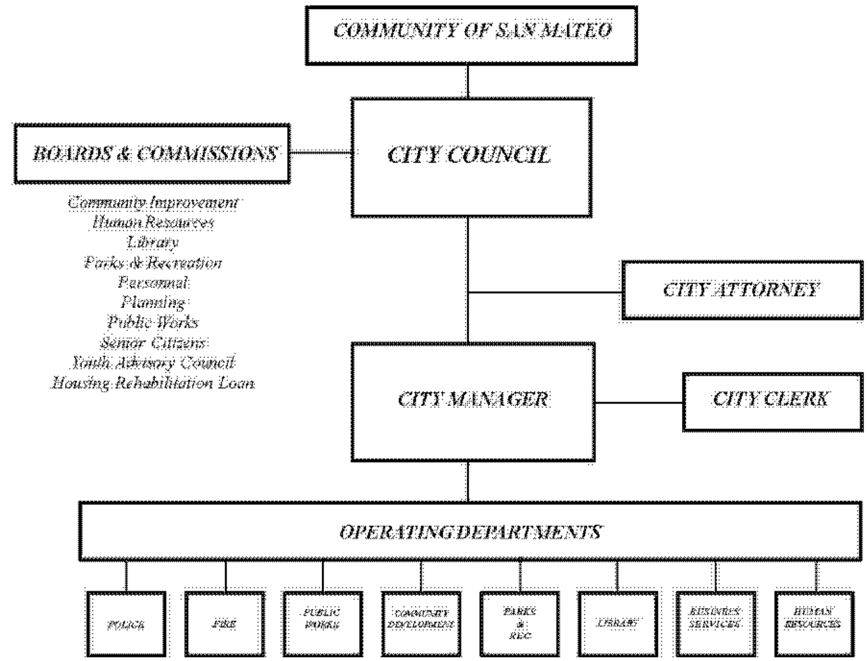
Jan Epstein, Council Member

Carole Groom, Council Member

Brandt Grotte, Council Member



CITY OF SAN MATEO ORGANIZATION



PRINCIPAL MANAGEMENT PERSONNEL

City Manager .... Arne Croce
Deputy City Manager .... Susan Loftus
City Attorney .... Shawn Mason
City Clerk .... Norma Gomez
Chief of Police .... Susan E. Manheimer
Fire Chief .... Brian Kelly
Director of Public Works .... Larry Patterson
Director of Community Development .... Robert Beyer
Parks and Recreation Director .... Sheila Canzian
City Librarian .... Ben Ocon
Finance Director/City Treasurer .... Hossein Golestan
Human Resources Director .... Linda Spady

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of San Mateo
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2005

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

President

Executive Director

California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of San Mateo

This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared.

February 24, 2006

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

C&L
Caporicci & Larson
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of the City of San Mateo
San Mateo, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Mateo, California (City), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the City adopted Statement of the Governmental Accounting Standards Board No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, No. 44 , *Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1)*, No. 46, *Net Assets Restricted by Enabling Legislation*, and No. 47, *Accounting for Termination Benefits*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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To the Honorable Mayor and Members of the City Council
of the City of San Mateo
San Mateo, California
Page 2

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Caporicci & Larson

Oakland, California
September 14, 2006

Management's Discussion and Analysis

As management of the City of San Mateo, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page v. of this report.

I. Financial Highlights

- The assets of the City of San Mateo exceeded its liabilities at the close of the fiscal year by $433M (net assets). Of this amount $301M was invested in capital assets, net of related debt. The balance was restricted for capital projects of $64M, debt service and other $22M, and unrestricted $46M. This includes all City and Redevelopment Agency assets.
- The City's total net assets increased by $25M; representing $19.5M increase in governmental and $5.5M increase in business type activities.
- As of the close of the fiscal year, the City's governmental funds, including the general, special revenue, debt service, capital projects, and Redevelopment funds, reported combined ending fund balances of $114M, a decrease of $7M in comparison with the prior year. Approximately $69M is available for spending at the government's discretion on operating and capital activities (of which $12M is in the general fund), and $33M is available for and committed to the capital projects (unreserved fund balance) both of which are subject to restrictions relating to the various funding sources002E
- At the end of the current fiscal year, unreserved fund balance for the general fund was $11.6M, or 17 percent of total general fund expenditures. This amount includes $7.3M emergency reserve (increased by $3.3M), $2.35M service stability reserve, and $1.9M designated for subsequent year's expenditure.
- The total net long-term debt decreased by $3.78M during the fiscal year. The decrease was mainly due to annual payments of bonds including General Obligation, Redevelopment Tax Allocation, Sewer Revenue Bonds and Joint Power Financial Authority.

II. Overview of the Financial Statements

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

Government-Wide Financial Statements. The Government-Wide Financial Statements consist of a statement of net assets and a statement of activities and are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, community and economic development, and parks and recreation and library. The business-type activities of the City include a Sewer and Golf operations.

The Government-wide Financial Statements include not only the City itself but also the Redevelopment Agency. Financial information for this component unit is blended with the financial statements of the primary government itself. The Redevelopment Agency, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The Government-wide Financial Statements can be found on pages 15-19 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental Fund Financial Statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The governmental funds comprise 18 individual funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, capital projects, redevelopment capital projects, redevelopment special revenue, redevelopment debt service, and city housing, which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

A budgetary comparison statement has been provided for the funds that have an adopted budget to demonstrate compliance with this budget.

The basic Governmental Fund Financial Statements can be found on pages 23-30 this report.

Proprietary Funds. The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the Government-wide Financial Statements. The City uses enterprise funds to account for its Sewer and Golf operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The City uses internal service funds to account for its general liability, fleet and building maintenance, vehicle and equipment replacement, workers compensation, dental, and other employee benefits programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the Government-wide Financial Statements, only in more detail. The Proprietary Fund Financial Statements provide separate information for the Sewer and Golf operations. Conversely internal service funds are combined into a single, aggregated presentation in the Proprietary Fund Financial Statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic Proprietary Fund Financial Statements can be found on pages 31-34 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Basic Financial Statements can be found on pages 35-78 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 79-83 of this report.

III. Government-Wide Financial Analysis

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, total assets exceeded liabilities by $433M at the close of the fiscal year.

By far the largest portion of the City of San Mateo's net assets (70%) reflect its investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment), less any outstanding related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of San Mateo's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources i.e. future income, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of San Mateo's net assets (25%) represents resources that are subject to external restrictions on how they may be used. The remaining balance, (5%), that is unrestricted net assets, may be used to meet the government's ongoing obligations to citizens and creditors, subject to the applicable restrictions of various funding sources.

CITY OF SAN MATEO'S NET ASSETS

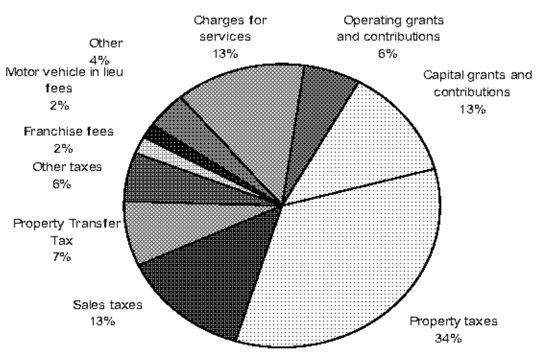
(Amounts expressed in millions)

	Governmental activities		Business-Type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 152	$ 160	$ 30	$ 40	$ 182	$ 200
Capital Assets, net of depreciation	375	350	109	94	484	444
Total assets	527	510	139	134	666	644
Long-term liabilities outstanding	152	154	51	53	203	207
Other liabilities	26	26	4	3	30	29
Total liabilities	178	180	55	56	233	236
Net assets:						
Invested in capital assets, net of related debt	254	203	47	38	301	241
Restricted	69	120	18	16	87	136
Unrestricted	26	7	19	24	45	31
Total net assets	$ 349	$ 330	$ 84	$ 78	$ 433	$ 408

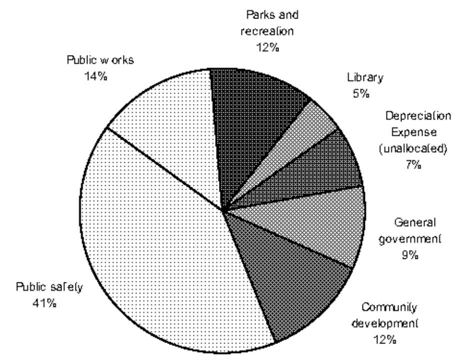
At the end of the fiscal year 2005-06, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The net assets increased by $25M during the fiscal year. This increase is the net result of all the revenues and expenses and cannot be attributed to any specific items.

Governmental activities. Governmental activities increased the City's net assets by $19.5M, while the business type activities showed an increase in net assets of $5.5M. The charts that follow show the program revenues, general revenues, and expenses by function for all City activities, including the Redevelopment Agency.

Revenues by Source - Governmental Activities



Expenses by Function - Governmental Activities



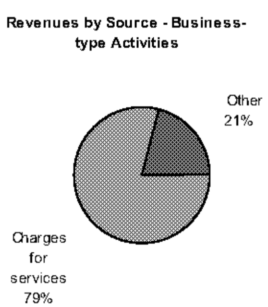
CITY OF SAN MATEO

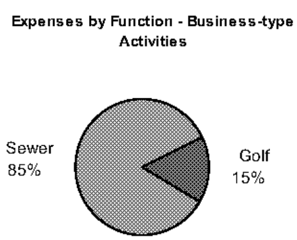
Statement of Changes in Net Assets
For the Year Ended June 30, 2006
(Amounts expressed in millions)

	Governmental activities		Business-Type activities		Total	
	05-06	04-05	05-06	04-05	05-06	04-05
Revenues:						
Program revenues:						
Charges for services	$ 16.0	$ 15.6	$ 19.6	$ 19.4	$ 35.6	$ 35.0
Operating grants and contributions	7.2	5.6	-	-	7.2	5.6
Capital grants and contributions	15.4	13.6	3.9	-	19.3	13.6
General revenues:						
Property taxes	40.9	34.6	-	-	40.9	34.6
Sales taxes	15.9	15.4	-	-	15.9	15.4
Property transfer taxes	9.0	7.3	-	-	9.0	7.3
Other taxes	6.8	7.9	-	-	6.8	7.9
Franchise fees	2.2	1.9	-	-	2.2	1.9
Motor vehicle in lieu fees	2.2	4.5	-	-	2.2	4.5
Other	4.9	2.1	1.1	0.8	6.0	2.9
Total revenues	120.5	108.5	24.6	20.2	145.1	128.7
Expenses:						
General government	9.5	9.0	-	-	9.5	9.0
Community development	12.3	18.0	-	-	12.3	18.0
Public safety	41.7	33.7	-	-	41.7	33.7
Public works	13.7	18.7	-	-	13.7	18.7
Parks and recreation	12.1	11.3	-	-	12.1	11.3
Library	4.8	4.6	-	-	4.8	4.6
Interest on long term debt	6.9	8.1	-	-	6.9	8.1
Sewer	-	-	16.3	15.5	16.3	15.5
Golf	-	-	2.9	3.0	2.9	3.0
Total expenses	101.0	103.4	19.2	18.5	120.2	121.9
Increase in net assets	19.5	5.1	5.4	1.7	24.9	6.8
Net assets - Beginning of fiscal year	324.6	324.6	78.6	76.9	408.3	401.5
Net assets - Ending of fiscal year	$ 344.1	$ 329.7	$ 84.0	$ 78.6	$ 433.2	$ 408.3

- Charges for services are primarily fees for recreation, building, fire, planning, engineering, sewer, and golf services
- Operating and capital grants and contributions include Federal and State grants and other governments and private contributions including impact fees. Capital grants and contributions increased by $5.7M due to donations for the new main library and to contributions from local agencies for the Waste Water Treatment Plant Phase II project.
- Property taxes include the general, voter-approved debt service, and the redevelopment property taxes. Property tax revenue increased by $6.3M due to receipts of a property taxes in lieu of motor vehicles and due to increases in assessed values and in ERAF receipts.
- Other taxes include mainly hotel, business, property transfer, and gas taxes. Property transfer tax revenue increased by $1.7M due to significant one time transfers.
- General government expenses include City Council, City Clerk, City Manager, City Attorney, Human Resources, Finance, and Information Technology departments, and the general liability insurance.
- Community Development expenses include planning, building, housing, neighborhood improvements, code enforcement, economic development, and the Redevelopment Agency (including capital expenditure). Community Development expenses decreased by $5.7M due to non-recurring payments paid for County projects in the prior year.
- Public Safety expenses cover Police and Fire services. Increases in Public Safety expenses were due to increases in compensation, benefits, and capital expenses.
- Public Works expenses are for engineering, streets, streetlights, and traffic signals operations and maintenance. Public Works expenses decreased by $5M due to non-recurring landfill closure expenses paid in the prior year.
- Parks and Recreation expenses cover the operations and maintenance of the City parks, community centers, and the senior center as well as the recreation services.
- Library expenses are for the operation and maintenance of one main and two branch libraries.

Business-Type activities. Business-Type activities' net assets increased by $5.4M. The sewer and golf enterprise activities are fully supported by fees. Their expenses include indirect costs and in lieu fees of $1.8M charged by the general fund for support and general City services.





IV. Financial Analysis of the Funds

Governmental Funds. The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. It should, however, be noted that most of the unreserved amounts have been designated by the City Council for specific uses.

As of the end of the fiscal year, the City's governmental funds, including the general, special revenue, debt service, capital projects, and Redevelopment funds, reported combined ending fund balances of $114M, a decrease of $7M in comparison with the prior year. Approximately $69M is available for spending at the government's discretion on operating and capital activities (of which $12M is in the general fund), and $33M is available for and committed to the capital projects (unreserved fund balance) both of which are subject to restrictions relating to the various funding sources.

The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay for existing contracts and purchase orders 2) to pay debt service, and 3) property held for resale.

The general fund is the chief operating fund of the City. At the end of the current fiscal year unreserved fund balance of the general fund was $11.6M, while total fund balance was $12.2M. As a measure of the general fund' s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 17 percent of total general fund expenditures, while total fund balance represents 18 percent of that same amount.

The general fund balance increased by $1.8M during the current fiscal year.

The Redevelopment fund has a total fund balance of $49.9M, most of which is reserved for capital projects and debt service. The net decrease in fund balance during the current year was $7.7M, primarily due to expenditures of $11M on capital projects.

Proprietary Funds. The City of San Mateo proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer fund at the end of the year amounted to $19.4M. The golf fund had a deficit unrestricted net assets of $0.1. The net assets of the Sewer Fund increased by $5.8M. The Golf Fund's net assets decreased by $0.3M. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of San Mateo business-type activities.

V. General Fund Budgetary Highlights

The General Fund condition improved during the year. The revenues came in at $73.3M, better than the budget by $7.8M. Approximately $5.5M of the variance was due to one time funds in excess of the budget received from property transfer tax caused by several large transactions, early repayment of a loan by the State (known as VLF backfill loan), and refunds from ERAF (Educational Revenue Augmentation Fund). The additional revenues were used to supplement capital improvement program funding by $3.2M in 2005-06, additions to reserves of $3.3M, and with the balance carried over into 2006-07 to help fund certain limited term programs.

The expenditures overall came under the budget by $0.6M net. The fiscal year 2005-06 was a tight budget year and as a result some departments' expenditures marginally exceeded the budget. This was caused primarily by some police programs that had been underfunded in the budget, and the preparation for operations of the much larger New Main Library that opened in August 2006.

The emergency reserve was increased from $4M to $7.3M. This together with the service stability reserve of $2.35M bring the General Fund reserves to a total of $9.65M, representing 53 days of expenditure versus 37 days in the prior year.

VI. Capital Asset and Debt Administration

Capital assets. The City of San Mateo's investment in capital assets for its Governmental and Business Type activities as of June 30, 2006, amounts to $448M (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, bridges, sewer and storm systems, and the golf course. The total increase in the City's investment in capital assets net of depreciation for the current fiscal year was $38M or 9% (a 7.6% increase for governmental activities and a 14.9% increase for business-type activities).

Major Capital asset activity during the current fiscal year included the following: New Main Library $24.9M, Waste Water Treatment Plant Expansion Phase II $13.2M, Shoreline Park Development Project $6.5M, Street Reconstruction & Rehab $4.2M, Storm Sewer Improvements $1.6M, New Police Station $1.4M, 3rd and 4th Ave. Streetscape $1.1M, and Marina Lagoon $1.1M.

City of San Mateo
Capital Assets
(Amounts expressed in millions)

	Government activities		Business-Type activities		Total	
	05-06	04-05	05-06	04-05	05-06	04-05
Non-depreciable assets:						
Land	$ 42.4	$ 42.4	$ 4.2	$ 4.2	$ 46.6	$ 46.6
Construction in progress	59.3	38.7	29.0	19.2	88.3	57.9
Total non-depreciable assets	101.7	81.1	33.2	23.4	134.9	104.5
Depreciable assets (net of depreciation):						
Building and improvements	19.9	19.6	9.3	9.7	29.2	29.3
Treatment plant & transmission lines	0.0	0.0	64.4	59.8	64.4	59.8
Machinery and equipment	8.8	9.4	0.7	0.7	9.5	10.1
Infrastructure	209.6	205.8	0.0	0.0	209.6	205.8
Total depreciable assets (net)	238.3	234.8	74.4	70.2	312.7	305.0
Total capital assets	$ 340.0	$ 315.9	$ 107.6	$ 93.6	$ 447.6	$ 409.5

Additional information on the City of San Mateo's capital assets can be found in Note 7 on pages 58-60 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of $191M. Of this amount, $36M comprises debt backed by the full faith and credit of the City. The remainder of the debt represents bonds secured by specified revenue sources; i.e., the Redevelopment Agency tax increments, and sewer and golf revenues.

CITY OF SAN MATEO
OUTSTANDING DEBT
General Obligation and Revenue Bonds
(Including Redevelopment)
(In Millions)

	Governmental Activities		Business-type Activities		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
General obligation bonds	$36.21	$37.28	0	0	36.21	37.28
Revenue Bonds	103.37	104.89	$52.00	$53.19	155.37	158.08
Total	$139.58	$142.17	$52.00	$53.19	$191.58	$195.36

The City's total debt decreased by $3.78M (2.0%) during the current fiscal year. The decrease was due to regular periodic payments of principal

The City maintained its AA rating from Standard & Poor's Corporation and Aa2 rating from Moody's for general obligation debt. The Moody's rating for the Redevelopment Agency is Baa (uninsured).

State statutes limit the amount of general obligation debt a governmental entity may issue up to 15 percent of its total assessed valuation. The current debt limitation for the City is $2 billion and at June 30, 2006 the City was only at 1.7% of its legal debt limit. Additional information on the City of San Mateo long-term debt can be found in Note 8 on page 61 of this report.

VII. Economic Factors and Next Year's Budget

The economy at the national, state, and local levels continue to grow, but at a slow pace. The California economy is starting to show strains from the housing slowdown. However, the lack of housing supply in San Mateo provides a buffer in home price declines. Additionally, the local economy has steadied from a slump in the high tech industry that started in 2000 and continues to grow at a gradual pace.

The City has a diverse economic base that includes residential, retail, and commercial assets. Due to the slow local business climate, the revenue from sales tax is not expected to increase significantly. However, the historically stable residential real estate market is expected to contribute to the continued growth in property tax revenues and maintain the healthy level of revenue from property transfer tax.

We have adopted a balanced budget for the 2006-07 fiscal year, taking all the known factors into account.

VIII. Requests for Information

This financial report is designed to provide a general overview of the City of San Mateo's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 330 West 20th Avenue, San Mateo, California, 94403.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of San Mateo
Statement of Net Assets
June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and investments	$ 103,449,727	$ 13,773,325	$ 117,223,052
Restricted cash and investments with fiscal agents	33,188,158	14,912,475	48,100,633
Accounts receivable	1,438,680	1,525,336	2,964,016
Interest receivable	1,517,892	175,900	1,693,792
Taxes receivable	4,451,872	-	4,451,872
Prepaids and supplies	630,932	99,405	730,337
Interfund balances	147,362	(147,362)	-
Property held for resale	6,810,498	-	6,810,498
Total current assets	151,635,121	30,339,079	181,974,200
Noncurrent assets:			
Deferred charges	1,097,200	733,567	1,830,767
Loans and notes receivable, net	33,941,419	-	33,941,419
Capital assets:			
Non-depreciable	101,720,891	33,226,066	134,946,957
Depreciable, net	238,344,412	74,364,834	312,709,246
Total capital asset	340,065,303	107,590,900	447,656,203
Total noncurrent assets	375,103,922	108,324,467	483,428,389
Total assets	526,739,043	138,663,546	665,402,589
LIABILITIES			
Current liabilities:			
Accounts payable	6,863,955	516,631	7,380,586
Interest payable	2,851,691	1,060,628	3,912,319
Retentions payable	3,928,996	-	3,928,996
Accrued salaries and wages payable	2,021,258	193,878	2,215,136
Deposits payable	4,642,034	273,410	4,915,444
Deferred revenue (unearned)	731,884	-	731,884
Claims and judgments payable - due within one year	1,500,000	-	1,500,000
Landfill postclosure cost payable - due within one year	125,000	-	125,000
Vacation and sick leave payable - due within one year	351,000	39,000	390,000
Bonds payable - due within one year	3,325,000	1,345,000	4,670,000
Total current liabilities	26,340,818	3,428,547	29,769,365
Noncurrent liabilities:			
Claims and judgments payable - due in more than one year	6,100,000	-	6,100,000
Landfill postclosure costs payable - due in more than one year	3,625,000	-	3,625,000
Vacation and sick leave payable - due in more than one year	4,052,062	501,286	4,553,348
HELP loan payable	1,200,000	-	1,200,000
Bonds payable - due in more than one year, net	136,257,407	50,658,756	186,916,163
Total noncurrent liabilities	151,234,469	51,160,042	202,394,511
Total liabilities	177,575,287	54,588,589	232,163,876
NET ASSETS			
Invested in capital assets, net of related debt	253,801,385	47,346,978	301,148,363
Restricted for:			
Capital projects	50,972,267	13,477,120	64,449,387
Debt service	10,910,970	3,306,859	14,217,829
Special projects	6,965,989	662,196	7,628,185
Total restricted	68,849,226	17,446,175	86,295,401
Unrestricted	26,513,145	19,281,804	45,794,949
Total net assets	$ 349,163,756	$ 84,074,957	$ 433,238,713

See accompanying Notes to Basic Financial Statements.

City of San Mateo
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Program Revenues: Total	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Primary Government:								
Governmental activities:								
General government	$ 9,485,772	$ 2,609,976	$ 118,102	$ -	$ 2,728,078	$ (6,757,694)	$ -	$ (6,757,694)
Community development	12,333,880	3,073,993	2,857,186	23,897	5,955,076	(6,378,804)	-	(6,378,804)
Public safety	41,648,116	3,876,421	673,517	11,488	4,561,426	(37,086,690)	-	(37,086,690)
Public works	13,682,357	3,305,192	3,424,008	2,312,299	9,041,499	(4,640,858)	-	(4,640,858)
Parks and recreation	12,123,125	2,802,519	-	2,081,027	4,883,546	(7,239,579)	-	(7,239,579)
Library	4,819,650	319,088	133,089	10,954,274	11,406,451	6,586,801	-	6,586,801
Interest on long-term debt	6,897,570	-	-	-	-	(6,897,570)	-	(6,897,570)
Total governmental activities	100,990,470	15,987,189	7,205,902	15,382,985	38,576,076	(62,414,394)	-	(62,414,394)
Business-type activities:								
Sewer	16,280,226	17,023,153	-	3,984,520	21,007,673	-	4,727,447	4,727,447
Golf	2,954,403	2,578,255	-	-	2,578,255	-	(376,148)	(376,148)
Total business-type activities	19,234,629	19,601,408	-	3,984,520	23,585,928	-	4,351,299	4,351,299
Total primary government	$ 120,225,099	$ 35,588,597	$ 7,205,902	$ 19,367,505	$ 62,162,004	(62,414,394)	4,351,299	(58,063,095)

	Governmental Activities	Business-Type Activities	Total
General Revenues:			
Taxes:			
Property taxes	40,871,277	-	40,871,277
Sales taxes	15,905,701	-	15,905,701
Property transfer taxes	9,006,399	-	9,006,399
Transient occupancy taxes	3,222,162	-	3,222,162
Business license taxes	3,015,203	-	3,015,203
Other taxes	550,033	-	550,033
Franchise taxes	2,167,952	-	2,167,952
Unrestricted motor vehicle taxes	2,182,069	-	2,182,069
Total taxes	76,920,796	-	76,920,796
Investment earnings	4,973,233	1,131,240	6,104,473
Loss on sale of assets	(26,625)	-	(26,625)
Total general revenues	81,867,404	1,131,240	82,998,644
Change in net assets	19,453,010	5,482,539	24,935,549
Net assets - beginning of year	329,710,746	78,592,418	408,303,164
Net assets - end of year	$ 349,163,756	$ 84,074,957	$ 433,238,713

See accompanying Notes to Basic Financial Statements.

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund accounts for resources traditionally associated with governmental which are not required legally or by sound financial management to be accounted for in another fund.

General Projects Capital Projects Fund accounts for the expenditures for capital improvements for the City, including equipment, acquisition and construction of parks, recreation areas, public safety facilities or other public works. The primary sources of funding are intergovernmental revenues, measure A (half cent sales tax), developer impact fees and transfers from other governmental funds.

Redevelopment Capital Projects Fund accounts for the acquisition and construction of the Agency's capital projects. Funding is provided by tax increments transferred in from the Agency's debt service funds.

Redevelopment Special Revenue Fund accounts for the revenue and expenditures of the Agency's low and moderate income housing activity. Use of funds is restricted by law.

Redevelopment Debt Service Fund accounts for tax increment revenues used to pay principal and interest on general long-term debt and pass thru payments of the Agency.

City Housing Special Revenue Fund accounts for revenues from a former Federal Rental Rehabilitation program and loan payments from the First Time Homebuyer program.

Non-Major Governmental Funds is the aggregate of all the non-major governmental funds.

City of San Mateo
Balance Sheet
Governmental Funds
June 30, 2006

	Major Funds				Major Funds			
	General	General Capital Projects	Redevelopment Capital Projects	Redevelopment Special Revenue	Redevelopment Debt Service	City Housing Special Revenue	Non-Major Governmental Funds	Total Governmental Funds
ASSETS								
Cash and investments	$ 14,635,935	$ 37,719,680	$ 1,966,563	$ 9,843,634	$ 3,407,389	$ 413,166	$ 15,244,477	$ 83,230,844
Restricted cash and investments held by fiscal agents	-	4,461,522	19,638,494	4,130,693	3,936,052	-	1,021,397	33,188,158
Accounts receivable	312,853	785,559	-	-	-	-	340,268	1,438,680
Interest receivable	1,251,892	10,000	204,000	40,000	-	-	12,000	1,517,892
Taxes receivable	3,846,314	-	-	-	-	-	605,558	4,451,872
Due from other funds	247,681	-	-	-	-	-	-	247,681
Prepaids and supplies	346,683	-	-	-	-	-	-	346,683
Property held for resale	-	-	6,810,498	-	-	-	-	6,810,498
Loans and notes receivable	-	-	285,689	24,946,023	-	6,872,815	7,660,571	39,765,098
Total assets	$ 20,641,358	$ 42,976,761	$ 28,905,244	$ 38,960,350	$ 7,343,441	$ 7,285,981	$ 24,884,271	$ 170,997,406
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	$ 1,393,038	$ 3,849,198	$ 29,576	$ 31,779	$ 21,441	$ 31,794	$ 195,210	$ 5,552,036
Retention payable	-	3,928,996	-	-	-	-	-	3,928,996
Accrued salaries and wages payable	1,734,712	72,292	-	12,546	-	-	168,079	1,987,629
Due to other funds	-	-	-	-	-	-	100,319	100,319
Deposits payable	4,632,146	-	-	-	-	-	-	4,632,146
Deferred revenue	723,499	-	285,689	24,946,023	-	6,872,815	7,668,956	40,496,982
Total liabilities	8,483,395	7,850,486	315,265	24,990,348	21,441	6,904,609	8,132,564	56,698,108
Fund Balances: (Note 9)								
Reserved	563,082	25,205,060	26,490,340	4,734,345	7,322,000	11,308	4,363,806	68,689,941
Unreserved, designated, reported in:								
General Fund	11,570,000	-	-	-	-	-	-	11,570,000
Special revenue funds	-	-	-	9,043,920	-	370,064	5,096,074	14,510,058
Debt service funds	-	-	-	-	-	-	721,970	721,970
Capital projects funds	-	9,921,215	1,540,689	-	-	-	828,000	12,289,904
Unreserved, undesignated, reported in:								
General Fund	24,881	-	-	-	-	-	-	24,881
Special revenue funds	-	-	-	191,737	-	-	5,741,857	5,933,594
Capital projects fund	-	-	558,950	-	-	-	-	558,950
Total fund balances	12,157,963	35,126,275	28,589,979	13,970,002	7,322,000	381,372	16,751,707	114,299,298
Total liabilities and fund balances	$ 20,641,358	$ 42,976,761	$ 28,905,244	$ 38,960,350	$ 7,343,441	$ 7,285,981	$ 24,884,271	$ 170,997,406

See accompanying Notes to Basic Financial Statements.

City of San Mateo
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2006

Total Fund Balances - Total Governmental Funds			$ 114,299,298
Amounts reported for governmental activities in the Statement of Net Assets were different because:			
Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. Except for the internal service funds reported below, the capital assets were adjusted as follows:			
	Government-Wide Statement of Net Assets	Internal Service Funds	
Non-depreciable	$ 101,720,891	$ -	101,720,891
Depreciable, net	238,344,412	(3,256,984)	235,087,428
Total capital assets	$ 340,065,303	$ (3,256,984)	336,808,319
Deferred revenue recorded in the Fund Financial statements resulting from activities in which revenues were earned but funds were not available are reclassified as revenues in the Government-Wide Financial Statements.			33,485,844
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.			(2,851,691)
Internal service funds were used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the Internal service funds were included in governmental activities in the Government-Wide Statement of Net Assets:			15,260,255
Deferred charges on issuance of long-term debt were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. This amount is to be amortized over the life of the long-term debt.			1,097,200
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.			
	Government-Wide Statement of Net Assets	Internal Service Funds	
Claims and judgments payable - due within one year	$ (1,500,000)	$ 1,500,000	$ -
Landfill closure and postclosure cost payable - due within one year	(125,000)	-	(125,000)
Vacation and sick leave payable - due within one year	(351,000)	-	(351,000)
Bonds payable - due within one year	(3,325,000)	-	(3,325,000)
Long term liabilities - due in more than one year	(151,234,469)	6,100,000	(145,134,469)
Total long-term liabilities	$ (156,535,469)	$ 7,600,000	(148,935,469)
Net Assets of Governmental Activities			$ 349,163,756

See accompanying Notes to Basic Financial Statements.

City of San Mateo
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	Major Funds				Major Funds			
	General	General Capital Projects	Redevelopment Capital Projects	Redevelopment Special Revenue	Redevelopment Debt Service	City Housing Special Revenue	Non-Major Governmental Funds	Total Governmental Funds
REVENUES:								
Property taxes	$ 27,034,392	$ -	$ -	$ 2,156,731	$ 8,626,925	$ -	$ 3,053,229	$ 40,871,277
Sales taxes	16,141,282	1,581,558	-	-	-	-	-	17,722,840
Other taxes	15,149,365	-	-	-	-	-	644,432	15,793,797
Licenses, building and other permits	2,167,952	-	-	-	-	-	4,192,039	6,359,991
Fines, forfeitures and penalties	2,097,422	11,488	-	-	-	-	3,284	2,112,194
Intergovernmental	2,550,872	9,997,018	-	-	-	-	3,133,024	15,680,914
Charges for services	5,236,515	9,837	-	-	-	-	750,546	5,996,898
Investment income	1,289,043	396,956	961,530	631,074	437,187	9,301	581,806	4,306,897
Indirect and in-lieu fees	-	1,189,177	-	-	-	-	-	1,189,177
Garbage collection surcharge	-	5,002	-	-	-	-	1,033,445	1,038,447
Parking meter and lease revenue	-	-	-	-	-	-	1,631,695	1,631,695
Impact fees	-	607,213	-	-	-	-	-	607,213
Other revenues	1,678,628	3,509,868	80,631	277,456	-	66,961	861,837	6,475,381
Total revenues	73,345,471	17,308,117	1,042,161	3,065,261	9,064,112	76,262	15,885,337	119,786,721
EXPENDITURES:								
Current:								
General government:								
City Council	336,172	-	-	-	-	-	-	336,172
City Manager	903,015	-	-	-	-	-	-	903,015
City Clerk	424,546	-	-	-	-	-	-	424,546
City Attorney	776,252	-	-	-	-	-	-	776,252
Business services	2,178,248	-	-	-	-	-	-	2,178,248
Information technology	2,624,373	-	-	-	-	-	45,845	2,670,218
Human resources	1,283,975	-	-	-	-	-	-	1,283,975
Community development	795,517	-	853,105	783,210	-	248,598	4,351,959	7,032,389
Public safety:								
Police	23,586,434	-	434,491	-	-	-	728,291	24,749,216
Fire	14,633,777	-	-	-	-	-	1,469,686	16,103,463
Public works	3,768,514	-	-	-	-	-	2,088,745	5,857,259
Parks and recreation	10,282,039	-	-	-	-	-	-	10,282,039
Library	4,679,854	-	-	-	-	-	-	4,679,854
Non-departmental	700,054	-	-	-	2,357,456	-	-	3,057,510
Capital outlay	-	26,717,211	11,022,000	148,777	-	-	8,067	37,896,055
Debt service:								
Principal	-	-	-	170,000	1,220,000	-	1,195,000	2,585,000
Interest and fiscal charges	-	-	-	324,130	3,578,741	-	2,190,446	6,093,317
Total expenditures	66,972,770	26,717,211	12,309,596	1,426,117	7,156,197	248,598	12,078,039	126,908,528
REVENUES OVER (UNDER) EXPENDITURES	6,372,701	(9,409,094)	(11,267,435)	1,639,144	1,907,915	(172,336)	3,807,298	(7,121,807)
OTHER FINANCING SOURCES (USES):								
Transfers in	1,515,000	6,199,441	2,055,981	-	-	-	297,859	10,068,281
Transfers out	(6,085,000)	-	-	-	(2,055,981)	-	(2,227,300)	(10,368,281)
Total other financing sources (uses)	(4,570,000)	6,199,441	2,055,981	-	(2,055,981)	-	(1,929,441)	(300,000)
Net change in fund balances	1,802,701	(3,209,653)	(9,211,454)	1,639,144	(148,066)	(172,336)	1,877,857	(7,421,807)
FUND BALANCES:								
Beginning of year	10,355,262	38,335,928	37,801,433	12,330,858	7,470,066	553,708	14,873,850	121,721,105
End of year	$ 12,157,963	$ 35,126,275	$ 28,589,979	$ 13,970,002	$ 7,322,000	$ 381,372	$ 16,751,707	$ 114,299,298

See accompanying Notes to Basic Financial Statements.

City of San Mateo
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets
For the year ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds			$ (7,421,807)
Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:			
	Capital Outlay	Repairs and Maintenance	
Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period.	$ 37,896,055	$ (3,618,680)	34,277,375
	Government-Wide Statement of Net Assets	Internal Service Funds	
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds.	$ (10,594,028)	$ (683,284)	(9,910,744)
Accrued vacation and sick leave payable was an expenditure in governmental funds, but the accrued payable increased vacation and sick leave liabilities in the Government-Wide Statement of Net Assets.			(458,831)
Payment of landfill closure and postclosure cost payable was an expenditure in governmental funds, but the payment reduced landfill closure and postclosure cost liabilities in the Government-Wide Statement of Net Assets.			618,500
Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.			2,585,000
Revenues that have not met the revenue recognition criteria in the Fund Financial statements are recognized as revenue in the Government-Wide Financial Statements.			17,048
Loans and notes receivable were recorded at gross amounts in the Fund Financial statements. However, in the Government-Wide Financial Statement an estimated amount for allowance for potential forgiveness has been expensed. The following amount represented the current year amount for allowance for potential forgiveness.			(213,432)
Cost of issuance was an expenditure in governmental funds, but in the Government-Wide Statement of Net Assets, an asset, deferred charges was recorded and is being amortized over the life of the bond. This amount is the current year amortization expense.			(42,200)
	Government-Wide Statement of Net Assets	Internal Service Funds	
Loss on the sale of capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they were not reported as expenditures in governmental funds.	(26,625)	(14,666)	(11,959)
Payment of long-term debt premium was recorded as an expenditure in governmental funds, but the payment increased long-term liabilities in the Government-Wide Statement of Net Assets.			4,230
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in governmental funds. The following amount represented the change in accrued interest from prior year.			(762,053)
Internal service funds were used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net revenue of the internal service funds was reported with governmental activities.			771,883
Change in Net Assets of Governmental Activities			$ 19,453,010

See accompanying Notes to Basic Financial Statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

Sewer Fund accounts for the activities of the wastewater collection and treatment system, which provides service to the residents of the City and some neighboring cities.

Golf Fund accounts for the activities of the Poplar Creek Golf Course, which provides recreational facilities to the public.

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

City of San Mateo
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Enterprise Funds			Governmental Activities
	Sewer	Golf	Total	Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	$ 13,772,865	$ 460	$ 13,773,325	$ 20,218,883
Restricted cash and investments with fiscal agents	14,175,330	737,145	14,912,475	-
Accounts receivable	1,505,902	19,434	1,525,336	-
Interest receivable	155,000	20,900	175,900	-
Prepaids and supplies	-	99,405	99,405	284,249
Total current assets	29,609,097	877,344	30,486,441	20,503,132
Noncurrent assets:				
Deferred charges	733,567	-	733,567	-
Loans and notes receivable	-	-	-	455,575
Capital assets:				
Non-depreciable	32,982,066	244,000	33,226,066	-
Depreciable, net	64,966,535	9,398,299	74,364,834	3,256,984
Total capital assets	97,948,601	9,642,299	107,590,900	3,256,984
Total noncurrent assets	98,682,168	9,642,299	108,324,467	3,712,559
Total assets	128,291,265	10,519,643	138,810,908	24,215,691
LIABILITIES				
Current liabilities:				
Accounts payable	481,242	35,389	516,631	1,311,919
Interest payable	845,723	214,905	1,060,628	-
Accrued salaries and wages payable	163,075	30,803	193,878	33,629
Deposits payable	273,410	-	273,410	9,888
Due to other fund	-	147,362	147,362	-
Claims and judgments payable - due within one year	-	-	-	1,500,000
Vacation and sick leave payable - due within one year	33,540	5,460	39,000	-
Bonds payable - due within one year	1,145,000	200,000	1,345,000	-
Total current liabilities	2,941,990	633,919	3,575,909	2,855,436
Noncurrent liabilities:				
Claims and judgments payable - due in more than one year	-	-	-	6,100,000
Vacation and sick leave payable - due in more than one year	431,056	70,230	501,286	-
Bonds payable - due in more than one year	41,278,340	9,380,416	50,658,756	-
Total noncurrent liabilities	41,709,396	9,450,646	51,160,042	6,100,000
Total liabilities	44,651,386	10,084,565	54,735,951	8,955,436
NET ASSETS				
Invested in capital assets, net of related debt	47,500,000	(153,022)	47,346,978	3,256,984
Restricted for:				
Special projects	662,196	-	662,196	1,417,038
Capital projects	13,477,120	-	13,477,120	-
Debt service	2,569,714	737,145	3,306,859	-
Unrestricted	19,430,849	(149,045)	19,281,804	10,586,233
Total net assets	$ 83,639,879	$ 435,078	$ 84,074,957	$ 15,260,255

See accompanying Notes to Basic Financial Statements.

City of San Mateo
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the year ended June 30, 2006

	Enterprise Funds			Governmental Activities
	Sewer	Golf	Total	Internal Service Funds
OPERATING REVENUES:				
Charges for services	$ 16,684,419	$ 2,310,981	$ 18,995,400	$ 25,087,306
Connection fees	244,453	-	244,453	-
Impact fees	48,089	-	48,089	-
Other	46,192	267,274	313,466	216,490
Total operating revenues	17,023,153	2,578,255	19,601,408	25,303,796
OPERATING EXPENSES:				
Costs of sales and services	10,816,620	1,363,891	12,180,511	24,495,082
Administration	733,250	665,710	1,398,960	305,217
Depreciation and amortization	3,106,634	404,546	3,511,180	683,284
Total operating expenses	14,656,504	2,434,147	17,090,651	25,483,583
OPERATING INCOME (LOSS)	2,366,649	144,108	2,510,757	(179,787)
NONOPERATING REVENUES (EXPENSES):				
Interest income	1,100,334	30,906	1,131,240	666,336
Loss from disposal of capital assets	(717,865)	-	(717,865)	(14,666)
Interest expense and fiscal charges	(905,857)	(520,256)	(1,426,113)	-
Total nonoperating revenues (expenses)	(523,388)	(489,350)	(1,012,738)	651,670
INCOME (LOSS) BEFORE TRANSFERS	1,843,261	(345,242)	1,498,019	471,883
Capital contribution	3,984,520	-	3,984,520	-
Transfers in	-	-	-	300,000
Total transfers in and capital contributions	3,984,520	-	3,984,520	300,000
Change in net assets	5,827,781	(345,242)	5,482,539	771,883
NET ASSETS:				
Beginning of year	77,812,098	780,320	78,592,418	14,488,372
End of year	$ 83,639,879	$ 435,078	$ 84,074,957	$ 15,260,255

See accompanying Notes to Basic Financial Statements.

City of San Mateo
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2006

	Enterprise Funds			Governmental Activities Internal Service Funds
	Sewer	Golf	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	$ 16,519,738	$ 2,318,624	$ 18,838,362	$ 25,093,386
Cash payments to suppliers for goods and services	(11,797,951)	(1,451,860)	(13,249,811)	(24,584,823)
Cash paid to employees	(661,145)	(655,576)	(1,316,721)	(303,612)
Cash received from (payments to) others	46,192	387,367	433,559	857,490
Net cash provided (used) by operating activities	4,106,834	598,555	4,705,389	1,062,441
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	-	-	-	300,000
Net cash provided by noncapital financing activities	-	-	-	300,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(14,099,952)	-	(14,099,952)	(480,262)
Long-term debt repayment	(47,257)	(101,642)	(148,899)	-
Interest expense and fiscal charges	(1,036,857)	(523,802)	(1,560,659)	-
Net cash provided (used) by capital and related financing activities	(15,184,066)	(625,444)	(15,809,510)	(480,262)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income received	1,089,334	30,906	1,120,240	666,336
Net cash provided (used) by investing activities	1,089,334	30,906	1,120,240	666,336
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,987,898)	4,017	(9,983,881)	1,548,515
CASH AND CASH EQUIVALENTS - Beginning of year	37,936,093	737,362	38,673,455	18,670,368
CASH AND CASH EQUIVALENTS - End of year	$ 27,948,195	$ 741,379	$ 28,689,574	$ 20,218,883
FINANCIAL STATEMENT PRESENTATION:				
Cash and investments	$ 13,772,865	$ 460	$ 13,773,325	$ 20,218,883
Restricted cash and investments with fiscal agents	14,175,330	737,145	14,912,475	-
Total	$ 27,948,195	$ 737,605	$ 28,685,800	$ 20,218,883
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	$ 2,366,649	$ 144,108	$ 2,510,757	$ (179,787)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	3,106,634	404,546	3,511,180	683,284
Changes in assets and liabilities:				
Accounts receivable	(685,884)	7,643	(678,241)	6,080
Deferred charges	(886,367)	(79,584)	(965,951)	1,207
Accounts payable	(94,964)	(8,385)	(103,349)	(90,948)
Accrued salaries and wages payable	25,788	3,412	29,200	1,605
Deposits payable	228,661	-	228,661	-
Due to other fund	-	120,093	120,093	-
Claims and judgments payable	-	-	-	641,000
Vacation and sick leave payable	46,317	6,722	53,039	-
Total adjustments	1,740,185	454,447	2,194,632	1,242,228
Net cash provided (used) by operating activities	$ 4,106,834	$ 598,555	$ 4,705,389	$ 1,062,441
NON-CASH ACTIVITIES:				
Loss from disposal of capital assets	$ (717,865)	$ -	$ (717,865)	$ (14,666)
Capital contribution	3,984,520	-	3,984,520	-

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of San Mateo, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. *Financial Reporting Entity*

The City of San Mateo (City) was incorporated as a charter city on September 4, 1894; the current charter was adopted in 1971. The City operates under the Council-Manager form of government and provides the following services: public safety, including police and fire; building inspection; parks and streets; sanitation; leisure services; planning and zoning; general administration services; and redevelopment.

As required by GAAP, these basic financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and data from these units are combined with data of the City. Each blended component unit has a June 30 year-end. The City had no discretely presented component units. The following entities are reported as blended component units:

The San Mateo Redevelopment Agency (Agency) was created in 1969, pursuant to the State of California Health and Safety Code, Section 33000. The purpose is to engage in the economic revitalization and redevelopment of areas in the City determined to be in decline. The Agency is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Agency. The Agency's financial activities have been aggregated and merged ("blended") with those of the City in the accompanying basic financial statements in the Redevelopment Agency Housing Special Revenue Fund, the Redevelopment Agency Debt Service Fund and the Redevelopment Agency Capital Projects Fund.

The San Mateo Joint Power Financing Authority (Authority) was established solely to assist the City in the issuance of certain enterprise fund revenue bonds. It is controlled by and financially dependent on the City; its financial activities were accounted for as part of the respective enterprise funds.

The Agency's financial statements, as well as financial information relating to the Authority can be obtained from the City of San Mateo at 330 West 20th Avenue, San Mateo, CA 94403-1388.

B. *Basis of Accounting and Measurement Focus*

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. *Basis of Accounting and Measurement Focus, Continued*

Government-Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental and Business-Type Activities for the City accompanied by a total column.

These financial statements are presented on an *"economic resources"* measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions reported as program revenues for the City are reported in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989 to the business type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989 except those that conflict with or contradict GASB pronouncements.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The City has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or *"current financial resources"* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

The City reports the General Fund, Redevelopment Agency Fund, City Housing Special Revenue Fund and General Projects Capital Projects Fund as major governmental funds of the City.

General Fund accounts for resources traditionally associated with governmental activities which are not required legally or by sound financial management to be accounted for in another fund.

General Capital Projects Fund accounts for the expenditures for capital improvements for the City, including equipment, acquisition and construction of parks, recreation areas, public safety facilities or other public works. The primary sources of funding are intergovernmental revenues, Measure A (half cent sales tax), developer impact fees and transfers from other governmental funds.

Redevelopment Capital Projects Fund accounts for the acquisition and construction of the Agency's capital projects. Funding is provided by tax increments transferred in from the Agency's debt service funds.

Redevelopment Special Revenue Fund accounts for revenue and expenditures of the Agency's low and moderate income housing activity. Use of funds is restricted by law.

Redevelopment Debt Service Fund accounts for tax increment revenues used to pay principal and interest on genera long-term debt and pass thru payments of the Agency.

City Housing Special Revenue Fund accounts for revenues from a former Federal Rental Rehabilitation program and loan payments from the Fist Time Homebuyer program.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

B. Basis of Accounting and Measurement Focus, Continued

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, taxpayer-assessed tax revenues (sales taxes, transient occupancy taxes, franchise taxes, etc.), grant revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Change in Net Assets, and a Statement of Cash Flows for all proprietary funds.

A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the government-wide financial statements.

Proprietary funds are accounted for using the *"economic resources"* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Change in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

The City reports the Sewer, Golf and Internal Service Funds as proprietary funds of the City.

Sewer Fund accounts for the activities of the wastewater collection and treatment system, which provides service to the residents of the City and some neighboring cities.

Golf Fund accounts for the activities of the Poplar Creek Golf Course, which provides recreational facilities to the public.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

B. Basis of Accounting and Measurement Focus, Continued

Internal service fund balances and activities have been combined with governmental activities in the government-wide financial statements, and are comprised of the following funds:

Workers' Compensation Insurance Fund accounts for all workers' compensation self-insurance activities.

Dental Self-Insurance Fund accounts for the City's self-insurance activities related to the dental plan it provides to its employees.

Benefits Fund accounts for charges for other funds and expenditures relating to employee benefits other than those accounted for in the Workers' Compensation and Dental Self-Insurance Funds.

Comprehensive Liability Insurance Fund accounts for the general liability self-insurance transactions.

Vehicle and Equipment Replacement Fund accounts for rental charges to the City departments and the replacement of vehicles and equipment.

Fleet and Building Maintenance Fund accounts for the charges to users departments and the expenses relating the maintenance of the City vehicles and buildings.

Fiduciary Fund Financial Statements

The City has no fiduciary funds.

C. Cash, Cash Equivalents and Investments

The City pools cash resources of its various funds to facilitate cash management. Cash in excess of current requirements is invested and reported as investments. It is the City's intent to hold current investments until maturity. However, the City may, in response to market conditions, sell investments prior to maturity in order to improve the quality, liquidity or yield of the portfolio. Interest earnings are apportioned among funds based on ending accounting period cash and investment balances.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments with original maturity of three months or less from the date of acquisition.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

C. Cash, Cash Equivalents and Investments, Continued

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in the Local Agency Investment Fund (LAIF), an investment pool managed by the State of California. LAIF has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as a result of changes in interest rates.

D. Restricted Cash and Investments

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects. Cash and investments are also restricted for deposits held for others within the enterprise funds.

E. Prepaids and Supplies

Certain payments to vendors reflect costs applicable to future accounting periods. Supplies are valued at cost on a first-in first-out basis. Supplies in the General Fund consist of expendable supplies held for consumption by all departments of the City. The cost is recorded as an expenditure at the time individual inventory items are withdrawn for use (consumption method). The General Fund supplies amount is equally offset by a fund balance reservation, which indicates that it does not constitute expendable available financial resources. Supplies in the enterprise funds consist principally of materials and supplies for utility operations and are expensed as consumed.

F. Property Held for Resale

Property held for resale consists of land and project costs relating to property acquired or constructed which will be sold under terms of disposition and development agreements between the Agency and developers. The property held for resale is recorded at the lower of cost or estimated net realizable value. Reported amounts are fully reserved, which indicates that they do not constitute available spendable resources.

G. Capital Assets

Capital assets, which include land, buildings, improvements, equipment, furniture, and infrastructure assets (e.g. roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost in not available. Donated assets are valued at their estimated fair value on the date donated.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

G. Capital Assets, Continued

City policy has set the capitalization threshold for reporting capital assets at the following:

General Capital Assets	$10,000
Infrastructure Capital Assets	$100,000

For capital assets, depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Sewer Treatment Plant and Transmission Lines	60 years
Buildings and Improvements	20 - 35 years
Machinery and Equipment	3 – 15 years
Infrastructure	25 – 50 years

The Governmental Accounting Standards Board (GASB) issued Statement No. 34 requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructures into its Basic Financial Statements.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include:

- Streets system
- Site amenities such as parking and landscaped areas used the City in the conduct of its business

Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. These subsystems were not delineated in the Basic Financial Statements. The appropriate operating department maintains information regarding the subsystems.

The City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City conducted a valuation of its infrastructure assets as of July 1, 2002. This valuation determined the original cost using one of the following methods:

1. Use of historical records where available.
2. Standard unit costs appropriate for the construction/acquisition date.
3. Present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date.

The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line method using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the original cost.

Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

H. Interest Payable

In the government-wide financial statements, interest payable of long-term debt is recognized as the liability is incurred for governmental fund types and proprietary fund types.

In the fund financial statements, propriety fund types recognize the interest payable when the liability is incurred.

I. Deferred Revenue

In the Government-Wide Financial Statements, deferred revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as deferred revenues in the Government-Wide Financial Statements are prepaid charges for services.

In the Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The City records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available, long-term loans receivables, and prepaid charges for services.

J. Claims and Judgments

The short-term and long-term workers' compensation claims liability is reported in the Workers' Compensation Insurance Internal Service Fund. The short-term and long-term general claims liability is reported in the Comprehensive Liability Insurance Internal Service Fund. The short-term liability which will be liquidated with *current financial resources* is the amount of settlement reached, but unpaid, related to claims and judgments entered.

K. Long-Term Debt

Government-Wide Financial Statements - Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Fund Financial Statements - The governmental fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Bond premiums and discounts, as well as issuance costs, are recognized during the current period as other financing sources or uses. Bond proceeds are reported as other financing sources.

Proprietary Fund Financial Statements use the same principles as those used in the Government-Wide Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. *Property Taxes*

San Mateo County (County) assesses properties and it bills, collects, and distributes property taxes to all taxing entities including the City. Under State law, known as the Teeter Plan, the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1. Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are levied, provided they become available as defined above.

M. *Net Assets*

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net assets are classified in the following categories:

<u>Invested in Capital Assets, Net of Related Debt</u> – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

<u>Restricted</u> – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of governments.

<u>Unrestricted</u> – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets" as defined above.

Fund Financial Statements

Reservations of fund balances of governmental funds and retained earnings of proprietary funds are created to either satisfy legal covenants; including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

N. *Vacation and Sick Leave Payable*

For governmental funds, vacation and sick leave payable are recorded as current and non-current liabilities only on the government-wide financial statements. Vacation and sick leave payable are payable from the General Fund. For proprietary funds, current and non-current liabilities for vacation and sick leave payable are recorded as expenses in both the government-wide financial statement and the fund financial statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. *Use of Restricted/Unrestricted Net Assets*

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

P. *Use of Estimates*

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

Q. *New Pronouncements*

In 2006, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statement:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* – The Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

- Statement No. 44, *Economic Condition Reporting: The Statistical Section (Amendment of NCGA Statement 1)* – The Statement establishes the objectives of the statistical section and the five categories of information it contains; financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.

- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* – The Statement addresses selected issues and amends GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* The Statement enhances the usefulness and comparability of net asset information and clarifies the meaning of legal enforceability. The Statement also specified accounting and financial reporting requirements for restricted net assets.

- GASB Statement No. 47, *Accounting for Termination Benefits* – The Statement provides accounting guidance for state and local governmental employers regarding benefits (such as early-retirement incentives and severance benefits) provided to employees that are terminated. The Statement requires recognition of the cost of involuntary termination benefits in the period in which a government becomes obligated to provide benefits to terminated employees.

2. CASH AND INVESTMENTS

The City maintains a cash and investment pool for all funds. Certain restricted funds which are held and invested by independent outside custodians through contractual agreements are not pooled. These restricted funds include cash and investment held by trustees.

A. Deposits

The carrying amount of the City's cash deposit was a negative amount of $225,329 at June 30, 2006. Bank balances before reconciling items were $901,493 at June 30, 2006, the total amount of which was insured and/or collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may and has waived collateral requirements for cash deposits, which are fully insured up to $100,000 by the Federal Deposit Insurance Corporation.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

B. Investments

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Securities issued by the U.S. Treasury	5 years	No limit	No limit
U.S. Agency Securities and Instrumentality	5 years	70%	35% of portfolio
Banker's acceptances	180 days	30%	5% of portfolio
Non-negotiable certificates of deposit	3 years	30%	5% of portfolio
Negotiable certificates of deposit	2 years	30%	5% of portfolio
Repurchase agreements	90 days	10%	5% of portfolio
Local Agency Investment Fund	N/A	65%	65% of portfolio
San Mateo County Pool	N/A	30%	30% of porfolio
Money Market/Mutual Funds	N/A	20%	20% of portfolio
Prime Commercial Paper	270 days	15%	$1 million
Mid-term Corporate Notes	5 years	10%	$1 million

2. CASH AND INVESTMENTS, Continued

B. Investments, Continued

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* investments were stated at fair value using the aggregate method in all funds and component units, resulting in the following investment income in all funds and component units:

Interest income	$	3,787,730
Unrealized gain in changes in fair value of investments		49,039
Total investment income	$	3,836,769

The City portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates have risen, the portfolio value will have declined. If interest rates have fallen, the portfolio value will have risen. In accordance with GASB Statement No. 31, the portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. The City's policy is to buy and hold investments until maturity dates.

The City's investments are carried at fair value as required by generally accepted accounting principles.

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2006, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes - are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2006, the City had $17,790,542 invested in LAIF, which had invested 2.567% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 0.998185821 was used to calculate the fair value of the investments in LAIF.

The City is also a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the County of San Mateo. The City reports its investment in the County Pool at the fair value amount provided by the County. Included in the County Pool's investment portfolio are US Treasury Notes, Obligations issued by agencies of the United States Government, LAIF, Corporate Notes, Commercial Paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

2. CASH AND INVESTMENTS, Continued

C. *Summary of Cash and Investments*

The following is a summary of cash and investments at June 30, 2006:

	Government-Wide Statement of Net Assets		
	Governmental Activities	Business-Type Activities	Total
Cash and investments	$ 103,449,727	$ 13,773,325	$ 117,223,052
Restricted cash and investments	$ 33,188,158	$ 14,912,475	$ 48,100,633
Total cash and investments			$ 165,323,685

D. *Risk Disclosures*

Interest Risk: Interest rate risk is the market value fluctuation due to overall changes in the interest rates. It is mitigated by limiting the average maturity of the City's portfolio not to exceed three years.

Investments held in the City Treasury grouped by maturity date at June 30, 2006, are shown below:

		Investment Maturities (in years)				
Investment Type	**Fair Value**	**1 year or less**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**
Deposits	$ (225,329)	$ (225,329)	$ -	$ -	$ -	$ -
Securities of U.S. Government						
Treasury and Agencies:						
FFCB	7,879,200	5,927,800	1,951,400	-	-	-
FHLB	24,710,400	13,825,200	4,970,200	5,915,000	-	-
FHLMC	14,765,700	5,949,800	6,875,300	-	1,940,600	-
FNMA	19,765,200	10,880,400	4,923,600	1,981,600	-	1,979,600
US Securities	17,746,500	15,771,600	990,800	984,100	-	-
Money Market	3,721,531	3,721,531	-	-	-	-
Local Agency Invesments Funds	17,790,542	17,790,542	-	-	-	-
San Mateo County Pool	9,169,308	9,169,308	-	-	-	-
Time Deposits	1,900,000	1,900,000	-	-	-	-
Total	$ 117,223,052	$ 84,710,852	$ 19,711,300	$ 8,880,700	$ 1,940,600	$ 1,979,600

Liquidity Standard: As a means of maintaining liquidity, the City's investment policy limits are as follows:

Maturity	% of Portfolio
Up to six months	25% (Minimum)
Six months to five years	75% (Maximum)

City of San Mateo
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CASH AND INVESTMENTS, Continued

D. *Risk Disclosures, Continued*

Credit Risk. Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. According to the City's investment policy, no more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities, San Mateo County Pool and LAIF. If a security is downgraded by either Moody's or S&P to a level below the minimum quality required by the City, it shall be the City's policy to sell that security as soon as practicable.

At June 30, 2006, the City had the following deposits and investments:

	Credit Quality Ratings		
	Fitch	Moody's	S&P
Deposits		P-1	A1
Investments:			
Time Deposit of Certificates		B or better	
Securities of U.S. Government Agencies:			
FFCB		Aaa	AAA
FHLB		Aaa	AAA
FHLMC		Aaa	AAA
FNMA		Aaa	AAA
US Treasuries		Aaa	AAA
Local Agency Investment Funds		Not Rated	
San Mateo County Pool	AA/V1+		
Money Market Funds		Aaa	AAA

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

3. INTERFUND TRANSACTIONS

A. *Due To/From Other Funds*

At June 30, 2006, the City had the following due to/from other funds:

	Due From Other Funds
Due To Other Funds	General Fund
Non-major Governmental Funds	$ 100,319
Golf Enterprise Fund	147,362
Total	$ 247,681

3. INTERFUND TRANSACTIONS, Continued

A. *Due To/From Other Funds, Continued*

The amounts due to the general fund from other funds represent reclassified temporary negative cash balances pending grant reimbursements or other receivables. Current inter-fund balances arise in the normal course of operations and are expected to be repaid shortly after the end of the fiscal year.

B. *Transfers*

At June 30, 2006, the City had the following transfers in/out which arise in the normal course of operations.

Transfers Out	Transfers In: General	General Projects Capital Projects	RDA Capital Projects	Non-Major Governmental Funds	Internal Service Funds	Total
Major Funds:						
General	$ -	$ 5,785,000	$ -	$ -	$ 300,000	$ 6,085,000
RDA Debt Service	-	-	2,055,981	-	-	2,055,981
Non-major Governmental Funds	1,515,000	414,441	-	297,859	-	2,227,300
Total	$ 1,515,000	$ 6,199,441	$ 2,055,981	$ 297,859	$ 300,000	$ 10,368,281

Transfers from the general fund to the capital projects fund represent the general fund funding capital projects mainly for streets, parks, and building component replacement.

Transfers from the CDBG fund to the capital projects fund are for CDBG eligible projects.

Transfers from gas tax fund to the general fund are for street related expenditures in the general fund.

Transfers from gas tax fund to the capital projects fund are for street related expenditures in the capital projects fund.

Transfers from the general fund to the internal service funds are for the purpose of bringing the funding levels in those funds to the policy level.

Transfer from the solid waste fund to the capital projects are for the garbage transfer station.

Transfer from the central parking improvement district fund to the capital projects are for the long range parking.

4. LOANS AND NOTES RECEIVABLE

A. *Government-Wide Financial Statements*

At June 30, 2006 the City's loans and notes receivable consisted of the following:

Loans and notes receivable	$ 40,220,673
Allowances for potential forgiveness	(6,279,254)
Loans and notes receivable, net	$ 33,941,419

B. *Fund Financial Statements*

The City and the Agency engage in programs designed to encourage construction or improvement in low-to-moderate income housing or other projects. Under these programs, loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City's and Agency's terms. In the governmental fund financial statements, these loans have been offset by deferred revenue as they are not expected to be repaid immediately.

Loans and notes receivable, including accrued interest and related deferred revenue, comprised balances from the following programs, all of which are discussed below:

Description	Year Due	Balance June 30, 2006	Balance June 30, 2005
Governmental Funds:			
First-Time Homebuyer Loans	Various	$ 16,567,851	$ 16,345,722
Home Rehabilitation Loans	Various	2,265,804	2,348,202
106 N. Eldorado	2036	450,000	450,000
Darcy Building	2040	1,502,811	1,501,559
Edgewater Isle Senior Apartments	2048	3,320,141	3,238,383
Belmont Building	2032	800,000	800,000
Merkel Building	2005/2011	22,882	45,625
St. Matthew Hotel	2036	2,270,595	2,239,373
Rotary Hacienda	2058	4,078,564	4,028,000
Turning Point	2018	1,074,648	1,060,340
12 N. Idaho Street	2034	110,436	110,436
200 S. Delaware Street	2049	1,509,120	1,471,140
Employees' Housing Assistance Program	Various	89,487	87,072
232 S. Humboldt Street	2021	580,000	565,000
11 S. Delaware Street	2032	909,942	885,050
El Camino Family Housing	2042	3,744,730	3,643,150
Droese Loan - Steiners Jewelry	2029	202,806	192,631
Mitter Loan	2015	60,000	60,000
Swanson - 349 North Claremont	2025	106,507	7,688
Lesley Foundation	2020	95,807	476
Cora Loan	2026	2,967	-
Total governmental funds		39,765,098	39,079,847
Internal Service Funds:			
Employee Loan	Open	455,575	455,575
Total		$ 40,220,673	$ 39,535,422

4. LOANS AND NOTES RECEIVABLE, Continued

B. Fund Financial Statements, Continued

First-Time Homebuyer Loans

The Redevelopment Agency has provided various loan programs for First Time Homebuyers since 1989. In general they provide secondary financing for low and moderate buyers in the City of San Mateo that have deferred payments in order to allow the buyer to maximize their purchasing capacity. The various loan terms are described below:

Gateway Commons Original Buyers - Second loans up to $45,000 accrue interest that compounds annually. Payment of principal and interest is paid upon sale of property. Units are sold at market value and the Agency also receives as payment a share of the appreciation based on the percentage of the Agency loan to original purchase price. The Agency has first right of refusal to purchase unit to roll over to new eligible buyer.

First Time Buyer Resale Program - Subsequent buyers at Gateway Commons and other first time buyer complexes have different loan terms: Second loans up to $60,000 accrue interest that is compounded annually. The resale price is restricted by applying the percentage increase in median income from the time of the purchase date to the sale date, to the initial sales price. The Agency has the first right of refusal to roll unit to new eligible at the restricted sales price. The principal is repaid, but payment of the accrued interest is waived. If the Agency does not exercise option to purchase, the unit can be sold at fair market value to a non-eligible buyer. In this case the principal, interest and appreciation share payment is paid to the Agency.

Neighborhood Purchase Program - A second loan of up to 20% of the purchase price, or maximum of $60,000 accrues simple interest of 3% per year. This is an amortized loan where monthly payments are deferred for five years and then repaid over 25 years. This program is no longer active. There are no resale price restrictions.

CASA Program - Secondary funds of up to 20% of the purchase price, or maximum of $60,000 are available from a partnership between the Agency and the program lender, City National Bank. Buyers obtain a first loan with the bank. The bank and the Agency each provide half of the secondary funds in second and third position respectively. Loan repayment is deferred until sale or refinance, at which time the original loan, plus a percentage of the appreciation is distributed to the Agency and the bank. This program is no longer active. There are no resale price restrictions.

Countywide Home Investment Partnership (CHIP) Program - This program provides a second loan of up to 20% of the purchase price, or maximum of $60,000. No interest and no payments are due for 10 years. Then payments are amortized at 4% for 25 years. Upon sale of the property or refinance, an appreciation share payment is due to the Agency. This program is designed to partner with other local secondary loan programs, such as the Community College District program that provides the same loan terms, only the interest and payments are deferred for five years. There are no resale price restrictions.

4. LOANS AND NOTES RECEIVABLE, Continued

B. Fund Financial Statements, Continued

Meadow Court Program -This program provides first-time homebuyers down payment assistance in an amount not to exceed $60,000 for the purchase of units at Meadow Court. The loans are secured by a second deed of trust to eligible homebuyers who obtain a conventional mortgage from a private lender. The original term of the loan is 40 years with an interest rate varying between 4% and 10%. At year 31, provided that the property has not been sold or transferred, 10% of principal and interest will be forgiven each year until year 40, at which time the entire note is forgiven.

At June 30, 2006, the balances of all First-Time Homebuyer loans amounted to $16,567,851.

Home Rehabilitation Loans

The City administers various housing rehabilitation loan programs using Community Development Block Grant funds, Redevelopment Agency Housing Set-Aside funds and City Housing funds. Under these Programs, individuals with incomes below a certain level are eligible to receive low interest, variable term loans, secured by deeds of trust for rehabilitation work on their homes. The maximum loan limit is $85,000 and $100,000 for historic properties. The loan repayments may be amortized over the life of the loans, deferred or a combination of both.

106 N. Eldorado

The City loaned $450,000 to Housing Association for the Needy and Dispossessed, Inc. (HAND), a non-profit organization, to acquire and rehabilitate six apartment units at 106 N. Eldorado for low-income housing. The loan bears no interest and is due in 40 years. If the property has not been sold or transferred, beginning in 2027, ten percent of the principal will be forgiven annually until 2036, at which time the entire loan principal will be forgiven.

Darcy Building

On June 30, 2000, the City and the Agency had made four loans, the proceeds of which were used to conduct substantial rehabilitation and residential conversion of the Darcy Building for low income households. The loans carry interest at rates which vary from 0% to 5% with a term of 30 years. If the property remains in the developer's hands, two of the loans allow partial forgiveness beginning in year 30, with full forgiveness in year 40.

Edgewater Isle Senior Apartments

On June 30, 2000, the City and the Agency had a receivable from the Human Investment Project for the purchase and minor rehabilitation of ninety-two low and moderate income senior rental units at Edgewater Isle. Payments of principal and 3% interest are deferred until 2048 or the sale or transfer of the property.

4. LOANS AND NOTES RECEIVABLE, Continued

B. Fund Financial Statements, Continued

Belmont Building

On June 30, 2000, the City and the Agency had made two loans, the proceeds of which were used to convert this building into six one-bedroom units for very low income families. The loans bear no interest and are for a term of 40 years. If the property remains in the developer's hands, beginning in year 2023, ten percent of the principal will be forgiven annually until year 2032, at which time the entire loan principal will have been forgiven.

Merkel Building

The Agency holds a loan and second deed of trust in the amount of $100,000 at 5% interest for the rehabilitation and historic preservation of the Merkel Building. Payments on the loan, which was made in 1995, were deferred until 2000 and will be paid in full by 2012.

St. Matthew Hotel

On June 30, 2000, the City and the Agency had a receivable from a developer, which used these funds to rehabilitate this hotel into a single room occupancy development for very low-income households. Interest is at 0% to 3%; principal and interest are due in 2036. Annual payments on the 3% loan are based on available cash flow, if any.

Rotary Hacienda

In 1998, the Agency entered into a Development and Disposition Agreement with Rotary Hacienda Inc. for the construction and operation of an 82-unit senior rental housing project. The Agreement includes a promissory note in the amount of $968,383, which bears simple interest at a rate of 8.75% compounded annually, and is due on December 30, 2028.

In 2003, the Agency entered into two Predevelopment Loan Agreements with Rotary Hacienda Inc. for the purchase of land and predevelopment of the Rotary Floritas Apartments project. The Agreement includes two promissory notes in the amount of $1,800,000 and $1,200,000, which bears a simple interest at 3.00% compounded annually, respectively. Both Agreements are due on October 30, 2058.

Turning Point

On June 26, 1988, the Agency and the Mid-Peninsula Coalition Belle Haven, Inc., entered into an agreement, which provided loans of $69,262 in City funds and $305,000 in Agency funds to assist with the acquisition and development of an emergency housing shelter called Turning Point. The loan bears no interest and is due in 2018; however, repayment is not required as long as the facility remains a shelter.

4. LOANS AND NOTES RECEIVABLE, Continued

B. Fund Financial Statements, Continued

12 N. Idaho Street

In 1994, HAND, Inc., a non-profit organization, received loans of $100,000 from the Agency and $10,436 from the City to assist in the purchase of a six-unit apartment building located at 12 N. Idaho Street to be used as an affordable housing complex. The Agency loan carries an interest rate of 10% and is for a period of 40 years and the City loan carries no interest and is for a period of 15 years. Principal payments on both loans are deferred until the earlier of sale or transfer of the property or the maturity date.

200 S. Delaware Street

On October 6, 1999, the City and the Agency loaned $1,216,000 to Housing Association for the Needy and Dispossessed, Inc. (HAND) to acquire and rehabilitate sixteen units at 200 S. Delaware Street for low-income housing. The loan bears an interest rate of 3%. Principal and interest are due in 2049. However, HAND has an option of renewing the loan agreement for another fifty years.

Employees' Housing Assistance Program

The City has a housing assistance program for City employees for housing located within San Mateo City limits. This program provides short-term loans up to $75,000 to finance rental deposits or closing costs for home ownership. Loan repayments are deducted from employees' paychecks over a period of up to five years or are due upon leaving employment.

232 S. Humboldt Street

On February 9, 2001, the City and the Agency loaned $500,000 to Mateo Lodge, Inc., to rehabilitate nine units at 232 S. Humboldt Street for low-income housing. The loan bears an interest rate of 3%. Principal and interest are due in 2021. However, Mateo Lodge, Inc. has an option of renewing the loan agreement for another twenty years.

11 S. Delaware Street

On June 17, 2002, the City loaned $660,000 to HAND to acquire and rehabilitate eleven units at 11 S. Delaware Street for affordable housing. The loan bears an interest rate of 3%. Principal and interest are due in 2032. However, HAND has an option of renewing the loan agreement for another thirty years.

El Camino Family Housing

In December 2002, El Camino Family Housing, L.P., received a loan of $3,386,000 from the Agency to develop the Santa Inez Apartments which is to be used as an affordable housing complex. The Agency loan carries an interest rate of 3% and is for a period of 40 years. Annual payments of principal and interest in the amount of $140,688 from the borrower's "available cash flow" will be required annually. In the event the "available cash flow" is inadequate to remain current, the loan shall nevertheless be due and payable in 40 years.

4. LOANS AND NOTES RECEIVABLE, Continued

B. *Fund Financial Statements, Continued*

Droese Loan – Steiners Jewelry

On July 28, 2004, the City entered into loan agreement with Michael and Shawna Droese. The agreement includes two promissory notes in the amount of $100,000 and $85,000, which bears 5.5% interest rate. Payment shall be made in 300 equal payments of principal and interest at the rate of $614.09 due on the first day of every month starting October 1, 2004. Both agreements are due on October 1, 2029.

Mitter Loan

On June 6, 2005, the City entered into promissory note with Laurence Kelly Mitter to loan $60,000. The note carries no interest rate and is for a period of 10 years. Principal payment is deferred for the first 2 years. Payments of $333.33 begin on August 1, 2007.

Swanson Loan

On January 1, 2005, the City loaned $7,500 to Angelina Swanson for architectural services and structural engineering test at 349 North Claremont Street. The loan bears an interest rate of 5%. Principal and interest payments are deferred for 20 years or until sale or transfer of the property.

Lesley Foundation

On June 14, 2005, the City entered into promissory note with Lesley Foundation. The note bears an interest rate of 3%. Payment shall be made in 180 equal payments of principal and interest at the rate of $828.70 due on the first day of every month starting October 1, 2005 until the principal is paid in full. The full amount of the loan agreement was for $120,000. At June 30, 2006, outstanding balance was $95,807.

Cora Loan

On April 26, 2006, the City entered two promissory notes with the Community Overcoming Relationship Abuse (CORA) in the amount of $75,000and $70,000. The notes bear an interest rate of 3%. Payments of principal and interest are deferred for 20 years or until sale or transfer of the property, whichever comes first, at such time the City of San Mateo may elect to extend or modify the loan terms.

Employee Loan

In March 2003, a newly appointed City Attorney (Employee) received a loan of $455,575 from the City to assist with obtaining suitable housing. The City and the employee agreed to hold title to the property purchased as an investment and for use as a personal residence by Employee and his family. The agreement will terminate upon whichever of the following events shall first occur: (1) termination of the employment relationship between the City and the employee by either party, (2) the death of the employee, (3) the failure by the employee to occupy said Property as his principal place of residence for a period of ninety consecutive days. The City and the employee will share in the profits and losses of the property at 52.6% and 47.4%, respectively.

5. DEFERRED REVENUE

A. *Government-Wide Financial Statements*

Deferred revenues in Government-Wide Financial Statements represent amounts for which revenues have not been earned. At June 30, 2006, deferred revenues in the Government-Wide Financial Statements were as follows:

	Governmental Activities
Prepaid summer course registration	$ 684,014
Prepaid recreation classes	39,485
Unearned grant revenues	8,385
Total	$ 731,884

B. *Fund Financial Statements*

At June 30, 2006, the following deferred revenues were recorded in the Fund Financial Statements because either the revenues had not been earned or the funds were not available to finance expenditures of the current period:

Governmental Funds:

	General Fund	Redevelopment Capital Projects	Redevelopment Special Revenues	City Housing Fund	Non-Major Funds	Total
Interest Accruals:						
Long-term Notes Receivable	$ -	$ 267,883	$ 19,886,620	$ 3,247,652	$ 6,638,473	$ 30,040,628
1st Time Home Buyer Loan	-	-	3,549,099	3,606,179	225,778	7,381,056
Home Rehabilitation Loan	-	-	112,447	18,984	318,800	450,231
11 S. Delaware Loan	-	-	-	-	80,192	80,192
200 S. Delaware Loan	-	-	92,112	-	151,008	243,120
Darcy Building	-	-	4,280	-	-	4,280
Edgewater Isle Senior Apt Loan	-	-	487,530	-	107,341	594,871
St. Matthew Hotel Loan	-	-	270,595	-	-	270,595
El Camino Family Hsg Loan	-	-	358,730	-	-	358,730
Turning Point Loan	-	-	52,446	-	73,982	126,428
Humboldt House Loan	-	-	21,600	-	58,400	80,000
Rotary Floritas Loan	-	-	110,564	-	-	110,564
Droese Loan	-	17,806	-	-	-	17,806
Swanson Loan	-	-	-	-	3,904	3,904
Lesley Foundation	-	-	-	-	2,693	2,693
Prepaid Summer Course Registration	723,499	-	-	-	-	723,499
Unearned Grant Funds	-	-	-	-	8,385	8,385
Total	$ 723,499	$ 285,689	$ 24,946,023	$ 6,872,815	$ 7,668,956	$ 40,496,982

6. DEFERRED CHARGES

As of June 30, 2006, deferred charges for the Government-Wide Financial Statements consisted of the following:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental Activities:				
Bond issuance costs	$ 1,139,400	$ -	$ (42,200)	$ 1,097,200
Business-Type Activities:				
Bond issuance costs	783,860	-	(50,293)	733,567
Total	$ 1,923,260	$ -	$ (92,493)	$ 1,830,767

The amortization expense was $94,493 for the year ended June 30, 2006.

7. CAPITAL ASSETS

A. *Government-Wide Financial Statements*

At June 30, 2006 the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-depreciable assets:			
Land	$ 42,429,544	$ 4,217,298	$ 46,646,842
Construction in progress	59,291,347	29,008,768	88,300,115
Total non-depreciable assets	101,720,891	33,226,066	134,946,957
Depreciable assets:			
Buildings and improvements	34,736,349	11,790,969	46,527,318
Treatment plant & transmission lines	-	127,487,021	127,487,021
Machinery and equipment	23,729,558	2,948,829	26,678,387
Infrastructure	346,838,692	-	346,838,692
	405,304,599	142,226,819	547,531,418
Less accumulated depreciation:			
Buildings and improvements	14,838,263	2,479,569	17,317,832
Treatment plant & transmission lines	-	63,179,862	63,179,862
Machinery and equipment	14,900,959	2,202,554	17,103,513
Infrastructure	137,220,965	-	137,220,965
Total accumulated depreciation	166,960,187	67,861,985	234,822,172
Total depreciable assets	238,344,412	74,364,834	312,709,246
Total capital assets	$ 340,065,303	$ 107,590,900	$ 447,656,203

7. CAPITAL ASSETS, Continued

A. *Government-Wide Financial Statements, Continued*

The following is a summary of changes in the capital assets for governmental activities during the fiscal year:

	Balance July 1, 2005	Additions	Retirements	Reclassification	Balance June 30, 2006
Non-depreciable assets:					
Land	$ 42,429,544	$ -	$ -	$ -	$ 42,429,544
Construction in progress	38,703,293	34,165,430	-	(13,577,376)	59,291,347
Total non-depreciable assets	81,132,837	34,165,430	-	(13,577,376)	101,720,891
Depreciable assets:					
Building and improvements	37,145,541	-	(3,611,543)	1,202,351	34,736,349
Machinery and equipment	23,303,341	592,207	(480,091)	314,101	23,729,558
Infrastructure	334,777,768	-	-	12,060,924	346,838,692
Total depreciable assets	395,226,650	592,207	(4,091,634)	13,577,376	405,304,599
Less accumulated depreciation:					
Building and improvements	17,500,760	949,046	(3,611,543)	-	14,838,263
Machinery and equipment	13,894,922	1,459,503	(453,466)	-	14,900,959
Infrastructure	129,035,486	8,185,479	-	-	137,220,965
Total accumulated depreciation	160,431,168	10,594,028	(4,065,009)	-	166,960,187
Total depreciable assets, net	234,795,482	(10,001,821)	(26,625)	13,577,376	238,344,412
Total capital assets	$ 315,928,319	$ 24,163,609	$ (26,625)	$ -	$ 340,065,303

Depreciation expenses by program for capital assets for the year ended June 30, 2006 are as follows:

General government	$ 409,686
Community development	122,264
Public safety	686,238
Public works	7,687,711
Parks and recreation	1,553,176
Library	134,953
Total depreciation expense	$ 10,594,028

7. CAPITAL ASSETS, Continued

A. *Government-Wide Financial Statements, Continued*

The following is a summary of changes in the capital assets for business-type activities during the fiscal year:

	Balance July 1, 2005	Additions	Retirements	Reclassification	Balance June 30, 2006
Non-depreciable assets:					
Land	$ 4,217,298	$ -	$ -	$ -	$ 4,217,298
Construction in progress	19,152,507	17,890,062	(691,836)	(7,341,965)	29,008,768
Total non-depreciable assets	23,369,805	17,890,062	(691,836)	(7,341,965)	33,226,066
Depreciable assets:					
Golf building and improvements	11,790,969	-	-	-	11,790,969
Sewer treatment plant					
and transmission lines	120,145,056	-	-	7,341,965	127,487,021
Machinery and equipment	3,179,158	194,412	(424,741)	-	2,948,829
Total depreciable assets	135,115,183	194,412	(424,741)	7,341,965	142,226,819
Less accumulated depreciation:					
Golf building and improvements	2,110,980	368,589	-	-	2,479,569
Sewer treatment plant					
and transmission lines	60,320,539	2,859,323	-	-	63,179,862
Machinery and equipment	2,432,854	168,411	(398,711)	-	2,202,554
Total accumulated depreciation	64,864,373	3,396,323	(398,711)	-	67,861,985
Total depreciable assets, net	70,250,810	(3,201,911)	(26,030)	7,341,965	74,364,834
Total capital assets	$ 93,620,615	$ 14,688,151	$ (717,866)	$ -	$ 107,590,900

Depreciation expenses for the year ended June 30, 2006 are as follows:

Sewer	$ 2,995,551
Golf	400,772
Total depreciation expense	$ 3,396,323

B. *Fund Financial Statements*

The fund financial statements do not present General Government Capital Assets but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

8. LONG-TERM DEBT

A. *Governmental Activities*

The following is a summary of long-term debt transactions for the year ended June 30, 2006:

	Original Issue Amount	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Governmental Activities:						
Bonds Payable:						
General Obligation Bonds:						
Series 2000	$ 12,000,000	$ 11,435,000	$ -	$ (190,000)	$ 11,245,000	$ 205,000
Series 2004A	23,000,000	23,000,000	-	(440,000)	22,560,000	465,000
Series 2004B	2,845,000	2,845,000	-	(435,000)	2,410,000	455,000
Redevelopment Tax Allocation Bonds:						
1997 Series B	11,240,000	4,445,000	-	(1,220,000)	3,225,000	1,305,000
2001 Series A	42,570,000	42,570,000	-	-	42,570,000	-
2005 Series A	38,665,000	38,781,637	-	(4,230)	38,777,407	-
2005 Series A, Housing Set-Aside	11,195,000	11,195,000	-	(170,000)	11,025,000	310,000
Joint Power Financing Authority:						
Revenue Bonds, Series 2003	7,900,000	7,900,000	-	(130,000)	7,770,000	135,000
Total bonds payable	$ 149,415,000	$ 142,171,637	$ -	$ (2,589,230)	$ 139,582,407	$ 3,325,000

General Obligation Bonds, Series 2000 – Original Issue $12,000,000

On June 15, 2000, the City issued $12,000,000 principal amount General Obligation Bonds, Series 2000 (General Obligation Bonds). The proceeds of the General Obligation Bonds were used to finance construction of a new main library and improvements to the City's branch libraries.

The General Obligation Bonds mature annually through August 1, 2030 in the amounts ranging from $75,000 to $830,000 beginning August 1, 2001. The interest of the General Obligation Bonds is payable semi-annually on each February 1 and August 1, commencing February 1, 2001. The interest rate of the General Obligation Bonds ranges from 5.125% to 5.625%. The City is empowered and is obligated to levy ad valorem taxes, without limitation as to rate or amount upon all property subject to taxation of the City for the payment of interest and principal of the Bonds. The General Obligation Bonds are subject to optional and mandatory early redemption provisions. The outstanding balance of the General Obligation Bonds was $11,245,000 at June 30, 2006.

The annual debt service requirements on the General Obligation Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ 205,000	$ 618,977	$ 823,977
2008	220,000	607,949	827,949
2009	240,000	595,874	835,874
2010	250,000	583,011	833,011
2011	265,000	569,327	834,327
2012-2016	1,550,000	2,606,979	4,156,979
2017-2021	2,065,000	2,114,858	4,169,858
2022-2026	2,755,000	1,447,673	4,202,673
2027-2030	3,705,000	545,765	4,250,765
Total	$ 11,245,000	$ 9,690,413	$ 20,935,413

8. LONG-TERM DEBT, Continued

A. *Governmental Activities, Continued*

General Obligation Bonds, Series 2004 A – Original Issue $23,000,000

On June 3, 2004, the City issued $23,000,000 principal amount General Obligation Bonds, Series 2004 A (General Obligation Bonds). The proceeds of the General Obligation Bonds were used to finance the construction completion of a new main library.

The General Obligation Bonds mature annually through August 1, 2026 in the amounts ranging from $440,000 to $1,265,000 beginning August 1, 2005. The interest of the General Obligation Bonds is payable semi-annually on each February 1 and August 1, commencing February 1, 2005. The interest rate of the General Obligation Bonds ranges from 3.50% to 5.00%. The City is empowered and is obligated to levy ad valorem taxes, without limitation as to rate or amount upon all property subject to taxation of the City for the payment of interest and principal of the Bonds. The General Obligation Bonds are subject to optional and mandatory early redemption provisions. The outstanding balance of the General Obligation Bonds was $22,560,000 at June 30, 2006.

The annual debt service requirements on the General Obligation Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ 465,000	$ 1,085,375	$ 1,550,375
2008	490,000	1,068,663	1,558,663
2009	515,000	1,051,075	1,566,075
2010	545,000	1,031,844	1,576,844
2011	570,000	1,010,226	1,580,226
2012-2016	3,305,000	4,641,200	7,946,200
2017-2021	4,195,000	3,736,250	7,931,250
2022-2026	5,420,000	2,541,875	7,961,875
2027-2031	7,055,000	963,763	8,018,763
Total	$ 22,560,000	$ 17,130,271	$ 39,690,271

General Obligation Refunding Bonds, Series 2004 B – Original Issue $2,845,000

On June 3, 2004, the City issued $2,845,000 principal amount General Obligation Refunding Bonds, Series 2004 B (General Obligation Refunding Bonds). The proceeds of the General Obligation Refunding Bonds were used to refinance the outstanding General Obligation Refunding Bonds, Series 1993 A, which were issued to advance refund the City of San Mateo General Obligation Bonds, Series 1987A.

8. LONG-TERM DEBT, Continued

A. *Governmental Activities, Continued*

General Obligation Refunding Bonds, Series 2004 B – Original Issue $2,845,000, Continued

The General Obligation Refunding Bonds mature annually through July 1, 2010 in the amounts ranging from $435,000 to $510,000 beginning July 1, 2005. The interest of the General Obligation Refunding Bonds is payable semi-annually on each January 1 and July 1. The interest rate of the General Obligation Refunding Bonds ranges from 3.00% to 4.00%. The City is empowered and is obligated to levy ad valorem taxes, without limitation as to rate or amount upon all property subject to taxation of the City for the payment of interest and principal of the General Obligation Refunding Bonds. The outstanding balance of the General Obligation Refunding Bonds was $2,410,000 at June 30, 2006.

The annual debt service requirements on the General Obligation Refunding Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ 455,000	$ 81,413	$ 536,413
2008	470,000	65,225	535,225
2009	480,000	48,600	528,600
2010	495,000	30,300	525,300
2011	510,000	10,200	520,200
Total	$ 2,410,000	$ 235,738	$ 2,645,738

Merged Area Tax Allocation Refunding Bonds, 1997 Series B – Original Issue $11,240,000

On November 1, 1997, the Redevelopment Agency of the City issued $11,240,000 principal amount Redevelopment Merged Area Tax Allocation Refunding Bonds, 1997 Series B (the Series B Tax Allocation Refunding Bonds). The proceeds of the Tax Allocation Bonds were used to refund bonds previously issued by the City of San Mateo Joint Powers Financing Authority and paying for costs of redevelopment project.

The Series B Tax Allocation Refunding Bonds mature annually through August 1, 2008 in the amounts ranging from $515,000 to $1,405,000 beginning August 1, 1998. The interest of Series B Tax Allocation Refunding Bonds is payable semi-annually on each February 1 and August 1. The interest rate of the Series B Tax Allocation Refunding Bonds ranges from 6.25% to 7.125%. The outstanding balance of the Series B Tax Allocation Refunding Bonds was $3,225,000 at June 30, 2006. The Series B Tax Allocation Refunding Bonds are subject to optional and mandatory early redemption provisions.

The annual debt service requirements on the Series B Tax Allocation Refunding Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ 1,305,000	$ 183,291	$ 1,488,291
2008	1,405,000	86,747	1,491,747
2009	515,000	18,347	533,347
Total	$ 3,225,000	$ 288,385	$ 3,513,385

8. LONG-TERM DEBT, Continued

A. *Governmental Activities, Continued*

Merged Area Tax Allocation Bonds, 2001 Series A – Original Issue $42,570,000

On June 18, 2001, the Redevelopment Agency of the City (Agency) issued $42,570,000 principal amount Merged Area Tax Allocation Bonds, 2001 Series A (2001 Series A Bonds). The proceeds of the 2001 Series A Bonds were used to finance various redevelopment projects in the project area.

The 2001 Series A Bonds mature annually through August 1, 2025 in the amounts ranging from $1,050,000 to $3,585,000 beginning August 1, 2008. The interest of the 2001 Series A Bonds is payable semi-annually on each February 1 and August 1, commencing August 1, 2001. The interest rate of the 2001 Series A Bonds ranges from 4.50% to 5.65%. The 2001 Series A Bonds are payable solely from and secured by a pledge of tax increment revenues allocated to the Agency. The 2001 Series A Bonds are subject to optional and mandatory early redemption provisions. The outstanding balance of the 2001 Series A Bonds was $42,570,000 at June 30, 2006.

The annual debt service requirements the 2001 Series A Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ -	$ 2,251,116	$ 2,251,116
2008	-	2,251,116	2,251,116
2009	1,050,000	2,227,491	3,277,491
2010	1,645,000	2,164,797	3,809,797
2011	1,725,000	2,084,759	3,809,759
2012-2016	9,665,000	9,066,499	18,731,499
2017-2021	12,370,000	6,216,981	18,586,981
2022-2025	16,115,000	2,347,811	18,462,811
Total	$ 42,570,000	$ 28,610,570	$ 71,180,570

Merged Area Tax Allocation Bonds, 2005 Series A – Original Issue $38,665,000

On June 1, 2005, the Redevelopment Agency of the City (Agency) issued $38,665,000 principal amount Merged Area Tax Allocation Bonds, 2005 Series A (2005 Series A Bonds). The proceeds of the 2005 Series A Bonds were used to refund the 1997 Tax Allocation Bonds, Series A, to finance various redevelopment projects in the project area, and to pay the costs of issuance of the 2005 Series A bonds.

8. LONG-TERM DEBT, Continued

A. *Governmental Activities, Continued*

Merged Area Tax Allocation Bonds, 2005 Series A – Original Issue $38,665,000, Continued

The 2005 Series A Bonds mature annually through August 1, 2032 in the amounts ranging from $450,000 to $4,345,000 beginning August 1, 2007. The interest of the 2005 Series A Bonds is payable semi-annually on each February 1 and August 1, commencing August 1, 2005. The interest rate of the 2005 Series A Bonds ranges from 3.50% to 5.00%. The 2005 Series A Bonds are payable solely from and secured by a pledge of tax increment revenues allocated to the Agency. The 2005 Series A Bonds are subject to optional and mandatory early redemption provisions. The outstanding balance of the 2005 Series A Bonds was $38,665,000 at June 30, 2006.

The annual debt service requirements the 2005 Series A Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ -	$ 1,679,546	$ 1,679,546
2008	450,000	1,671,671	2,121,671
2009	465,000	1,655,659	2,120,659
2010	485,000	1,639,034	2,124,034
2011	500,000	1,621,796	2,121,796
2012-2016	2,780,000	7,828,632	10,608,632
2017-2021	3,310,000	7,274,617	10,584,617
2022-2026	4,040,000	6,531,889	10,571,889
2027-2031	18,125,000	4,124,655	22,249,655
2032-2033	8,510,000	376,250	8,886,250
Subtotal	38,665,000	34,403,749	73,068,749
Bond premium	112,407	-	112,407
Total	$ 38,777,407	$ 34,403,749	$ 73,181,156

Merged Area Housing Set-Aside Tax Allocation Bonds, 2005 Series A – Original Issue $11,195,000

On June 30, 2005, the Redevelopment Agency of the City (Agency) issued $11,195,000 principal amount Merged Area Housing Set-Aside Tax Allocation Bonds, Series A (2005 Housing Bonds). The proceeds of the Housing Bonds were used to refund 1997 Housing Bond, to pay the cost of increasing, improving, and preserving the supply of low and moderate income housing in the City, and to pay the costs of issuance of the 2005 Housing Bonds.

8. LONG-TERM DEBT, Continued

A. Governmental Activities, Continued

Merged Area Housing Set-Aside Tax Allocation Bonds, 2005 Series A – Original Issue $11,195,000, Continued

The 2005 Housing Bonds mature annually through August 1, 2027 in the amounts ranging from $170,000 to $780,000 beginning August 1, 2005. The interest of the 2005 Housing Bonds is payable semi-annually on each February 1 and August 1. The interest rate of the 2005 Housing Bonds ranges from 4.00% to 4.95%. The 2005 Housing Bonds are payable solely from and secured by a pledge of Housing Set-Aside amounts, which consist of certain tax increment revenues allocated to the Agency and required to be deposited into the Redevelopment Agency (Housing) Fund. The 2005 Housing Bonds are subject to optional and mandatory early redemption provisions. The outstanding balance of the Housing Bonds was $11,025,000 at June 30, 2006.

The annual debt service requirements on the Housing Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ 310,000	$ 508,728	$ 818,728
2008	320,000	496,128	816,128
2009	330,000	483,128	813,128
2010	345,000	469,197	814,197
2011	360,000	454,216	814,216
2012-2016	2,045,000	2,019,359	4,064,359
2017-2021	2,560,000	1,491,552	4,051,552
2022-2026	3,225,000	793,114	4,018,114
2027-2029	1,530,000	76,478	1,606,478
Total	$ 11,025,000	$ 6,791,900	$ 17,816,900

Joint Powers Financing Authority Revenue Bonds, Series 2003 – Original Issue $7,900,000

On October 30, 2003, the Authority issued $7,900,000 principal amount Joint Powers Financing Authority Revenue Bonds, Series 2003 (Revenue Bonds). The proceeds of the Revenue Bonds were provided finance expenditures related to the final closure of a former landfill site and construction of park improvements. The bonds mature annually each April 1 from 2006 to 2023, in amounts ranging from $150,000 to $290,000.

The Revenue Bonds mature annually through August 1, 2022 in the amounts ranging from $130,000 to $270,000 beginning August 1, 2005. The interest of the Revenue Bonds is payable semi-annually on each February 1 and August 1. The interest rate of the Revenue Bonds ranges from 4.10% to 4.75%. The Revenue Bonds are solely payable from revenues of the Authority, consisting of base rental payments pursuant to a facility lease and installment payments made by the City to the Authority. The outstanding balance of the Revenue Bonds was $7,770,000 as of June 30, 2006.

City of San Mateo
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

8. LONG-TERM DEBT, Continued

A. Governmental Activities, Continued

Joint Powers Financing Authority Revenue Bonds, Series 2003 – Original Issue $7,900,000, Continued

The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ 135,000	$ 358,803	$ 493,803
2008	140,000	353,166	493,166
2009	150,000	347,221	497,221
2010	155,000	340,968	495,968
2011	160,000	334,510	494,510
2012-2016	905,000	1,565,018	2,470,018
2017-2021	1,125,000	1,349,575	2,474,575
2022-2026	1,410,000	1,058,474	2,468,474
2027-2031	1,795,000	677,944	2,472,944
2032-2035	1,795,000	185,375	1,980,375
Total	$ 7,770,000	$ 6,571,054	$ 14,341,054

B. HELP Loan Payable

On September 18, 2003, the Redevelopment Agency of the City of San Mateo entered into a loan agreement with the California Housing Finance Agency to borrow $1,200,000. The purpose of the loan was to establish a predevelopment assistance program revolving loan fund that will be used to make bridge loans for site acquisition and predevelopment costs related to new construction or acquisition and rehabilitation of affordable multifamily rental units. The loan bears an interest rate of 3%. Principal and interest are due on September 18, 2013. The outstanding balance of the HELP loan was $1,200,000 as of June 30, 2006.

	Original Issue Amount	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
HELP Loan Payable	$ 1,200,000	$ 1,200,000	$ -	$ -	$ 1,200,000	$ -

8. LONG-TERM DEBT, Continued

C. *Landfill Closure and Postclosure Costs Payable*

The City is responsible for closing the East Third Avenue Waste Disposal and Landfill site in accordance with the California Code of Regulations under the jurisdiction of the California Integrated Waste Management Board. In fiscal year 1992, the City developed a Closure Plan that it has been told will meet all regulatory requirements. As stated in the California Code of Regulations, Division 2 Title 27 Article 2 Section 21180, "a)…the landfill shall be maintained and monitored for a period of not less than thirty (30) years after the completion of closure of the entire solid waste landfill." The landfill is at capacity and inactive, final closure occurred in FY05/06.

As of June 30, 2006, the estimated amount of $3,750,000 has been recorded as Landfill Post-Closure Costs Payable in the Government-Wide Financial Statements. The Landfill Post-Closure Costs Payable is an estimate and subject to changes resulting from inflation/deflation, technology, or changes in applicable laws or regulations. The amount of the current year adjustments was $618,500 deducted from the liability based on the estimated calculation of $125,000 per year for the next 30 years for the Postclosure costs.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Landfill Closure and Postclosure					
Costs Payable	$ 4,368,500	$ -	$ (618,500)	$ 3,750,000	$ 125,000
Total	$ 4,368,500	$ -	$ (618,500)	$ 3,750,000	$ 125,000

D. *Vacation and Sick Leave Payable*

Employees accrue vacation up to certain maximums, based on the employee's bargaining unit. Employees may elect to be paid a portion of their vacation at various times according to the applicable Memorandum of Understanding. Sick leave may be accumulated without limit. Sick leave may be paid upon retirement up to 50% of the accumulated balance.

The City accrues the liability for vacation and sick leave as it is earned by employees. The total amount of vacation and sick leave payable for all governmental funds is recorded in the Government-Wide Financial Statements. The amount of sick leave and vacation benefits payable outstanding was $4,943,348 as of June 30, 2006.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Governmental Activities					
Vacation and Sick Lease Payable	$ 3,944,231	$ 4,951,532	$ (4,492,701)	$ 4,403,062	$ 351,000
Business-Type Activities					
Vacation and Sick Lease Payable	$ 487,247	$ 527,784	$ (474,745)	$ 540,286	$ 39,000

City of San Mateo
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

8. LONG-TERM DEBT, Continued

E. *Business-Type Activities*

	Original Issue Amount	Balance July 1, 2005	Additions	Deletions	Bond Discount	Balance June 30, 2006	Due Within One Year
Sewer Revenue Bonds:							
Series 1996A	$ 8,095,000	$ 5,090,000	$ -	$ (400,000)	$ -	$ 4,690,000	$ 420,000
Series 1998A	11,305,000	11,305,000	-	-	-	11,305,000	-
Series 1998B	13,555,000	11,760,000	-	(695,000)	-	11,065,000	725,000
Series 2003	16,300,000	15,252,257	-	-	111,083	15,363,340	-
Total sewer revenue bonds	49,255,000	43,407,257	-	(1,095,000)	111,083	42,423,340	1,145,000
San Mateo Joint Powers Financing Authority Revenue Bonds, Series 1999 Golf Course Project	10,400,000	9,761,642	-	(185,000)	3,774	9,580,416	200,000
Total	$ 59,655,000	$ 53,168,899	$ -	$ (1,280,000)	$ 114,857	$ 52,003,756	$ 1,345,000

Sewer Revenue Refunding Bonds, Series 1996A – Original Issue $8,095,000

On April 15, 1996, the City issued the Sewer Revenue Refunding Bonds, Series 1996A (Series 1996A Bonds), totaling $8,095,000. The purpose of the Series 1996A Bonds was to refinance the 1989 Sewer Revenue Bonds.

The Series 1996A Bonds mature annually through August 1, 2014 in the amounts ranging from $285,000 to $635,000 beginning August 1, 1996. The interest of the Series 1996A Bonds is payable semi-annually on each February 1 and August 1, commencing August 1, 1996. The interest rates of the Series 1996A Bonds range from 4.00% to 5.50%. The Series 1996A Bonds are payable solely from the net revenues of the Sewer Enterprise Fund. The Series 1996A Bonds are subject to optional and mandatory early redemption provisions. The outstanding balance of the unrefunded portion of the Series 1996A Bonds was $4,690,000 at June 30, 2006.

The annual debt service requirements on the Series 1996A Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ 420,000	$ 242,820	$ 662,820
2008	440,000	220,670	660,670
2009	465,000	196,908	661,908
2010	490,000	171,355	661,355
2011	515,000	143,963	658,963
2012-2015	2,360,000	267,850	2,627,850
Total	$ 4,690,000	$ 1,243,566	$ 5,933,566

8. LONG-TERM DEBT, Continued

E. *Business-Type Activities, Continued*

Sewer Revenue Bonds, Series 1998A - Original Issue $11,305,000 and Sewer Revenue Refunding Bonds, Series 1998B – Original Issue $13,555,000

On November 1, 1998, the City issued $11,305,000 principal amount Sewer Revenue Bonds, Series 1998A (Series 1998A Bonds) and $13,555,000 principal amount Sewer Revenue Refunding Bonds, Series 1998B (Series 1998B Bonds). The proceeds of the Series 1998A Bonds were used to finance capital improvements to the City's sewer system. The proceeds of the Series 1998B Bonds were used to refund a portion of the Sewer Revenue Bonds, Series 1992 and the Sewer Revenue Refunding Bonds, Series 1996A.

The Series 1998A Bonds mature annually through August 1, 2028 in the amounts ranging from $575,000 to $1,095,000. The interest rate of the Series 1998A Bonds ranges from 4.78% to 5.00%. The outstanding balance of the Series 1998A was $11,305,000 at June 30, 2006.

The Series 1998B Bonds mature annually through August 1, 2017 in the amounts ranging from $115,000 to $1,170,000. The interest rate of the Series 1998B Bonds ranges from 4.00% to 4.75%. The outstanding balance of the Series 1998B was $11,065,000 at June 30, 2006.

The interest of the Series 1998A and Series 1998B Bonds is payable semi-annually on each February 1 and August 1. The Series 1998A and Series 1998B Bonds are payable solely from the net revenues of the Sewer Enterprise Fund. The Series 1998A and Series 1998B Bonds are subject to optional and mandatory early redemption provisions.

The annual debt service requirements on the Series 1998A and Series 1998B Bonds are as follows:

	Sewer Revenue Bonds				
	Series 1998A		Series 1998B		
Year Ending June 30,	Principal	Interest	Principal	Interest	Total
2007	$ -	$ 560,985	$ 725,000	$ 472,468	$ 1,758,453
2008	-	560,985	750,000	442,968	1,753,953
2009	-	560,985	785,000	412,268	1,758,253
2010	-	560,985	815,000	379,860	1,755,845
2011	-	560,985	850,000	345,303	1,756,288
2012-2016	575,000	2,791,269	4,855,000	1,119,419	9,340,688
2017-2021	3,340,000	2,277,554	2,285,000	109,844	8,012,398
2022-2026	4,265,000	1,335,625	-	-	5,600,625
2027-2029	3,125,000	239,625	-	-	3,364,625
Total	$ 11,305,000	$ 9,448,998	$ 11,065,000	$ 3,282,130	$ 35,101,128

City of San Mateo
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

8. LONG-TERM DEBT, Continued

E. *Business-Type Activities, Continued*

Sewer Revenue Bonds, Series 2003 – Original Issue $16,300,000

On November 19, 2003, the City issued Sewer Revenue Bonds, Series 2003 (Series 2003 Bonds), totaling $16,300,000. The purpose was to finance capital improvements to the City's sewer enterprise. The Series 2003 Bonds mature annually through August 1, 2028 in the amounts ranging from $100,000 to $1,860,000, beginning August 1, 2015. The interest on the Series 2003 Bonds is payable semi-annually on February 1 and August 1 of each year. The interest rates of the Series 2003 Bonds range from 3.75% to 4.625%. The Series 2003 Bonds are payable solely from net revenues of the City's sewer enterprise. The Series 2003 Bonds are subject to early redemption provisions. The outstanding balance of the Series 2003 Bonds was $16,300,000 at June 30, 2006.

The annual debt service requirements on the Series 2003 Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ -	$ 728,254	$ 728,254
2008	-	728,254	728,254
2009	-	728,254	728,254
2010	-	728,254	728,254
2011	-	728,254	728,254
2012-2016	100,000	3,639,395	3,739,395
2017-2021	3,705,000	3,379,536	7,084,536
2022-2026	7,190,000	2,081,513	9,271,513
2027-2029	5,305,000	376,591	5,681,591
Subtotal	16,300,000	13,118,305	29,418,305
Bond Discount	(936,660)	-	(936,660)
Total	$ 15,363,340	$ 13,118,305	$ 28,481,645

San Mateo Joint Powers Financing Authority Revenue Bonds (Golf Course Project), Series 1999 – Original Issue $10,400,000

On June 22, 1999, the San Mateo Joint Powers Financing Authority (Authority) issued the City of San Mateo Joint Powers Financing Authority Revenue Bonds (Golf Course Project), Series 1999 (JPFA Revenue Bonds), totaling $10,400,000. The purpose of the JPFA Revenue Bonds was to finance reconstruction of the City's public golf course and replacement of the clubhouse.

The JPFA Revenue Bonds mature annually through August 1, 2029 in the amounts ranging from $90,000 to $695,000 beginning August 1, 2001. The interest of the JPFA Revenue Bonds is payable semi-annually on each February 1 and August 1. The interest rates of the JPFA Revenue Bonds range from 4.60% to 5.50%. The JPFA Revenue Bonds are payable solely from golf course facility lease revenue of the Authority. The JPFA Revenue Bonds are subject to optional and mandatory early redemption provisions. The outstanding balance of the JPFA Revenue Bonds was $9,660,000 at June 30, 2006.

8. LONG-TERM DEBT, Continued

E. Business-Type Activities, Continued

San Mateo Joint Powers Financing Authority Revenue Bonds (Golf Course Project), Series 1999 – Original Issue $10,400,000, Continued

The annual debt service requirements for the JPFA Revenue Bonds at June 30, 2006, are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ 200,000	$ 511,172	$ 711,172
2008	220,000	501,402	721,402
2009	230,000	490,770	720,770
2010	240,000	479,548	719,548
2011	255,000	467,413	722,413
2012-2016	1,480,000	2,121,301	3,601,301
2017-2021	1,930,000	1,168,565	3,098,565
2022-2026	2,530,000	1,068,090	3,598,090
2027-2030	2,575,000	292,463	2,867,463
Subtotal	9,660,000	7,100,724	16,760,724
Bond Discount	(79,584)	-	(79,584)
Total	$ 9,580,416	$ 7,100,724	$ 16,681,140

9. FUND BALANCES

A. Reservations of Governmental Fund Balances

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represents hat portion of a fund balance which has been appropriated for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved and may be designated or undesignated.

Reserved for Encumbrances - Amounts reserved for open purchase orders and balance of loan commitments.

Reserved for Petty Cash - Amounts reserved for petty cash is an item that does not represent available, spendable resources even though it is a component of assets.

Reserved for Prepaids and Supplies – Amounts reserved for prepaids and supplies do not represent available, spendable resources even though they are components of assets.

Reserved for Debt Service - Amounts reserved for the payment of principal and interest on long term liabilities.

Reserved for Property Held for Resale - Amounts reserved for property held for resale is an item that does not represent available, spendable resources even though it is a component of assets.

9. FUND BALANCES, Continued

B. Designations of Governmental Fund Balances

Designations are imposed by City Council to reflect spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Council action.

Designated for Future Emergencies – Amounts are set aside for an unanticipated emergency such as a significant natural disaster.

Designated for Future Year's Expenditures – Amounts used as a resource in the following fiscal year's budget.

Designated for Construction – Amounts previously budgeted for capital improvements but not expended by year-end.

Designated for HELP Loan Repayment – Amounts are set aside for the principal and interest payments of the HELP Loan.

Designated for Service Stability – Amounts are set aside to offset a shortfall of revenue.

	General	General Projects Capital Projects	Redevelopment Capital Projects	Redevelopment Special Revenue	Redevelopment Debt Service	City Housing Special Revenue	Non-Major Governmental Funds	Total Governmental Funds
Fund Balances:								
Reserved:								
Encumbrances	$ 469,785	$ 25,205,060	$ 41,348	$ 35,652	$ -	$ 11,308	$ 337,288	$ 26,100,441
Petty cash	28,600	-	-	-	-	-	-	28,600
Prepaids and supplies	64,697	-	-	-	-	-	-	64,697
Debt service	-	-	-	568,000	7,322,000	-	2,867,000	10,757,000
Property held for resale	-	-	6,810,498	-	-	-	-	6,810,498
Capital projects	-	-	19,638,494	4,130,693	-	-	1,159,518	24,928,705
Unreserved, designated:								
Future emergencies	7,300,000	-	-	-	-	-	-	7,300,000
Future years' expenditures	1,920,000	9,921,215	1,300,000	2,200,000	-	370,064	721,970	16,433,249
Construction	-	-	240,689	6,435,920	-	-	5,924,074	12,600,683
HELP loan repayment	-	-	-	408,000	-	-	-	408,000
Service stability	2,350,000	-	-	-	-	-	-	2,350,000
Unreserved, undesignated, reported in:								
General fund	24,881	-	-	-	-	-	-	24,881
Capital projects fund	-	-	558,950	-	-	-	-	558,950
Special Revenue funds	-	-	-	191,737	-	-	5,741,857	5,933,594
Total fund balances	$ 12,157,963	$ 35,126,275	$ 28,589,979	$ 13,970,002	$ 7,322,000	$ 381,372	$ 16,751,707	$ 114,299,298

10. EXPENDITURES IN EXCESS OF APPROPRIATIONS

The following fund had departmental expenditures in excess of budget. Sufficient revenues were available to fund these expenditures:

Funds	Appropriations	Expenditures	Excess
Special Revenue Funds:			
Parking	$ 1,634,704	$ 1,698,396	$ 63,692
Debt Service Fund:			
Landfill Bond	494,235	496,991	2,756
General Obligation	2,896,173	2,896,522	349

11. RISK MANAGEMENT

A. *Coverage*

The City retains a level of risk for both general liability and worker's compensation. The City carries commercial insurance above this limit. The City maintains occurrence basis insurance coverage up to $10 million in excess of its $250,000 risk retention per occurrence for general liability, and $10 million in excess of its $1,000,000 risk retention for worker's compensation. The City does not have claims settlements exceeding insurance coverage for each of the past three fiscal years.

B. *Claims Activity*

The City's claims activity is recorded in its internal service funds. Estimated liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims that have been incurred but not reported (IBNRs) are also included in the liability estimates. A summary of the changes in claims liabilities for the past three fiscal years follows:

For the Years Ended June 30,	Claims Payable July 1	Claims and Changes in Estimates	Claims Payments	Claims Payable June 30	Due Within One Year	Due More Than One Year
Workers' Compensation						
2004	$ 5,759,000	$ 1,519,000	$ (1,519,000)	$ 5,759,000	$ 1,000,000	$ 4,759,000
2005	5,759,000	1,941,000	(1,941,000)	5,759,000	1,000,000	4,759,000
2006	5,759,000	1,688,618	(1,047,618)	6,400,000	1,000,000	5,400,000
Dental						
2004	-	690,000	(690,000)	-	-	-
2005	-	623,000	(623,000)	-	-	-
2006	-	601,000	(601,000)	-	-	-
General Liability						
2004	1,800,000	462,000	(462,000)	1,800,000	500,000	1,300,000
2005	1,800,000	(364,000)	(236,000)	1,200,000	500,000	700,000
2006	1,200,000	593,000	(593,000)	1,200,000	500,000	700,000

12. EMPLOYEE RETIREMENT PLANS

A. *Pension Plan*

All qualified permanent and probationary employees are eligible to participate in pension plans offered by the California Public Employees' Retirement System (PERS).

Plan Description – PERS is an agent for participating public entities within the State of California. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. State statutes and City resolution establish benefit provisions, which are reflected in a contract between the City and PERS. Copies of PERS' annual financial report may be obtained from CALPERS at P.O. Box 942709, Sacramento, California 94229-2709.

12. EMPLOYEE RETIREMENT PLANS, Continued

A. *Pension Plan, Continued*

Funding Policy – The Plan's provisions and benefits in effect at June 30, 2006, are summarized as follows:

	Safety		Miscellaneous	
Benefit vesting schedule	5 years service		5 years service	
Benefit payment	monthly for life		monthly for life	
Earliest retirement age	50		50	
Benefit factor for each year of service, as a % of annual salary	3% at age 50		2% at age 55	
Required employee contribution rates	9%		7%	
Required employer contribution rates	35.344%		12.808%	
Actuarially required contribution:				
Employer	$	6,377,563	$	2,961,987
Employee	$	1,625,930	$	1,578,199

The Plans are funded by contributions from both the City and its employees. However, certain labor contracts require the City to also pay employee contributions. See the Required Supplementary Information for the Schedule of Funding Progress.

Annual Pension Cost – For 2005-2006, the City's annual pension cost of $9,361,425 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.25% to 14.45% for miscellaneous employees and from 3.25% to 13.15% for safety employees depending on age, service, and type of employment, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2003, was 18 years for miscellaneous and 16 years for safety employees for prior and current service unfunded liability.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	$ 4,237,080	100%	$ -
6/30/2005	7,390,000	100%	-
6/30/2006	9,361,425	100%	-

12. EMPLOYEE RETIREMENT PLANS, Continued

B. Social Security

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's part-time, seasonal and temporary employees are covered under an alternative savings plan, which requires these employees and the City to each contribute 3.75% of the employees pay for a total of 7.50%.

Total contributions to Social Security, FICA and MEDICARE for all City employees during the year ended June 30, 2006 amounted to $5,150,611 of which the City paid one-half.

13. POSTRETIREMENT HEALTH CARE BENEFITS

The City provides postretirement health care benefits to all employees who retire from the City on or after attaining the age of 50 with at least five years of service. The City pays up to $160 per month towards each retired employee's health insurance premiums. Expenditures for postretirement health care benefits are recorded as incurred. During the fiscal year ended June 30, 2006 the City expended $729,175 on benefits for 374 retirees.

14. REDEVELOPMENT ACTIVITIES

A. Century Theatres, Inc. Ground Lease

In September 1999 the City and the Agency entered into a development agreement and ground lease with Century Theatres, Inc. under which Century Theaters, Inc. will lease land from the City and construct and operate a Theatre and Plaza. The term of the lease is twenty years with five consecutive five-year options to extend. Upon termination of the lease, all Theatre and Plaza improvements will become the property of the City.

As part of the agreement, the City will construct, operate and maintain a new parking garage and promenade using redevelopment tax increment, bonds and lease revenue from Century Theaters, Inc.

B. Low and Moderate Income Housing Set-Aside

The Agency is required to set aside 20% of all tax increment received annually in a low and moderate income-housing fund to be used to increase and improve the supply of low and moderate-income housing. The Agency has established the Redevelopment Agency (Housing) Fund for this purpose.

C. School Facilities Agreement

On November 20, 2000, the Agency entered into an agreement with the San Mateo-Foster City Elementary School District to contribute $2,357,400 toward the design and construction of the Bayside Middle School Theater Project. As of June 30, 2006, there was no required contribution made to the school facilities.

14. REDEVELOPMENT ACTIVITIES, Continued

D. Pass-through Payments

The Agency has a pass-through agreement with the County which requires it to pass-through certain portions of the tax increments it collects. In fiscal year 2004, the Agency did not have any tax increments to pass through to the County. The Shoreline Redevelopment Area has reached the dollar limit under the agreement. The Agreement expires in 2008 for Downtown Redevelopment Area, or when a certain dollar amount has been passed through, whichever comes first.

Under State Law known as AB 1290, the Agency is required to pass through to other taxing agencies a certain portion of tax increments, received from redevelopment areas formed or whose plans amended after 1996. Accordingly, the Agency passed through $1,472,435 in tax increments to other taxing agencies in fiscal year 2005.

15. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

B. Federal and State Grant Programs

The City participates in Federal and State grant programs. These programs are audited by the City's independent accountants in accordance with the provisions of the Federal Single Audit Act Amendments of 1996 and applicable State requirements. No cost disallowance is expected as a result of these audits; however, these programs are subject to further examination by the grantors. Expenditures which may be disallowed, if any, by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

C. Commitments

The following is a list of commitments at June 30, 2006:

1. The City had committed approximately $2.9 million for construction the Main Library.
2. The City had committed approximately $11.9 million for the Wastewater Treatment Plant Expansion Phase II.

As of June 30, 2006, in the opinion of City management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the City.

REQUIRED SUPPLEMENTARY INFORMATION

1. BUDGETS AND BUDGETARY ACCOUNTING

A. *Budgetary Control and Budgetary Accounting*

The City uses a two-year financial plan for operations that is called the Business Plan. The Long-Term Capital Improvement Plan, which corresponds with the General Plan, is adopted on an incremental basis to coincide with the Business Plan. Budgets are adopted annually for all funds. Capital Projects are budgeted on a project length basis.

The Business Plan and the Long-Term Capital Improvement Plan are adopted by City Council and can be amended only by City Council. The annual operating budget is adopted by City Council on or before June 30, and comprises the departmental operating budget and the capital improvement budget. The departmental operating budget may be reallocated among programs within a department, but expenditures may not exceed budgeted appropriations at the department level each year without Council acknowledgment and approval. Capital improvement expenditures may not exceed budgeted amounts without Council approval.

The original budget includes amounts automatically carried over from the prior years' budget such as encumbrances.

Annual budgets are adopted only for the General Fund, Special Revenue Funds, and Debt Service Funds.

B. *Encumbrances and Budgetary Financial Statements*

The City's budgets, and the accompanying budgetary financial statements, are prepared using encumbrance accounting. Encumbrance accounting requires that purchase orders, contracts and other commitments for the expenditure of monies be recorded as expenditures in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year-end are reported as expenditures in the budgetary financial statements.

Unencumbered operating appropriations lapse at year-end, while capital improvement appropriations are carried over to subsequent years until projects are completed.

C. *Adjustments to GAAP Basis From Budgetary Basis*

City budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment of purchase, and capital projects expenditures are budgeted on a project length basis, as discussed above. The effects of these differences are shown as adjustments in the budgetary financial statements.

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

D. *Budgetary Comparison Schedules*

The following are the budget comparison schedules for all major Governmental Funds.

Budgetary Comparison Schedule (Budgetary Basis), General Fund

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES:				
Property taxes	$ 24,706,000	$ 24,706,000	$ 27,034,392	$ 2,328,392
Sales taxes	15,900,000	15,900,000	16,141,282	241,282
Other taxes	13,025,000	13,025,000	15,149,365	2,124,365
Licenses, building and other permits	2,085,000	2,085,000	2,167,952	82,952
Fines, forfeits and penalties	1,497,300	1,497,300	2,097,422	600,122
Intergovernmental	1,171,320	1,171,320	2,550,872	1,379,552
Charges for services	5,053,915	5,053,915	5,236,515	182,600
Investment income	675,000	675,000	1,289,043	614,043
Other	1,450,605	1,450,605	1,678,628	228,023
Total revenues	65,564,140	65,564,140	73,345,471	7,781,331
EXPENDITURES:				
Current:				
General government:				
City Council	422,111	422,111	336,172	85,939
City Manager	990,783	990,783	903,020	87,763
City Clerk	411,054	411,054	425,748	(14,694)
City Attorney	735,305	735,305	776,255	(40,950)
Business services	2,558,424	2,558,424	2,198,290	360,134
Information technology	2,806,352	2,806,352	2,786,187	20,165
Human resources	1,306,157	1,306,157	1,325,414	(19,257)
Community development	829,965	829,965	811,619	18,346
Public safety:				
Police	23,044,393	23,444,393	23,595,646	(151,253)
Fire	14,720,688	14,820,688	14,740,015	80,673
Public works	3,758,339	3,758,339	3,773,474	(15,135)
Parks and recreation	10,652,548	10,652,548	10,339,239	313,309
Library	4,619,264	4,619,264	4,731,422	(112,158)
Non-departmental	1,200,000	700,000	700,054	(54)
Total expenditures	68,055,383	68,055,383	67,442,555	612,828
REVENUES OVER (UNDER) EXPENDITURES	(2,491,243)	(2,491,243)	5,902,916	8,394,159
OTHER FINANCING SOURCES (USES):				
Transfers in	1,515,000	1,515,000	1,515,000	-
Transfers out	(2,885,000)	(6,085,000)	(6,085,000)	-
Total other financing sources (uses)	(1,370,000)	(4,570,000)	(4,570,000)	-
Net change in fund balances	$ (3,861,243)	$ (7,061,243)	1,332,916	$ 8,394,159
FUND BALANCES:				
Beginning of year			10,355,262	
End of year, budgetary basis			11,688,178	
Adjustments to GAAP basis:				
Encumbrance adjustments			469,785	
End of year			$ 12,157,963	

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

D. Budgetary Comparison Schedules, Continued

Budgetary Comparison Schedule (Budgetary Basis), Redevelopment Special Revenue Fund

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:				
Property taxes	$ 2,155,000	$ 2,155,000	$ 2,156,731	$ 1,731
Investment income	150,000	150,000	631,074	481,074
Other	50,000	50,000	277,456	227,456
Total revenues	2,355,000	2,355,000	3,065,261	710,261
EXPENDITURES:				
Community development	876,815	876,815	807,082	69,733
Capital outlay	6,250,000	6,250,000	153,646	6,096,354
Debt services:				
Principal	886,585	886,585	170,000	716,585
Interest and fiscal charges	280,000	280,000	324,130	(44,130)
Total expenditures	8,293,400	8,293,400	1,454,858	6,838,542
Net change in fund balances	$ (5,938,400)	$ (5,938,400)	1,610,403	$ (6,128,281)
FUND BALANCES:				
Beginning of year			12,330,858	
End of year, budgetary basis			13,941,261	
Adjustments to GAAP basis:				
Encumbrance adjustments			28,740	
End of year			$ 13,970,001	

Budgetary Comparison Schedule (Budgetary Basis), City Housing Special Revenue Fund

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:				
Investment income	$ 15,000	$ 15,000	$ 9,301	$ (5,699)
Other	43,000	43,000	66,961	23,961
Total revenues	58,000	58,000	76,262	18,262
EXPENDITURES:				
Community development	563,203	563,203	259,906	303,297
Total expenditures	563,203	563,203	259,906	303,297
Net change in fund balances	$ (505,203)	$ (505,203)	(183,644)	$ 321,559
FUND BALANCES:				
Beginning of year			553,708	
End of year, budgetary basis			370,064	
Adjustments to GAAP basis:				
Encumbrance adjustments			11,308	
End of year			$ 381,372	

1. BUDGETS AND BUDGETARY ACCOUNTING, Continued

E. Defined Pension Plan

A schedule of funding progress for the past three actuarial valuations is presented below.

Safety Plan

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date*	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll (C/E)
6/30/2003	$ 136,190,578	$ 172,590,232	$ 36,399,654	78.9%	$ 16,935,683	214.9%
6/30/2004	143,303,856	180,705,037	37,401,181	79.3%	17,035,717	219.5%
6/30/2005	153,052,962	190,708,101	37,655,139	80.3%	17,131,754	219.8%

Miscellaneous Plan

	(A)	(B)	(C)	(D)	(E)	(F)
Actuarial Valuation Date*	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability (B-A)	Funded Ratio (A/B)	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll (C/E)
6/30/2003	$ 103,356,595	$ 116,410,546	$ 13,053,951	88.8%	$ 24,069,747	54.2%
6/30/2004	108,923,910	119,926,091	11,002,181	90.8%	22,492,818	48.9%
6/30/2005	115,743,147	128,534,184	12,791,037	90.0%	22,507,341	56.8%

*Latest information available.

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NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUES FUNDS

Police Grants Fund accounts for the revenues and expenditures of State and Federal grants including State COPS (Supplemental Law Enforcement Services Fund), Local Law Enforcement Block Grant and Office of Traffic Safety grants.

Community Development Block Grant Fund (CDBG) accounts for revenue and expenditures of CDBC funds awarded by the Department of Housing and Urban Development.

Fire Protection Fund accounts for the fees charged and expenditure for activities relating to fire inspections and permits.

HOME Fund accounts for revenue and expenditures of the Federal HOME grant program.

Gas Tax Fund accounts for gasoline tax revenues as required by State law.

Construction Services Fund accounts for revenue and expenditures of activities relating to building permits.

Advance Planning Fund accounts for fees collected through building permits and expenditures for activities relating to long term planning, including the general plan update.

Parking Fund accounts for parking meter revenues and expenditures of the City's downtown parking facilities.

Solid Waste Fund accounts for garbage collection surcharge revenues. The use of funds is restricted by City ordinance to street cleaning and waste disposal.

DEBT SERVICE FUNDS

Landfill Bonds Fund accounts for debt service payments on revenue bonds issued to finance expenditures related to final closure of former landfill site and construction of park improvements.

General Obligation Bonds Fund accounts for voter approved property tax revenues and debt service payments on general obligation bonds.

CAPITAL PROJECTS FUND

2% Hotel Tax Fund accounts for the voter approved 2% hotel tax revenue Measure C and the related transfers to the capital improvement fund.

City of San Mateo
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2006

	Special Revenue					Special Revenue				Debt Service		Capital Projects	Total
	Police Grants	Community Development Block Grant	Fire Protection	HOME	Gas Tax	Construction Services	Advance Planning	Parking	Solid Waste	Landfill Bonds	General Obligation Bonds	2% Hotel Tax	Non Major Governmental Funds
ASSETS													
Cash and investments	$ 78,382	$ -	$ 220	$ -	$ 3,640,673	$ 3,804,777	$ 67,095	$ 2,335,333	$ 1,043,126	$ 520,168	$ 1,846,521	$ 1,908,182	$ 15,244,477
Restricted cash and investments held by fiscal agents	-	-	-	-	-	-	-	-	-	521,709	499,688	-	1,021,397
Accounts receivable	-	91,672	113,740	65,575	-	-	770	68,511	-	-	-	-	340,268
Interest receivable	-	-	-	-	-	-	-	-	-	12,000	-	-	12,000
Taxes receivable	-	-	-	-	162,897	-	-	-	174,441	188,884	-	79,336	605,558
Loans and notes receivable	-	2,603,396	-	5,057,175	-	-	-	-	-	-	-	-	7,660,571
Total assets	$ 78,382	$ 2,695,068	$ 113,960	$ 5,122,750	$ 3,803,570	$ 3,804,777	$ 67,865	$ 2,403,844	$ 1,217,567	$ 1,242,761	$ 2,346,209	$ 1,987,518	$ 24,884,271
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	$ 15,930	$ 47,819	$ 19,592	$ 28,967	$ -	$ 14,235	$ -	$ 11,703	$ 56,964	$ -	$ -	$ -	$ 195,210
Accrued salaries and wages payable	10,771	11,364	37,182	1,039	-	62,632	6,451	24,119	14,521	-	-	-	168,079
Due to other funds	-	32,232	32,518	35,569	-	-	-	-	-	-	-	-	100,319
Deferred revenue	8,385	2,603,396	-	5,057,175	-	-	-	-	-	-	-	-	7,668,956
Total liabilities	35,086	2,694,811	89,292	5,122,750	-	76,867	6,451	35,822	71,485	-	-	-	8,132,564
Fund Balances:													
Reserved:													
Encumbrances	21,079	46,916	16,229	172,423	-	5,941	9,065	65,635	-	-	-	-	337,288
Debt service	-	-	-	-	-	-	-	-	-	838,000	2,029,000	-	2,867,000
Capital projects	-	-	-	-	-	-	-	-	-	-	-	1,159,518	1,159,518
Unreserved:													
Designated:													
Construction	-	-	-	-	3,142,074	-	-	1,233,000	721,000	-	-	828,000	5,924,074
Debt service	-	-	-	-	-	-	-	-	-	404,761	317,209	-	721,970
Undesignated	22,217	(46,659)	8,439	(172,423)	661,496	3,721,969	52,349	1,069,387	425,082	-	-	-	5,741,857
Total fund balances	43,296	257	24,668	-	3,803,570	3,727,910	61,414	2,368,022	1,146,082	1,242,761	2,346,209	1,987,518	16,751,707
Total liabilities and fund balances	$ 78,382	$ 2,695,068	$ 113,960	$ 5,122,750	$ 3,803,570	$ 3,804,777	$ 67,865	$ 2,403,844	$ 1,217,567	$ 1,242,761	$ 2,346,209	$ 1,987,518	$ 24,884,271

City of San Mateo
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2006

	Special Revenue									Debt Service		Capital Projects	Total
	Police Grants	Community Development Block Grant	Fire Protection	HOME	Gas Tax	Construction Services	Advance Planning	Parking	Solid Waste	Landfill Bonds	General Obligation Bonds	2% Hotel Tax	Total Non-Major Governmental Funds
REVENUES:													
Property taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,053,229	$ -	$ 3,053,229
Other taxes	-	-	-	-	-	-	-	-	-	-	-	644,432	644,432
Special assessments	-	-	-	-	-	-	-	-	-	-	-	-	-
Licenses, building and other permits	-	-	1,168,763	-	-	3,023,276	-	-	-	-	-	-	4,192,039
Fines, forfeitures and penalties	-	-	3,284	-	-	-	-	-	-	-	-	-	3,284
Intergovernmental	386,093	728,561	-	243,511	1,774,859	-	-	-	-	-	-	-	3,133,024
Charges for services	-	-	-	-	-	391,031	358,295	1,220	-	-	-	-	750,546
Investment income	10,030	47,828	-	2,856	122,890	142,867	504	79,622	43,812	35,251	38,944	57,202	581,806
Garbage collection surcharge	-	-	-	-	-	-	-	-	320,000	713,445	-	-	1,033,445
Parking meter, permits, and lease revenue	-	-	-	-	-	-	-	1,631,695	-	-	-	-	1,631,695
Other revenues	-	167,308	-	10,037	-	-	-	342,468	342,024	-	-	-	861,837
Total revenues	396,123	943,697	1,172,047	256,404	1,897,749	3,557,174	358,799	2,055,005	705,836	748,696	3,092,173	701,634	15,885,337
EXPENDITURES:													
Current:													
General government:													
Information technology	-	-	-	-	-	45,845	-	-	-	-	-	-	45,845
Community development	-	783,942	-	253,437	-	2,982,298	308,420	23,862	-	-	-	-	4,351,959
Public safety:													
Police	420,019	-	-	-	-	-	-	308,272	-	-	-	-	728,291
Fire	-	-	1,469,686	-	-	-	-	-	-	-	-	-	1,469,686
Public works	-	-	-	-	-	-	-	1,306,236	782,509	-	-	-	2,088,745
Non-departmental	-	-	-	-	-	-	-	-	-	2,756	5,311	-	8,067
Debt service:													
Principal	-	-	-	-	-	-	-	-	-	130,000	1,065,000	-	1,195,000
Interest and fiscal charges	-	-	-	-	-	-	-	-	-	364,235	1,826,211	-	2,190,446
Total expenditures	420,019	783,942	1,469,686	253,437	-	3,028,143	308,420	1,638,370	782,509	496,991	2,896,522	-	12,078,039
REVENUES OVER (UNDER) EXPENDITURES	(23,896)	159,755	(297,639)	2,967	1,897,749	529,031	50,379	416,635	(76,673)	251,705	195,651	701,634	3,807,298
OTHER FINANCING SOURCES (USES):													
Transfers in	-	-	297,859	-	-	-	-	-	-	-	-	-	297,859
Transfers out	-	(160,474)	-	(2,967)	(1,624,000)	(297,859)	-	(88,000)	(29,000)	-	(25,000)	-	(2,227,300)
Total other financing sources (uses)	-	(160,474)	297,859	(2,967)	(1,624,000)	(297,859)	-	(88,000)	(29,000)	-	(25,000)	-	(1,929,441)
Net change in fund balances	(23,896)	(719)	220	-	273,749	231,172	50,379	328,635	(105,673)	251,705	170,651	701,634	1,877,857
FUND BALANCES:													
Beginning of year	67,192	976	24,448	-	3,529,821	3,496,738	11,035	2,039,387	1,251,755	991,056	2,175,558	1,285,884	14,873,850
End of year	$ 43,296	$ 257	$ 24,668	$ -	$ 3,803,570	$ 3,727,910	$ 61,414	$ 2,368,022	$ 1,146,082	$ 1,242,761	$ 2,346,209	$ 1,987,518	$ 16,751,707

City of San Mateo

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - 2% Hotel Tax Capital Project Fund

For the year ended June 30, 2006

	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES:				
Other taxes	$ 650,000	$ 650,000	$ 644,432	$ (5,568)
Investment income	75,000	75,000	57,202	(17,798)
Total revenues	725,000	725,000	701,634	(23,366)
Transfers out	-	600,000	-	600,000
Net change in fund balances	$ 725,000	$ 125,000	701,634	$ 576,634
FUND BALANCES:				
Beginning of year			1,285,884	
End of year, budgetary basis			1,987,518	
Adjustments to GAAP basis:				
Encumbrance adjustments			-	
End of year			$ 1,987,518	

INTERNAL SERVICE FUNDS

Workers' Compensation Insurance Fund accounts for all workers' compensation self-insurance activities.

Dental Self-Insurance Fund accounts for the City's self-insurance activities related to the dental plan it provides to its employees.

Benefits Fund accounts for charges to other funds and expenditures relating to employee benefits other than those accounted for in the Worker Compensation and Dental Self-Insurance Funds.

Comprehensive Liability Insurance Fund accounts for the general liability self-insurance transactions.

Vehicle and Equipment Replacement Fund accounts for rental charges to City departments and the replacement of vehicles and equipment.

Fleet and Building Maintenance Fund accounts for the charges to user departments and the expenses relating the maintenance of the City vehicles and buildings.

City of San Mateo
Combining Statement of Net Assets
All Internal Service Funds
June 30, 2006

	Workers' Compensation Insurance	Dental Self -Insurance	Benefits	Comprehensive Liability Insurance	Vehicle & Equipment Replacement	Fleet and Building Maint. Fund	Total
ASSETS							
Current assets:							
Cash and investments	$ 6,805,890	$ 94,851	$ 886,128	$ 1,376,309	$ 10,872,242	$ 183,463	$ 20,218,883
Prepaids and supplies	100,000	50,000	134,249	-	-	-	284,249
Total current assets	6,905,890	144,851	1,020,377	1,376,309	10,872,242	183,463	20,503,132
Noncurrent assets:							
Loans and notes receivable	-	-	-	455,575	-	-	455,575
Capital assets:							
Depreciable, net	-	-	-	-	3,256,984	-	3,256,984
Total capital asset	-	-	-	-	3,256,984	-	3,256,984
Total noncurrent assets	-	-	-	455,575	3,256,984	-	3,712,559
Total assets	6,905,890	144,851	1,020,377	1,831,884	14,129,226	183,463	24,215,691
LIABILITIES							
Liabilities:							
Current liabilities:							
Accounts payable	114,575	42,017	660,500	132,429	219,358	143,040	1,311,919
Accrued salaries and wages payable	6,461	-	4,568	1,853	-	20,747	33,629
Deposit payable	9,092	796	-	-	-	-	9,888
Claims and judgments payable	1,000,000	-	-	500,000	-	-	1,500,000
Total current liabilities	1,130,128	42,813	665,068	634,282	219,358	163,787	2,855,436
Noncurrent liabilities:							
Claims and judgments payable	5,400,000	-	-	700,000	-	-	6,100,000
Total noncurrent liabilities	5,400,000	-	-	700,000	-	-	6,100,000
Total liabilities	6,530,128	42,813	665,068	1,334,282	219,358	163,787	8,955,436
NET ASSETS							
Invested in capital assets, net of related debt	-	-	-	-	3,256,984	-	3,256,984
Restricted for :							
Special projects	15,240	81,497	-	-	1,158,228	162,073	1,417,038
Unrestricted	360,522	20,541	355,309	497,602	9,494,656	(142,397)	10,586,233
Total net assets	$ 375,762	$ 102,038	$ 355,309	$ 497,602	$ 13,909,868	$ 19,676	$ 15,260,255

City of San Mateo
Combining Statement of Revenues, Expenses and Changes in Net Assets
All Internal Service Funds
For the year ended June 30, 2006

	Workers' Compensation Insurance	Dental Self -Insurance	Benefits	Comprehensive Liability Insurance	Vehicle & Equipment Replacement	Fleet and Building Maint. Fund	Total
OPERATING REVENUES:							
Charges for services	$ 1,958,162	$ 729,055	$ 17,116,469	$ 700,000	$ 2,118,348	$ 2,465,272	$ 25,087,306
Other	195,301	-	-	-	14,531	6,658	216,490
Total operating revenues	2,153,463	729,055	17,116,469	700,000	2,132,879	2,471,930	25,303,796
OPERATING EXPENSES:							
Costs of sales and services	2,240,692	696,984	16,896,673	1,257,627	804,218	2,598,888	24,495,082
Administration	235,895	-	-	69,322	-	-	305,217
Depreciation and amortization	-	-	-	-	683,284	-	683,284
Total operating expenses	2,476,587	696,984	16,896,673	1,326,949	1,487,502	2,598,888	25,483,583
OPERATING INCOME (LOSS)	(323,124)	32,071	219,796	(626,949)	645,377	(126,958)	(179,787)
NONOPERATING REVENUES EXPENSES:							
Interest income	226,815	-	-	52,150	387,371	-	666,336
Loss on disposal of assets	-	-	-	-	(14,666)	-	(14,666)
Total nonoperating revenues (expenses)	226,815	-	-	52,150	372,705	-	651,670
INCOME (LOSS) BEFORE TRANSFERS	(96,309)	32,071	219,796	(574,799)	1,018,082	(126,958)	471,883
Transfers in	300,000	-	-	-	-	-	300,000
Total transfers in (out)	300,000	-	-	-	-	-	300,000
Change in net assets	203,691	32,071	219,796	(574,799)	1,018,082	(126,958)	771,883
NET ASSETS:							
Beginning of year	172,071	69,967	135,513	1,072,401	12,891,786	146,634	14,488,372
End of year	$ 375,762	$ 102,038	$ 355,309	$ 497,602	$ 13,909,868	$ 19,676	$ 15,260,255

City of San Mateo
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2006

	Workers' Compensation Insurance	Dental Self -Insurance	Benefits	Comprehensive Liability Insurance	Vehicle & Equipment Replacement	Fleet and Building Maint. Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:							
Cash received from customers/other funds	$ 1,958,162	$ 729,055	$ 17,116,469	$ 700,000	$ 2,118,348	$ 2,471,352	$ 25,093,386
Cash payments to suppliers for goods and services	(2,252,048)	(701,544)	(17,065,501)	(1,184,732)	(685,707)	(2,695,291)	(24,584,823)
Cash paid to employees	(234,916)	-	130	(69,296)	-	470	(303,612)
Cash received from (payments to) others	836,301	-	-	-	14,531	6,658	857,490
Net cash provided (used) by operating activities	307,499	27,511	51,098	(554,028)	1,447,172	(216,811)	1,062,441
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:							
Transfers in	300,000	-	-	-	-	-	300,000
Net cash provided by noncapital financing activities	300,000	-	-	-	-	-	300,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition of capital assets	-	-	-	-	(480,262)	-	(480,262)
Net cash provided by capital and related financing activities	-	-	-	-	(480,262)	-	(480,262)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Interest income received	226,815	-	-	52,150	387,371	-	666,336
Net cash provided (used) by investing activities	226,815	-	-	52,150	387,371	-	666,336
Net increase (decrease) in cash and cash equivalents	834,314	27,511	51,098	(501,878)	1,354,281	(216,811)	1,548,515
CASH AND CASH EQUIVALENTS:							
Beginning of year	5,971,576	67,340	835,030	1,878,187	9,517,961	400,274	18,670,368
End of year	$ 6,805,890	$ 94,851	$ 886,128	$ 1,376,309	$ 10,872,242	$ 183,463	$ 20,218,883
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:							
Operating income (loss)	$ (323,124)	$ 32,071	$ 219,796	$ (626,949)	$ 645,377	$ (126,958)	$ (179,787)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation and amortization	-	-	-	-	683,284	-	683,284
Changes in assets and liabilities:							
Accounts receivable	-	-	-	-	-	6,080	6,080
Prepaids and supplies	-	-	1,207	-	-	-	1,207
Accounts payable	(11,356)	(4,560)	(170,035)	72,895	118,511	(96,403)	(90,948)
Accrued salaries and wages payable	979	-	130	26	-	470	1,605
Claims and judgments payable	641,000	-	-	-	-	-	641,000
Total adjustments	630,623	(4,560)	(168,698)	72,921	801,795	(89,853)	1,242,228
Net cash provided (used) by operating activities	$ 307,499	$ 27,511	$ 51,098	$ (554,028)	$ 1,447,172	$ (216,811)	$ 1,062,441

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS

Certain provisions of the Site Lease, Facility Lease, Installment Payment Contract and the Trust Agreement, not previously discussed in this Official Statement, are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the documents.

CERTAIN DEFINITIONS

The following are definitions of certain of the terms defined in the Facility Lease, the Installment Payment Contract or the Trust Agreement, to which reference is hereby made. The following definitions are equally applicable to both the singular and plural forms of the terms defined herein. Capitalized terms not otherwise defined herein will have the meaning assigned to such term in the Trust Agreement or, if not defined therein, in the Facility Lease or the Installment Payment Contract.

"Act" means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as amended) and all laws amendatory thereof or supplemental thereto.

"Additional Payments" means all amounts payable to the Authority or the Trustee or any other person from the City as Additional Payments pursuant to the Facility Lease.

"Authority" means the City of San Mateo Joint Powers Financing Authority created pursuant to the Act and its successors and assigns in accordance with the Trust Agreement.

"Base Rental Payments" means all amounts payable to the Authority from the City as Base Rental Payments pursuant to the Facility Lease.

"Bond Insurance Policy" means the municipal bond new issue insurance policy issued by the Bond Insurer that guarantees payment of principal of and interest on the Series 2007B Bonds.

"Bond Insurer" means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

"Bonds" means the Series 2007B Bonds and all Additional Bonds. "Series 2007B Bonds" means all bonds of the Authority authorized by and at any time Outstanding pursuant to the Trust Agreement and executed, issued and delivered in accordance with the provisions in the Trust Agreement concerning the Series 2007B Bonds. "Additional Bonds" means all bonds of the Authority authorized by and at any time Outstanding pursuant to the Trust Agreement and executed, issued and delivered in accordance with the additional bonds provisions of the Trust Agreement. "Serial Bonds" means Bonds for which no sinking fund payments are provided. "Term Bonds" means Bonds which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

"Business Day" means a day that is not a Saturday, Sunday or legal holiday on which banking institutions in the State of New York or the State of California are authorized to remain closed, or a day on which the Federal Reserve system is closed.

"City" means the City of San Mateo, a municipal corporation and charter city, duly organized and existing under and by virtue of the laws of the State.

"Code" means the Internal Revenue Code of 1986, as amended.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the City or the Authority and related to the authorization, execution and delivery of the Facility Lease, the Site Lease, the Installment Payment Contract, the Trust Agreement and the issuance and sale of the Bonds, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing and recording fees, fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, fees and charges for preparation, execution and safekeeping of the Bonds, title search and title insurance fees, fees of the Authority and any other authorized cost, charge or fee in connection with the issuance of the Bonds.

"Debt Service" means, for any Fiscal Year or other period, the sum of (1) the interest accruing during such Fiscal Year or other period on all Outstanding Bonds, assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds so long as such funded interest is in an amount equal to the gross amount necessary to pay such interest on the Bonds and is invested in Government Securities which mature no later than the related Interest Payment Date), (2) the principal amount of all Outstanding Serial Bonds maturing during such Fiscal Year or other period, and (3) the principal amount of all Outstanding Term Bonds required to be redeemed or paid (together with the redemption premiums, if any, thereon) during such Fiscal Year or other period.

"Demised Premises" means that certain real property situated in the City, described in Exhibit A to the Facility Lease, together with any additional real property added thereto by any supplement or amendment thereto; subject, however, to any conditions, reservations, and easements of record or known to the City.

"Event of Default" will have the meaning specified in the Trust Agreement or the Installment Payment Contract, as applicable. See "Trust Agreement – Defaults and Remedies."

"Facilities" means the Demised Premises and the Golf Course Project or any City buildings, other improvements and facilities, added thereto or substituted therefor, or any portion thereof, in accordance with the Facility Lease and the Trust Agreement; subject, however, to any conditions, reservations and easements of record known to the City.

"Facility Lease" means that certain lease, entitled "Facility Lease (Golf Course Project)", by and between the City and the Authority, dated as of October 1, 2007, as originally executed and recorded or as it may from time to time be supplemented, modified or amended pursuant to the provisions thereof and of the Trust Agreement.

"Golf Course" means all facilities related to the municipal golf course located in the City and owned and operated by the City and all other properties, structures or works for such golf course, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

"Golf Course Project" means the various capital projects of the City as set forth in Exhibit C to the Facility Lease.

"Golf Course Revenues" means all charges received for, and all other income and receipts derived by the City from, the ownership and operation of the Golf Course or arising therefrom, including all rates, fees and user charges received by the City for use of the Golf Course and all greens fees, driving range fees, food services and restaurant rental charges or similar fees or charges relating to the Golf Course, together with any receipts derived from the sale of any property pertaining to the Golf Course or incidental to thereof, together with all interest, profits and other income derived from the investment of moneys in any fund or account established under the Installment Payment Contract (other than the Rebate Fund) but exclusive of any moneys derived from the levy or collection of taxes or special assessments by the City, or refundable deposits made to establish credit and advances, or contributions in aid of construction, or other payments of a similar nature.

"Government Securities" means (1) cash; (2) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series—"SLGS"); (3) direct obligations of the U.S. Treasury which have been stripped by the Treasury itself, such as CATS, TIGRS and similar securities; (4) Resolution Funding Corp. (REFCORP) strips (interest component only) which have been stripped by request to the Federal Reserve Bank of New York in book entry form; (5) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P, or if not rated by Moody's, then pre-refunded bonds that have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA-rated pre-refunded municipal obligations; (6) obligations issued by the following agencies which are backed by the full faith and credit of the U.S.: (a) U.S. Export-Import Bank direct obligations or fully guaranteed certificates of beneficial ownership, (b) Farmers Home Administration (FmHA) certificates of beneficial ownership, (c) Federal Financing Bank, (d) General Services Administration participation certificates, (e) U.S. Maritime Administration Guaranteed Title XI financing, (f) U.S. Department of Housing and Urban Development (HUD) Project Notes, Local Authority Bonds, New Communities Debentures--U.S. government guaranteed debentures, and U.S. Public Housing Notes and Bonds--U.S. government guaranteed public housing notes and bonds.

"Installment Payment Contract" means the Series 2007B Installment Payment Contract and all contracts of the City authorized and executed by the City under and pursuant to the Act, the Installment Payments under which are on a parity with the Series 2007B Installment Payments and are secured by a pledge of and lien on the Golf Course Revenues. "Series 2007B Installment Payment Contract" means the installment payment contract, dated as of October 1, 2007, between the City and the Authority.

"Installment Payment Date" means February 1, 2008 and thereafter on February 1 and August 1 of each year.

"Installment Payments" means the installment payments of interest and principal scheduled to be paid by the City under and pursuant to the Installment Payment Contract. "Series 2007B Installment Payments" means the Series 2007B Installment Payments scheduled to be paid pursuant to the Series 2007B Installment Payment Contract.

"Interest Payment Date" means February 1 and August 1 in each year, commencing February 1, 2008.

"Investment Securities" means any investments which at the time are legal investments under the laws of the State for moneys held under the Trust Agreement and then proposed to be invested therein, including, without limitation, the following:

(a) Direct obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America ("U.S. Government Securities").

(b) Direct obligations of the following federal agencies which are fully guaranteed by the full faith and credit of the United States of America: (1) Export-Import Bank of the United States – direct obligations and fully guaranteed certificates of beneficial interest, (2) Federal Housing Administration – debentures, (3) General Services Administration – participation certificates, (4) Government National Mortgage Association ("GNMAs") – guaranteed mortgage-backed securities and guaranteed participation certificates, (5) Small Business Administration – guaranteed participation certificates and guaranteed pool certificates, (6) U.S. Department of Housing & Urban Development – local authority bonds, (7) U.S. Maritime Administration – guaranteed Title XI financings, and (8) Washington Metropolitan Area Transit Authority – guaranteed transit bonds.

(c) Direct obligations of the following federal agencies which are not fully guaranteed by the faith and credit of the United States of America: (1) Federal National Mortgage Association ("FNMAs") – senior debt obligations rated Aaa by Moody's and AAA by S&P, (2) Federal Home Loan Mortgage Corporation ("FHLMCs") – participation certificates and senior debt obligations rated Aaa by Moody's and AAA by S&P, (3) Federal Home Loan Banks – consolidated debt obligations, (4) Student Loan Marketing Association – debt obligations, and (5) Resolution Funding Corporation – debt obligations.

(d) The following are explicitly excluded from the securities enumerated in paragraphs (b) and (c) above: (1) All derivative obligations, without limitation inverse floaters, residuals, interest-only, principal-only and range notes, (2) Obligations that have a possibility of returning a zero or negative yield if held to maturity, (3) Obligations that do not have a fixed par value or those whose terms do not promise a fixed dollar amount at maturity or call date, and (4) Collateralized Mortgage-Backed Obligations ("CMOs").

(e) Direct, general obligations of any state of the United States of America or any subdivision or agency thereof whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose uninsured and unguaranteed general obligation debt is rated, at the time of purchase, A2 or better by Moody's and A or better by S&P.

(f) Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, P-1 by Moody's and A-1 or better by S&P.

(g) Certificates of deposit, savings accounts, deposit accounts or money market deposits in amounts that are continuously and fully insured by the Federal Deposit Insurance Corporation ("FDIC"), including the Bank Insurance Fund, the Savings Association Insurance Fund and those of the Trustee and its affiliates.

(h) Certificates of Deposit, deposit accounts, federal funds or bankers' acceptances (in each case having maturities of not more than 365 days following the date of purchase) of any domestic commercial bank or United States branch office of a foreign bank, provided that such bank's short-term certificates of deposit are rated P-1 by Moody's and A-1 or better by S&P (not considering holding company ratings).

(i) Investments in money-market funds rated AAAm or AAAm-G by S&P, including funds for which the Trustee and its affiliates provide investment advisory or other management services.

(j) State-sponsored investment pools rated AA- or better by S&P.

(k) Repurchase agreements that meet the following criteria:

(1) A master repurchase agreement or specific written repurchase agreement, substantially similar in form and substance to the Public Securities Association or Bond Market Association master repurchase agreement, governs the transaction.

(2) Acceptable providers shall consist of (i) registered broker/dealers subject to Securities Investors' Protection Corporation ("SIPC") jurisdiction or commercial banks insured by the FDIC, if such broker/dealer or banks has an uninsured, unsecured and unguaranteed rating of A3/P-1 or better by Moody's and A-/A-1 or better by S&P, or (ii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.

(3) The repurchase agreement shall require termination thereof if the counterparty's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's, or A- or A-1 from S&P. Within ten days, the counterparty shall repay the principal amount plus any accrued and unpaid interest on the investments.

(4) The repurchase agreement shall limit acceptable securities to U.S. Government Securities and to obligations of GNMA, FNMA or FHLMC described in (b)(4), (c)(1) and (c)(2) above. The fair market value of the securities in relation to the amount of the repurchase obligation, including the principal and accrued interest, is equal to a collateral level of at least 104% for U.S. Government Securities and 105% for GNMAs, FNMAs or FHLMCs. The repurchase agreement shall require (i) the Trustee or the Agent to value the collateral securities no less frequently than weekly, (ii) the delivery of additional securities if the fair market value of the securities is below the required level on any valuation date, and (iii) liquidation of the repurchase securities if

any deficiency in the required percentage is not restored within two (2) business days of such valuation.

(5) The repurchase securities shall be delivered free and clear of any lien to the Trustee or to an independent third party acting solely as agent ("Agent") for the Trustee, and such Agent is (i) a Federal Reserve Bank, or (ii) a bank which is a member of the FDIC and which has combined capital, surplus and undivided profits or, if appropriate, a net worth, of not less than $50 million, and the Trustee shall have received written confirmation from such third party than such third party hold such securities, free and clear of any lien, as agent for the Trustee.

(6) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the Authority and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof

(7) The repurchase agreement shall have a term of one year of less, or shall be due on demand.

(8) The repurchase agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the repurchase securities, unless the Bond Insurer directs otherwise: (i) insolvency of the broker/dealer or commercial bank serving as the counterparty under the repurchase agreement, (ii) failure by the counterparty to remedy any deficiency in the required collateral level or to satisfy the margin maintenance call under item k(4) above, or (iii) failure by the counterparty to repurchase the repurchase securities on the specified date for repurchase.

(l) Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria:

(1) A master agreement or specific written investment agreement governs the transaction.

(2) Acceptable providers of uncollateralized investment agreements shall consist of (i) domestic FDIC insured commercial banks, or U.S. branches of foreign banks, rated at least Aa2 by Moody's and AA by S&P, (ii) domestic insurance companies rated Aaa by Moody's and AA by S&P, and (iii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P.

(3) Acceptable providers of collateralized investment agreements shall consist of (i) registered broker/dealers subject to SIPC jurisdiction, if such broker/dealer has an uninsured, unsecured and unguaranteed rating of A1 or better by Moody's and A+ or better by S&P, (ii) domestic FDIC-insured commercial banks or U.S. branches of foreign banks, rated at least A1 by Moody's and A+ by S&P, (iii) domestic insurance companies rated at least A1 by Moody's and A+ by S&P, and (iv) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P; required collateral levels shall be as set forth in (l)(6) below.

(4) The investment agreement shall provide that if the provider's rating fall below Aa3 by Moody's or Aa- by S&P, the provider shall within ten days either (i) repay the principal amount plus any accrued interest on the investment, or (ii) deliver Permitted Collateral as provided below.

(5) The investment agreement must provide for termination thereof if the provider's ratings are suspended, withdrawn or fall below A3 from Moody's or A- from S&P. Within ten days, the provider shall repay the principal amount plus any accrued interest on the agreement, without penalty to the Authority.

(6) The investment agreement shall provide for the delivery of collateral described as follows ("Permitted Collateral") which shall be maintained at the following collateralization levels at each valuation date: (i) U.S. Government Securities at 104% of principal plus accrued interest, or (ii) obligations of GNMA, FNMA or FHLMC at 105% of principal and accrued interest.

(7) The investment agreement shall require the Trustee or Agent to determine the market value of the Permitted Collateral not less than weekly and notify the investment agreement provider on the valuation day of any deficiency. Permitted Collateral may be released by the Trustee to the provider only to the extent there are excess amounts over the required levels. Market value, with respect to the collateral, may be determined by any of the following methods: (i) the last quoted "bid" price as shown in Bloomberg, Interactive Data Systems, Inc., The Wall Street Journal or Reuters, (ii) valuation as performed by a nationally recognized pricing service, whereby the valuation method is based on a composite average of various bid prices, or (iii) the lower of two bid prices by nationally recognized dealers. Such dealers or their parent holding companies shall be rated investment grade and shall be market makers in the securities being values.

(8) Securities held as Permitted Collateral shall be free and clear of all liens and claims of third parties, held in a separate custodial account and registered in the name of the Trustee or the Agent.

(9) The provider shall grant the Trustee or the Agent a perfect first security interest in ay collateral delivered under an investment agreement. For investment agreements collateralized initially and in connection with the delivery of Permitted Collateral under l(6) above, the Trustee and the Bond Insurer shall receive an opinion of counsel as to the perfection of the security interest in the collateral.

(10) The investment agreement shall provide than moneys invested under the agreement must be payable and putable at par to the Trustee without condition, breakage fee or other penalty, upon not more than two business days' notice, or immediately on demand for any reason for which the funds invested may be withdrawn from the applicable fund or account established under the authorizing document, as well as the following: (i) in the event of a deficiency in the debt service account, (ii) upon acceleration after an event of default, (iii) upon refunding of the Bonds in whole or in part, (iv) reduction of the debt service reserve requirement for the Bonds, or (v) if a determination is later made by a nationally recognized bond counsel that investment must be yield-restricted. Notwithstanding the foregoing, the agreement may provide for a breakage fee or other penalty that is payable in arrears and not as a condition of a draw by the Trustee if the Authority's obligation to pay such fee or penalty is subordinate to its obligation to pay debt service on the Bonds and to make deposits to the Reserve Fund.

(11) The investment agreement shall establish the following as events of default, the occurrence of any of which shall require the immediate liquidation of the investment securities: (i) failure of the provider or the guarantor (if any) to make a payment when due or to deliver the Permitted Collateral of the character, at the times or in the amounts described above, (ii) insolvency of the provider or the guarantor (if any) under the investment agreement, (iii) failure by the provider to remedy any deficiency with respect to required Permitted Collateral, (iv) failure by the provider to make a payment or observe any covenant under the agreement, (v) the guaranty (if any) is

terminated, repudiated or challenged, or (vi) any representation of warranty furnished to the Trustee or the Authority in connection with the agreement is false or misleading.

(12) The investment agreement must incorporate the following general criteria: (i) "cure periods" for payment default shall not exceed two business days, (ii) the agreement shall provide that the provider shall remain liable for any deficiency after application of the proceeds of the sale of any collateral, including costs and expenses incurred by the Trustee or the Bond Insurer, (iii) neither the agreement or guaranty agreement, if applicable, may be assigned (except to a provider that would otherwise be acceptable under the guidelines) or amended without the prior consent of the Bond Insurer, (iv) if the investment agreement is for the Reserve Fund, reinvestment of funds shall be required to bear interest at a rate at least equal to the original contract rate, (v) the provider shall be required to immediately notify the Bond Insurer and the Trustee of any event of default or any suspension, withdrawal or downgrade of the provider's ratings, (vi) the agreement shall be unconditional and shall expressly disclaim any right of set-off or counterclaim, (vii) the agreement shall require the provider to submit information reasonably requested by the Bond Insurer, including balance invested with the provider, type and market value of collateral and other pertinent information.

(m) Forward delivery agreements in which the securities delivered mature on or before each interest payment date (for debt service or the Reserve Fund) or draw down date (construction funds) that meet the following criteria:

(1) A specific written investment agreement governs the transaction.

(2) Acceptable providers shall be limited to (i) any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P, (ii) any commercial bank insured by the FDIC, if such bank has an uninsured, unsecured and unguaranteed obligation rated A3/P-1 or better by Moody's and A-/A-1 or better by S&P, and (iii) domestic structured investment companies approved by the Bond Insurer and rated Aaa by Moody's and AAA by S&P

(3) The forward delivery agreement shall provide for termination or assignment (to a qualified provider hereunder) of the agreement if the provider's ratings are suspended, withdrawn or fall below A3 or P-1 from Moody's or A- or A-1 from S&P. Within ten days, the provider shall fulfill any obligations it may have with respect to shortfalls in market value. There shall be no breakage fee payable to the provider in such event.

(4) Permitted securities shall include the investments listed in (a), (b) and (c) above.

(5) The forward delivery agreement shall include the following provisions: (i) the permitted securities must mature at least one business day before a debt service payment date or scheduled draw. The maturity amount of the permitted securities must equal or exceed the amount required to be in the applicable fund on the applicable valuation date; (ii) the agreement shall include market standard termination provisions, including the right to terminate for the provider's failure to deliver qualifying securities or otherwise to perform under the agreement. There shall be no breakage fee or penalty payable to the provider in such event; (iii) any breakage fees shall be payable only on debt service payment dates and shall be subordinated to the payment of debt service and debt service reserve fund replenishments; (iv) the provider must submit at closing a bankruptcy opinion to the effect that upon any bankruptcy, insolvency, or receivership of the provider, the securities will not be considered to be a part of the provider's estate, and

otherwise acceptable to the Bond Insurer; and (v) the agreement may not be assigned (except to a provider that would otherwise be acceptable under these guidelines) or amended without the prior written consent of the Bond Insurer.

(n) Forward delivery agreements in which the securities delivered mature after the funds may be required by provide for the right of the Authority or the Trustee to put the securities back to the provider under a put, guaranty or other hedging agreement, only with the prior written consent of the Bond Insurer.

(o) Maturity of investments shall be governed by the following: (1) investment of monies (other than reserve funds) shall be in securities and obligations maturing not later than the dates on which such monies will be needed to make payments; (2) investments shall be considered as maturing on the first date on which they are redeemable without penalty at the option of the holder or the date on which the Trustee may require their repurchase pursuant to repurchase agreements; and (3) investment of monies in reserve funds not payable upon demand shall be restricted to maturities of five years or less.

(p) Local Agency Investment Fund of the State of California or any successor fund established pursuant to California law; provided that the Trustee may restrict investments in the Local Agency Investment Fund to the extent required to keep monies available for the purposes of the Trust Agreement.

"Joint Powers Agreement" means the Joint Exercise of Powers Agreement by and between the City and the Redevelopment Agency of the City of San Mateo, dated April 1, 1993, as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions thereof and of the Trust Agreement.

"Maintenance and Operation Costs" means the reasonable and necessary costs of maintaining and operating the Golf Course, calculated in accordance with generally accepted accounting principles, including (without limitation) the reasonable expenses of management, repair and other expenses necessary to maintain and preserve the Golf Course in good repair and working order, and reasonable amounts for administration, overhead, wages of employees, insurance, taxes (if any) and other similar costs or charges required to be paid by the City to comply with the law or of the Bonds such as compensation of the Trustee, fees for credit enhancement of the Bonds, and accountant and engineering fees, but excluding in all cases (a) depreciation and obsolescence charges or reserves therefor, amortization of intangibles, or other bookkeeping entries of a similar nature, (b) all costs paid from the proceeds of taxes received by the City, and (c) all interest charges and charges for the payment of principal, or amortization, of bonded or other indebtedness of the City.

"Net Proceeds" means, when used with respect to any insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

"Permitted Encumbrances" means (1) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the City may, pursuant to the Facility Lease, permit to remain unpaid; (2) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of recordation of the Facility Lease in the office of the County Recorder of the County of San Mateo and which the City certifies in writing will not materially impair the use of the Facilities; (3) the Site Lease, as it may be amended from time to time, and the Facility Lease, as it may be amended from time to time; (4) the Trust Agreement, as it may be amended from time to time; (5) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (6) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions to which the Authority and the City consent in writing and certify to the Trustee will not materially impair the ownership interests of the Authority or use of the Facilities by the City; and (7) subleases and assignments of the City which will not adversely affect the exclusion from gross income of interest on the Bonds, including but not limited to subleases that are necessary or convenient for the purposes of operating restaurant, pro shop, driving range or other portions of the Golf Course Project.

"Phase of the Project" means the Golf Course Project or such Subsequent Phase of the Project to which reference is made.

“Principal Payment Date” means any date on which principal of the Bonds is required to be paid (whether by reason of maturity, redemption or acceleration).

“Prior Bonds” means the City of San Mateo Joint Powers Financing Authority Revenue Bonds (Golf Course Project), Series 1999, issued in the original aggregate principal amount of $10,400,000.

“Project” means the Golf Course Project and certain other capital improvement projects of the City and all Subsequent Phases of the Project.

“Rental Payment Period” means the twelve month period commencing August 1 of each year and ending the following July 31, and the initial period commencing on the effective date of the Facility Lease and ending the following July 31.

“Reserve Facility” means a surety bond or insurance policy issued to the Trustee, on behalf of the Bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds (a “municipal bond insurer”) if such municipal bond insurer will be rated in the highest rating categories issued by Moody’s and by S&P, or a letter of credit issued or confirmed by a state or national bank, or a foreign bank with an agency or branch located in the continental United States, which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category by Moody’s and S&P, or any combination thereof, deposited with the Trustee by the Authority to satisfy the Reserve Fund Requirement.

“Reserve Facility Costs” means repayment of draws under the Reserve Facility, plus all related reasonable expenses incurred by the Reserve Facility provider, plus interest thereon at the Reserve Facility Rate.

“Reserve Facility Rate” means the lesser of: (i) the prime rate of Citibank, N.A., in effect from time to time plus 2% per annum, and (ii) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Reserve Facility Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. In the event Citibank, N.A. ceases to announce its prime rate publicly, prime rate shall be the publicly announced prime or base lending rate of such national bank as the Reserve Facility provider shall specify.

“Reserve Fund Requirement” means with respect to all Outstanding Bonds an amount equal to the lesser of (i) the maximum annual debt service attributable to the Outstanding Bonds and (ii) 125% of average annual debt service attributable to the Outstanding Bonds; provided that with respect to the calculation of the Reserve Fund Requirement upon the issuance of an Additional Series of Bonds the Reserve Fund Requirement will be the least of (i) or (ii) above, or the amount derived by the addition of 10% of the proceeds from the sale of such Series of Additional Bonds to the Reserve Fund.

“Revenues” means (i) all Base Rental Payments and other payments paid by the City and received by the Authority pursuant to the Facility Lease (but not Additional Payments), (ii) all Installment Payments paid by the City and received by the Authority pursuant to the Installment Payment Contract, and (iii) all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) established pursuant to the Trust Agreement.

“Site Lease” means that certain lease, entitled “Site Lease,” by and between the City and the Authority, dated as of October 1, 2007, as originally executed and recorded or as it may from time to time be supplemented, modified or amended pursuant to the provisions thereof and of the Trust Agreement.

“State” means the State of California.

“Subsequent Phase of the Project” means any and all facilities and buildings for use by the City, whether within or without the City, and all additions, extensions or improvements thereto hereafter added to the Project and hereafter described by a notice to the Trustee.

“Tax Certificate” means the Tax Certificate and Agreement delivered by the Authority and the City at the time of the issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

SITE LEASE

The City leases to the Authority and the Authority hires from the City, on the terms and conditions set forth in the Site Lease, the real property situated in the City of San Mateo, State of California, and described in Exhibit A attached to the Site Lease, together with any additional real property added thereto by any supplement or amendment thereto, or any real property substituted for all or any portion of such property in accordance with the Site Lease and the Trust Agreement; subject, however, to any conditions, reservations, and easements of record or known to the City and the buildings and all other facilities located thereon.

The term of the Site Lease as to the Facilities will commence on the date of recordation of the Site Lease in the office of the County Recorder of San Mateo County, State of California, or on November 1, 2007 whichever is earlier, and will end on August 1, 2029, unless such term is extended or sooner terminated as provided in the Site Lease. If on August 1, 2029 the Bonds or Reserve Facility Costs will not be fully paid, or if the rental or other amounts payable under the Facility Lease will have been abated at any time and for any reason, then the term of the Site Lease will be extended until 10 days after the Bonds or Reserve Facility Costs will be fully paid, except that the term of the Site Lease will in no event be extended beyond August 1, 2039. If prior to August 1, 2029 all Bonds and Reserve Facility Costs, will be fully paid, the term of the Site Lease will end 10 days thereafter or upon written notice by the City to the Authority, whichever is earlier.

The City covenants that it is either the owner in fee of or has a valid leasehold interest in the Demised Premises. The City further covenants and agrees that if for any reason this covenant proves to be incorrect, the City will either institute eminent domain proceedings to condemn the property or institute a quiet title action to clarify the City’s title, and will diligently pursue such action to completion.

FACILITY LEASE

Lease of Facilities

The Authority leases to the City and the City leases from the Authority the Facilities, including the Demised Premises; subject, however, to all easements, encumbrances, and restrictions that exist at the time of the commencement of the term of the Facility Lease. The City agrees and covenants during the term of the Facility Lease that, except as provided therein, it will use the Facilities for public and City purposes so as to afford the public the benefits contemplated by the Facility Lease.

Term; Occupancy

The term of the Facility Lease will commence on the date of recordation of the Facility Lease in the office of the County Recorder of San Mateo County, State of California, or on November 1, 2007, whichever is earlier, and will end on August 1, 2029, unless such term is extended or sooner terminated as provided in the Facility Lease. If on August 1, 2029, the Bonds or the Reserve Facility Costs have not been fully paid, or if the rental payable under the Facility Lease has been abated at any time and for any reason, then the term of the Facility Lease will be extended until all Bonds and Reserve Facility Costs will be fully paid, except that the term of the Facility Lease will in no event be extended beyond August 1, 2039. If prior to August 1, 2029, all Bonds and Reserve Facility Costs will be fully paid, or provision therefor made, the term of the Facility Lease will end 10 days thereafter or upon written notice by the City to the Authority, whichever is earlier.

Purpose of Lease

The City covenants that during the term of the Facility Lease, except as provided in the Facility Lease, (a) it will use, or cause the use of, the Facilities for public purposes and for the purposes for which the Facilities are customarily used, (b) it will not vacate or abandon the Facilities or any part thereof, and (c) it will not make any use of the Facilities which would jeopardize in any way the insurance coverage required to be maintained pursuant to the Facility Lease.

Substitution

The City and the Authority may substitute real property as part of the Facilities for purposes of the Facility Lease, but only as set forth in the Facility Lease provided the City has filed with the Authority and the Trustee, with copies to each rating agency then providing a rating for the Bonds, all of the following:

(a) Executed copies of the Facility Lease or amendments thereto containing the amended description of the Facilities, including the Demised Premises, including the legal description of the Demised Premises as modified if necessary.

(b) A Certificate of the City with copies of the Facility Lease or a Site Lease, if needed, or amendments thereto containing the amended description of the Facilities stating that such documents have been duly recorded in the official records of the County Recorder of San Mateo County.

(c) A Certificate of the City evidencing that the annual fair rental value of the Facilities which will constitute the Facilities after such substitution will be at least equal to 100% of the maximum amount of Base Rental Payments becoming due in the then current year ending July 31 or in any subsequent year ending July 31.

(d) A Certificate of the City stating that, based upon review of such instruments, certificates or any other matters described in such Certificate of the City, the City has good merchantable title to the Facilities which will constitute the Facilities after such substitution. The term "Good Merchantable Title" shall mean such title as is satisfactory and sufficient for the needs and operations of the City.

(e) A Certificate of the City stating that such substitution does not adversely affect the City's use and occupancy of the Facilities.

(f) An Opinion of Counsel (as such term is defined in the Trust Agreement) stating that such amendment or modification (i) is authorized or permitted by the Constitution and laws of the State and the Trust Agreement; (ii) complies with the terms of the Constitution and laws of the State and of the Trust Agreement; (iii) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the City; and (iv) will not cause the interest on the Bonds to be included in gross income for federal income tax purposes.

(g) The written consent of the Bond Insurer approving such substitution, which the Bond Insurer has agreed to provide so long as the foregoing conditions (a) to (f), inclusive, have been satisfied. Each of the certificates and opinions described in said conditions (a) to (f) shall be addressed to the Bond Insurer and shall be in form and substance satisfactory to the Bond Insurer.

Rental Payments

Base Rental Payments. The City agrees to pay to the Authority, as Base Rental Payments for the use and occupancy of the Facilities, including the Demised Premises (subject to the provisions of the Facility Lease) annual rental payments with principal and interest components, the interest components being payable semi-annually, in accordance with the Rental Payment Schedule attached to the Facility Lease as Exhibit B and made a part thereof. Base Rental Payments will be calculated on an annual basis, for the twelve-month periods commencing on August 1 and ending on July 31, and each annual Base Rental will be divided into two interest components, due on February 1 and August 1, and one principal component, due on August 1, except that (a) no principal component shall be payable until August 1, 2010, and (b) the first Base Rental Payment period commences on the date of recordation of the Facility Lease and ends on July 31, 2008. Each Base Rental Payment installment will be payable on the 25th day of the month immediately preceding its due date and any interest or other income with respect thereto accruing prior to such due date. The interest components of the Base Rental Payments will be paid by the City as and constitute interest paid on the principal components of the Base Rental Payments to be paid by the City under the Facility Lease, computed on the basis of a 360-day year composed of twelve 30-day months. Each annual payment of Base Rental (to be payable in installments as aforesaid) will be for the use of the Facilities, including the Demised Premises.

If the term of the Facility Lease will have been extended pursuant to the terms thereof, Base Rental Payment installments will continue to be due on February 1 and August 1 in each year, and payable prior thereto as hereinabove described, continuing to and including the date of termination of the Facility Lease. Upon such extension of the Facility Lease, the City will deliver to the Trustee a Certificate setting forth the extended rental payment schedule, which schedule will establish the principal and interest components of the Base Rental Payments so that the principal components will in the aggregate be sufficient to pay all unpaid principal components with interest components sufficient to pay all unpaid interest components plus interest and to pay any Reserve Facility Costs.

Additional Payments. The City will also pay such amounts (the "Additional Payments") as will be required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the execution, performance or enforcement of the Facility Lease or any assignment thereof, the Trust Agreement, any Reserve Facility, its interest in the Demised Premises and the lease of the Facilities to the City, including but not limited to payment of all fees, costs and expenses and all administrative costs of the Authority related to the Demised Premises, the Facilities and the Project, including, without limiting the generality of the foregoing, salaries and wages of employees, all expenses, compensation and indemnification of the Trustee payable by the Authority under the Trust Agreement, fees of auditors, accountants, attorneys or architects, and all other necessary administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Bonds or of the Trust Agreement; but not including in Additional Payments amounts required to pay the principal of or interest on the Bonds or the portion of Reserve Facility Costs related thereto.

Fair Rental Value

Such payments of Base Rental Payments for each rental period during the term of the Facility Lease will constitute the total rental for said rental period and will be paid by the City in each rental payment period for and in consideration of the right of use and occupancy of, and continued quiet use and enjoyment of, the Facilities, during each such period for which said rental is to be paid. The parties to the Facility Lease have agreed and determined that such total rental payable for each 12-month period beginning August 1 represents the fair rental value of the Facilities, including the Demised Premises for each such period. In making such determination, consideration has been given to costs of acquisition, design, construction and financing of the Facilities, other obligations of the parties under the Facility Lease, the uses and purposes which may be served by the Facilities and the benefits therefrom which will accrue to the City and the general public.

Payment Provisions

All payments received will be applied first to the interest components of the Base Rental Payments due under the Facility Lease, then to the principal components of the Base Rental Payments due under the Facility Lease and thereafter to all Additional Payments due under the Facility Lease, but no such application of any payments which are less than the total rental due and owing will be deemed a waiver of any default under the Facility Lease.

Rental Abatement

The Base Rental Payments and Additional Payments will be abated proportionately during any period in which by reason of any damage or destruction (other than by condemnation as described under "Prepayment" below) there is substantial interference with the use and occupancy of the Facilities by the City, in the proportion in which the initial cost of that portion of the Facilities rendered unusable bears to the initial cost of the whole of the Facilities, including the Demised Premises. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Facility Lease will continue in full force and effect and the City waives any right to terminate the Facility Lease by virtue of any such damage or destruction.

Installment Payment Contract; Installment Payments

In consideration for the lease of the Facilities from the Authority to the City and in order to further secure and provide for the payment of rental due under the Facility Lease, the City agrees to execute and deliver the Installment Payment Contract and to pay to the Authority in immediately available funds the amounts due as Installment Payments thereunder. On any date upon which a Base Rental Payment installment is due, the City's obligation to pay such Base Rental Payment installment will be deemed satisfied to the extent that the City's obligation to make Installment Payments has been satisfied as of such date.

Appropriations Covenant

The City covenants to take such action as may be necessary to include all such Base Rental Payments and Additional Payments due under the Facility Lease in its annual budgets, and to make necessary annual appropriations for all such Base Rental Payments and Additional Payments as will be required to provide funds in such year for such Base Rental Payments and Additional Payments. The City will deliver to the Authority and the Trustee within 60 days of adoption of the City budget a Certificate of the City stating that the budget as adopted appropriates all moneys necessary for the payment of Base Rental Payments and Additional Payments under the Facility Lease. Such budget may take into account Installment Payments paid by the City.

Maintenance and Utilities

During such time as the City is in possession of the Facilities, all maintenance and repair, both ordinary and extraordinary, of the Facilities will be the responsibility of the City, which will at all times maintain or otherwise arrange for the maintenance of the Facilities, and the City will pay for or otherwise arrange for the payment of all utility services supplied to the Facilities, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and will pay for or otherwise arrange for payment of the cost of the repair and replacement of the Facilities resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof or any other cause and will pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the Facilities. In exchange for the rental provided in the Facility Lease, the Authority agrees to provide only the Facilities, including the Demised Premises.

Changes to the Project

Subject to the Facility Lease, the City will, at its own expense, have the right to remodel the Facilities or to make additions, modifications and improvements to the Facilities, including the Demised Premises. All such additions, modifications and improvements will thereafter comprise part of the Facilities and be subject to the provisions of the Facility Lease. Such additions, modifications and improvements will not in any way damage the Facilities or cause them to be used for purposes other than those authorized under the provisions of state and federal law; and the Facilities, upon completion of any additions, modifications and improvements made pursuant to the Facility Lease, will be of a value which is at least equal to the value of the Facilities immediately prior to the making of such additions, modifications and improvements.

Installation of City's Equipment

The City and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Facilities, including the Demised Premises. All such items will remain the sole property of such party, in which neither the Authority nor the Trustee will have any interest, and may be modified or removed by such party at any time provided that such party will repair and restore any and all damage to the Facilities resulting from the installation, modification or removal of any such items.

Taxes

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

Insurance

The City will procure or cause to be procured and maintain or cause to be maintained, throughout the term of the Facility Lease, such insurance as set forth in the Facility Lease and described in the Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Insurance."

Eminent Domain

If the whole of the Facilities, including the Demised Premises or so much thereof as to render the remainder unusable for the purposes for which it was used by the City will be taken under the power of eminent domain, the term of the Facility Lease will cease as of the day that possession will be so taken. If less than the whole of the Facilities will be taken under the power of eminent domain and the remainder is usable for the purposes for which it was used by the City at the time of such taking, then the Facility Lease will continue in full force and effect as to such remainder, and the parties waive the benefits of any law to the contrary, and in such event there will be a partial abatement of the rental due under the Facility Lease in an amount equivalent to the amount by which the annual payments of principal and interest on the Outstanding Bonds will be reduced by the application of the award in eminent domain to the redemption of outstanding Bonds. So long as any of the Bonds will be outstanding, any award made in eminent domain proceedings for taking the Facilities, including the Demised Premises or any portion thereof will be paid to the Trustee and applied to the prepayment of the Base Rental Payments as provided in the Facility Lease. Any such award made after all of the Base Rental Payments and Additional Payments have been fully paid, or provision therefor made, will be paid to the to the City.

Prepayment

The City will prepay on any date from insurance (including proceeds of title insurance) and eminent domain proceeds, to the extent provided in the Facility Lease (provided, however, that in the event of partial damage to or destruction of the Facilities caused by perils covered by insurance, if in the judgment of the Authority the insurance proceeds are sufficient to repair, reconstruct or replace the damaged or destroyed portion of the Facilities, such proceeds will be held by the Trustee and used to repair, reconstruct or replace the damaged or destroyed portion of the Facilities, pursuant to the procedure set forth in the Facility Lease for proceeds of insurance), all or any part of Base Rental Payments then unpaid so that the aggregate annual amounts of Base Rental Payments which will be payable after such prepayment date will be as nearly proportional as practicable to the aggregate annual amounts of Base Rental Payments unpaid prior to the prepayment date (taking into account the reduction in Base Rental allocable to future interest on the Bonds that are redeemed), at a prepayment amount equal to the redemption payment of the maximum amount of Bonds, including the principal thereof and the interest thereon to the date of redemption, plus any applicable premium redeemable from such proceeds.

The City may prepay, from any source of available funds, all or any portion of Base Rental Payments by depositing with the Trustee moneys or securities as provided in the Trust Agreement sufficient to defease Bonds corresponding to such Base Rental Payments when due; provided that the City furnishes the Trustee with an Opinion of Counsel that such deposit will not cause interest on the Bonds to be includable in gross income for federal income tax purposes. The City agrees that if following such prepayment the Facilities are damaged or destroyed or taken by eminent domain, it is not entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and will not be entitled to any reimbursement of such Base Rental Payments.

When (i) there will have been deposited with the Trustee at or prior to the due dates of the Base Rental Payments or date when the City may exercise its option to purchase the Facilities or any portion or item thereof, in trust for the benefit of the Owners of the Bonds and irrevocably appropriated and set aside to the payment of the Base Rental Payments or option price, sufficient moneys and Government Securities, not redeemable prior to maturity, the principal of and interest on which when due will provide money sufficient to pay all principal, premium, if any, and interest on the Bonds to the due date of the Bonds or date when the City may exercise its option to purchase the Facilities, as the case may be; (ii) all requirements of the Trust Agreement have been satisfied; and (iii) an agreement will have been entered into with the Trustee for the payment of its fees and expenses so long as any of the Bonds will remain unpaid, then and in that event the right, title and interest of the Authority in the Facility Lease and the obligations of the City under the Facility Lease will thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Authority and the obligation of the City to have such moneys and such Government Securities applied to the payment of the Base Rental Payments or option price) and the Authority's interest in and title to the Project or applicable portion or item thereof will be transferred and conveyed to the City.

Option to Purchase

The City will have the option to purchase the Authority's interest in any part of Facilities upon payment of an option price consisting of moneys or securities of the category specified in the definition of the term Government Securities (not callable by the issuer thereof prior to maturity) in an amount sufficient (together with the increment, earnings and interest on such securities) to provide funds to pay the aggregate amount for the entire remaining term of the Facility Lease of the part of the total rent under the Facility Lease attributable to such part of the Facilities (determined by reference to the proportion which the cost of such part of the Facilities bears to the cost of all of the Facilities) consisting of scheduled components, in integral multiples of $5,000 and interest on such scheduled components to the applicable prepayment date, plus amounts owing to the Bond Insurer, if any. Any such payment will be made to the Trustee and will be treated as rental payments and will be applied by the Trustee to pay the principal of the Bonds and interest on the Bonds and amounts owing to the Bond Insurer, if any, and to redeem Bonds if such Bonds are subject to redemption pursuant to the terms of the Trust Agreement. Upon the making of such payment to the Trustee and the satisfaction of all requirements set forth in the Trust Agreement, among other things, title to such part of the Facilities, including the portion of the Demised Premises upon which such part of the Facilities is located will vest in the City and the term of the Facility Lease will end as to such Facilities, including the portion of the Demised Premises upon which such part of the Facilities is located.

Sale of Personal Property

The City, in its discretion, may request the Authority to sell or exchange any personal property which may at any time constitute a part of the Facilities, and to release said personal property from the Facility Lease, if (a) in the opinion of the City the property so sold or exchanged is no longer required or useful in connection with the operation of the Facilities, (b) the consideration to be received from the property is of a value substantially equal to the value of the property to be released, and (c) if the value of any such property will, in the opinion of the Authority, exceed the amount of $100,000, the Authority will have been furnished a certificate of an independent engineer or other qualified independent professional consultant (satisfactory to the Authority) certifying the value thereof and further certifying that such property is no longer required or useful in connection with the operation of the Facilities. In the event of any such sale, the full amount of the money or consideration received for the personal property so sold and released will be paid to the Authority. Any money so paid to the Authority may, so long as the City is not in default under any of the provisions of the Facility Lease, be used upon the Written Request of the City to purchase personal property, which property will become a part of the Facility Leased under the Facility Lease.

Defaults and Remedies

If the City will fail to pay any rental payable under the Facility Lease when the same becomes due, time being expressly declared to be of the essence of the Facility Lease, or the City will fail to keep, observe or perform any other term, covenant or condition contained in the Facility Lease to be kept or performed by the City for a period of 60 days after notice of the same has been given to the City by the Authority or the Trustee or for such additional time as is reasonably required, in the sole discretion of the Authority, to correct the same, or upon the happening of any of the events specified in the Facility Lease (any such case above being an "Event of Default"), the City will be deemed to be in default under the Facility Lease and it will be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Facility Lease. Upon any such default, the

Authority, in addition to all other rights and remedies it may have at law, will have the option to do any of the following:

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

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

to the Facilities necessary to place the Facilities in condition for re-letting immediately upon notice to the City of the completion and installation of such additions or alterations.

If (1) the City's interest in the Facility Lease or any part thereof is assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority, as hereinafter provided for, or (2) the City or any assignee will file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the City asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the City's debts or obligations, or offers to the City's creditors to effect a composition or extension of time to pay the City's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the City's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the City, or if a receiver of the business or of the property or assets of the City will be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the City will make a general or any assignment for the benefit of the City's creditors, or if (3) the City will abandon or vacate the Facilities, then the City will be deemed to be in default under the Facility Lease.

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

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

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

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

TRUST AGREEMENT

The Trust Agreement provides for, among other things, the issuance, execution and delivery of the Bonds and sets forth the terms thereof, the creation of certain of the funds and accounts described herein, certain covenants of the Authority, defines events of default and remedies therefor, and sets forth the rights and responsibilities of the Trustee.

Certain provisions of the Trust Agreement setting forth the terms of the Series 2007B Bonds, the redemption provisions thereof and the use of the proceeds of the Series 2007B Bonds are set forth elsewhere in this Official Statement. See "THE BONDS."

Pledge of Revenues

All Revenues, any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund created pursuant to the Trust Agreement) and any other amounts (excluding Additional Payments) received by the Authority in respect of the Facilities are irrevocably pledged and assigned to the payment of the interest and premium, if any, on and principal of the Bonds and Reserve Facility Costs as provided in the Trust Agreement, and the Revenues and other amounts pledged under the Trust Agreement will not be used for any other purpose while any of the Bonds remain Outstanding or Reserve Facility Costs remain unpaid; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Trust Agreement. This pledge will constitute a pledge of and charge and first lien upon the Revenues, all other amounts pledged under the Trust Agreement and all other moneys on deposit in the funds and accounts established under the Trust Agreement (excluding amounts on deposit in the Rebate Fund created pursuant to the Trust Agreement) for the payment of the interest on and principal of the Bonds and Reserve Facility Costs in accordance with the terms of the Trust Agreement.

Creation of Funds and Accounts

In order to carry out and effectuate the pledge, assignment, charge and lien contained in the Trust Agreement, the Trustee agrees to maintain in trust for Bondholders so long as any Bonds will be Outstanding under the Trust Agreement the following funds and accounts. All Revenues and all other amounts pledged and assigned under the Trust Agreement will be accounted for through and held in trust in the Revenue Fund, and the Trustee will have no beneficial right or interest in any of the Revenues except only as provided in the Trust Agreement.

Revenue Fund. All money in the Revenue Fund will be set aside by the Trustee in the following respective special accounts within the Revenue Fund in the following order of priority:

Interest Account. On or before each Interest Payment Date, the Trustee will set aside from the Revenue Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

All money in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it will become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Principal Account. On or before each August 1, commencing August 1, 2010, the Trustee will set aside from the Revenue Fund and deposit in the Principal Account an amount of money equal to the amount of all sinking fund payments required to be made on such August 1 into the respective sinking fund accounts for all Outstanding Term Bonds and the principal amount of all Outstanding Serial Bonds maturing on such August 1.

All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as it will become due and payable, whether at maturity or redemption, except that any money in any Sinking Account will be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such Sinking Account was created.

On each Principal Payment Date, following payment of principal of and interest on the Bonds, any excess amount on deposit in the Revenue Fund will be transferred to the Reserve Fund to the extent necessary to increase the amount therein to the Reserve Fund Requirement or to pay any Reserve Facility Costs then due and owing and any excess will then be returned to the City as an excess payment of Base Rental Payments.

Reserve Fund. All money in the Reserve Fund will be deposited with, used and withdrawn by the Trustee solely for the purpose of funding the Interest Account or the Principal Account, in that order, in the event of any deficiency in either of such accounts on a Principal Payment Date or Interest Payment Date, except that so long as the Authority is not in default under the Trust Agreement, any cash amounts in the Reserve Fund in excess of the Reserve Fund Requirement will be withdrawn from the Reserve Fund and transferred to the Revenue Fund on each Interest Payment Date, following the payment of any amounts due on such date. The Trustee will notify the City if any withdrawal is made from the Reserve Fund for the purpose of funding the Interest Account or the Principal Account. If the Reserve Fund Requirement is satisfied by a Reserve Facility, the Trustee will draw on such Reserve Facility in accordance with its terms and the terms of the Trust Agreement, in a timely manner, to the extent necessary to fund any such deficiency in the Interest Account or the Principal Account. The Authority will repay solely from Revenues any draws under a Reserve Facility and any Reserve Facility Costs related thereto. Interest will accrue and be payable on such draws and expenses from the date of payment by a Reserve Facility provider at the rate specified in the agreement with respect to such Reserve Facility.

Before any drawing may be made on a Reserve Facility, the Trustee will have withdrawn all cash and investments in the Reserve Fund to replenish the Principal Account and the Interest Account. If any obligations are due and payable under the Reserve Facility, any new funds deposited into the Reserve Fund will be used and withdrawn by the Trustee to pay such obligations. The pledge of the Revenues by the Authority to secure the payment of the Reserve Facility Costs is on a basis that is subordinate to the pledge of Revenues to the Trustee for the Bonds.

Amounts in respect of Reserve Facility Costs paid to a Reserve Facility provider will be credited first to expenses due, then to the interest due and then to principal due. As and to the extent payments are made to a Reserve Facility provider on account of principal due, the coverage under the Reserve Facility will be increased by a like amount, subject to the terms of the Reserve Facility.

Draws on all Reserve Facilities on which there is available coverage will be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Reserve Facility Costs and reimbursement of amounts with respect to other Reserve Facilities will be made on a pro-rata basis prior to the replenishment of any cash drawn from the Reserve Fund.

If the Authority fails to pay any Reserve Facility Costs in accordance with the above requirements, a Reserve Facility provider will be entitled to exercise any and all legal and equitable remedies available to it, including those provided under the Trust Agreement other than (i) acceleration of the maturity of the Bonds or (ii) remedies which would adversely affect Owners of the Bonds.

The Authority may satisfy the Reserve Fund Requirement at any time by the deposit with the Trustee for the credit of the Reserve Fund of a Reserve Facility or any combination thereof. If the Authority causes a cash-funded Reserve Fund to be replaced with a Reserve Facility meeting the requirements set forth in the Trust Agreement, amounts on deposit in the Reserve Fund will, upon Written Request of the Authority to the Trustee, be transferred, subject to the receipt by the Authority of an Opinion of Counsel that such transfer will not cause the interest on the Bonds to be included in gross income for purposes of federal income taxation, to the City and applied for any lawful purpose.

Application of Insurance Proceeds

In the event of any damage to or destruction of any part of the Facilities covered by insurance, the Authority will cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Facilities, and the Trustee will hold said proceeds in a fund established by the Trustee for such purpose separate and apart from all other funds designated the "Insurance and Condemnation Fund", to the end that such proceeds will be applied to the repair, reconstruction or replacement of the Facilities to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The City will file a Certificate of the City with the Trustee that sufficient funds from insurance proceeds or from any funds legally available to the City, or from any combination thereof, are available in the event it elects to repair, reconstruct or replace the Facilities. The Trustee will invest said proceeds in Investment Securities pursuant to the Written Request of the City, as agent for the Authority under the Facility Lease, and withdrawals of said proceeds will be made from time to time upon the filing with the Trustee of a Written Request of the City, stating that the City has expended moneys or incurred liabilities in an amount equal to the amount therein stated for the purpose of the repair, reconstruction or replacement of the Facilities, and specifying the items for which such moneys were expended, or such liabilities were incurred, in reasonable detail. Any balance of such proceeds not required for such repair, reconstruction or replacement and the proceeds of use and occupancy insurance will be paid to the Trustee as Base Rental Payments and applied in the manner provided by the Trust Agreement. Alternatively, the City, if the proceeds of such insurance together with any other moneys then available for such purpose are sufficient to prepay all, in case of damage or destruction in whole of the Facilities, or that portion, in the case of partial damage or destruction of the Facilities, of the Base Rental Payments and all other amounts relating to the damaged or destroyed portion of the Facilities, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Facilities and thereupon will cause said proceeds to be used for the redemption of Outstanding Bonds pursuant to the applicable provisions of the Trust Agreement. The City will not apply the proceeds of insurance as set forth in the Trust Agreement to redeem the Bonds in part due to damage or destruction of a portion of the Facilities unless the Base Rental Payments on the undamaged portion of the Facilities will be sufficient to pay the initially-scheduled principal and interest on the Bonds remaining unpaid after such redemption.

Investments

Subject to certain provisions of the Trust Agreement, all money held by the Trustee in any of the accounts or funds established pursuant thereto will be invested in Investment Securities at the Written Request of the Authority or, if no instructions are received, in money market funds described in paragraph (i) of the definition of Investment Securities. Such investments will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement under the Trust Agreement; provided, however, that moneys in the Reserve Fund will be invested in Investment Securities with a term to maturity not exceeding five years. For purposes of this restriction, Investment Securities containing a repurchase option or put option or withdrawal option by the investor will be treated as having a maturity of no longer than such option. All interest or profits received on any money so invested in the Revenue Fund, the Golf Course Escrow Fund and the Reserve Fund shall be deposited in the Reserve Fund equal to the Reserve Fund Requirement, and then in the Revenue Fund.

Additional Bonds

The Authority may at any time issue Additional Bonds pursuant to a Supplemental Trust Agreement, payable from the Revenues as provided in the Trust Agreement and secured by a pledge of and charge and lien upon the Revenues as provided in the Trust Agreement equal to the pledge, charge and lien securing the Outstanding Bonds theretofore issued under the Trust Agreement, but only subject to the following specific conditions, which are made conditions precedent to the issuance of any such Additional Bonds:

(i) The Authority will be in compliance with all agreements and covenants contained in the Trust Agreement.

(ii) The Supplemental Trust Agreement will require that the proceeds of the sale of such Additional Bonds will be applied to the acquisition (by purchase or lease) of facilities to be added to the Facilities or for the refunding of Outstanding Bonds.

(iii) The Supplemental Trust Agreement will provide, if necessary, that from such proceeds or other sources an amount will be deposited in the Reserve Fund so that following such deposit there will be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement.

(iv) The aggregate principal amount of Bonds issued and at any time Outstanding under the Trust Agreement will not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement.

(v) The Facility Lease will have been amended, if necessary, so that the Base Rental Payments payable by the City thereunder in each Fiscal Year will at least equal Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

(vi) The Facility Lease will have been amended so as to lease to the City the project being financed or refinanced from the proceeds of such Additional Bonds or facilities of comparable worth and economic life and such facilities will be ready for immediate use and occupancy by the City.

(vii) The Installment Payment Contract will have been amended, if necessary, so that the Installment Payments payable by the City thereunder in each Fiscal Year will at least equal Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

(viii) If the proceeds of such Additional Bonds are to be used, in whole or in part, to finance or refinance construction on real property not described in the Facility Lease or the additional Facilities to be leased are not situated on property described in the Facility Lease, (1) a site lease will have been executed so as to lease to the

Authority such additional real property; and (2) the Facility Lease will have been amended so as to lease to the City such additional real property.

(ix) Additional Bonds shall not be on parity with the Series 2007B Bonds without the written consent of the Bond Insurer.

Limitations on the Issuance of Obligations Payable from Revenues

The Authority will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, however denominated, payable in whole or in part from Revenues except the following:

(a) Bonds of any Series authorized pursuant to the Trust Agreement;

(b) Agreements providing for a Reserve Facility;

(c) Obligations owing with respect to a Reserve Facility, including principal, interest and fees relating thereto; provided such obligations will be payable on a subordinate basis to principal and interest on the Bonds.

(d) Obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, only out of Revenues after the prior payment of all amounts then required to be paid under the Trust Agreement from Revenues for principal, premium, interest and reserve fund requirements for the Bonds, as the same become due and payable and at the times and in the manner as required in the Trust Agreement.

Covenants of Authority

The Authority covenants it will not make any pledge or assignment of or place any charge or lien upon the Revenues except as provided in the Trust Agreement, and will not issue any bonds, notes or obligations payable from the Revenues or secured by a pledge of or charge or lien upon the Revenues except as provided in the Trust Agreement.

The Authority covenants it will promptly collect all rents and charges due for the occupancy or use of the Facilities as the same become due, and will promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due. The Authority will promptly collect all amounts due under the Installment Payment Contract. The Authority will at all times maintain and vigorously enforce all of its rights under the Facility Lease and the Installment Payment Contract.

Defaults and Remedies

Events of Default. Events which constitute an "event of default" under the Trust Agreement include:

(a) if default will be made by the Authority in the due and punctual payment of the interest on any Bond when and as the same will become due and payable;

(b) if default will be made by the Authority in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same will become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) if default will be made by the Authority in the performance of any of the other agreements or covenants required in the Trust Agreement to be performed by the Authority, and such default will have continued for a period of 60 days or such additional time (with respect to agreements or covenants that cannot be corrected or performed within such 60 day period but the correction of which is being diligently pursued by the Authority) as is reasonably required to correct any such default after the Authority will have been given notice in writing of such default by the Trustee;

(d) if the Authority will file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction will approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the Authority or of the whole or any substantial part of its property;

(e) if certain events of default have occurred under the Facility Lease; or

(f) if certain events of default have occurred under the Installment Payment Contract.

Acceleration of Bonds. In each and every case during the continuance of an Event of Default the Trustee may, and upon the written request of the Bondholders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by notice in writing to the Authority, declare the principal of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same will become due and payable, anything contained in the Trust Agreement or in the Bonds to the contrary notwithstanding. The Trustee will promptly notify all Bondholders by first class mail of any such event of default which is continuing of which a Responsible Officer has actual knowledge or written notice.

This provision, however, is subject to the condition that if at any time after the principal of the Bonds then Outstanding will have been so declared due and payable and before any judgment or decree for the payment of the money due will have been obtained or entered the Authority will deposit with the Trustee a sum sufficient to pay all matured interest on all the Bonds and all principal of the Bonds matured prior to such declaration, with interest at the rate borne by such Bonds on such overdue interest and principal, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the Bonds due and payable solely by reason of such declaration) will have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate will have been made therefor, then and in every such case the Trustee or the Bondholders of not less than a majority in aggregate principal amount of Bonds then Outstanding, by written notice to the Authority and to the Trustee, may on behalf of the Bondholders of all the Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or will affect any subsequent default or will impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All moneys in the accounts and funds held pursuant to the Trust Agreement upon the date of the declaration of acceleration by the Trustee as provided in the Trust Agreement and all Revenues (other than Revenues on deposit in the Rebate Fund) thereafter received by the Authority under the Trust Agreement will be transmitted to the Trustee and will be applied by the Trustee in the following order--

First, to the payment of the reasonable fees, costs and expenses of the Trustee in providing for the declaration of such event of default and carrying out its duties under the Trust Agreement, including reasonable compensation to their accountants and counsel together with interest on any amounts advanced as provided in the Trust Agreement and thereafter to the payment of the reasonable costs and expenses of the Bondholders, if any, in carrying out the provisions of the Trust Agreement, including reasonable compensation to their accountants and counsel; and

Second, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with (to the extent permitted by law) interest on the overdue interest and principal at the rate borne by such Bonds, and in case such money will be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and (to the extent permitted by law) interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

Limitation on Bondholders' Right to Sue. No Bondholder of any Bond issued under the Trust Agreement will have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon the Trust Agreement, unless (a) such Bondholder will have previously given to the Trustee written notice of the occurrence of an event of default as defined in the Trust Agreement; (b) the Bondholders of at least a majority in aggregate principal amount of all the Bonds then Outstanding will have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name (c) said Bondholders will have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee will have refused or omitted to comply with such request for a period of 60 days after such request will have been received by, and said tender of indemnity will have been made to, the Trustee.

Amendment of Documents

Trust Agreement. The Trust Agreement and the rights and obligations of the Authority and of the Bondholders may be amended at any time by a Supplemental Trust Agreement which will become binding when the written consents of the Bondholders of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Trust Agreement, are filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity or Series remain Outstanding, the consent of the Owners of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Trust Agreement. No such amendment will (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of or redemption premium, if any, on any Bond without the express written consent of the Bondholder of such Bond, or (2) permit the creation by the Authority of any pledge of or charge or lien upon the Revenues as provided in the Trust Agreement superior to or on a parity with the pledge, charge and lien created by the Trust Agreement for the benefit of the Bonds, or (3) reduce the percentage of Bonds required for the written consent to any such amendment, or (4) modify any rights or obligations of the Trustee, the Authority, or the City without their prior written assent thereto, respectively.

The Trust Agreement and the rights and obligations of the Authority and of the Bondholders may also be amended at any time by a Supplemental Trust Agreement which will become binding upon adoption, without the consent of any Bondholders, for any purpose that will not materially adversely affect the interests of the Bondholders, including (without limitation) for any one or more of the following purposes --

(a) to add to the agreements and covenants required in the Trust Agreement to be performed by the Authority other agreements and covenants thereafter to be performed by the Authority, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the Authority;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the Authority may deem desirable or necessary;

(c) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Trust Agreement (which will be deemed not to adversely affect Bondholders);

(d) to add to the agreements and covenants required in the Trust Agreement, such agreements and covenants as may be necessary to qualify the Trust Agreement under the Trust Indenture Act of 1939; or

(e) to add any provisions required by the provider of a surety bond, insurance policy or letter of credit under the Trust Agreement.

Any Supplemental Trust Agreement entered into pursuant to this paragraph will not, for purposes of this paragraph, materially adversely affect the interest of the Bondholders so long as, in the case of Variable Rate Bonds, the Supplemental Trust Agreement will not become effective until notice thereof will have been given to Bondholders and 30 days will have passed during which time Owners of the Variable Rate Bonds will have had the opportunity to tender their Bonds for purchase.

Any amendment or supplement to the Trust Agreement, the Facility Lease, the Site Lease or the Installment Payment Contract will be subject to the prior written consent of the Bond Insurer. Any rating agency rating the Series 2007B Bonds must receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. The Authority will cause the Bond Insurer to be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

Facility Lease and Installment Payment Contract. The Authority will not supplement, amend, modify or terminate any of the terms of the Facility Lease or the Installment Payment Contract, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the Trustee. The Trustee will give such written consent if such supplement, amendment, modification or termination (a) will not materially adversely affect the interests of the Bondholders or result in any material impairment of the security given for the payment of the Bonds (provided that such supplement, amendment or modification will not be deemed to have such adverse effect or to cause such material impairment solely by reason of providing for the payment of Additional Bonds as required by the Trust Agreement or substitution of real property pursuant to the Facility Lease), (b) is to add to the agreements, conditions, covenants and terms required to be observed or performed thereunder by any party thereto, or to surrender any right or power therein reserved to the Authority or the City, (c) is to cure, correct or supplement any ambiguous or defective provision contained therein, (d) is to accommodate any substitution in accordance with the Facility Lease, (e) is to modify the legal description of the Facilities to conform to the requirements of title insurance or otherwise to add or delete property descriptions to reflect accurately the description of the parcels intended or preferred to be included therein, or substituted for the Facilities pursuant to the provision of the Facility Lease, or (f) if the Trustee first obtains the written consent of the Bondholders of a majority in principal amount of the Bonds then Outstanding to such supplement, amendment, modification or termination; provided, that no such supplement, amendment, modification or termination will reduce the amount of Installment Payments and Base Rental Payments to be made to the Authority or the Trustee by the City pursuant to the Installment Payment Contract and Facility Lease, respectively, to an amount less than the scheduled principal and interest payment on the Outstanding Bonds, or extend the time for making such payments, or permit the creation of any lien prior to or on a parity with the lien created by the Trust Agreement on the Installment Payments and Base Rental Payments (except as expressly provided in the Installment Payment Contract and in the Facility Lease), in each case without the written consent of all of the Bondholders of the Bonds then Outstanding.

Discharge of Trust Agreement

If the Authority will pay or cause to be paid or there will otherwise be paid to the Bondholders of all Outstanding Bonds the interest thereon and principal thereof and redemption premiums, if any, thereon at the times and in the manner stipulated in the Trust Agreement and therein, and the Authority will pay in full all other amounts due under the Trust Agreement, under the Facility Lease and under the Installment Payment Contract, then the Bondholders of such Bonds will cease to be entitled to the pledge of and charge and lien upon the Revenues as provided in the Trust Agreement, and all agreements, covenants and other obligations of the Authority to the Bondholders of such Bonds under the Trust Agreement will thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee will execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, the Trustee will pay over or deliver to the Authority all money or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds and for the payment of all other amounts due under the Trust Agreement, under the Facility Lease and under the Installment Payment Contract.

Any Outstanding Bonds will prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the Trust Agreement in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Authority will have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with the Trust Agreement, (2) there will have been deposited with the Trustee (A) money in an amount which will be sufficient and/or (B) noncallable Government

Securities, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, will be sufficient, in the opinion of an Independent Certified Public Accountant, to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, on such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the Authority will have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Bondholders of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Trust Agreement and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds.

In the event of an advance refunding (i) the Authority will cause to be delivered, on the deposit date and upon any reinvestment of the defeasance amount, a report of an independent firm of certified public accountants ("Accountants") verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity date or redemption date ("Verification"), (ii) the escrow agreement will provide that no (A) substitution of a defeasance obligation will be permitted except with another defeasance obligation and upon delivery of a new Verification and (B) reinvestment of a defeasance obligation will be permitted except as contemplated by the original Verification or upon delivery of a new Verification, and (iii) there will be delivered an Opinion of Bond Counsel to the effect that the Bonds are no longer "Outstanding" under the Trust Agreement; each Verification and defeasance opinion will be addressed to the Authority and the Trustee.

The Trustee

The Bank of New York Trust Company, N.A. will serve as the initial Trustee for the Bonds for the purpose of receiving all money which the Authority is required to deposit with the Trustee under the Trust Agreement and for the purpose of allocating, applying and using such money as provided in the Trust Agreement and for the purpose of paying the interest on and principal of and redemption premiums, if any, on the Bonds presented for payment, with the rights and obligations provided in the Trust Agreement. The Authority agrees that it will at all times maintain a Trustee having a principal office in California.

The Authority, unless there exists any Event of Default as defined in the Trust Agreement, may at any time remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto by an instrument in writing; provided, that any such successor will be a bank, banking institution, or trust company, having (or whose parent holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least $50,000,000 and subject to supervision or examination by federal or state authority. If such bank, banking institution, or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the Trust Agreement the combined capital and surplus of such bank, banking institution, or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee may at any time resign by giving written notice of such resignation to the Authority, and by mailing by first class mail to the Bondholders notice of such resignation. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee will become effective only upon the acceptance of appointment by the successor Trustee. The successor Trustee will send notice of its acceptance by first class mail to the Bondholders. If, within 30 days after notice of the removal or resignation of the Trustee no successor Trustee will have been appointed and will have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required by the Trust Agreement. The Bond Insurer will be furnished with written notice of the resignation or removal of the Trustee and the appointment of any successor thereto.

Provisions relating to Bond Insurer and Reserve Facility Provider

Rights of Bond Insurer. The rights of the Bond Insurer to direct or consent to Authority, Trustee or Bondholder actions will be suspended during any period in which the Bond Insurer is in default in its payment obligations under the Bond Insurance Policy (except to the extent of amounts previously paid by the Bond Insurer and due and owing to the Bond Insurer) and will be of no force or effect in the event the Bond Insurance Policy is no longer in effect or the Bond Insurer asserts that the Bond Insurance Policy is not in effect or the Bond Insurer shall have provided written notice that it waives such rights.

Claims Upon Bond Insurance Policy and Payments By and To Bond Insurer.

(a) If, on the third day preceding any interest payment date for the Series 2007B Bonds there is not on deposit with the Trustee sufficient moneys available to pay all principal of and interest on the Series 2007B Bonds due on such date, the Trustee will immediately notify the Bond Insurer and U.S. Bank Trust National Association, New York, New York or its successor as its Fiscal Agent (the "Fiscal Agent") of the amount of such deficiency. If, by said interest payment date, the Authority has not provided the amount of such deficiency, the Trustee will simultaneously make available to the Bond Insurer and to the Trustee the registration books for the Series 2007B Bonds maintained by the Trustee. In addition:

(i) the Trustee will provide the Bond Insurer with a list of the Bondholders entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy and will make arrangements for the Bond Insurer and the Trustee (1) to mail checks or drafts to Bondholders entitled to receive full or partial interest payments from the Bond Insurer and (2) to pay principal of the Series 2007B Bonds surrendered to the Trustee by the Bondholders entitled to receive full or partial principal payments from the Bond Insurer; and

(ii) the Trustee will, at the time it makes the registration books available to the Bond Insurer pursuant to (i) above, notify Bondholders entitled to receive the payment of principal of or interest on the Series 2007B Bonds from the Bond Insurer (1) as to the fact of such entitlement, (2) that the Bond Insurer will remit to them all or part of the interest payments coming due subject to the terms of the Bond Insurance Policy, (3) that, except as provided in paragraph (B) below, in the event that any Bondholder is entitled to receive full payment of principal from the Bond Insurer, such Bondholder must tender his Series 2007B Bond with the instrument of transfer in the form provided on the Series 2007B Bond executed in the name of the Bond Insurer, and (4) that, except as provided in paragraph (B) below, in the event that such Bondholder is entitled to receive partial payment of principal from the Bond Insurer, such Bondholder must tender his Series 2007B Bond for payment first to the Trustee, which will note on such Series 2007B Bond the portion of principal paid by the Trustee, and then, with an acceptable form of assignment executed in the name of the Bond Insurer, to the Trustee, which will then pay the unpaid portion of principal to the Bondholder subject to the terms of the Bond Insurance Policy.

(b) In the event that the Trustee has notice that any payment of principal of or interest on a Series 2007B Bond has been recovered from a Bondholder pursuant to the United Stated Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee will, at the time it provides notice to the Bond Insurer, notify all Bondholders that in the event that any Bondholder's payment is so recovered, such Bondholder will be entitled to payment from the Bond Insurer to the extent of such recovery, and the Trustee will furnish to the Bond Insurer its records evidencing the payments of principal of and interest on the Series 2007B Bond which have been made by the Trustee and subsequently recovered from Bondholders, and the dates on which such payments were made.

The Bond Insurer will, to the extent it makes payment of principal of or interest on the Series 2007B Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy and, to evidence such subrogation, (i) in the case of subrogation as to claims for past due interest, the Trustee will note the Bond Insurer's rights as subrogee on the registration books maintained by the Trustee upon receipt from the Bond Insurer of proof of the payment of interest thereon to the Bondholders of such Series 2007B Bonds and (ii) in the case of subrogation as to claims for past due principal, the Trustee will note the Bond Insurer's rights as subrogee on the registration books for the Series 2007B Bonds maintained by the Trustee upon receipt of proof of the payment of principal thereof to the Bondholders of such Series 2007B Bonds. Notwithstanding anything in the Trust Agreement or the Series 2007B Bonds to the contrary, the Trustee will make payment of such past due interest and past due principal directly to the Bond Insurer to the extent that the Bond Insurer is a subrogee with respect thereto

Default Provisions.

(a) In determining whether a payment default has occurred or whether a payment on the Series 2007B Bonds has been made under the Trust Agreement, no effect will be given to payments made under the Bond Insurance Policy.

(b) Any acceleration of the Series 2007B Bonds or any annulment thereof will be subject to the prior written consent of the Bond Insurer (if it has not failed to comply with its payment obligations under the Bond Insurance Policy).

(c) The Bond Insurer will receive immediate notice of any payment default and notice of any other default known to the Trustee or the Authority within 30 days of the Trustee's or the Authority's knowledge thereof.

(d) For all purposes of the provisions of the Trust Agreement governing the events of default and remedies, except the giving of notice of default to Bondholders, the Bond Insurer will be deemed to be the sole holder of the Series 2007B Bonds for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.

(e) The Bond Insurer will be included as a party in interest and as a party entitled to (1) notify the Issuer or the Trustee of the occurrence of an event of default and (2) request the Trustee to intervene in judicial proceedings that affect the Series 2007B Bonds or the security therefore. The Trustee will be required to accept notice of default from the Bond Insurer.

Defeasance Provisions. Only cash, direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS, or defeased municipal bonds rated "AAA" by Standard and Poor's Public Finance Ratings or "Aaa" by Moody's Investors Service (or any combination of the foregoing) will be used to effect defeasance of the Series 2007B Bonds unless the Bond Insurer otherwise approves.

Reporting Requirements. The Authority or the Trustee, as appropriate, will provide the Bond Insurer with the following:

(a) Notice of redemption, other than mandatory sinking fund redemption, of any of the Series 2007B Bonds, or of any advance refunding of the Series 2007B Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(b) Notice of any drawing upon or deficiency due to market fluctuation in the amount, if any, on deposit in the Reserve Fund;

(c) Notice of the downgrading by any rating agency of the Authority's or City's underlying public rating, or the underlying rating on the Series 2007B Bonds or any parity obligations, to "non-investment grade";

(d) Notice of any material event pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended;

(e) Within 120 days after the end of each fiscal year, the budget for the succeeding year, annual audited financial statements, and a statement of the amount on deposit in the Reserve Fund as of the last valuation;

(f) The Official Statement or other disclosure document, if any, prepared in connection with the issuance of additional debt; and

(g) Such additional information as the Bond Insurer may reasonably request from time to time.

Reimbursement of Expenses. The Authority will pay or reimburse the Bond Insurer for any and all charges, fees, costs, and expenses that the Bond Insurer may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security under the Trust Agreement or under any other transaction document; (ii) the pursuit of any remedies under the Trust Agreement, under any other transaction document, or otherwise afforded by law or equity, (iii) any amendment, waiver, or other action with respect to or related to the Trust Agreement or any other transaction document whether or not executed or completed; (iv) the violation by the Authority of any law, rule, or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the Bond Insurer to cure defaults of the Authority under the transaction documents, or (v) any litigation or other dispute in connection with the Trust Agreement, any other transaction document, or the transactions contemplated thereby, other than amounts resulting from the failure of the Bond Insurer to honor its payment obligations under the Bond Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of the Trust Agreement or any other transaction document. The obligations of the Authority to the Bond Insurer will survive discharge and termination of the Trust Agreement.

Reserve Facility. The following provisions apply to the Reserve Facility:

(a) If the Authority fails to repay any Reserve Facility Costs, the Reserve Facility provider will be entitled to exercise any and all remedies available at law or in equity under the Trust Agreement other than (i) acceleration of the maturity of the Series 2007B Bonds or (ii) remedies which would adversely affect Bondholders.

(b) The Trustee will ascertain the necessity for a claim upon the Reserve Facility and to provide notice to the Reserve Facility provider in accordance with the terms of the Reserve Facility at least two (2) business days prior to each interest payment date.

(c) The Trustee will be the custodian of the Reserve Facility and will act as fiduciary for the Bondholders in respect thereof.

(d) The Reserve Facility will terminate on the earlier of the scheduled final maturity date of the Series 2007B Bonds outstanding as of the issuance date of the Reserve Facility or the date on which no Series 2007B Bonds are outstanding under the Trust Agreement.

(e) Notwithstanding anything in the Trust Agreement to the contrary, the Reserve Facility will be used only to pay for disbursement to the Bondholders that portion of the principal of and interest on the Series 2007B Bonds which is then due for payment and which the Authority has failed to provide. Due for payment means, with respect to principal, the stated maturity date thereof, or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which the payment of principal of the Series 2007B Bonds is due by reason of call for redemption (other than mandatory sinking fund redemption), acceleration or other advancement of maturity, and with respect to interest, the stated date for payment of such interest.

(f) The Trust Agreement will not be deemed discharged until all Reserve Facility Costs owing to the Reserve Facility provider shall have been paid in full.

INSTALLMENT PAYMENT CONTRACT

Installment Payments

Total Payments. The Total Payments to be paid by the City to the Authority is the sum of the aggregate principal amount of the City's obligations under the Installment Payment Contract plus the interest to accrue on the unpaid balance of such principal amount from the effective date of the Installment Payment Contract over the term thereof, subject to prepayment as provided therein.

Series 2007B Installment Payments. The City will, subject to any rights of prepayment provided in the Installment Payment Contract, pay the Trustee, on behalf of the Authority, the Total Payments in Series 2007B

Installment Payments on each Installment Payment Date for the payment of principal of (whether at maturity or upon redemption or acceleration), redemption premium, if any, and interest on the Series 2007B Bonds, until the principal of, redemption premium, if any, and interest on the Series 2007B Bonds will have been fully paid or provision for the payment thereof will have been made in accordance with the Trust Agreement, in immediately available funds, for deposit in the Revenue Fund as set forth in the Installment Payment Contract.

Each Installment Payment will be payable to the Authority on or before the 25th day of the month before its due date in lawful money of the United States of America; however, the Trustee will not be under any obligation to acknowledge receipt of such funds or to demand payment thereof until each Installment Payment Date. In the event the City fails to make any of the payments required to be made by it under this section, such payment will continue as an obligation of the City until such amount will have been fully paid and the City agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Installment Payments if paid in accordance with their terms.

Obligation to Pay. The obligation of the City to make the Installment Payments is absolute and unconditional, and until such time as the Total Payments will have been paid in full (or provision for the payment thereof will have been made pursuant to the Installment Payment Contract), the City will not discontinue or suspend any Installment Payments required to be made by it under this section when due, whether or not the Golf Course Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments will not be subject to reduction whether by offset or otherwise and will not be conditional upon the performance or nonperformance by any party of any agreement, for any cause whatsoever; provided, however that in accordance with the Installment Payment Contract the City's obligation to so make the Installment Payments is payable solely from Golf Course Revenues.

Revenues

Pledge of Golf Course Revenues. All Golf Course Revenues are irrevocably pledged to the payment of the Installment Payments as provided in the Installment Payment Contract and the Golf Course Revenues will not be used for any other purpose while any of the Installment Payments remain unpaid; provided, however, that out of the Golf Course Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Installment Payment Contract. This pledge will constitute a first lien on the Golf Course Revenues for the payment of the Installment Payments and all other Installment Payment Contracts and Golf Course Revenue Bonds in accordance with the terms of the Installment Payment Contract.

Allocation of Golf Course Revenues. (a) In order to carry out and effectuate the pledge and lien set forth in the Installment Payment Contract, all Golf Course Revenues will be deposited when and as available or received in the City of San Mateo Golf Course Revenue Fund, which fund is established pursuant to the Installment Payment Contract, and which the City agrees and covenants to maintain so long as any Installment Payments remain unpaid, and all moneys in the Golf Course Revenue Fund will be so held in trust and applied and used solely as provided in the Installment Payment Contract. All moneys in the Golf Course Revenue Fund will be set aside by the City at the following times in the following respective special funds in the following order of priority:

(i) Maintenance and Operation Fund (which is established under the Installment Payment Contract and which is held by the City and which the City agrees and covenants to maintain so long as any Installment Payments remain unpaid); and

(ii) Installment Payment Fund (which is established under the Installment Payment Contract and which is held by the City and which the City agrees and covenants to maintain so long as any Installment Payments remain unpaid), including the Series 2007B Installment Payment Account within such fund (to be held by the City); and

(iii) The Reserve Fund established pursuant to the Trust Agreement, to the extent necessary to increase the amount therein to the Reserve Fund Requirement.

All moneys in each of such funds will be held in trust and will be applied, used and withdrawn only for the purposes authorized in the Installment Payment Contract.

Maintenance and Operation Fund. On or before the 25th day of each month, the City will, from the moneys in the Golf Course Revenue Fund, pay for deposit in Maintenance and Operation Fund an amount at least equal to the Maintenance and Operation Costs becoming due in the next succeeding month.

Installment Payment Fund. On or before the 25th day of each January and July, commencing January 25, 2008, the City will, from the moneys in the Golf Course Revenue Fund, pay, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, for deposit in the Series 2007B Installment Payment Account within the Installment Payment Fund, (i) the aggregate amount of interest becoming due on the Series 2007B Installment Payments on the next Interest Payment Date; and (ii) for deposit into such fund or account as may be provided therefor, in the case of Golf Course Revenue Bonds or Installment Payments other than the Series 2007B Installment Payments, a sum equal to the aggregate amount of interest becoming due on such Installment Payment Contracts and Golf Course Revenue Bonds on the next Interest Payment Date; provided, that if interest is then accruing on the unpaid balance of the principal amount of any series or issue of Installment Payment Contracts or Golf Course Revenue Bonds at other than a fixed rate, such amount with respect to such Installment Payment Contracts and Golf Course Revenue Bonds will be equal to 110% of the amount of interest so accruing during the immediately preceding six months on such unpaid principal amount, plus (iii) one-half (1/2) of the aggregate amount of principal becoming due (due to maturity, mandatory sinking fund payment or mandatory prepayment or otherwise) on the Series 2007B Installment Payments, Installment Payment Contracts and Golf Course Revenue Bonds during the next succeeding twelve months, but excluding from such amounts of principal any series or issue of such Golf Course Revenue Bonds or Installment Payment Contracts having 25% or more of the aggregate principal amount of such series or issue due in any one year if such series or issue is secured by the proceeds of a letter of credit, revolving credit agreement or similar credit arrangement.

No deposit need be made in the Series 2007B Installment Payment Account if the amount available and contained therein is at least equal to the amount of interest becoming due on the next succeeding Installment Payment Date, plus the amount of principal becoming due under the Installment Payment Contract on the next succeeding Installment Payment Date for each such series.

All moneys in the Series 2007B Installment Payment Account will be withdrawn by the City solely for the purpose of paying the Series 2007B Installment Payments to the Authority as they become due and payable; provided, however, that such amounts as the City determines in the Tax Certificate to be necessary to comply with the Installment Payment Contract may be withdrawn by the City and transferred and applied pursuant thereto.

Replenishment of Reserve Fund. On or before the 25th day of each January and July, commencing January 25, 2008, the City will, from the moneys in the Golf Course Revenue Fund pay for deposit into the Reserve Fund the amount of one-half (1/2) of the aggregate amount of any withdrawal from the Reserve Fund in order to make a payment of principal or interest on Golf Course Revenue Bonds, so that the Reserve Fund is replenished to the Reserve Fund Requirement within one year following such withdrawal.

Surplus. On the last day of each such January and July, all remaining moneys in the Golf Course Revenue Fund will be deposited by the City in the golf course enterprise fund or in such other fund as may be determined by the City for expenditure for any lawful purpose of the City.

Covenants of the City

Compliance with Installment Payment Contract, Site Lease, Facility Lease and Trust Agreement. The City will punctually pay the Installment Payments in strict conformity with the terms of the Installment Payment Contract, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained therein required to be observed and performed by it, and will not terminate the Installment Payment Contract for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Golf Course Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Payment Contract required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected therewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the City or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The City will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement, the Site Lease and the Facility Lease required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the Installment Payment Contract, the Site Lease, the Facility Lease and the Trust Agreement that, subject to the Installment Payment Contract, each of the agreements, conditions, covenants and terms contained in each such contract and agreement is an essential and material term of the payment with respect to the Golf Course Project by the City pursuant to, and in accordance with, and as authorized under the Act.

Against Encumbrances. The City will not make any pledge of or place any lien on the Golf Course Revenues equal to the pledge and lien under the Installment Payment Contract for the Installment Payments except as may be permitted thereunder.

Against Sale or Other Disposition of Golf Course. Unless otherwise approved in writing by the Bond Insurer, except for Permitted Encumbrances, the City will not sell, lease or otherwise dispose of the Golf Course or any part thereof essential to the proper operation of the Golf Course or to the maintenance of the Golf Course Revenues. The City will not enter into any agreement or lease which impairs the operation of the Golf Course or any part thereof necessary to secure adequate Golf Course Revenues for the payment of the Installment Payments, or which would otherwise impair the rights of the Authority with respect to the Golf Course Revenues or the operation of the Golf Course. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Golf Course, or any material or equipment which has become worn out, may be sold at not less than the market value thereof if such sale will not reduce the Golf Course Revenues and if the proceeds of such sale are deposited in the Revenue Fund.

Against Federal Income Taxation. The City will not directly or indirectly use or permit the use of any proceeds of the obligation provided in the Installment Payment Contract or any other funds of the City or take or omit to take any action that would cause such obligation to be an "arbitrage bond" within the meaning of Section 148(a) of the Code or a "federal-guaranteed obligation" within the meaning of Section 149(b) of the Code or a "private activity bond" as described in Section 141 of the Code. The City will not allow 10% or more of the proceeds of the obligations to be used in the trade or business of any nongovernmental units and will not loan 5% or more of the proceeds of the obligations to any nongovernmental units.

To that end, as long as any Installment Payments are unpaid, the City will comply with all requirements of such sections of the Code to the extent applicable to the obligations provided in the Installment Payment Contract. In the event that at any time the City is of the opinion that for purposes of the Installment Payment Contract it is necessary to restrict or to limit the yield on the investment of any moneys held by the City thereunder or by the Trustee under the Trust Agreement, the City will so instruct the Trustee in writing, and the Trustee, as appropriate, will act in accordance with such instructions.

The City and the Authority covenant that they will at all times do and perform all acts necessary or desirable in order to assume that the interest component of the Installment Payments will not be included in gross income of the holders of the Golf Course Revenue Bonds for federal income tax purposes and will take no action that would result in such interest being so included. The City covenants to abide by all of the covenants, terms and conditions relating to the City set forth in the Trust Agreement.

Prompt Acquisition and Construction. The City will take all necessary and appropriate steps as agent of the Authority to acquire and construct the Golf Course Project with all practicable dispatch and in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

Maintenance and Operation of the Golf Course; Budgets. The City will maintain and preserve the Golf Course in good repair and working order at all times and will operate the Golf Course in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Golf Course as they become due and payable. On or before the first date of each Fiscal Year (commencing July 1, 2008), the City will adopt and file with the Authority a budget approved by the City Council setting forth the estimated Maintenance and Operation Costs of the Golf Course. Any budget may be amended at any time during any Fiscal Year and such amended budget will be filed by the City with the Authority.

Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Golf Course Revenues or any part thereof or on any funds in the hands of the City prior or superior to the lien of the Installment Payments or which might impair the security of the Installment Payments.

Accounting Records; Financial Statements and Other Reports.

(a) The City will keep appropriate accounting records in which complete and correct entries will be made of all transactions relating to the Golf Course, which records will be available for inspection by the Authority at reasonable hours and under reasonable conditions.

(b) The City will prepare and file with the Trustee and the Authority annually within 210 days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2008):

(i) financial statements of the City for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon; and

(ii) a certificate of insurance as to all insurance policies maintained and self-insurance programs maintained by the City with respect to the Golf Course as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby and that such insurance satisfies the requirements of the Installment payment contract. The Trustee has no responsibility for the coverage or adequacy of any insurance or self-insurance.

(c) The City will provide annually not more than 210 days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2008) a summary report (which may be in the form of the audited financial statements of the City) showing in reasonable detail the Golf Course Revenues and the Maintenance and Operation Costs of the Golf Course for such Fiscal Year to the Trustee and the Authority.

(d) The City will keep, and will cause the Trustee to keep proper books of record and account in accordance with the Trustee's standards in which complete and correct entries will be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the Installment Payments and the proceeds of the obligations provided in the Installment Payment Contract. Such records will specify the account or fund to which each investment (or portion thereof) held pursuant to the Installment payment contract and the Trust Agreement is to be allocated and will set forth, in the case of each Investment Security, (i) its purchase price, (ii) identifying information, including par amount, coupon rate, and payment dates, (iii) the amount received at maturity or its sale price, as the case may be, (iv) the amounts and dates of any payments made with respect thereto, and (v) such other documentation as the City deems necessary.

Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Golf Course or any part thereof or the Golf Course Revenues when the same will become due. The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Golf Course or any part thereof, but the City will not be required to comply with any regulations or requirements so long as the validity or application thereof will be contested in good faith.

Amount of Rates and Charges. To the extent reasonably practicable, the City will fix, prescribe and collect rates and charges for the Golf Course which are reasonably fair and nondiscriminatory and will establish a budget that will enable the City to collect such rates and charges and other amounts which will be at least sufficient to yield during each Fiscal Year an amount not less than the sum of: (i) the Maintenance and Operation Costs of the Golf Course for such Fiscal Year; and (ii) one (1) times the debt service on all Installment Payments for such Fiscal Year, to the extent they are then unpaid or are not discharged in accordance with their terms.

Assignment of Authority's Rights. As security for the payment of the Golf Course Revenue Bonds, the Authority will assign to the Trustee the Authority's rights under the Installment Payment Contract, including the right to receive payments thereunder, and the Authority directs the City to make the payments required under the Installment Payment Contract directly to the Trustee. The City consents to such assignment and agrees to make payments directly to the Trustee without defense or set-off by reason of any dispute between the City and the Authority or the Trustee.

Prepayment of Installment Payments

Under the Facility Lease, the City may or will, as the case may be, prepay from the proceeds of insurance or eminent domain proceedings certain Base Rental Payments. The City's obligation to make Installment Payments on any Installment Payment Date will be deemed satisfied to the extent that any such prepayment of Base Rental Payments has been made as of such date. The Series 2007B Installment Payments, together with any prepayment premium due on the Series 2007B Bonds as set forth in the Trust Agreement, may be prepaid by the City upon notice to the Trustee as required in the Trust Agreement in whole or in part on any Installment Payment Date from any available funds. Notwithstanding any such prepayment, the City will not be relieved of its obligations under the Installment Payment Contract until the Total Payments will have been fully paid (or provision for payment thereof will have been provided pursuant to the Installment Payment Contract and to the written satisfaction of the Authority).

Events of Default

Any one or more of the following events will constitute an Event of Default under the Installment Payment Contract:

(1) if default will be made in the due and punctual payment of any Installment Payment or any Installment Payment Contract or Golf Course Revenue Bond when and as the same will become due and payable;

(2) if default will be made by the City in the performance of any of the other agreements or covenants required to be performed by it, and such default will have continued for a period of 60 days after the City will have been given notice in writing of such default by the Authority; or

(3) if the City will file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction will approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the City or of the whole or any substantial part of its property.

Discharge of Obligations

When (a) all or any portion of not less than $100,000 of the Installment Payments will have become due and payable in accordance with the Installment Payment Contract or a written notice of the City to prepay all or any portion of not less than $100,000 of the Installment Payments will have been filed with the Trustee; and (b) there will have been deposited with the Trustee at or prior to the Installment Payment Date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of not less than $100,000 of the Installment Payments sufficient Government Securities, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Installment Payments to their respective Installment Payment Dates or to their prepayment date or dates as the case may be; and (c) provision will have been made for paying all fees and expenses of the Trustee so long as such Installment Payments will remain unpaid, then and in that event, if an opinion of Bond Counsel is filed with the Trustee to the effect that the actions authorized by and taken pursuant to the Installment Payment Contract will not adversely affect the exclusion of the interest portion of the Installment Payments from gross income for federal income tax purposes, the right, title and interest of the Authority in the Installment Payment Contract and the obligations of the City thereunder will, with respect to all or such portion of the Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the City to have such moneys and such Government Securities applied to the payment of such Installment Payments). In such event, upon request of the City, the Trustee will cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and will execute and deliver to the City all such instruments as may be necessary to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee will pay over to the City, as an overpayment of Installment Payments, all such moneys or such Government Securities held by it pursuant to the Installment Payment Contract other than such moneys and such Government Securities as are required for the payment or prepayment of the Installment Payments which moneys and Government Securities will continue to be held by the Trustee in trust for the payment of the Installment Payments and will be applied by the Trustee to the payment of the Installment Payments of the City.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of San Mateo (the "City") and The Bank of New York Trust Company, N.A., as trustee (the "Trustee") in connection with the issuance by the City of San Mateo Joint Powers Financing Authority (the "Authority") of $9,125,000 Revenue Bonds (Golf Course Project), Refunding Series 2007B (the "Series 2007B Bonds"). The Series 2007B Bonds are being issued pursuant to a Trust Agreement, dated as of October 1, 2007 (the "Trust Agreement"), by and between the Authority and the Trustee. Pursuant to the Facility Lease (Golf Course Project), dated as of October 1, 2007 (the "Facility Lease"), the City has covenanted to comply with its obligations hereunder and to assume all obligations for continuing disclosure with respect to the Series 2007B Bonds. The Series 2007B Bonds and additional Series of Bonds are referred to herein as the "Bonds". The Series 2007B Bonds are being issued to refinance certain capital improvements (the "Golf Course Project") to the City's golf course enterprise (the "Enterprise") and certain municipal park and recreational facilities of the City. The City and Trustee covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Series 2007B Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized terms used in this Disclosure Agreement 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 Agreement.

"*Beneficial Owner*" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2007B Bonds (including persons holding Series 2007B Bonds through nominees, depositories or other intermediaries).

"*Disclosure Representative*" shall mean the Finance Director of the City or his or her designee, or such other officer or employee as the City shall designate in writing to the Trustee from time to time.

"*Dissemination Agent*" shall mean the City, or any successor Dissemination Agent designated in writing by the City pursuant to Section 7 of this Disclosure Agreement and which has filed with the City and the Trustee a written acceptance of such designation. The City hereby designates the Trustee to be the initial Dissemination Agent and the Trustee hereby accepts such designation.

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

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. A list of such National Repositories is available at http://www.sec.gov/info/municipal/nrmsir.htm.

"*Participating Underwriter*" shall mean the original underwriter of the Series 2007B Bonds required to comply with the Rule in connection with offering of the Series 2007B Bonds.

"*Purchaser*" shall mean Citigroup Global Markets Inc.

"*Repository*" shall mean each National Repository and each State Repository.

"*Rule*" shall mean Rule l5c2-12(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* " shall mean the State of California.

"*State Repository*" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than seven months after the end of the City's fiscal year, commencing with the report for the 2006-2007 fiscal year, provide to each Repository, and to the Purchaser at the address set forth in Section 13 an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement, with a copy to the Trustee. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c) hereof. The City shall provide a written certification with each Annual Report to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(b) Not later than fifteen (15) Business Days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository in substantially the form attached hereto as Exhibit A.

(c) The Dissemination Agent, to the extent the City has provided the Annual Report to the Dissemination Agent, shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any, and

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

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

(a) Audited Financial Statements of the City and the Enterprise, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available at the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The following additional items with respect to the Series 2007B Bonds and the Enterprise:

1. Principal amount of each Series of Bonds and any Parity Debt outstanding.

2. Balance in the Reserve Fund.

3. Updated information set forth in the table of the Official Statement entitled "City of San Mateo Statement of Golf Course Revenues and Expenses" under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Golf Course Revenues".

4. Status of any significant legislative, administrative, and judicial challenges to the operation of the Enterprise known to the City.

5. Status of any claim against the Enterprise regarding construction of any projects of the Enterprise.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(1) principal and interest payment delinquencies.
(2) non-payment related defaults.
(3) modifications to rights of Series 2007B Bond Holders.
(4) optional, contingent or unscheduled bond calls.
(5) defeasances.
(6) rating changes.
(7) adverse tax opinions or events affecting the tax-exempt status of the Series 2007B Bonds.
(8) unscheduled draws on the debt service reserves reflecting financial difficulties.
(9) unscheduled draws on the credit enhancements, reflecting financial difficulties.
(10) substitution of the credit or liquidity providers or their failure to perform.
(11) release, substitution or sale of property securing repayment of the Series 2007B Bonds.

(b) The Trustee shall, within two (2) Business Days of obtaining actual knowledge at the corporate trust office specified in Section 13 hereof of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (f); provided that the failure by the Trustee to so notify the Disclosure Representative and make such request shall not relieve the City of its duty to report Listed Events as required by this Section 5, nor impose any liability on the Trustee.

(c) Upon the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities law.

(d) If the City has determined that the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Trustee in writing. Such notice shall instruct the Trustee to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence.

(f) If the Trustee has been instructed by the City to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a) (4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected

Series 2007B Bonds pursuant to the Trust Agreement and notice of a Listed Event under this Section 5 is only required following the occurrence of the Listed Event.

Section 6. Termination of Reporting Obligation. The City's, the Trustee's and the Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the legal defeasance prior to redemption or payment in full of all of the Series 2007B Bonds. If such termination occurs prior to the final maturity of the Series 2007B Bonds, the City shall give notice of such termination on the same manner as for a Listed Event under Section 5(f).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the Trustee.

Section 8. Amendment; Waiver. Notwithstanding any other provisions of this Disclosure Agreement, the City may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions in Section 3(a), 4 or 5(a) it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2007B Bonds or the type of business conducted;

(b) 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 Series 2007B Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver either (i) is approved by the Holders of the Series 2007B Bonds in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Series 2007B Bond Holders or Beneficial Owners of the Series 2007B Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, 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 Listed Event under Section 5(f), 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.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the City to comply with any provisions of this Disclosure Agreement any Participating Underwriter or the Holders of at least 25% aggregate principal amount of the outstanding Series 2007B Bonds shall or any Holder or Beneficial Owner of the Series 2007B Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2007B Bonds. If it performs the duties assigned to it hereunder, the Trustee shall not be responsible to any person for any failure by the City or the Dissemination Agent (if other than the Trustee) to perform duties or obligations imposed hereby, or for any decision of the City regarding the reporting of Listed Events. The Dissemination Agent, if other than the City, shall not shall not be responsible in any manner for the format or content of any notice or Annual Report prepared by the City pursuant to this Disclosure Agreement. If the Dissemination Agent is other than the City, the City will pay reasonable compensation to, and reimburse the expenses of, the Dissemination Agent.

Section 12. Beneficiaries. The Disclosure Agreement shall inure solely to the benefit of the City and Trustee, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial owners from time to time of the Series 2007B Bonds, and shall create no rights in any other person or entity.

Section 13. Use of Central Post Office. Notwithstanding any other provision of this Disclosure Agreement, the Annual Report and notices of material events shall be filed either directly with each Repository or, at the option of the Agency, through DisclosureUSA.org <http://www.disclosureusa.org> or any similar electronic filing service approved for such purpose by the Securities and Exchange Commission. If filed by the Agency or the Dissemination Agent with DisclosureUSA.org, Annual Reports and notices of material events will be forwarded automatically to each Repository and no separate filing with the Repositories will be made by the Agency or the Dissemination Agent.

Section 14. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the City:	City of San Mateo 330 W. 20th Avenue San Mateo, CA 94403 Attention: Finance Director Telephone: (415) 377-3400 Fax: (415) 377-3494
To the Trustee and initial Dissemination Agent:	The Bank of New York Trust Company, N.A. Attn: Corporate Trust 550 Kearny Street, Suite 600 San Francisco, CA 94108 Attn: Corporate Trust

Any notice or communication to the Purchaser may be given as follows:

Citigroup Global Markets Inc.
444 South Flower Street
Los Angeles, CA 90071
Attention: Tasha Bartuzik
Telephone: (213) 486-8817
Fax: (213) 486-7194

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

Date: October 1, 2007

CITY OF SAN MATEO

By: ____________________________________
Mayor

THE BANK OF NEW YORK TRUST COMPANY, N.A., as Trustee

By: ____________________________________
Authorized Officer

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	City of San Mateo Joint Powers Financing Authority
Name of Bond Issue:	City of San Mateo Joint Powers Financing Authority Revenue Bonds (Golf Course Project), Refunding Series 2007B

NOTICE IS HEREBY GIVEN that the City of San Mateo (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 8.08 of the Facility Lease (Golf Course Project), dated as of October 1, 2007 (the "Facility Lease"), by and between the Issuer and the City. The City anticipates that the Annual Report will be filed by ____________________.

Dated: ____________________

THE BANK OF NEW YORK TRUST COMPANY, N.A., on behalf of City

By: ____

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APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

[closing date]

City of San Mateo Joint Powers Financing Authority
San Mateo, California

City of San Mateo Joint Powers Financing Authority
Revenue Bonds (Golf Course Project)
Refunding Series 2007B
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of San Mateo Joint Powers Financing Authority (the "Authority") in connection with the issuance of $9,125,000 aggregate principal amount of City of San Mateo Joint Powers Financing Authority Revenue Bonds (Golf Course Project), Refunding Series 2007B (the "Series 2007B Bonds"), issued pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and a Trust Agreement, dated as of October 1, 2007 (the "Trust Agreement"), between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed a Facility Lease (Golf Course Project), dated as of October 1, 2007 (the "Facility Lease"), between the Authority, as lessor, and the City of San Mateo, as lessee (the "City"), a Site Lease, dated as of October 1, 2007 (the "Site Lease"), between the City, as lessor, and the Authority, as lessee, an Installment Payment Contract, dated as of October 1, 2007 (the "Installment Payment Contract"), between the City and the Authority, the Trust Agreement, the Tax Certificate of the Authority and the City, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Authority, the City and the Trustee, certificates of the Authority, the City, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Series 2007B Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority and the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Facility Lease, the Site Lease, the Installment Payment Contract and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2007B Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Series 2007B Bonds, the Trust Agreement, the Facility Lease, the Site Lease, the Installment Payment Contract and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against joint powers agencies and cities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to, or interest in any of the real or personal property described in or subject to the lien of the Facility Lease, the Site Lease or the Trust Agreement or the accuracy or sufficiency of the description of any such property contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the official statement or other offering material relating to the Series 2007B Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2007B Bonds constitute the valid and binding limited obligations of the Authority.

2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Series 2007B Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Series 2007B Bonds) held by the Trustee in any fund or account established pursuant to the Trust Agreement, except the Rebate Fund, subject 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.

3. The Facility Lease and the Installment Payment Contract have been executed and delivered by, and constitute the valid and binding obligations of, the City and the Authority.

4. Interest on the Series 2007B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series 2007B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Series 2007B Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2007B Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX G

ANNUAL BASE RENTAL PAYMENT SCHEDULE

Base Rental Payment Date*	Principal	Interest	Period Total	Bond Year Total	Fiscal Year Total
2/1/2008					
8/1/2008		$187,770.63	$187,770.63		
2/1/2009		187,770.63	187,770.63		$375,541.25
8/1/2009		187,770.63	187,770.63	$375,541.25	
2/1/2010		187,770.63	187,770.63		375,541.25
8/1/2010	$305,000	187,770.63	492,770.63	680,541.25	
2/1/2011		181,670.63	181,670.63		674,441.25
8/1/2011	320,000	181,670.63	501,670.63	683,341.25	
2/1/2012		175,270.63	175,270.63		676,941.25
8/1/2012	330,000	175,270.63	505,270.63	680,541.25	
2/1/2013		168,670.63	168,670.63		673,941.25
8/1/2013	345,000	168,670.63	513,670.63	682,341.25	
2/1/2014		161,770.63	161,770.63		675,441.25
8/1/2014	360,000	161,770.63	521,770.63	683,541.25	
2/1/2015		154,570.63	154,570.63		676,341.25
8/1/2015	370,000	154,570.63	524,570.63	679,141.25	
2/1/2016		147,170.63	147,170.63		671,741.25
8/1/2016	385,000	147,170.63	532,170.63	679,341.25	
2/1/2017		139,470.63	139,470.63		671,641.25
8/1/2017	405,000	139,470.63	544,470.63	683,941.25	
2/1/2018		131,876.88	131,876.88		676,347.50
8/1/2018	420,000	131,876.88	551,876.88	683,753.75	
2/1/2019		124,106.88	124,106.88		675,983.75
8/1/2019	435,000	124,106.88	559,106.88	683,213.75	
2/1/2020		115,406.88	115,406.88		674,513.75
8/1/2020	450,000	115,406.88	565,406.88	680,813.75	
2/1/2021		106,406.88	106,406.88		671,813.75
8/1/2021	470,000	106,406.88	576,406.88	682,813.75	
2/1/2022		97,006.88	97,006.88		673,413.75
8/1/2022	485,000	97,006.88	582,006.88	679,013.75	
2/1/2023		87,003.75	87,003.75		669,010.63
8/1/2023	510,000	87,003.75	597,003.75	684,007.50	
2/1/2024		76,293.75	76,293.75		673,297.50
8/1/2024	530,000	76,293.75	606,293.75	682,587.50	
2/1/2025		65,031.25	65,031.25		671,325.00
8/1/2025	550,000	65,031.25	615,031.25	680,062.50	
2/1/2026		53,343.75	53,343.75		668,375.00
8/1/2026	575,000	53,343.75	628,343.75	681,687.50	
2/1/2027		41,125.00	41,125.00		669,468.75
8/1/2027	600,000	41,125.00	641,125.00	682,250.00	
2/1/2028		28,000.00	28,000.00		669,125.00
8/1/2028	625,000	28,000.00	653,000.00	681,000.00	
2/1/2029		14,328.13	14,328.13		667,328.13
8/1/2029	655,000	14,328.13	669,328.13	683,656.25	669,328.13

* Payable on the 25th day of the preceding month. Pursuant to the Facility Lease, on any date upon which a Base Rental Payment installment is due, the City's obligation to pay such Base Rental Payment installment shall be deemed satisfied to the extent that the City's obligation to make Installment Payments has been satisfied as of such date.

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APPENDIX H

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212·312·3000
T 800·352·0001

Municipal Bond
New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

FGIC

Financial Guaranty Insurance Company
Doing business in California as FGIC Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number:	**Control Number:** 0010001

The insurance provided by this Policy is not covered by the California Insurance Guaranty Association (California Insurance Code, Article 14.2).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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Mandatory California State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

Notwithstanding the terms and conditions in this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

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